YAMATO HOLDINGS CO., LTD. Annual Report 2006

Annual Report 2006

Year ended March 31, 2006

Delivery	BIZ-Logistics	Home Convenience
INNOVATION		
e-Business	Financial	Group Support

YAMATO HOLDINGS CO., LTD.

Profile

The Yamato Group consists of Yamato Holdings Co., Ltd. ("the Company"), 57 subsidiaries and four affiliated companies. It is primarily involved in the Delivery, BIZ-Logistics, Home Convenience, e-Business, Financial and Group Support businesses as well as services incidental to these activities. The goal of the Yamato Group is to help bring about a better society by further refining the *Takkyubin* network, which is a part of the social infrastructure, creating services that facilitate more convenient, comfortable lifestyles, and developing innovative logistics systems. In pursuit of this goal the Group has developed products and services that help improve the convenience of people's lives. Looking ahead, the Group plans to develop even more sophisticated services and to strengthen its profitability out of an ongoing commitment to a stable form of management.

Contents

Forward-Looking Statements

This annual report contains forward-looking statements concerning Yamato Holdings' future plans, strategies and performance. These statements represent assumptions and beliefs based on information currently available and are not historical facts. Furthermore, forward-looking statements are subject to a number of risks and uncertainties that include, but are not limited to, economic conditions, customer demand, foreign currency exchange rates, tax laws and other regulations. Yamato Holdings therefore cautions readers that actual results may differ materially from these predictions.

Consolidated Financial Highlights

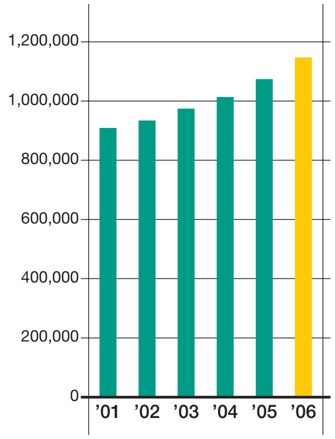
Years Ended March 31

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	2006
Operating revenues	¥1,144,961	¥1,071,903	¥1,011,344	$9,746,837
Operating costs	1,043,372	998,786	945,201	8,882,032
Selling, general and administrative expenses	32,868	21,914	19,484	279,793
Income before income taxes and minority interests	7,712	61,741	87,293	65,647
Income taxes	31,276	27,959	37,515	266,249
Net (loss) income	(23,968)	33,848	49,783	(204,036)
	Yen			U.S. Dollars
Per share of common stock:				
Net (loss) income	¥ (53.47)	¥ 74.02	¥ 107.51	$ (0.46)
Diluted net income	–	72.48	105.20	–
Cash dividends	20.00	18.00	18.00	0.17
	Millions of Yen			Thousands of U.S. Dollars
Working capital	¥ 123,483	¥ 80,843	¥ 74,803	$1,051,184
Total shareholders' equity	423,690	458,792	443,715	3,606,790
Total assets	793,222	676,156	652,792	6,752,547
Capital expenditures	48,865	40,966	47,587	415,978
Depreciation and amortization	35,003	37,146	35,663	297,973

Note: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥117.47 to U.S.$1.

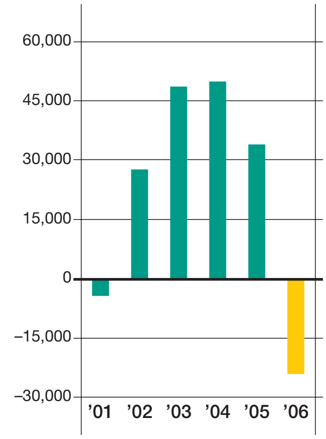
Operating Revenues

(¥ Millions)



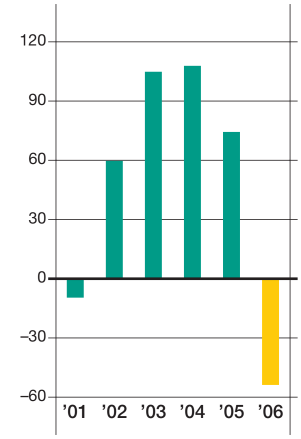
Net (Loss) Income

(¥ Millions)



Net (Loss) Income per Share

(¥)



Message from the Management

The Yamato Group converted to a pure holding company structure in November 2005. Along with developing attractive services by combining the management resources possessed by Group companies, we are raising our market competitiveness by drastically reforming our approach to management. We have established six business formations and are currently building a new, value-infused business model in these areas. By pooling management resources, starting with business infrastructure and expertise cultivated in a variety of areas, we intend to generate completely new synergies.

Keiji Aritomi
Chairman

Kaoru Seto
President

Q. Please tell us about the operating environment and your business results for fiscal 2006.

We carried out reforms to create a corporate group capable of growing in a sustainable manner and controlling costs. *Takkyubin*, Yamato Transport Co., Ltd.'s core service, has reached its thirtieth anniversary and, in view of the ongoing reforms, the time has come for it to be radically revamped.

In fiscal 2006 we set a new record high for income, beating the previous high recorded in fiscal 2003, and also achieved substantially higher sales. Consolidated operating revenues totaled ¥1,144,961 million, an increase of 6.8% over the previous fiscal year.

On the cost front, while we were hit by the impact of skyrocketing oil prices, we successfully enhanced our ability to control costs, and as a result generated operating income of ¥68,721 million, an increase of 34.2% over the previous year. We ended fiscal 2006, however, with a net loss of ¥23,968 million due in part to loss on devaluation of land associated with splitting up the Delivery business, which was stated in order to shore up our financial position.

Companies in the ground transportation industry continued to face difficult operating conditions. In addition to surges in oil prices, competition among companies, especially over prices, has been fierce, due in part to the impact of Japan Post aggressively entering the market for private door-to-door delivery.

Even more intense competition is expected going forward as Japan Post is officially privatized in 2007. In the midst of this environment, the Yamato Group initiated the "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan," our new medium-term management plan that started in the year under review, in a bid to convert to a business structure that enables us to maintain and accelerate growth. On November 1, 2005 we switched from an operating holding company structure to a pure holding company structure by splitting the former Yamato Transport into Yamato Holdings, which handles decision-making and supervision for the Group as a whole, and the new Yamato Transport, which executes the Delivery business.

Under a new Group structure that combines six business formations, including the Delivery business, Yamato Holdings makes strategic decisions for the entire Group and flexibly allocates management resources in an optimal manner to accelerate the growth of the Group. Based on this plan, we are working to steadily expand the Delivery business and are starting to implement business strategies for accelerating the growth of non-delivery businesses by leveraging the Group's management resources. We believe that our measures to realize high-efficiency management by restructuring processes in every business domain have also played a significant role.

Q. What are your approach and strategies for raising the corporate value of the Yamato Group?

The management strategy of the Yamato Group requires the companies in each business formation to jointly and effectively use the management resources possessed by the Group, to sufficiently narrow in on target markets, and to capture the top share in each market segment.

To this end, the Yamato Group together launched the "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan" in April 2005. The plan establishes two goals for Group management: 1) Accelerate growth for the Group as a whole by incorporating new forms of value into the *Takkyubin* network; and 2) Realize high-efficiency management by restructuring processes in every business domain for the entire Group. We intend to provide new forms of convenience to our corporate clients and individual customers and create new business domains for the Group. For existing businesses, we will radically revamp our cost structure to ensure the ongoing efficiency of operations.

As a part of this strategy, Yamato Holdings formed a partnership with Seino Holdings Co., Ltd. on February 27, 2006 to enhance the existing *Kuroneko Box Charter* service by providing just-in-time delivery of medium-lot cargo over medium- to long-distances to companies seeking to reduce their distribution stock and in-process inventory. Out of this partnership, on April 3 we launched *JITBOX Charter*, a service that helps customers construct supply chain management systems. The goal of the enterprise is to become the new de facto standard in business-to-business distribution.

Also on April 3, 2006, we established a joint venture for direct marketing in Japan with DHL Global Mail (Japan) KK, an affiliate of Deutsche Post World Net, in order to rapidly secure a competitive advantage in the direct mail market, which is expected to grow going forward.

The operating environment surrounding the Yamato Group is becoming increasingly challenging as competition between companies heats up, and this includes the soon-to-be-privatized Japan Post. To meet the goals of the abovementioned three-year medium-term plan, we intend to work to improve corporate value for the entire Group by increasing the speed of management and enhancing Group supervision and control.

Q. You converted to a holding company structure in November 2005. What was the purpose of that change?

In line with the "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan," launched in April 2005, the Yamato Group aims to achieve steady expansion of its Delivery business while initiating strategies to accelerate growth in non-delivery businesses that draw on the resources of the group as a whole. In parallel, it is pursuing high-efficiency management by restructuring processes in every business domain. Within this context, in November 2005 the group shifted from an operating holding company structure to a pure holding company structure, creating a new group configuration whereby Yamato Holdings incorporates six business formations, including the Delivery business.

This move was made to accelerate the growth of the Group by flexibly conducting strategic decision-making for the Group as a whole and allocating management resources in an optimal manner. The overarching aim was to create a means to optimize the distribution infrastructure. Under the previous operating holding company structure, the way the businesses were configured meant that the Delivery business tended to have a disproportionate weight. In future we will avoid this type of structure and consider tie-ups with other companies that combine the group's tangible and intangible resources to establish an outstanding configuration. The new structure will incorporate logistics and financial technologies as well as information technology to generate unprecedented synergies. We are currently leveraging the combined strengths of the group to launch new businesses known as BU (business units) to accelerate the growth of non-delivery businesses. We believe that the key to growing our non-delivery operations is to aim to create unique businesses in niche markets "so targeted you can see the customer's face." We therefore believe that the shift to a pure holding company system has created the best organization to promote the growth of our non-delivery businesses.

Q. What is the basic policy of the Yamato Group on earnings distribution?

We have developed six business formations rooted in Group management. Accordingly, with respect to distributing earnings, it is our policy to pay a dividend based on our business performance with the goal of having a payout ratio of 30% of consolidated net income. For the dividend in the fiscal year under review, we increased the term-end dividend by ¥2, to ¥11 per share. Combined with the ¥9 per share interim dividend that has already been paid out, this brings the dividend for the full year to ¥20.

Internal reserves are used to facilitate the growth of the Group as a whole through capital investments—to strengthen our network and develop new businesses, for example—and investments are aimed at raising the corporate value in the future. Internal reserves are also used to acquire treasury stock, which is another way of returning profits to shareholders. At a meeting on February 23, 2006, the Board of Directors voted to purchase treasury stock off the market and acquire 4,478,000 shares for a total of ¥9,999 million. On March 9 we canceled 12,459,000 shares of treasury stock.

Q. Please discuss the Yamato Group's initiatives in the area of corporate social responsibility.

Since its founding the Yamato Group has considered it important to conduct business activities with sufficient attention to the needs of society, the environment and local communities, as well as to develop on an ongoing basis in step with society at large. We have sought to be a corporate group that has earned the trust of the public by valuing our relations with our various stakeholders—customers, shareholders, business partners and local communities. With Yamato Holdings' CSR Division as the administering body, we ensure checks and balances by existing management organs function effectively and carry out activities to ensure compliance with both the law and corporate ethical standards via a system of compliance management.

In 1995 the Yamato Group took the pioneering step of documenting its policies from the time of its establishment in a concise form: the Yamato Transport Corporate Philosophy. In April 2005, ten years after the document was created, we revamped it, renaming it the Yamato Group Corporate Philosophy and including new information on such topics as handling corporate scandals, fulfilling disclosure and reporting responsibilities, and protecting personal information. Employees of the Yamato Group carry with them a small booklet that contains the Group's corporate philosophy, credo, policies, goals and latest medium-term management plan. They do their utmost to understand the booklet and put it into practice.

Keiji Aritomi

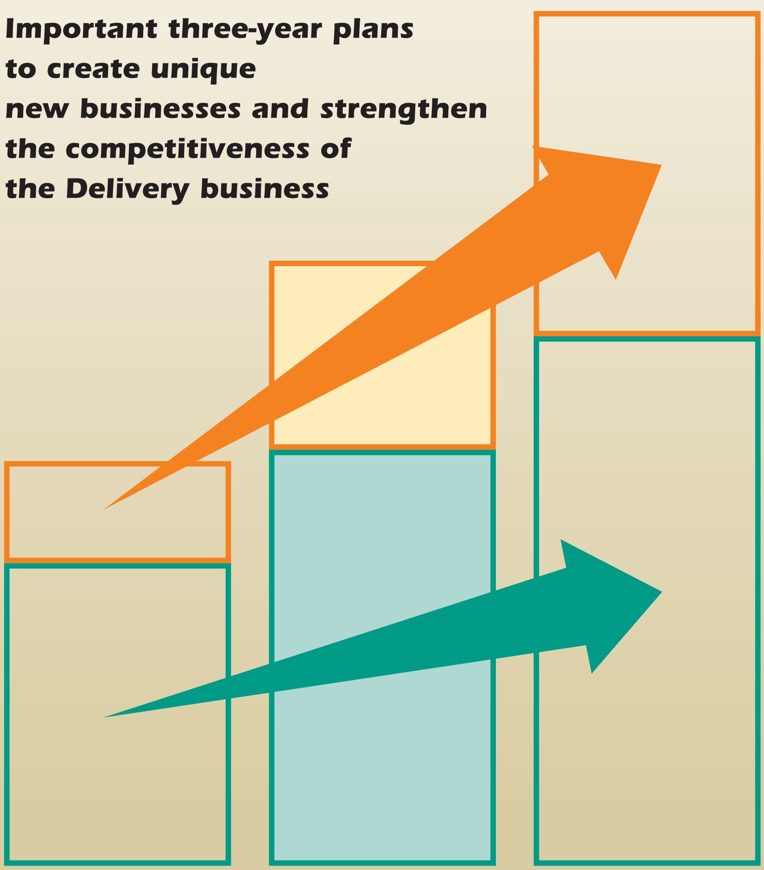
Keiji Aritomi
Chairman

Kaoru Seto

Kaoru Seto
President

Continuous Innovation

Important three-year plans to create unique new businesses and strengthen the competitiveness of the Delivery business



Group businesses:
High growth by providing unique products

Delivery business:
Steady growth leveraging Yamato's strengths

Business Framework

YAMATO HOLDINGS CO., LTD.

Switching to a Holding Company Structure

The Yamato Group has reorganized itself to promote Group management and has established six business formations: Delivery, BIZ-Logistics, Home Convenience, e-Business, Financial and Group Support. We also changed our system of corporate governance and rebuilt our network.

As the final stage of this process, in November 2005 we switched to a pure holding company structure by splitting the former Yamato Transport into Yamato Holdings, which handles decision-making and supervision for the Group as a whole, and the new Yamato Transport, which executes the Delivery business. This move was made to accelerate the growth of the Group through conducting strategic decision-making for the Group as a whole and allocating management resources in an optimal manner. Previously, the Delivery business had been involved both in decision-making and supervision as Group headquarters and in executing the Delivery business itself. With the move to the holding company structure, the aim was to make the shift from Delivery business-oriented management to management targeting expansion of non-delivery business. To this end, we have adopted an organization focused on decision-making and supervision for the Group's business formations, increasing the speed of management processes, evaluating business activities from a more shareholder-oriented perspective, and allocating management resources appropriately. Through strengthening the Group structure in this way we will seek to further raise corporate value.

Delivery

The Delivery business is involved in small parcel delivery services for the general public and corporations centering on *Takkyubin* and *Kuroneko Mail*. *Takkyubin*, the mainstay service, celebrated its thirtieth anniversary this year. The business also offers high value-added services developed from the customer's point of view like *Cool Takkyubin* and *Collect Service*. It plans to maintain the quality of its services and pursue higher quality services going forward.

BIZ-Logistics

BIZ-Logistics handles business-to-business distribution, which includes logistics, overseas distribution, and the transport of fine art. The business is working to strengthen its service offerings by adding service parts logistics and medical logistics to its lineup. BIZ-Logistics helps its corporate clients manage their supply chains by providing innovative logistics services and reducing total costs, and presents proposals for optimized logistics systems.

Home Convenience

Home Convenience is rooted in moving services, lifestyle support services and distribution services based on a mission of developing unique, new services on a region-by-region basis to eliminate the inconveniences inherent in living in a particular area. In November 2005 *Household Takkyubin* was launched. The business is devoted to providing services that are extremely convenient for customers.

e-Business

e-Business is involved in a range of information services for corporations, including ASP services and information system development. Looking forward, the business intends to pursue new product development based on three key words: tracking, security and packages. Having developed an individual tracking service for important documents in 2006, the business will continue to conduct aggressive marketing activities for this and other services.

Financial

The Financial business offers settlement services and financial products targeting business customers and consumers. In April 2005 Yamato Transport made Fine Credit Co., Ltd., a company that purchases installment credit loans, its subsidiary. The aims of this consolidation were to promote the diversification of settlement methods, and leverage the combined strengths of the Yamato Group to offer customers enhanced financial services. The business aims to grow as a provider of comprehensive distribution-related settlement services.

Group Support

Group Support is involved in broadly defined shared services centering on vehicle maintenance, mainline transport, and staffing services. It works to support appropriate and maximal leveraging of management resources by means such as consolidating human resources and accounting—administrative processes common to all Group companies. In addition to these efforts, the business aims to achieve profitability by also marketing its services to non-Group companies in future.

Group Corporate Governance

Basic Position on Corporate Governance

Based on its corporate philosophy, the Yamato Group carries out business activities in accordance with the law and social norms and actively promotes compliance management. Striving to maximize corporate value by effectively utilizing the management resources of the Group is one of the top priorities of management, and we work to bolster management systems and implement policies to this end.

Switching to a Holding Company Structure

The Company changed its governance structure in conjunction with reorganizing Group businesses in order to further enhance management of the Group.

When the Group used an operating holding company structure, all our businesses were bound up in the parent company, Yamato Transport. In switching to a pure holding company structure, Yamato Holdings, which handles decision-making and supervision for the Group as a whole, was clearly separated from our operating companies, which are responsible for executing our businesses. By developing Yamato Holdings and the operating companies in an integrated manner we hope to enhance internal controls and further speed up management processes.

With this structure we are also committed to further strengthening the Group and further raising corporate value by assessing our businesses and allocating our resources from a more shareholder-oriented point of view.

The Yamato Group is dedicated to highly efficient management acutely focused on securing new growth on the basis of the “Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan,” which was initiated in April 2005. We now have a system in place to enable management to act quickly enough to meet the goals of the plan and secure additional growth.

In April 2006, the Company clearly separated the role of directors, who are responsible for decision-making and supervisory functions, from the role of executive officers, who are responsible for business execution. By delegating a substantial amount of authority from the Board of Directors to the Executive Committee, the Company will improve its internal controls and achieve more rapid management.

Business Management and Execution

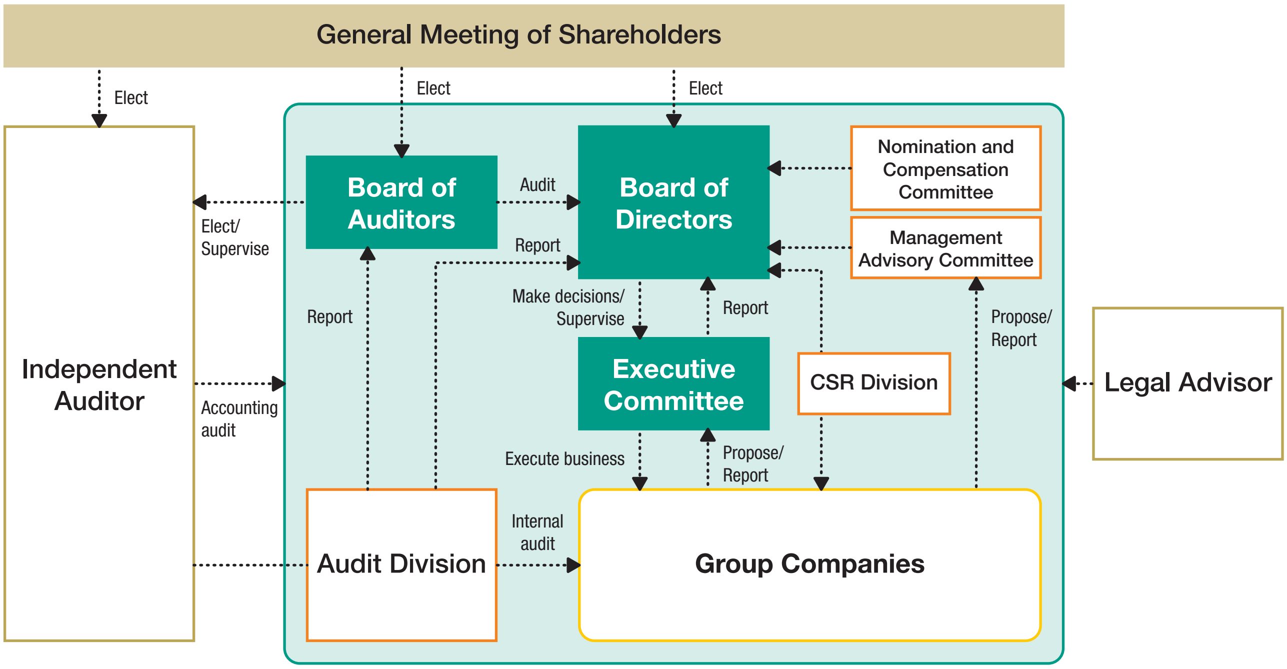
The Board of Directors, Management Advisory Committee and Executive Committee serve as administrative organs involved in decision-making, supervision and execution for the Yamato Group. This management structure enables decisions to be made rapidly and precisely on important matters. The term of office of directors has been set at one year in order to clarify management responsibilities for each fiscal year.

The Board of Auditors is made up of two full-time corporate auditors and two outside corporate auditors who do not have any vested interests in the Company. Corporate auditors attend meetings of the Board of Directors and other important meetings, conduct audits on the legality of business execution, and otherwise endeavor to improve the soundness of management and the trust of the public.

The Audit Division is in charge of internal auditing and conducts audits on the effectiveness of internal controls. The results are then reported to the directors and corporate auditors. A Group Auditors Meeting is also regularly convened. Discussions take place on auditing policies and methods with the full-time auditors affiliated with our principal operating companies, and efforts are made to strengthen coordination by exchanging information.

The Yamato Group strives to be a company that is trusted by shareholders through ensuring checks and balances by existing administrative organs and implementing a system of compliance management. We conduct activities aimed at ensuring compliance with the law and social norms, which are administered by the CSR Division. Going forward, we intend to enhance checks and balances largely through internal audits pivoting on Control Self-Assessment at each division, which will be subject to evaluation. In this way we plan to build and implement additional systems to ensure internal controls function effectively. In addition, our two outside directors will spearhead a committee that will consider executive nominations and remuneration and make proposals to the Board of Directors. This will help to improve the transparency of management and further raise corporate value.

Corporate Governance Framework

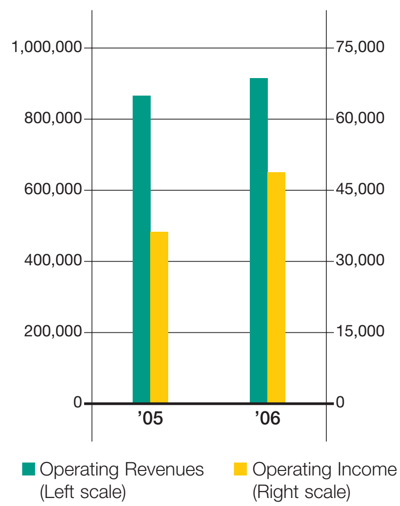


Business Activities

DELIVERY

Operating Revenues/ Operating Income

(¥ Millions)



The Delivery business is mainly focused on small parcel delivery services for consumers and corporate clients and includes *Takkyubin* and *Kuroneko Mail* services.

The Yamato Group witnessed steady growth in the *Takkyubin* service during the year under review, with total delivery volume up 6.2% year on year to 1,129 million parcels, and revenue of ¥737,399 million. The key reason for this growth was a proactive sales approach tailored to each market sector. This approach, underpinned by the Group's corporate philosophy in this business of Total Reliability, was taken in order to respond flexibly to diversifying customer needs. November 2005, meanwhile, saw the launch of two services: *Mail Notification Service* and *Delivery Locker Pickup Service.* The former keeps customers notified by e-mail from the time a delivery is scheduled to when it is completed, including occasions when delivery was attempted but the addressee was absent. The second enables customers to send *Takkyubin* parcels using the same lockers that are installed for receiving deliveries in most condominiums in Japan. Another example of services that cater to diverse customer needs and enhance convenience is the *Takkyubin Store Pickup Service*. Launched in February 2006, this service allows customers to have local convenience stores and others receive parcels on their behalf when they are not present. Customers are then free to pick up parcels at their convenience 24 hours a day.

The *Kuroneko Mail* service saw handling volume increase 21.1% from the previous fiscal year to 1,735 million units, alongside revenue of ¥120,549 million. The chief factor spurring growth was the push to build stronger operations, including increased handling services for corporate customers and expansion of service counters.

As market competition intensifies, honing the cost competitiveness of operations across the *Takkyubin* network has become an issue of paramount importance for the Delivery business. Since April 2003, this concern has prompted the Yamato Group to introduce an Area Center System for *Takkyubin* distribution, and to subdivide its service centers into the approximately 5,900 *Takkyubin* centers currently in operation to provide a more attentive level of service. Another move taken to raise cost competitiveness in the Delivery business is the consolidation at major offices of functions once handled separately by each service center, such as phone-based customer service, accounting and personnel.

As a result, total operating revenues for the Delivery business were ¥915,952 million, an increase of 5.7% compared to the previous fiscal year.

BIZ-Logistics

BIZ-Logistics provides inter-company logistics services, including international logistics and logistical transport of works of art, aimed at the B2B supply chain management market.

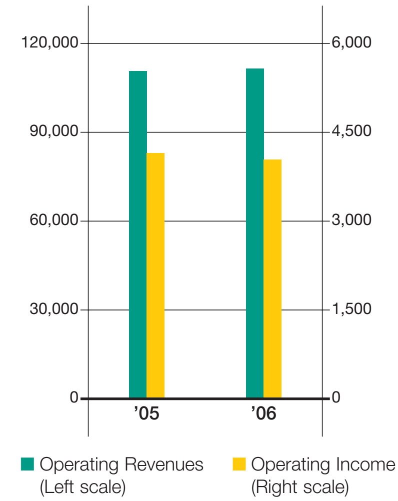
In fiscal 2006, operating revenues edged up 0.7% year on year, to ¥111,488 million. This modest growth was the result of continued adversity surrounding forwarding and logistics operations, characterized by lackluster demand for airfreight forwarding and increasingly severe price-based competition.

In this climate, the Yamato Group advanced a proposal-driven sales approach, offering a comprehensive range of logistics services by integrating sales activities for its domestic and international logistics services. One such service was service parts logistics, a system for the emergency transport of replacement parts and components 24 hours a day, 365 days a year. This service is targeted at maintenance operations, where urgency is the norm. Other efforts to strengthen the BIZ-Logistics service structure include medical logistics. Through this service, the Group takes advantage of its procurement, logistics processes, storage, and delivery infrastructure to handle every aspect of logistics for medical products, from the initial production site to final delivery to medical institutions.

Through medical logistics, the Group also offers support for traceability management, a requirement stipulated by Japan's amended Pharmaceutical Affairs Law. The Tokyo BIZ-Logistics Center (Ota Ward, Tokyo) of Yamato Logistics Co., Ltd., for example, has obtained approval from Japan's medical device manufacturing industry to oversee and offer services pertaining to the packaging, labeling and storage aspects of the manufacturing process.

Operating Revenues/ Operating Income

(¥ Millions)

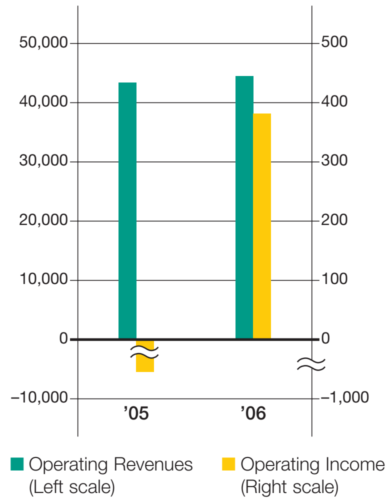


Tokyo Biz-Logistics Center

HOME CONVENIENCE

Operating Revenues/ Operating Income (Loss)

(¥ Millions)



Home Convenience services encompass three businesses intimately connected with supporting the lifestyle needs of local markets: moving services, lifestyle support services, and merchandise marketing.

During the year under review, operating revenues increased 2.6% to ¥44,498 million. Although moving services continued to face a tough market environment due to intensified competition with rival companies, merchandise marketing grew steadily atop sales of "*Tokusen Ichiba*" (Special Select Market) brand products.

In November 2005, the Home Convenience business began offering the *Household Takkyubin* service. This service targets customers who buy or sell furnishings and home appliances through Internet auctions, as well as those with light moving needs. Previously, the most common sales route for large pieces of furniture or appliances was from manufacturers to volume retailers, which then sold these products to individual customers. However, the widespread use of net auctions today has fueled an increase in transactions involving large furniture pieces and appliances between individuals. The growth in online shopping demand, particularly the direct purchase of products from manufacturers, is also circumventing the traditional sales route. Seizing on these opportunities, a service was developed in this business that even covers the setup and installation of heavy items, yet enables customers to use *Takkyubin* in the same convenient way as they would for small parcels. Going forward, attention will focus on offering other highly convenient services to customers.

e-BUSINESS

The e-Business segment encompasses information services targeting business customers, including ASP services and the development of information systems. During the year under review, operating revenues were ¥27,279 million, representing a year-on-year increase of 11.7%.

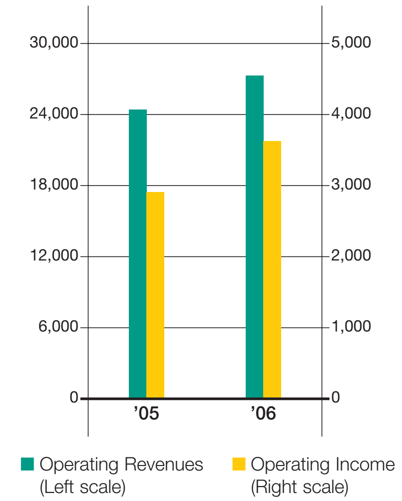
Firm sales of information management services for the credit and consumer finance industry were a major driver of growth in this business. Another was the establishment of a marketing framework tailored to specific industry sectors and steps taken to change the on-premise business format of this business over to solution-oriented services. The Group also pursued a proactive marketing approach that included proposals comprised of tracing, security and other elements.

Looking ahead, the Group will work to develop new businesses founded on three key words: tracking, security and packages. These businesses will emerge from several areas, including the segment's highly trusted information management services reflecting a track record in terms of processing capabilities of ¥10 billion in transactions annually. Another is business support, backed by 24 hour-a-day, year-round and stable operations, as well as a backup system infrastructure anchored in Tokyo and Osaka.

Guided by the keyword "security," in 2006, the Group developed a tracking management service targeting individual critical documents. The *Critical Information Tracking ASP Service* targets companies that handle business for financial institutions and membership applications, with sales growing to companies seeking to achieve stricter management of personal information. Going forward, the Group plans to actively provide tracking services to firms outside of the Yamato Group. To that end, it will incorporate the expertise in individual tracking management gained from its *Takkyubin* parcel tracking system into a service package.

Operating Revenues/ Operating Income

(¥ Millions)



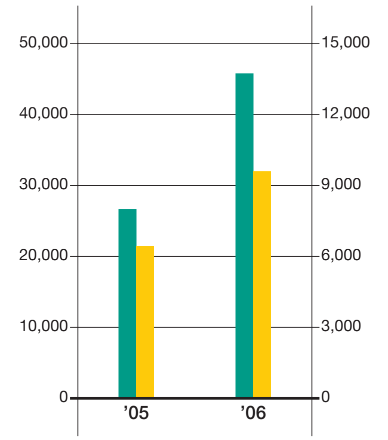
Head Office, Yamato System Development Co., Ltd. at Toyocho Office

Server Room

FINANCIAL

Operating Revenues/ Operating Income

(¥ Millions)



The Financial business includes settlement and other financial services targeted at business customers and consumers.

In this business, the Group is looking to enhance customer convenience and diversify settlement methods by offering new retail settlement services. Primarily targeting small- and medium-sized enterprises, these services will focus on handling uncollected and installment payments. This objective led to the consolidation in April 2005 of Fine Credit, a firm with credit and receivables management functions that the Group will utilize to provide these services.

As a result, operating revenues, which included the consolidation of Fine Credit, were ¥45,744 million, an increase of 71.7% from the previous fiscal year.

In July 2005, the Group began offering *Collect Service*, a comprehensive settlement service targeting mail-order businesses. The Group is aggressively marketing this service and its diverse line of settlement methods that include cash on delivery, payment by credit card upon delivery or order, payment at convenience stores and post offices, or payment via PC or mobile phone.

November 2005 saw the launch of *Collect Service infoBOX*, a service that allows the customers of mail-order businesses using *Collect Service* to confirm payment and invoices for mail-order items. In recent years, the expansion of sales channels beyond traditional face-to-face sales and purchasing has increased the circulation of merchandise. Recognizing this change, the Group is working to provide a full lineup of financial services to mail-order businesses and other customers.

Group Support

The Group Support business is involved in the provision of shared services in the broadest sense, particularly vehicle maintenance, mainline transport, and staffing services.

In this business, the Group has typically pursued support services that best allocate and optimally utilize management resources by consolidating operations common to all Group companies, such as human resources and accounting. The focus now is on generating profit from these services by providing them to customers outside the Group, using expertise acquired over the years and the creation of new businesses as benchmarks for success.

Yamato Autoworks Co., Ltd. is one example of this business direction. Utilizing expertise forged in maintaining Group assets, in this case 40,000 vehicles, and related administrative operations, Yamato Autoworks is striving to become the partner of choice for delivery companies. By offering integrated services covering the purchase, maintenance, management, and body remodeling of new and used vehicles, vehicle administration, and insurance and logistics facility maintenance, Yamato Autoworks is helping delivery companies to manage themselves more efficiently.

In April 2006, the Group completed construction of its third outlet for this business in the Tokyo region. Called "Superworks," the aim of this conceptually innovative service plant is to enhance convenience for commercial-use truck companies, as well as attain further reductions in cost. This new service plant joins two earlier plants established in Sapporo (Hokkaido, Japan) and Mie Prefecture, Japan.

In February 2006, the Group entered a business alliance with Seino Holdings that saw commencement the following April of *JITBOX Charter*, a service to help customers construct supply chain management systems. Targeting traditional *Kuroneko Box Charter* service customers seeking to reduce their distribution stock and in-process inventory, this new service offers just-in-time delivery of medium-lot cargo over medium- to long-distance delivery routes. In May, the Group forged a business tie-up with Nippon Express Co., Ltd., followed in June by a partnership with 12 trucking firms with the aim of establishing the new de facto standard for inter-company logistics.

Highlights of the Year

Takkyubin Celebrates Thirty Years, Further Service Improvements Made

Takkyubin celebrated its thirtieth anniversary on January 20, 2006. On the very first day the service was launched, it handled only 11 packages, but the employees at the time put their hearts into their work because they firmly believed that there would be significant demand for the service one day. As a result, *Takkyubin* ended up successfully earning customer support, grew by leaps and bounds, and now handles over 1.1 billion parcels annually. During that time the spirit with which those first 11 packages were delivered has been passed down to Yamato Group employees in an unbroken chain, and has inspired the pursuit of systems and services for delivering diverse types of parcels quickly and efficiently. Based on this orientation and on our commitment to serving customers, the Yamato Group engages in difficult negotiations with the regulating authorities to provide innovative services like *Golf Takkyubin* and *Ski Takkyubin*, *Collect Service* and *Time Service*. In doing so the Yamato Group has written a new page in the history of delivery and distribution in Japan.

Locally-rooted networks, information systems, operations know-how, and skilled human resources developed during this process of growth have served not only as the foundation for providing reliable services to customers, but also as invaluable assets for the Yamato Group. Utilizing this wealth of assets, we intend to refine *Takkyubin* services going forward, as well as develop new services and businesses. In fiscal 2006, we launched new services with a view to further improving convenience, including *Collect Service*, a comprehensive settlement service for mail-order companies and *Takkyubin Store Pickup Service*. We also made all delivery information available in real time.

The Yamato Group will continue to improve quality to earn the satisfaction of as many customers as possible. Our aim in doing so will be always to offer services that are the best they can be from the customer's perspective.

Launch of *JITBOX Charter*

The Yamato Group's *Kuroneko Box Charter* service, originally launched in May 2004, was relaunched in April 2006 as *JITBOX Charter* through a business alliance concluded in February 2006 with Seino Holdings. The relaunched business targets product logistics for manufacturers with supply chain management needs and delivery logistics for parts and materials manufacturers required to provide just-in-time delivery. By working to enhance the sales and operation systems of the business, we hope to establish it as the new de facto standard for business-to-business logistics. Going forward, we plan to develop it by leveraging the respective strengths of the two companies, namely, Yamato's know-how and management in the area of transport using roll box pallets, and Seino's main-line transportation capacities based on its nationwide network.

In May 2006 we concluded a business agreement with Nippon Express and in June we joined forces with 12 trucking companies to put a system in place for supplying services to customers in a bid to quickly become the de facto standard in business-to-business logistics.

Establishment of Yamato Dialog & Media and start of operations

Yamato Holdings teamed up with DHL Global Mail (Japan), an affiliate of Deutsche Post World Net, to establish a joint venture for direct marketing in Japan. Operations were launched at the new company on April 3, 2006. The joint venture was brought about partly by the need to facilitate further growth in *Kuroneko Mail* by providing high value-added solutions in the non-correspondence direct mail market, where the most future growth is anticipated. An additional factor was Deutsche Post World Net's desire to provide services in the Japanese market that leverage its expertise. We plan to offer high value-added solutions to customers by fusing the Yamato Group's delivery network and Deutsche Post World Net's integrated upstream to downstream solutions know-how in direct mail and by jointly developing peripheral businesses centered on direct marketing.

Yamato Holdings has a 51% share in the venture, and DHL Global Mail (Japan) has a 49% share.

Company name:
Yamato Dialog & Media Co., Ltd.
URL: http://www.yamato-dm.co.jp

Strategic Alliance Between the NYK Group and the Yamato Group

Yamato Holdings and NYK Line agreed to a strategic operational and capital alliance in May 2006. The purpose of the alliance is to accommodate the diverse multinational needs of customers and provide advanced strategic services by organically and efficiently maximizing the domestic and overseas management resources possessed by both groups. The two groups will work to expand their business operations in a mutually complementary fashion and develop a broad operational alliance that spans land, air and sea. The two groups will also consider integrated operations for their respective air forwarding businesses in order to expand their sales networks and customer bases, as well as boost competitiveness. Moreover, with a view to further developing this strategic alliance, a joint working committee was established to pursue a broad-ranging partnership that takes best advantage of the assets and expertise of both groups. Specifically, we have begun developing a system to initiate the co-loading of air cargo by Yusen Air & Sea Service and Yamato Logistics and have started preparations for the establishment of a joint operating company.

By accomplishing and deepening this strategic alliance we will seek to establish a leading position in comprehensive global logistics and further enhance customer services.

Environmental Preservation and Social Activities

Refrigerated Rail Containers with Two Temperature Zones

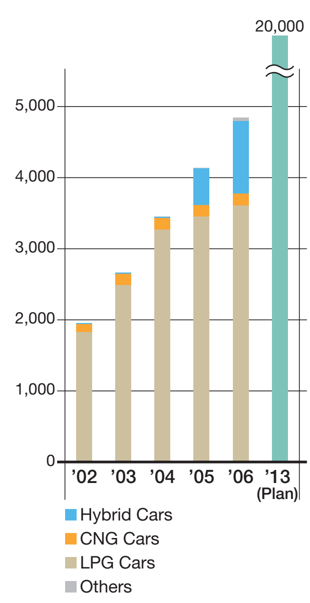
In partnership with JR Freight, Yamato Transport, which operates the Delivery business, has developed a dedicated refrigerated rail container with two temperature zones—refrigerated and frozen. In a related move, it has launched *Cool Takkyubin* rail delivery services for refrigerated and frozen parcels. This enables the use of the same roll box pallets that are used with regular *Takkyubin*, improving loading efficiency by around 30%. The switch from truck to rail is also expected to reduce carbon dioxide emissions by some 850 tons annually. In recent years, corporate customers that order deliveries have grown increasingly concerned over CO_2 emissions from logistics operations. In response, Yamato Transport has drawn up a plan to reduce CO_2 emissions per *Takkyubin* parcel by 30% by fiscal 2013. The initiative to introduce refrigerated rail containers with two temperature zones was approved in 2005 as a project eligible for subsidy under the Japanese Ministry of Land, Infrastructure and Transport's scheme to improve the efficiency of distribution systems.

Measures to Achieve Yamato Transport Global Warming Prevention Targets

1. Deployment of Low-Emission Delivery Vehicles

As a means to achieve its global warming prevention goals, Yamato Transport has set a target of putting 20,000 low-emission delivery vehicles into operation by fiscal 2013. In fiscal 2006 we added 708 low-emission vehicles, including 501 hybrids, to bring the total to 4,843. This number represents 11.0% of Yamato Transport's total fleet of vehicles. In addition to hybrids, we are also working to utilize fuel-efficient minivans. Minivans are effective in reducing emissions of carbon dioxide, nitrogen oxides and particulate matter, so we are actively utilizing them in areas within a 400–800 meter radius of *Takkyubin* centers. Our goal is to add 5,000 of the vans to our fleet by fiscal 2013. Looking ahead, Yamato Transport plans to continue actively adding hybrids and other low-emission vehicles to its fleet.

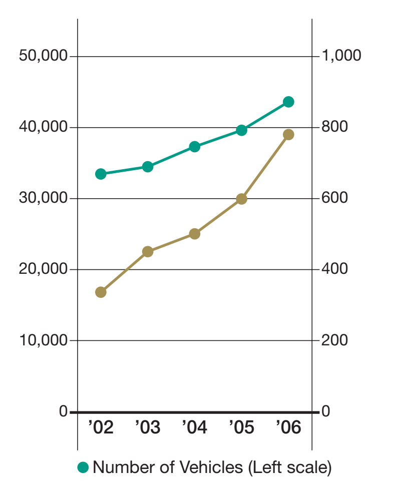
Changes in the Number of Low-emission Vehicles



2. Opening More Satellite Centers

Yamato Transport is actively engaged in opening more satellite centers as another means to achieve its global warming prevention goals. Deliveries from satellite centers use handcarts and minivans instead of regular trucks. Having more centers will expand the range of options available to us for picking up and delivering

Changes in the Number of the Satellite Centers



parcels in urban areas and dense residential neighborhoods. It will also limit increases in vehicles required to handle higher delivery volumes, which should serve to help prevent global warming and reduce pollutant emissions. Our goal is to open a total of 1,000 satellite centers by fiscal 2013, which we anticipate will reduce the need for delivery vehicles by roughly 1,500 trucks. 781 satellite centers have been established as of the end of March 2006, and we intend to open even more of the centers going forward.

Yamato Transport Teaches Children About the Environment

Aware of our corporate responsibilities as a transportation company that uses vehicles, we strive to contribute to local communities through activities related to our business. To that end, we offer classes on the environment for children. Holding the classes provides an opportunity for us to participate in the environmental education of children—the next generation—and serves to raise the environmental awareness of the Group as a whole. Our employees act as the teachers in these classes, and this role enables them to raise their own environmental awareness and enhance their environment-related knowledge. They learn through teaching. In the process they gain new understanding of our environmental conservation activities and, along with the children, they come to understand why the Yamato Group is actively adding low-emission vehicles to its fleet, engaging in a modal shift from trucks to rail, utilizing eco-drive, and using handcarts for pickup and delivery.

The classes address the issue of how *Takkyubin's* methods of operation relate to the prevention of global warming. The class thinks together about the most pressing environmental issue facing humankind—the reasons behind the current need for measures to prevent global warming. Helping to prevent global warming is an extremely high priority and reducing carbon dioxide emissions, the cause of global warming, is an urgent duty for the Yamato Group as well. Our employees teach the children about measures to help prevent global warming as they relate to *Takkyubin's* operations, so elementary school students learn about industry as well as the importance of environmental conservation activities. The curriculum teaches the children that each and every person's actions are important and in the end encourages them to rethink their own lifestyles.

Safety Classes for Children

The Yamato Group always puts safety first in its business activities. Preventing traffic accidents involving children is an especially important safety issue. We have held safety classes for children since 1998 and in August 2005 the total number of children that had participated topped the one million mark. As of May 2006, classes have been held 10,083 times and a total of 1,095,175 children have participated. In recent years we have received requests to hold safety classes at care facilities and nursing homes in addition to elementary and junior high schools. The Yamato Group intends to continue to conduct distinctive community service activities, including programs that are even more in tune with local needs.

Directors and Auditors

Director
Chairman
Keiji Aritomi

Representative Director
President
Kaoru Seto

Representative Director
Senior Executive Officer
Makoto Kigawa

Members of the Board
Hiroshi Oura
Takeshi Yoshii

Auditors
Michio Abe
Takeshi Morishita
Shigemichi Matsuka
Keiko Kitamura

Executive Officers
Koji Ogura
Hiroshi Kawada
Mikio Hijikata
Etsuo Ogawa
Kenichi Shibasaki
Kenji Minaki
Toshizo Kurisu

(As of June 28, 2006)

Six-year Consolidated Financial Summary

	Millions of Yen						Thousands of U.S. Dollars
	2006	2005	2004	2003	2002	2001	**2006**
Operating revenues	**¥1,144,961**	¥1,071,903	¥1,011,344	¥972,135	¥932,120	¥906,944	**$9,746,837**
Operating costs	**1,043,372**	998,786	945,201	896,023	861,775	838,219	**8,882,032**
Selling, general and administrative expenses	**32,868**	21,914	19,484	19,294	17,156	16,699	**279,793**
Operating income	**68,721**	51,203	46,659	56,818	53,189	52,026	**585,012**
Income (Loss) before income taxes and minority interests	**7,712**	61,741	87,293	91,063	49,905	(3,554)	**65,647**
Income taxes	**31,276**	27,959	37,515	42,538	22,217	484	**266,249**
Net (loss) income	**(23,968)**	33,848	49,783	48,502	27,512	(4,181)	**(204,036)**

	Yen						U.S. Dollars
Per share of common stock:							
Net (loss) income	**¥ (53.47)**	¥ 74.02	¥ 107.51	¥ 104.51	¥ 59.36	¥ (9.25)	**$ (0.46)**
Diluted net income	**–**	72.48	105.20	101.63	57.38	–	**–**
Cash dividends	**20.00**	18.00	18.00	15.00	14.00	14.00	**0.17**

	Millions of Yen						Thousands of U.S. Dollars
Working capital	**¥ 123,483**	¥ 80,843	¥ 74,803	¥ 77,514	¥ 84,630	¥ 93,534	**$1,051,184**
Total shareholders' equity	**423,690**	458,792	443,715	406,306	364,806	344,209	**3,606,790**
Total assets	**793,222**	676,156	652,792	655,877	678,939	670,246	**6,752,547**
Capital expenditures	**48,865**	40,966	47,587	42,591	40,379	37,144	**415,978**
Depreciation and amortization	**35,003**	37,146	35,663	31,731	31,764	29,900	**297,973**
Net cash provided by operating activities	**84,675**	76,642	41,064	86,035	69,724	55,249	**720,820**
Number of employees	**152,787**	141,602	131,974	112,948	108,700	101,784	**–**
Operating income margin (%)	**6.00**	4.78	4.61	5.84	5.71	5.74	**–**
Return on revenues (%)	**(2.09)**	3.16	4.92	4.99	2.95	(0.46)	**–**
Return on assets (%)	**(3.26)**	5.09	7.61	7.27	4.08	(0.64)	**–**
Return on equity (%)	**(5.43)**	7.50	11.71	12.58	7.76	(1.23)	**–**
Current ratio (%)	**143.77**	142.85	142.39	145.44	147.94	154.34	**–**
Equity ratio (%)	**53.41**	67.85	67.97	61.95	53.73	51.36	**–**
Assets turnover (Times)	**1.56**	1.61	1.55	1.46	1.38	1.38	**–**
Interest coverage ratio (Times)	**137.92**	104.19	65.17	36.68	24.99	20.55	**–**
Shareholders' equity per share (Yen)	**951.08**	1,019.02	971.84	875.08	790.58	746.21	**8.10**

Note: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥117.47 to U.S.$1.

Management's Discussion and Analysis

Scope of Consolidation

The Yamato Group's consolidated financial statements include 50 major consolidated subsidiaries. The number of subsidiaries included in the statements was 43 at fiscal 2005 year-end. However, in fiscal 2006, seven new companies were brought within the scope of consolidation. These included Yamato Transport, established on November 1, 2005 as the receiver company for the Delivery business that was spun off from the Company, and Fine Credit, which became a consolidated subsidiary on April 1, 2005. There are no non-consolidated subsidiaries or affiliates accounted for by the equity method during the period under review.

Results of Operations

In the fiscal year ended March 31, 2006, the Japanese economy held to a recovery track, supported by improved corporate earnings and an expansion in private-sector capital expenditures, as well as modest growth in consumer spending. In contrast to these upbeat conditions, the domestic transportation industry continued to face a harsh operating environment as the impact of elevated crude oil prices was compounded by intensifying price-based competition within the industry. This escalation in the competitive environment was due in part to the aggressive entry of Japan Post into the private-sector package delivery market.

In this context, the Group completed its shift from an operating holding company structure to a pure holding company structure. On November 1, 2005 we split the former Yamato Transport into Yamato Holdings, which handles decision-making and supervision for the Group as a whole, and the new Yamato Transport, which executes the Delivery business. The new Group structure under Yamato Holdings is composed of six business formations that include the Delivery business. By enabling strategic decision-making encompassing the entire Group and the capacity to flexibly allocate management resources in an optimal manner, the Yamato Group has put in place a system that will accelerate the pace of growth for the Group as a whole.

From the year under review, the Group embarked on its latest management plan, "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan." In a competitive environment expected to heat up further with the impending privatization of Japan Post in 2007, this plan aims to help the Group switch to a business structure that can retain and extend its growth capabilities. Guided by this plan, the Group continued striving to systematically expand its Delivery business. Alongside the initiation of business strategies to accelerate growth in non-delivery businesses capitalizing on group resources, the Group has also taken steps to achieve highly efficient management by restructuring processes in every business domain.

As a result of the above and other factors, Yamato Holdings recorded consolidated operating revenues of ¥1,144,961 million, up ¥73,058 million, or 6.8%, from the previous fiscal year. Operating income also grew ¥17,518 million, or 34.2%, to ¥68,721 million, as efforts to enhance cost-control capabilities offset costs, namely the effects of surging crude oil prices. Reflecting sharply higher operating income, the operating income margin rose 1.2 percentage points to 6.0%. However, the Company posted a net loss of ¥23,968 million for the year. This was primarily due to the booking of a loss on devaluation of land accompanying the spin-off of the Delivery business, a move that was enacted to further strengthen the Company's financial position.

Review by Operating Segment

The following are summaries from each operating segment:

Delivery

The Delivery business is mainly focused on small parcel delivery services for consumers and corporate clients and includes *Takkyubin* and *Kuroneko Mail* services.

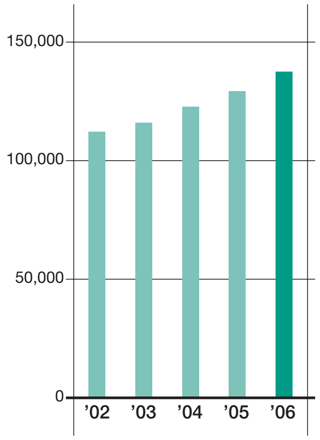
Both the total delivery volume and revenue for the *Takkyubin* service increased sharply due to the introduction of new services to meet diversifying customer needs and active measures taken to improve customer convenience. Overall delivery volume in the parcel delivery business climbed to 1,129.0 million parcels, up 6.2% year on year. Contributing to growth was *Cool Takkyubin*, where volume increased 6.5% to 137.5 million units. Moreover, the *Collect Service* handling volume increased 14.7% to 78.6 million units. Meanwhile, the unit price for the *Takkyubin* service dropped ¥13 from ¥666 in fiscal 2005 to ¥653. This drop was due mainly to intensifying competition in the parcel delivery market, which sparked the roughly 2 percentage-point decline in unit price. The net result of the above was that total *Takkyubin* service revenue increased 4.1% to ¥737,399 million.

Both total delivery volume and revenue for the *Kuroneko Mail* service increased, reflecting stronger operations, including increased handling services for corporate customers and expansion of service counters. Another factor was the commencement of sales of *Kuroneko International Mail* from July 2005. Handling volume increased 21.1% to 1,734.8 million units. Meanwhile, the unit price for the *Kuroneko Mail* service dropped ¥4 from ¥73 in fiscal 2005 to ¥69, reflecting the impact of volume discounts offered by Japan Post starting February 2003. The net result of the above was that revenue for the *Kuroneko Mail* service grew 16.0% to ¥120,549 million.

As a result, total operating revenues for the Delivery business were ¥915,952 million, an increase of ¥49,200 million, or 5.7%. Operating income was ¥48,816 million, an increase of ¥12,549 million, or 34.6%, despite the impact of higher personnel expenses for strengthening the quality of delivery services by employing more part-time staff.

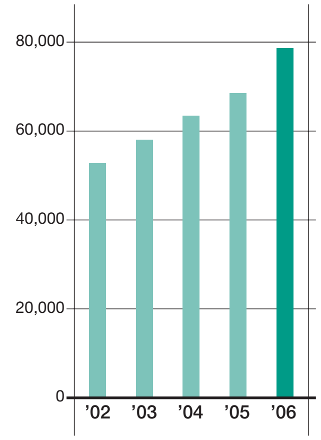
Cool Takkyubin Delivery Volume

(1,000 parcels)



Collect Service Delivery Volume

(1,000 parcels)



Takkyubin Revenues, Delivery Volume, and Unit Price

Years ended March 31	2002	2003	2004	2005	**2006**
Takkyubin revenues (Millions of Yen)	683,589	698,499	690,088	708,503	**737,399**
Delivery volume (1,000 parcels)	947,895	983,938	1,011,150	1,063,057	**1,128,998**
Unit price (Yen)	721	710	682	666	**653**

Unit price declined in the fiscal years ended March 2003 and 2004 due to the merger of Shikoku Yamato Transport Co., Ltd. and Kyushu Yamato Transport Co., Ltd.

BIZ-Logistics

BIZ-Logistics provides inter-company logistics services aimed at the B2B supply chain management market and includes air-freight forwarding, logistics business and marine forwarding.

Revenue from the marine forwarding business rose a healthy 14.0% to ¥19,747 million year on year. In contrast, the air-freight forwarding business posted a modest increase of 1.2% to ¥67,223 million, while revenue from the logistics business edged just 0.2% higher to ¥17,539 million.

Combining other areas such as packing operations and other services, operating revenue edged up ¥797 million, or 0.7%, to ¥111,488 million, with operating income down ¥115 million, or 2.8%, to ¥4,036 million.

Home Convenience

Home Convenience services include moving services and lifestyle support services, such as home services intimately connected with the needs of local markets, in addition to merchandise marketing.

Despite a tough market environment due to intensified competition with rival companies, moving services posted ¥33,667 million in revenue, up ¥577 million, or 1.7%, from the previous fiscal year. Merchandise marketing also grew steadily, recording ¥24,179 million in revenue, up 13.7%, or ¥2,918 million.

As a result, operating revenues increased ¥1,114 million, or 2.6%, to ¥44,498 million. Furthermore, operating income was ¥381 million, reversing an operating loss of ¥638 million posted for the previous fiscal year.

e-Business

The e-Business segment encompasses information services targeting business customers, including ASP services and the development of information systems.

During the year under review, e-Business established a marketing framework tailored to specific industry sectors and took steps to change its on-premise business format to solution-oriented services. The segment's proactive marketing efforts, meanwhile, included proposals comprised of elements such as tracing and security.

As a result, operating revenues increased 11.7% to ¥27,279 million, largely reflecting strong performance in information management services for the credit and consumer finance industry.

Financial

The Financial business includes financial services targeted at business customers and consumers, such as settlement and collection.

In the fiscal year ended March 31, 2006, revenue from *Collect Service* was ¥26,068 million, up 12.6% from a year ago. Revenue from installment credit loans was ¥12,218 million, due to the addition of Fine Credit to the Yamato Group.

Consequently, operating revenues for this segment, which included the April 1, 2005 consolidation of Fine Credit, increased 71.7% to ¥45,744 million.

Financial Review

Operating Costs

In the fiscal year ended March 31, 2006, the Company recorded consolidated operating costs and expenses of ¥1,076,240 million, up ¥55,540 million, or 5.4% from the previous fiscal year. Significant components of the operating costs were as follows:

Breakdown of operating costs — Millions of Yen

Years ended March 31	2005	**2006**	Increase/ decrease
Personnel expenses	¥ 542,306	**¥ 563,267**	¥ 20,961
Subcontracting expenses	357,024	**387,956**	30,932
Vehicle expenses	27,277	**31,502**	4,225
Other expenses	235,163	**250,463**	15,300
Elimination of internal procurement costs	(141,070)	**(156,948)**	(15,878)
Total	¥1,020,700	**¥1,076,240**	¥ 55,540

Major factors contributing to increased operating costs and expenses were higher subcontracting expenses for *Kuroneko Mail* and increased subcontracting expenses resulting from delivering more diverse types of goods. As a result, subcontracting expenses for fiscal 2006 increased ¥30,932 million.

Personnel expenses increased ¥20,961 million, mainly from an increase of ¥20,513 million in salaries to employees to boost service quality. The number of employees increased 11,185 to 152,787, due largely to a higher number of part-time employees in the Delivery business.

Other Income and Expenses

In fiscal 2006, other expenses—net totaled ¥61,009 million.

The major factor contributing to expenses was a ¥60,161 million loss on devaluation of land accompanying the spin-off of the Delivery business. Moreover, a ¥2,177 million loss on impairment of long-lived assets was booked due to the application of impairment accounting beginning the previous year, continued negative growth in operating activities at six asset groups, including the Kyoto branch office of Kyoto Yamato Transport Co., Ltd., and a significant drop in market prices.

Net Income

In fiscal 2006, income before income taxes and minority interests decreased ¥54,029 million, or 87.5%, to ¥7,712 million. Income taxes increased ¥3,317 million to ¥31,276 million.

With the inclusion of ¥404 million in minority interests, the Company posted a net loss of ¥23,968 million. Return on equity (ROE) was negative 5.4%, while net loss per share was ¥53.47.

In light of sharply higher operating income, the annual dividend was ¥20.00, an increase of ¥2.0 from the previous fiscal year.

Cash Flows

Operating Activities

Net cash provided by operating activities totaled ¥84,675 million, an increase of ¥8,033 million from the previous fiscal year. The major factors included a decrease in income before income taxes and minority interests of ¥54,029 million to ¥7,712 million, the booking of a loss on devaluation of land of ¥60,161 million, and a ¥9,729 million increase in allowance for retirement benefits.

Investing Activities

Net cash used in investing activities was ¥54,271 million, an increase of ¥14,281 million. The principal uses of cash in investing activities were ¥41,566 million for acquiring fixed assets, ¥5,123 million more than in the previous year, and ¥4,780 million for the acquisition of Fine Credit.

Financing Activities

Net cash used in financing activities totaled ¥25,355 million, a decrease of ¥8,557 million from the previous fiscal year. This result was principally due to ¥78,740 million in proceeds from loans by Fine Credit and others, ¥85,532 million for repayments of debt, and the absence of ¥17,000 million used for the redemption of company bonds in the previous fiscal year.

As a result of these factors, cash and cash equivalents at the end of the fiscal year totaled ¥125,504 million, up ¥5,474 million from the end of the previous fiscal year.

Financial Position

Total current assets as of March 31, 2006 were ¥405,608 million, an increase of ¥136,119 million, or 50.5%. This growth came mainly atop of an increase in the installment receivable balance of ¥113,648 million accompanying the new consolidation of Fine Credit.

Net property, plant and equipment decreased ¥46,911 million, or 14.5%, to ¥277,630 million. The major factor contributing to this decrease was a loss on devaluation of land of ¥60,161 million from the spin-off of the Delivery business.

Investments and other assets increased ¥27,858 million, or 33.9%, to ¥109,984 million. This was due primarily to an increase of ¥23,254 million in investment securities to ¥46,305 million.

As a result of the foregoing, total assets increased ¥117,066 million, or 17.3%, from the end of the previous fiscal year, to ¥793,222 million.

The new consolidation of Fine Credit was responsible for increases in current and long-term liabilities. The former included short-term bank loans of ¥43,705 million, up ¥43,668 million from the previous year, and deferred profit on installment sales of ¥23,368 million. The latter consisted of an increase in long-term debt of ¥38,768 million to ¥54,189 million.

As a result, total current liabilities increased ¥93,479 million, or 49.6%, to ¥282,125 million. The current ratio was 143.8%. Total long-term liabilities increased ¥55,162 million, or 192.7%, to ¥83,782 million.

Total shareholders' equity declined ¥35,102 million, or 7.7%, to ¥423,690 million. The principal factors were the decrease in retained earnings due to the posting of ¥23,968 million in net loss, as well as a ¥19,981 million decrease in capital surplus due largely to the disposal of treasury stock.

Net assets per share for the period under review declined ¥67.94, or 6.7%, to ¥951.08. The shareholders' equity ratio dropped 14.5 percentage points to 53.4%.

Capital Expenditure

Capital expenditure was ¥48,865 million, providing the necessary delivery framework to improve the quality of the core *Takkyubin* services and offer additional services across Japan. The following is a breakdown of capital expenditure:

Breakdown of capital expenditure	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Delivery	¥26,657	**¥33,557**	**$285,667**
BIZ-Logistics	830	**1,539**	**13,102**
Home Convenience	458	**381**	**3,239**
e-Business	906	**1,406**	**11,969**
Financial	11,632	**11,884**	**101,164**
Eliminations and Corporate	483	**98**	**837**
Consolidated	¥40,966	**¥48,865**	**$415,978**

In the Delivery business, capital expenditure was used for the opening of new *Takkyubin* centers, additional purchase and replacement of delivery vehicles, and other purposes. Major changes in the Delivery business network are detailed below.

Network	2005	**2006**
Number of vehicles	49,046	**54,693**
Number of delivery channels	8,467	**10,777**
Number of sub-agents	296,438	**289,598**

Consolidated Balance Sheets

March 31, 2006 and 2005

ASSETS	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT ASSETS:			
Cash (Note 2.c)	¥ 125,481	¥ 119,694	$ 1,068,195
Time deposits (Note 2.c)	30	342	259
Marketable securities (Note 5)	891	111	7,580
Notes and accounts receivable:			
Trade	129,352	116,174	1,101,152
Installment (Note 4)	113,648		967,461
Allowance for doubtful accounts	(6,773)	(501)	(57,661)
Inventories	2,667	2,464	22,707
Deferred tax assets (Note 10)	17,467	15,957	148,693
Prepaid expenses and other current assets	22,845	15,248	194,478
Total current assets	405,608	269,489	3,452,864
PROPERTY, PLANT AND EQUIPMENT—At cost:			
Land (Notes 6 and 7)	92,030	152,270	783,437
Buildings and structures (Note 6)	232,054	221,403	1,975,428
Vehicles	185,175	173,614	1,576,358
Machinery and equipment	97,528	103,942	830,238
Construction in progress	4,557	3,714	38,792
Total	611,344	654,943	5,204,253
Accumulated depreciation	(333,714)	(330,402)	(2,840,842)
Net property, plant and equipment	277,630	324,541	2,363,411
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 7)	46,305	23,051	394,188
Investments in and advances to non-consolidated subsidiaries and affiliates, net of valuation allowance of ¥75 million ($638 thousand) in 2006 and 2005	401	762	3,409
Long-term loans	3,002	3,058	25,553
Lease deposits	26,699	27,039	227,286
Deferred tax assets (Note 10)	11,010	6,812	93,725
Other assets	22,567	21,404	192,111
Total investments and other assets	109,984	82,126	936,272
TOTAL	¥ 793,222	¥ 676,156	$ 6,752,547

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 43,025	¥ 37	$ 366,264
Current portion of long-term debt (Note 7)	680		5,789
Notes and accounts payable:			
Trade	102,935	91,118	876,266
Construction	16,083	11,489	136,916
Income taxes payable	22,075	20,508	187,920
Employees' savings deposits	3,355	3,309	28,563
Accrued expenses	49,055	49,310	417,596
Deferred profit on installment sales (Note 4)	23,368		198,927
Other current liabilities	21,549	12,875	183,439
Total current liabilities	282,125	188,646	2,401,680
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	54,189	15,421	461,301
Liability for employees' retirement benefits (Note 8)	22,819	13,012	194,249
Retirement allowances for directors and corporate auditors	96		821
Deferred tax liabilities (Note 10)	4,823		41,059
Other long-term liabilities	1,855	187	15,788
Total long-term liabilities	83,782	28,620	713,218
MINORITY INTERESTS	3,625	98	30,859
CONTINGENT LIABILITIES (Note 12)			
SHAREHOLDERS' EQUITY (Notes 7, 9 and 16)**:**			
Common stock—authorized, 1,787,541,000 shares in 2006 and 530,000,000 shares in 2005; issued, 457,062,665 shares in 2006 and 469,478,756 shares in 2005	120,576	120,550	1,026,439
Capital surplus	113,474	133,455	965,984
Retained earnings	199,972	232,151	1,702,324
Unrealized gain on available-for-sale securities	11,380	4,325	96,873
Foreign currency translation adjustments	(172)	(653)	(1,467)
Treasury stock—at cost, 11,654,307 shares in 2006 and 19,359,536 shares in 2005	(21,540)	(31,036)	(183,363)
Total shareholders' equity	423,690	458,792	3,606,790
TOTAL	¥793,222	¥676,156	$6,752,547

Consolidated Statements of Operations

Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	**2006**
OPERATING REVENUES	**¥1,144,961**	¥1,071,903	**$9,746,837**
OPERATING COSTS AND EXPENSES:			
Operating costs	**1,043,372**	998,786	**8,882,032**
Selling, general and administrative expenses	**32,868**	21,914	**279,793**
Total operating costs and expenses	**1,076,240**	1,020,700	**9,161,825**
Operating income	**68,721**	51,203	**585,012**
OTHER (INCOME) EXPENSES:			
Interest and dividend income	**(559)**	(492)	**(4,759)**
Interest expense	**500**	496	**4,256**
Amortization of negative goodwill	**(130)**		**(1,103)**
Gain on adjustment of leasing property	**(1,250)**		**(10,639)**
Gain on sales of marketable and investment securities	**(45)**	(427)	**(383)**
Loss on disposal of property, plant and equipment	**1,121**	1,015	**9,541**
Loss on impairment of long-lived assets (Note 6)	**2,177**	4,597	**18,537**
Bond issuance costs	**4**	4	**34**
Gain on decrease of retirement benefit obligation upon transfer of unfunded retirement benefit plan to cash balance plan (Note 2.i)		(14,383)	
Loss on devaluation of land	**60,161**		**512,136**
Other—net	**(970)**	(1,348)	**(8,255)**
Other (income) expenses—net	**61,009**	(10,538)	**519,365**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**7,712**	61,741	**65,647**
INCOME TAXES (Note 10)**:**			
Current	**35,152**	29,485	**299,243**
Deferred	**(3,876)**	(1,526)	**(32,994)**
Total income taxes	**31,276**	27,959	**266,249**
MINORITY INTERESTS IN NET EARNINGS (LOSS) OF CONSOLIDATED SUBSIDIARIES	**404**	(66)	**3,434**
NET (LOSS) INCOME	**¥ (23,968)**	¥ 33,848	**$ (204,036)**

	Yen		U.S. Dollars
	2006	2005	**2006**
PER SHARE OF COMMON STOCK (Notes 2.q and 13)**:**			
Basic net (loss) income	**¥ (53.47)**	¥ 74.02	**$ (0.46)**
Diluted net income		72.48	
Cash dividends applicable to the year	**20.00**	18.00	**0.17**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2006 and 2005

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2004	456,408	¥120,548	¥133,453	¥206,877	¥ 4,183	¥(625)	¥(20,721)
Take-over of retained earnings for merger of non-consolidated subsidiaries				(28)			
Adjustment of retained earnings for newly consolidated subsidiaries				286			
Net income				33,848			
Cash dividends, ¥19 per share				(8,671)			
Bonuses to directors and corporate auditors				(161)			
Repurchase of treasury stock	(6,323)						(10,364)
Disposal of treasury stock	31						49
Shares issued on conversion of convertible debt	3	2	2				
Net increase in unrealized gain on available-for-sale securities					142		
Foreign currency translation adjustments						(28)	
BALANCE, MARCH 31, 2005	450,119	120,550	133,455	232,151	4,325	(653)	(31,036)
Adjustment of retained earnings for newly consolidated subsidiaries				3			
Net loss				(23,968)			
Cash dividends, ¥18 per share				(8,101)			
Bonuses to directors and corporate auditors				(113)			
Repurchase of treasury stock	(4,773)						(10,545)
Disposal of treasury stock	19		4				30
Retirement of treasury stock			(20,011)				20,011
Shares issued on conversion of convertible debt	43	26	26				
Net increase in unrealized gain on available-for-sale securities					7,055		
Foreign currency translation adjustments						481	
BALANCE, MARCH 31, 2006	**445,408**	**¥120,576**	**¥113,474**	**¥199,972**	**¥11,380**	**¥(172)**	**¥(21,540)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2005	$1,026,218	$1,136,075	$1,976,259	$36,820	$(5,558)	$(264,201)
Adjustment of retained earnings for newly consolidated subsidiaries			29			
Net loss			(204,036)			
Cash dividends, $0.15 per share			(68,965)			
Bonuses to directors and corporate auditors			(963)			
Repurchase of treasury stock						(89,770)
Disposal of treasury stock		35				261
Retirement of treasury stock		(170,347)				170,347
Shares issued on conversion of convertible debt	221	221				
Net increase in unrealized gain on available-for-sale securities				60,053		
Foreign currency translation adjustments					4,091	
BALANCE, MARCH 31, 2006	**$1,026,439**	**$ 965,984**	**$1,702,324**	**$96,873**	**$(1,467)**	**$(183,363)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	**2006**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 7,712**	¥ 61,741	**$ 65,647**
Adjustments for:			
Income taxes—paid	**(35,325)**	(27,805)	**(300,714)**
Depreciation and amortization	**35,003**	37,146	**297,973**
Loss on disposal of property, plant and equipment	**1,121**	1,015	**9,541**
Loss on impairment of long-lived assets	**2,177**	4,597	**18,537**
Loss on devaluation of land	**60,161**		**512,136**
Gain on sales of marketable and investment securities	**(45)**	(427)	**(383)**
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
Increase in notes and accounts receivable	**(5,124)**	(19,719)	**(43,622)**
Decrease (increase) in inventories	**114**	(88)	**972**
Increase in notes and accounts payable	**9,812**	22,292	**83,530**
Increase (decrease) in liability for employees' retirement benefits	**9,729**	(5,255)	**82,823**
Other—net	**(660)**	3,145	**(5,620)**
Total adjustments	**76,963**	14,901	**655,173**
Net cash provided by operating activities	**84,675**	76,642	**720,820**
INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	**724**	143	**6,165**
Purchases of property, plant and equipment	**(41,566)**	(36,443)	**(353,839)**
Proceeds from sales of marketable and investment securities	**436**	8,480	**3,709**
Purchases of marketable and investment securities	**(7,029)**	(5,353)	**(59,839)**
Decrease (increase) in investments in and advances to non-consolidated subsidiaries and affiliates	**73**	(194)	**621**
Acquisition of new subsidiaries' shares, net of cash owned by those subsidiaries (Note 15)	**(4,780)**		**(40,693)**
Cash collected from long-term loans	**2,523**	2,942	**21,478**
Cash advanced for long-term loans	**(2,457)**	(2,443)	**(20,917)**
Other	**(2,195)**	(7,122)	**(18,681)**
Net cash used in investing activities	**(54,271)**	(39,990)	**(461,996)**
FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	**42,000**		**357,538**
Repayments of short-term bank loans	**(80,752)**	(105)	**(687,427)**
Proceeds from long-term debt	**36,740**	1,988	**312,761**
Repayments of long-term debt	**(4,780)**	(17,000)	**(40,691)**
Dividends paid	**(8,138)**	(8,667)	**(69,277)**
Paid in from minority shareholders	**35**		**294**
Treasury stocks	**(10,511)**	(10,315)	**(89,475)**
Other	**51**	187	**431**
Net cash used in financing activities	**(25,355)**	(33,912)	**(215,846)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**263**	(11)	**2,242**
CASH AND CASH EQUIVALENTS INCREASED BY MERGER		156	
NET INCREASE IN CASH AND CASH EQUIVALENTS	**5,312**	2,885	**45,220**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	**162**	114	**1,380**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**120,030**	117,031	**1,021,790**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥125,504**	¥120,030	**$1,068,390**

See notes to consolidated financial statements.

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

Independent Auditors' Report

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To the Board of Directors of
Yamato Holdings Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Yamato Holdings Co., Ltd. (formerly Yamato Transport Co., Ltd.) (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yamato Holdings Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 3, the Group changed its policy of reporting actuarial differences in the accounting of employee retirement benefit plan as of April 1, 2005.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 28, 2006

Corporate Data

Head Office

Yamato Holdings Co., Ltd.
16-10, Ginza 2-chome, Chuo-ku, Tokyo
104-8125, Japan
Telephone: (03) 3541-4141
Facsimile: (03) 5565-3427

Major Subsidiaries and Affiliates

Delivery

Yamato Transport Co., Ltd.*
Okinawa Yamato Transport Co., Ltd.*
Yamato Autoworks Co., Ltd.*
Yamato Autoworks Okinawa Co., Ltd.*
Kyoto Yamato Transport Co., Ltd.*
Kobe Yamato Transport Co., Ltd.*
Box Charter Co., Ltd.*
Yamato Box Charter Co., Ltd.*
Yamato Box Charter Miyagi Co., Ltd.*
Yamato Box Charter Iwate Co., Ltd.*
Yamato Box Charter Niigata Co., Ltd.*
Yamato Box Charter Kanazawa Co., Ltd.*
Yamato Box Charter Shizuoka Co., Ltd.*
Yamato Box Charter Aichi Co., Ltd.*
Yamato Box Charter Chugoku Co., Ltd.*
Yamato Box Charter Okayama Co., Ltd.*
Yamato Box Charter Shikoku Co., Ltd.*
Yamato Box Charter Fukuoka Co., Ltd.*
Yamato Box Charter Kumamoto Co., Ltd.*
Yamato Box Charter Kagoshima Co., Ltd.*
Yamato·Staff·Supply Co., Ltd.*
Yamato Management Service Co., Ltd.*
Yamato Architects & Design Co., Ltd.

BIZ-Logistics

Yamato Logistics Co., Ltd.*
Yamato Packing Service Co., Ltd.*
Konan Industry Co., Ltd.*
Yamato Transport U.S.A., Inc.*
Yamato Transport (U.K.) Ltd*
Yamato Transport Europe B.V.*
Yamato Transport (Hong Kong) Ltd.*
Yamato Transport (S) Pte. Ltd.*
Taiwan Yamato International Logistics Inc.*
Yamato (Shanghai) Logistics Co., Ltd.*
Yamato International Logistics., Ltd.*
Yamato Transport (M) Sdn. Bhd.

Home Convenience

Yamato Home Convenience Co., Ltd.*
Hokkaido Yamato Home Convenience Co., Ltd.*
Tohoku Yamato Home Convenience Co., Ltd.*
Hokushinetsu Yamato Home Convenience Co., Ltd.*
Chubu Yamato Home Convenience Co., Ltd.*
Kansai Yamato Home Convenience Co., Ltd.*
Chugoku Yamato Home Convenience Co., Ltd.*
Shikoku Yamato Home Convenience Co., Ltd.*
Kyushu Yamato Home Convenience Co., Ltd.*
Book Service Co., Ltd.*
Swan Co., Ltd.
Swan Net Co., Ltd.
Swan Charcoal Distribution Co., Ltd.

e-Business

Yamato System Development Co., Ltd.*
Yamato Career Service Co., Ltd.*
Yamato Systems U.S.A., Inc.*
Yamato Contact Service Co., Ltd.
Dream Create Co., Ltd.

Financial

Yamato Financial Co., Ltd.*
Yamato Lease Co., Ltd.*
Fine Credit Co., Ltd.*
World Computer Center Co., Ltd.*

*Consolidated subsidiaries

Common Stock

Authorized: 1,787,541,000 shares
Issued: 457,062,665 shares

Stock Exchange Listing

Tokyo Stock Exchange

Transfer Agent and Registrar

Mizuho Trust & Banking Co., Ltd.

Annual Meeting

The annual meeting of shareholders is normally held in June in Tokyo, Japan.

Auditors

Deloitte Touche Tohmatsu
(by Tohmatsu & Co., the Japanese member of Deloitte Touche Tohmatsu)

Principal Shareholders

	Percentage of total shares outstanding
The Master Trust Bank of Japan, Ltd. (Trust Account)	7.87%
Japan Trustee Services Bank, Ltd. (Trust Account)	7.42%
Mizuho Bank, Ltd.	3.77%
Yamato Employees' Shareholding Association	2.98%
Meiji Yasuda Life Insurance Co.	2.68%
The Sumitomo Trust & Banking Co., Ltd. (Trust Account B)	2.12%
Yamato Trading-Partner Shareholding Association	2.06%
State Street Bank and Trust Company 505103	2.04%
Sumitomo Life Insurance Co.	1.85%
JPMCB Omnibus US Pension Treaty JASDEC 380052	1.63%
Total	34.42%

Stock Price Range

(Tokyo Stock Exchange) (Yen)

	High	Low
First quarter	1,553	1,348
Second quarter	1,920	1,411
Third quarter	2,070	1,712
Fourth quarter	2,420	1,837

Distribution of Shareholders

Financial Institutions	42.5%
Securities Companies	1.5%
Other Institutions	6.4%
Foreign Investors	31.5%
Individuals and Others	18.1%
Total	100.0%

(As of March 31, 2006)

YAMATO HOLDINGS CO., LTD.

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