



YAMATO HOLDINGS CO., LTD.

Creating Satisfaction

***Still a Leader,
Still an Innovator***

Annual Report 2008

Year ended March 31, 2008

Profile

The Yamato Group consists of Yamato Holdings Co., Ltd. (“the Company”), 38 subsidiaries and five affiliated companies. It is primarily involved in six business segments: Delivery, BIZ-Logistics, Home Convenience, e-Business, Financial and Other, 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. The Group has managed its businesses in pursuit of this goal, toward which it will continue to strive. To this end, the Group is working to enhance corporate value through improving quality by constantly putting ourselves in our customers’ position, while also using the capabilities of the whole Group to develop unique services that further improve convenience for our customers.

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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.

Six-Year Consolidated Financial Summary

	Millions of Yen						Thousands of U.S. Dollars*1
	2008	2007	2006	2005	2004	2003	2008
Operating revenues	¥1,225,974	¥1,161,568	¥1,144,961	¥1,071,903	¥1,011,344	¥972,135	\$12,236,489
Delivery	981,142	934,607	908,228	–	–	–	9,792,810
Non-Delivery	244,832	226,961	236,733	–	–	–	2,443,679
Operating costs	1,129,008	1,064,044	1,043,372	998,786	945,201	896,023	11,268,663
Selling, general and administrative expenses	28,786	30,363	32,868	21,914	19,484	19,294	287,316
Operating income	68,180	67,161	68,721	51,203	46,659	56,818	680,510
Delivery*2	40,350	43,698	47,053	–	–	–	402,738
Non-Delivery*2	27,830	23,463	21,668	–	–	–	277,772
Income before income taxes and minority interests	67,596	66,825	7,712	61,741	87,293	91,063	674,674
Income taxes	31,447	32,470	31,276	27,959	37,515	42,538	313,876
Net income (loss)	35,353	33,813	(23,968)	33,848	49,783	48,502	352,856

	Yen						U.S. Dollars
	¥	¥	¥	¥	¥	¥	\$
Per share of common stock:							
Basic net income (loss)	79.80	75.59	(53.47)	74.02	107.51	104.51	0.80
Diluted net income	78.12	74.00	–	72.48	105.20	101.63	0.78
Cash dividends	22.00	20.00	20.00	18.00	18.00	15.00	0.22
Net assets per share	1,050.99	1,005.63	951.08	1,019.02	971.84	875.08	10.49

	Millions of Yen						Thousands of U.S. Dollars
	¥	¥	¥	¥	¥	¥	\$
Working capital	125,355	140,377	123,483	80,843	74,803	77,514	1,251,166
Total shareholders' equity	465,801	445,263	423,690	458,792	443,715	406,306	4,649,179
Total assets	874,219	829,721	793,222	676,156	652,792	655,877	8,725,616
Capital expenditures	124,832	48,881	48,865	40,966	47,587	42,591	1,245,955
Depreciation and amortization	44,772	40,150	35,003	37,146	35,663	31,731	446,874
Net cash provided by operating activities	116,896	80,763	84,675	76,642	41,064	86,035	1,166,742
Operating margin (%)	5.56	5.78	6.00	4.78	4.61	5.84	–
Return on revenues (%)	2.88	2.91	(2.09)	3.16	4.92	4.99	–
Return on assets (%)	4.15	4.17	(3.26)	5.09	7.61	7.27	–
Return on equity (%)	7.76	7.78	(5.43)	7.50	11.71	12.58	–
Current ratio (%)	144.89	149.30	143.77	142.85	142.39	145.44	–
Equity ratio (%)	53.28	53.66	53.41	67.85	67.97	61.95	–
Assets turnover (Times)	1.44	1.43	1.56	1.61	1.55	1.46	–
Interest coverage ratio (Times)	223.00	260.66	137.92	104.19	65.17	36.68	–
Number of employees	169,836	157,653	152,787	141,602	131,974	112,948	–
Full-time	80,843	77,170	75,552	74,571	69,398	67,858	–
Part-time	88,993	80,483	77,235	67,031	62,576	45,090	–
Takkyubin delivery volume (Millions of parcels)	1,236	1,174	1,128	1,063	1,011	983	–
Unit price (Yen)	644	647	653	666	682	710	–
Kuroneko Mail handling volume (Millions of units)	2,206	1,970	1,734	1,432	994	606	–
Unit price (Yen)	64	66	69	73	84	103	–

Notes: 1. U.S. dollar amounts have been translated, for convenience only, at the rate of ¥100.19 to U.S.\$1.

2. In November 2005, the Yamato Group shifted to a pure holding company structure, with Yamato Holdings Co., Ltd. as the parent company. This decision was made in order to clarify the distinction between decision-making and business execution functions, with a view to optimizing the distribution of management resources and increasing the speed of operations. Since the year ended March 31, 2006, the Group has reported operating income for the delivery business and non-delivery businesses with eliminations or corporate allocated by segment. Eliminations or corporate for the current and previous fiscal years are shown with segment information on p. 42. Eliminations or corporate for the year ended March 31, 2006 were ¥2,602 million.

Market Data

Growth in the Express Home Delivery Market

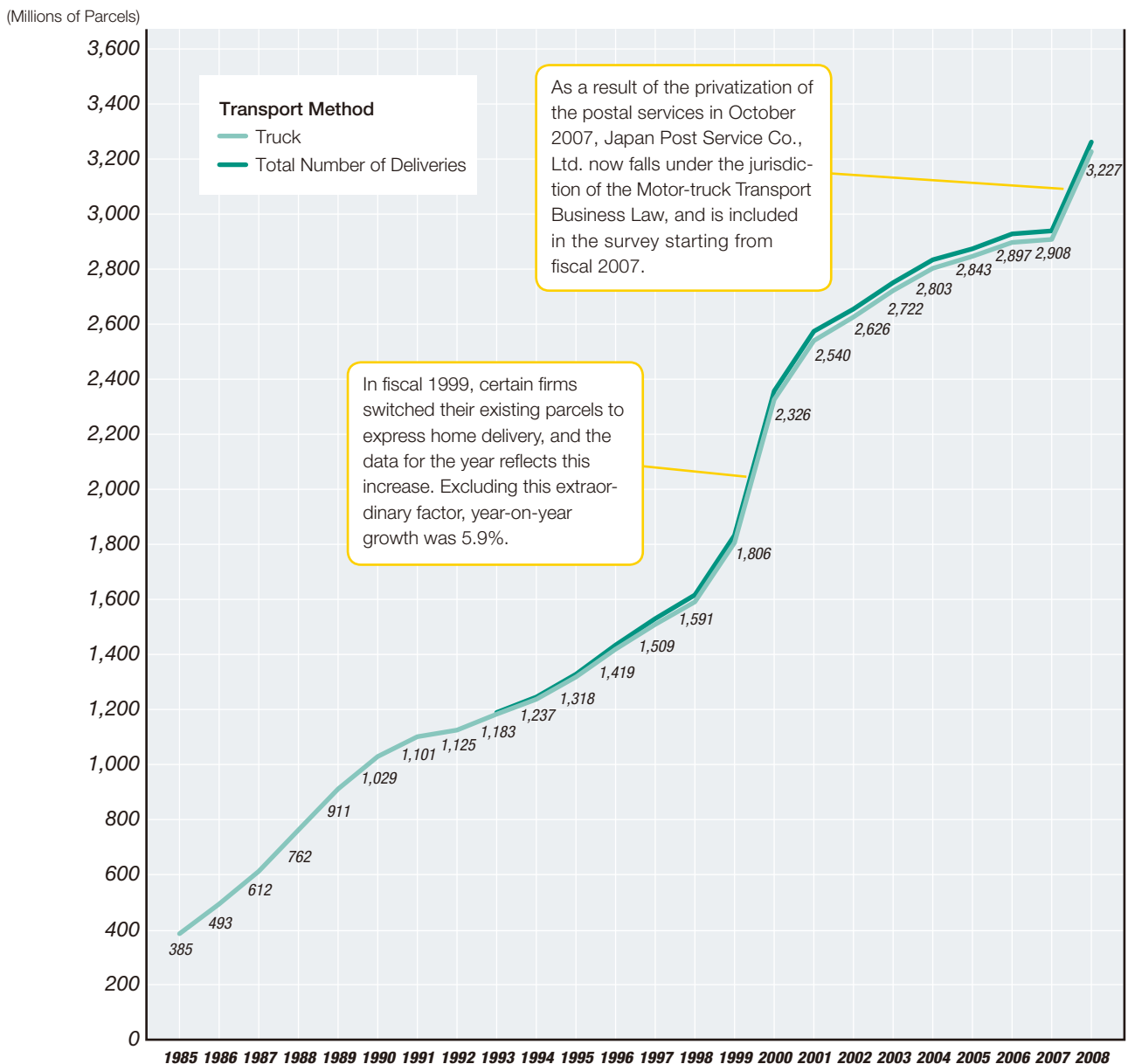
Trends in Parcel Delivery Volume

This survey uses company-reported parcel delivery volume data compiled by the Ministry of Land, Infrastructure, Transport and Tourism.

In the data, “parcels” denotes individual packages weighing less than 30 kg, irrespective of the type of delivery (C2C, B2C, or B2B).

However, lots in which multiple packages are sent together and parcels that do not require a signature on delivery are not counted as “parcels” for the purposes of the survey.

Trends in Delivery Volume



Note: “Total Number of Deliveries” includes express home delivery services involving transport by truck, air, and other methods.

Source: Statistical survey from the Ministry of Land, Infrastructure, Transport and Tourism.

Growth of Takkyubin

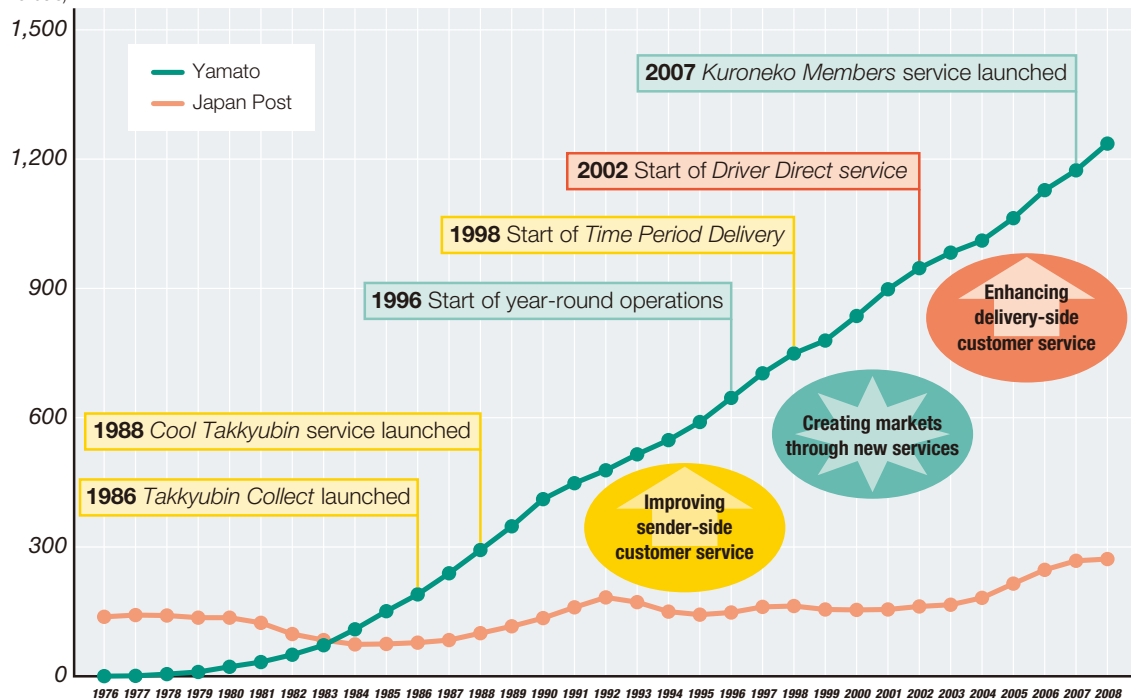
Takkyubin is the Yamato Group's flagship service offering. Since its launch in 1976, we have pursued a strategy of differentiation based on development of additional strategic offerings such as *Cool Takkyubin* and *Takkyubin Collect*, and

improvement of delivery quality, including enhanced features such as *Time Period Delivery* and *Driver Direct* services.

As a result of these efforts, the Yamato Group outperformed the growth in the express home delivery market as a whole, and we are steadily expanding our market share.

Timeline of New Product Development

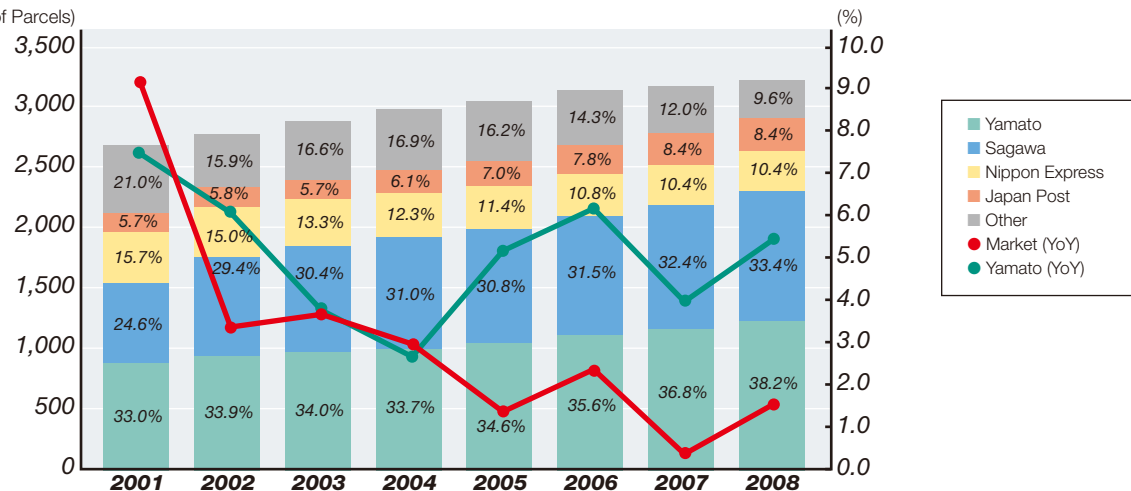
(Millions of Parcels)



Source: Japan Post Holdings Co., Ltd.

Market Share

(Millions of Parcels)



Sources: Ministry of Land, Infrastructure, Transport and Tourism and Japan Post Holdings Co., Ltd.

To Our Shareholders

Fiscal 2008, ended March 31, 2008, was the final year of our medium-term management plan, entitled “Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan.” Consolidated operating revenues for the year totaled ¥1,225,974 million, and operating income amounted to ¥68,180 million.

During the year, we steadily expanded our Delivery business, which accounts for around 80% of consolidated operating revenues. We also actively advanced our non-delivery businesses, including BIZ-Logistics, Home Convenience, e-Business, and Financial. In these ways, we made steady progress in reducing our dependence on the Delivery business.

With the aim of providing more competitive, integrated domestic and international delivery services in the years

ahead, Yamato placed a successful public bid for a parcel of land adjacent to Tokyo International Airport (Haneda Airport), which we expect to increase the Group’s international presence in the future. In order to further reinforce our close-knit domestic network, one of our key strengths, we have established infrastructure on the site, which will play a multifaceted role as a distribution gateway for land, sea, and air.

For fiscal 2008, the Company has declared a year-end dividend of ¥12.00 per share. Combined with the interim dividend, this brings total annual dividends to ¥22.00 per share, ¥2.00 higher than in the previous year.

In this year’s annual report, we portray the Yamato Group’s image as “Still a Leader, Still an Innovator.” Going forward, we aim to raise our corporate value by pursuing further innovations.

We ask for the continued understanding and support of all shareholders in these endeavors.



Keiji Aritomi

Keiji Aritomi

Director and Chairman

Kaoru Seto

Kaoru Seto

Representative Director,
President and Executive Officer

Left **Keiji Aritomi**
Right **Kaoru Seto**

Message from the Management I

Targeting Steady Growth

In fiscal 2008, the final year of “Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan,” we achieved year-on-year growth in both revenue and earnings. Specifically, operating revenues grew 5.5%, and operating income rose 1.5%. We provide an overview of each business segment in the section starting on page 12. In this message, we will look back on the final year of the three-year plan.

The plan featured two major policies, which aimed to ensure long-term future growth for the Group. The first was to steadily expand the Delivery business, centering on *Takkyubin*. The second was to expedite growth in non-delivery businesses—BIZ-Logistics, Home Convenience, e-Business, and Financial—by deploying Groupwide resources. This entailed combining three functions: logistics technology (LT), central to the door-to-door parcel delivery business, information technology (IT), and financial technology (FT).

In order to achieve this aim, it was necessary to separate the decision-making and business execution functions and optimally allocate business resources and raise the speed of management. In November 2005, therefore, we established a pure holding-company group structure with Yamato Holdings as the parent company.



On May 21, 2007, Yamato reached an agreement to form a strategic alliance with the MARUI GROUP. Under the agreement, in September 2007 the door-to-door parcel delivery business of MOVING CO., LTD., a member of the MARUI GROUP, merged with Yamato Home Convenience Co., Ltd. With this move, we established the industry’s most competitive network for delivery services, including onsite installation of home electronic appliances and other products.

As these results attest, the Group made good progress over the three-year period of its medium-term plan, with success in two key areas.

First, the contribution of non-delivery businesses to our performance increased significantly each year. In fiscal 2005,

Business Results

	Millions of Yen				Change	
	2005	2006	2007	2008	Increase/ Decrease	YoY (%)
Operating Revenues						
Delivery	–	¥ 908,228	¥ 934,607	¥ 981,142	¥46,535	5.0
Non-Delivery	–	236,733	226,961	244,832	17,871	7.9
Total	¥1,071,903	1,144,961	1,161,568	1,225,974	64,406	5.5
Operating Income	51,203	68,721	67,161	68,180	1,019	1.5
(Margin)	4.8%	6.0%	5.8%	5.6%	–	–
Net Income (loss)	33,848	(23,968)	33,813	35,353	1,540	4.6
(Margin)	3.2%	(2.1%)	2.9%	2.9%	–	–

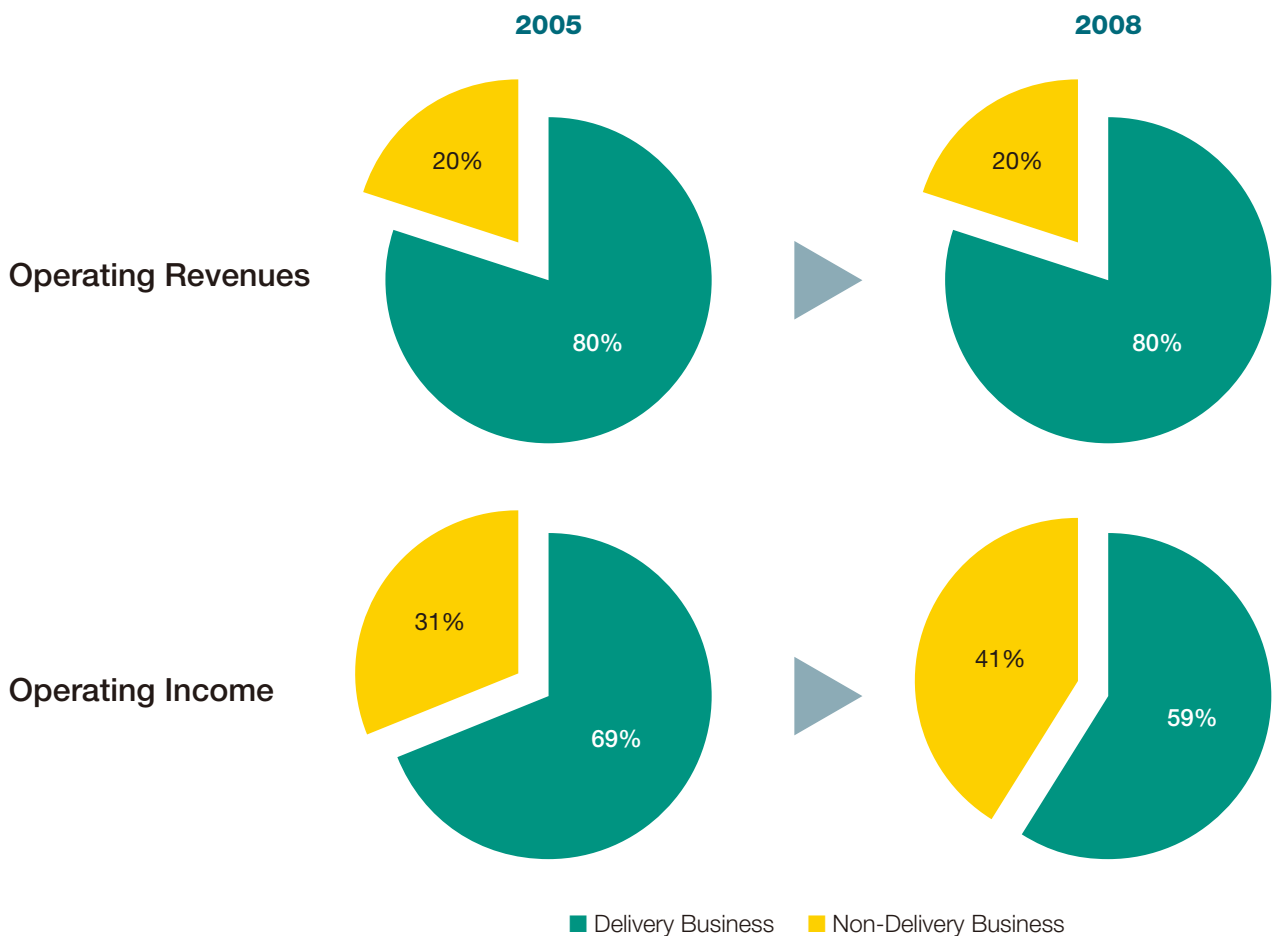
prior to the plan, non-delivery businesses accounted for around 30% of total Income. In the past three years, this share has grown to about 40%. Going forward, we will strive to generate dramatic growth in our non-delivery businesses, surpassing our performance to date. We regard the increased presence of such businesses in overall Group operations over the past three years as a major success story.

Second, we consistently outperformed market growth with respect to handling volume of small-lot delivery services, notably *Takkyubin* and *Kuroneko Mail*, which are core services of our delivery business. Competition in this business has intensified, due in part to the impact of a low-price onslaught by Japan Post, which was privatized in October 2007.

Indeed, the competitive environment for the delivery business has remained extremely challenging. In light of such conditions, our ability to post steady growth reflects the correctness of our Total Reliability corporate philosophy, based on long-term perspectives. Guided by this philosophy, we took the lead in developing services that match customer needs, particularly package recipients, while building an effective pick-up and delivery system. As a result, more and more customers have chosen Yamato. We see this as a major success.

Note: See also pp. 2-3 Market Data (from the Ministry of Land, Infrastructure, Transport and Tourism)

Revenue Composition



Delivery Business: Current Market Status and Future Outlook

The domestic market for home parcel deliveries grew sharply after the launch of *Takkyubin* in 1976 as a consumer-to-consumer (C2C) delivery service. Some, however, believe that in recent years the market has begun contracting.

What is certain is that the logistics business has changed considerably in the past several years, and I believe that this market remains on a path of growth.

For example, the business-to-consumer (B2C) market, centering on mail order, continues to show solid growth. Japanese consumers are embracing a new lifestyle that allows them to conveniently purchase high-quality products at reasonable prices, without leaving the comfort of their own homes. The increasing prevalence of this lifestyle has been the key factor in the success of the B2C model, and we believe the trend is poised to continue.

The business-to-business (B2b) market, based on distribution between companies, is also growing, driven by companies in various industries that have adopted cash-flow-driven management policies. This model calls for maintenance of minimal inventories with sufficient stock for short-term sales only, or adopting made-to-order production. This trend has prompted many companies to use *Takkyubin* services. Although using *Takkyubin* causes delivery costs to increase vis-à-vis total distribution expenses, it significantly alleviates the cost burden of maintaining inventories in distribution warehouses. The result is a reduction in total distribution costs, achieved in a surprisingly simple way. More and more companies are coming to recognize the advantages of *Takkyubin* services, and more and more company and divisional managers are turning to logistics companies like Yamato.

Moreover, the consumer-to-business (C2B) market is expanding as major manufacturers in various industries jointly build platforms enabling customers to easily return products for recalls, repairs, recycling, and other reasons.

At Yamato, we refer to recalls, repairs, and recycling as the “3 Rs.” In the past, most companies issuing recalls lacked the physical capability to collect defective product returns. Using the resources of the Yamato Group, however, they can now accept recalls in a seamless manner. In addition to pickup and delivery, we provide comprehensive support services to address complex back-office tasks, such as accepting telephone orders and account reconciliation after product collection.

With respect to repairs, using Yamato’s services purchasers of electronic goods and other products in need of repair or upgrade can simply send their items back to the manufacturer, and the repaired product can be delivered back to the customer via *Takkyubin* within two or three days. Under this innovative model, Yamato can also act as agent for collection of repair fees if required. Recycling works in a similar fashion, mainly with copier toner cartridges and similar products. The consumer sends back an empty cartridge, for example, and a refilled one is delivered.

In all cases, customers can take advantage of our diverse network of sales channels. On regular business days, this consists of 32,000 sales routes, 3,770 directly managed operations, and roughly 275,000 outlets that handle our services (as of March 31, 2008). Customers also benefit from our comprehensive support resources, including guaranteed-quality delivery, tracking information, and payment agency services. This is a revolutionary framework that has earned us an excellent response from customers.

Note: See also pp. 2-3 Market Data (from the Ministry of Land, Infrastructure, Transport and Tourism)

Takkyubin Growth by Customer Segment (2008)

	Growth in Delivery Volume (%)
Retail Solutions (incl. small-lot retail and individual customers)	104.7
Individual Customer Market	100.3
Distribution Solutions (Department stores/Distributors)	109.7
Manufacturer Solutions (Manufacturers)	102.4

Message from the Management II

Next Stage of Growth

Basic Strategies of “Create Satisfaction Three-Year Plan”

Initiatives for Achieving Our Numerical Targets

In February 2008 the Yamato Group announced our new medium-term management plan, entitled “Create Satisfaction Three-Year Plan.” The main objective of this plan is to lay the groundwork for expanding the Yamato Group’s business territory to cover the Asian region. The plan also emphasizes

Numerical Targets

	Billions of Yen		
	2007 (Actual)	2011 (Forecast)	Change
Operating Revenues	¥1,161.5	¥1,450.0	24.8%
Operating Income	67.1	100.0	49.0%
Operating Margin	5.8%	6.9%	19.0%
ROE	7.8%	10.0%	28.2%

Groupwide management, which is becoming more important than ever. Here I will introduce the plan and its objectives.

As mentioned earlier the Group posted consolidated operating revenues of ¥1,225,974 million and consolidated operating income of ¥68,180 million in the year under review, the final year of “Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan.”

Our new “Create Satisfaction Three-Year Plan” covers the next stage of growth. We have set the following consolidated targets for the year ending March 2011, the final year of the plan: operating revenues of ¥1,450,000 million, operating income of ¥100,000 million, an operating margin of 6.9%, and ROE of 10.0%.

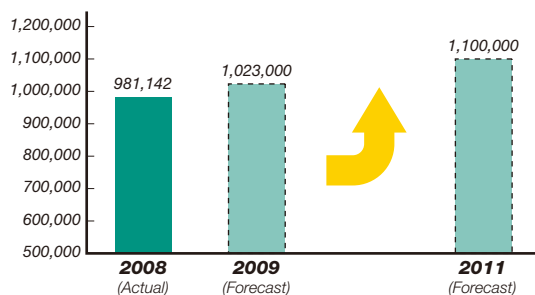
To achieve these targets, the Yamato Group will pursue high but stable growth in its core Delivery business. At the same time, we will strive to realize uninterrupted expansion of our non-delivery businesses, such as BIZ-Logistics.

Numerical Targets: Delivery vs Non-Delivery

Delivery Business

Operating Revenues

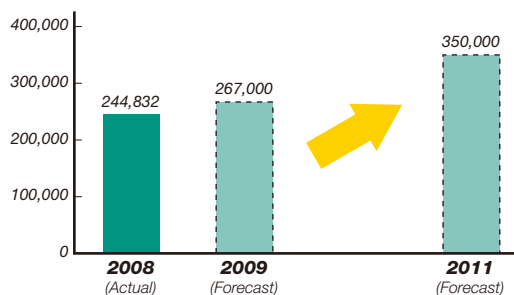
(Millions of Yen)



Non-Delivery Business

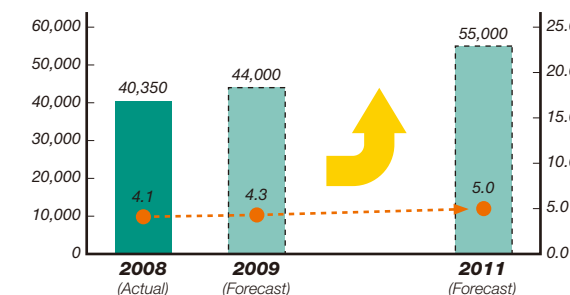
Operating Revenues

(Millions of Yen)



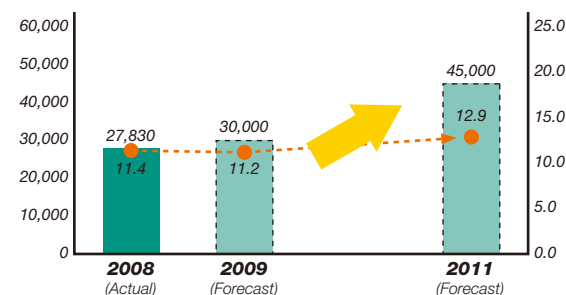
Operating Income / Operating Margin

(Millions of Yen)



Operating Income / Operating Margin

(Millions of Yen)





In the future, we expect the international distribution business to gather pace due to the distance between the places where goods are made and where they are consumed. We also expect increased demand for distribution linking Japan to other countries. Over the next three years, therefore, we plan to expand the Group's business area to cover the Asian region. At the same time, we will build a differentiated foundation for business by providing seamless supply chain logistics services on a global scale. No other company, including importers, offers such comprehensive support services covering import administration, domestic delivery, payment agency, and tracking information.

To realize this differentiation strategy, we will draw on our solid domestic pickup and delivery network and on the expertise we have amassed over our years in business. We believe that the initiatives taken during the last three-year plan will continue to bear fruit over the next three years.

Capital Strategy

The Yamato Group's earnings appropriation policy is to maintain a healthy balance between business investments and shareholder returns, including share buybacks. Through

increases in net income, we also plan to improve net income per share, with the aim of reaching ROE of 10% by the year ending March 2011.

Business investments will be used to generate growth for the overall Yamato Group. They will include capital expenditures centering on our network, as well as investments in new businesses and new product development and investments to raise corporate value.

We are also targeting a dividend payout ratio of 30% based on consolidated net income. At the same time, we will make flexible use of treasury stock, including to pursue M&A opportunities that are consistent with our capital strategy.



Business Description

Delivery



The Delivery business is involved in small parcel delivery services for the general public and corporations centering on *Takkyubin* and *Kuroneko Mail*.

The business has also quickly introduced to the market high value-added services developed from the customer's point of view, such as *Cool Takkyubin* and *Takkyubin Collect*.

BIZ-Logistics



BIZ-Logistics handles logistics and other B2B distribution operations.

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. It provides lifestyle support services tailored closely to the needs of particular regions.

e-Business



e-Business is involved in a range of information services for corporations, including ASP services and information system development.

Based on the three keywords "tracking," "security," and "packages," the e-Business strives to provide unique services making the most of the Group's management resources.

Financial



The Financial business includes settlement and other financial services targeted at consumers and business customers, beginning with mail order firms.

The business has five types of settlement methods, including payment on delivery and payment by credit card. Along with the increasing popularity of Internet shopping in recent years, we have constructed an environment that enables customers to conduct transactions with complete peace of mind.

Other

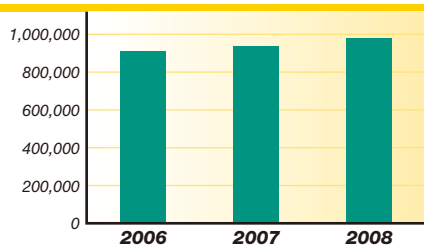


The Other business segment carries out vehicle maintenance primarily by Yamato Autoworks Co., Ltd., and is chiefly responsible for the *JITBOX Charter* service, mainly operated by Box Charter Co., Ltd.

The focus now is on generating profit from these services by providing them to customers outside the Group, using expertise acquired within the Group over the years and the creation of new businesses as benchmarks for success.

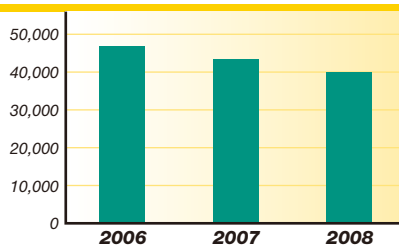
Operating Revenues

(Millions of Yen)

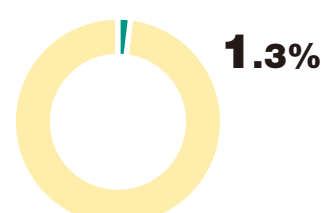
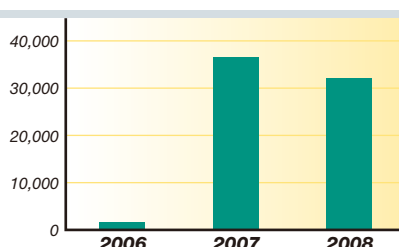
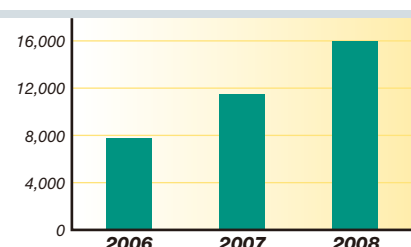
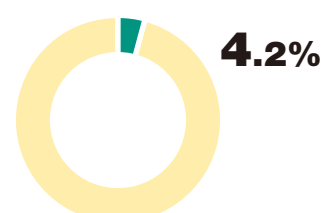
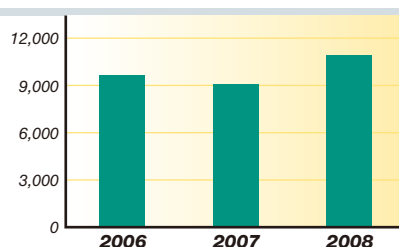
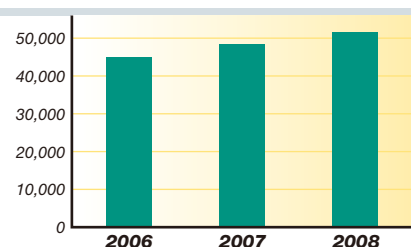
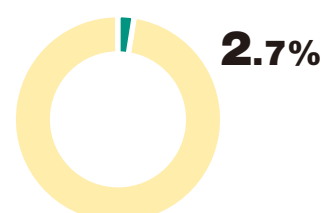
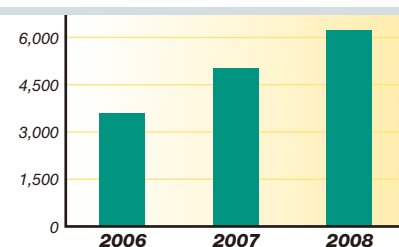
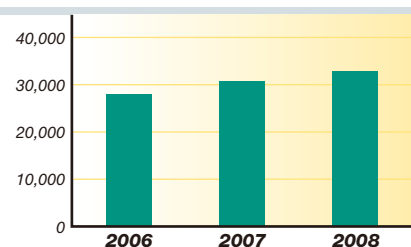
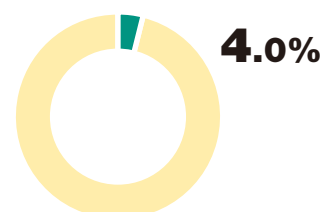
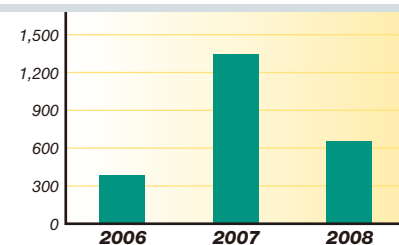
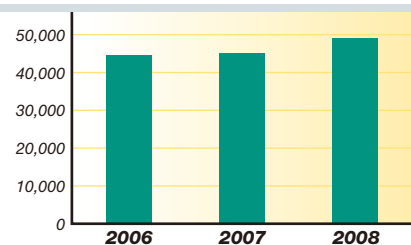
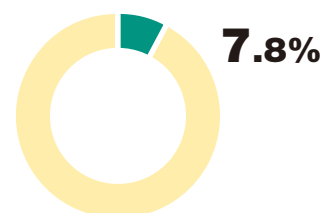
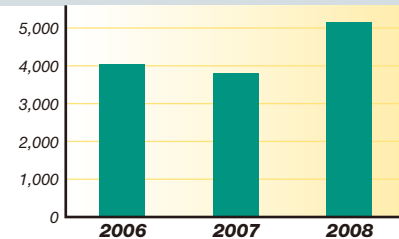
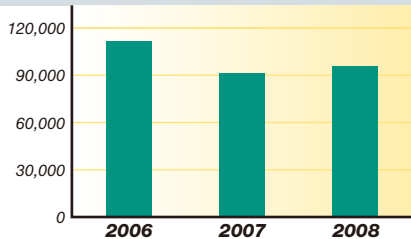
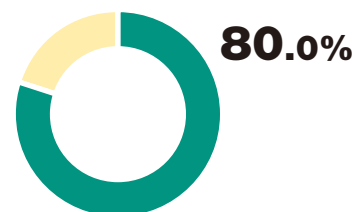


Operating Income

(Millions of Yen)



Share of Net Sales



BIZ-Logistics

Overview of Fiscal 2008

BIZ-Logistics mainly entails provision of logistics services and international freight services.

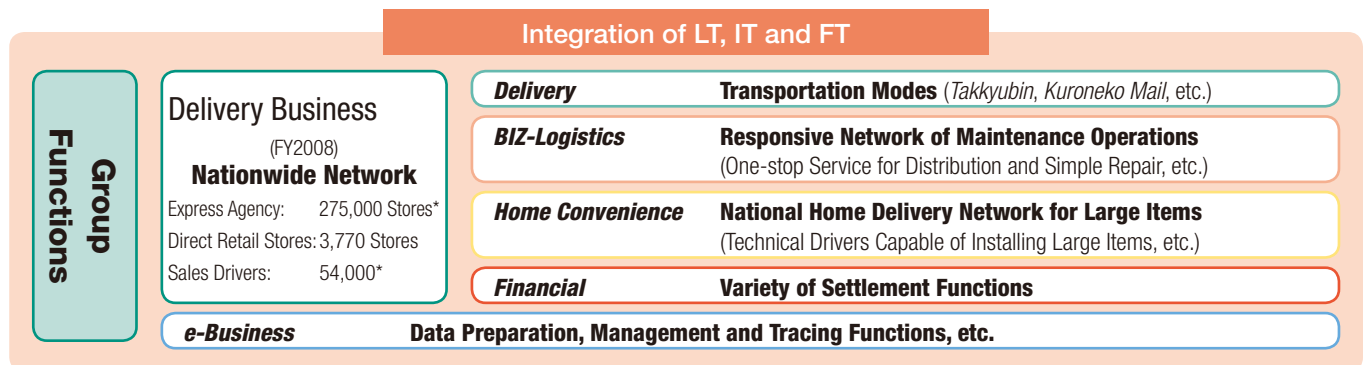
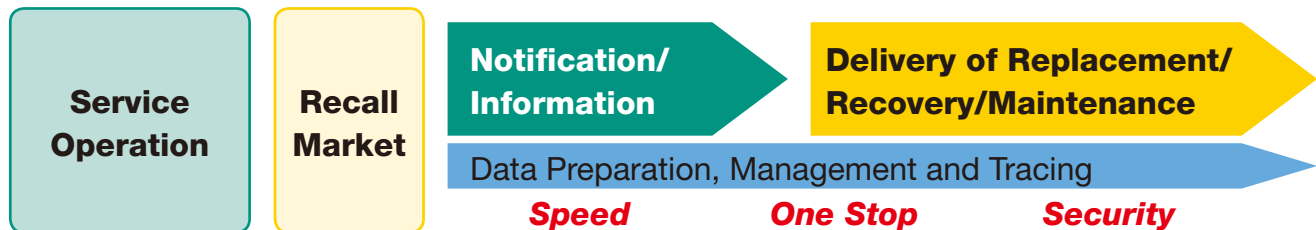
In October 2007, we launched the *Kuroneko Yamato Recall Support Service*. This is a one-stop service for corporate clients who need to recall or voluntarily collect their products, including notification, acceptance of recall requests, and collection on behalf of the client. It is based on a new business model that enables customers to minimize both time and risk. The new service has been warmly received, generating solid handling volume.

Export Factory is a trade logistics service that supports customers' export activities. An integrated outsourced service,

it combines multiple functions, including weighing and packaging, customs clearance, and arrangement for overseas delivery. In providing this service, we have built a business model that realizes reductions in the time and costs associated with the export business.

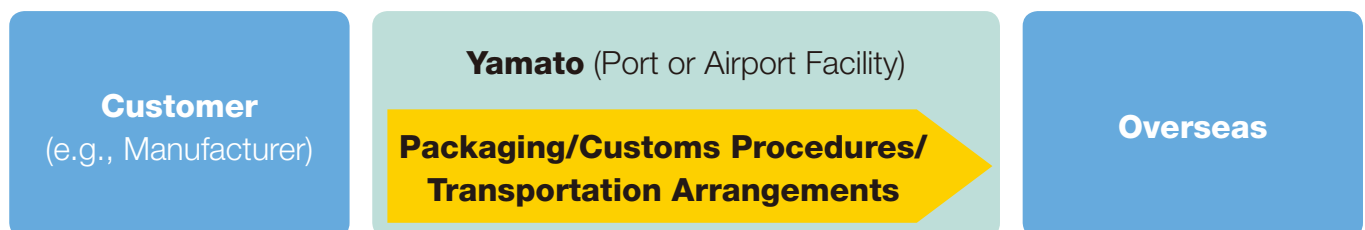
Operating revenues in the BIZ-Logistics business segment rose 4.7% year on year, to ¥95,693 million. On the expenses side, we leveraged our alliance with the NYK LINE Group to promote joint loading and other initiatives, and we sought to constrict loading fares and otherwise reduce subcontracting expenses. As result, segment operating income jumped 35.7%, to ¥5,148 million.

Recall Support Service



* Approximate figure.

Export Factory Service



Home Convenience

Overview of Fiscal 2008

Home convenience services consist mainly of various moving and lifestyle support services.

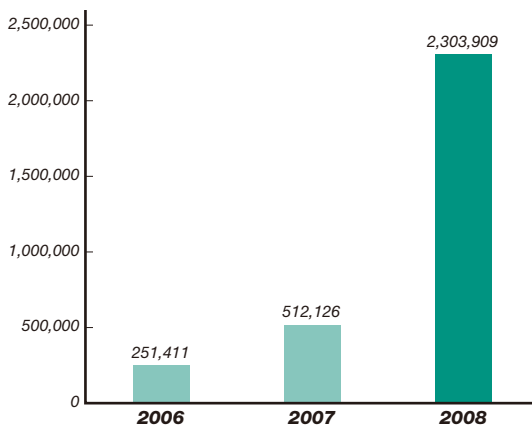
In September 2007, we reinforced our sales system by integrating the home convenience businesses of Yamato Home Convenience Co., Ltd. and the delivery business of MOVING CO., LTD., a member of the MARUI GROUP. The integration aimed to bring together the respective strengths of the two companies—nationwide delivery network and home electronic product installation know-how. One outcome of the integration is *Household Takkyubin*, a unique service that

combines delivery and installation functions. *Household Takkyubin* has thoroughly penetrated the market, attracting an increase in corporate customers. In January 2008, we merged the operations of Yamato Home Convenience and eight regional Home Convenience companies in the Yamato Group, thus further enhancing business efficiency.

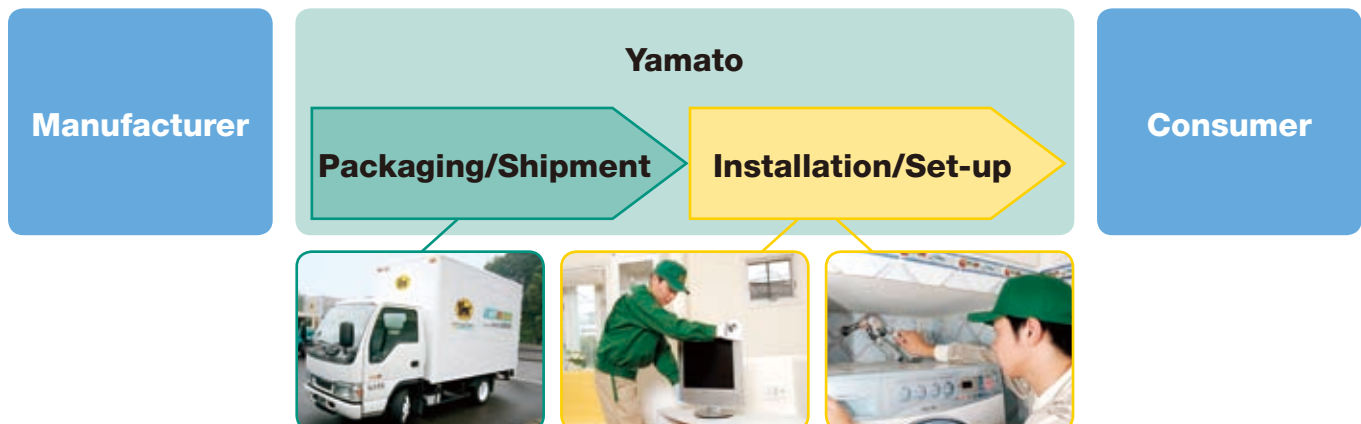
Operating revenues in this segment rose 8.8%, to ¥48,938 million. However, operating income fell 51.3%, to ¥657 million, due to an increase in initial costs associated with the integration with MOVING, as well as higher subcontracting expenses for hired vehicles and other items.

Household Takkyubin Handling Volume

(Items)



Household Takkyubin Service



e-Business

Overview of Fiscal 2008

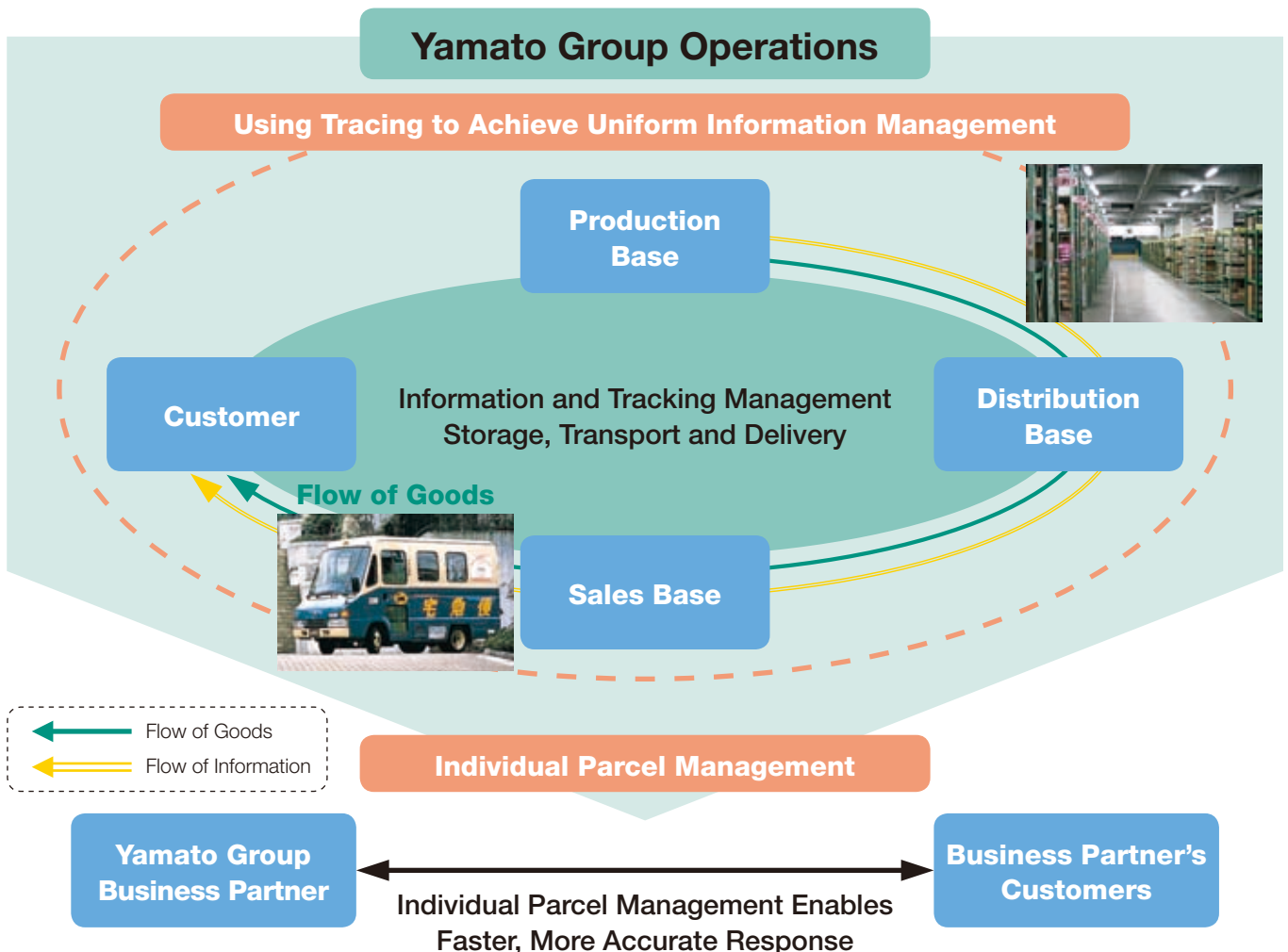
In the e-Business segment, the Group deployed its expertise in parcel delivery tracking systems to provide logistics information services and develop information systems. The three keywords in e-Business are “tracking” (providing tracing data based on a 24-hour nationwide information management system), “security” (giving peace of mind to customers), and “packages” (allowing increased versatility and multifaceted sales solutions).

In the year under review, we actively promoted solutions-based marketing tailored to industry and business segment

needs, achieving solid progress. One of our services is *e-Logistics Tracing Solution* for customers who require traceability of specific items. Through unified management and sharing of tracking data, this service realizes total optimization by enabling customers to visualize the movement of products shipped and thus cut excessive inventories.

Operating revenues in this segment grew 6.8%, to ¥32,795 million, and operating income rose 23.8%, to ¥6,228 million.

e-Logistics Tracing Solution



Financial

Overview of Fiscal 2008

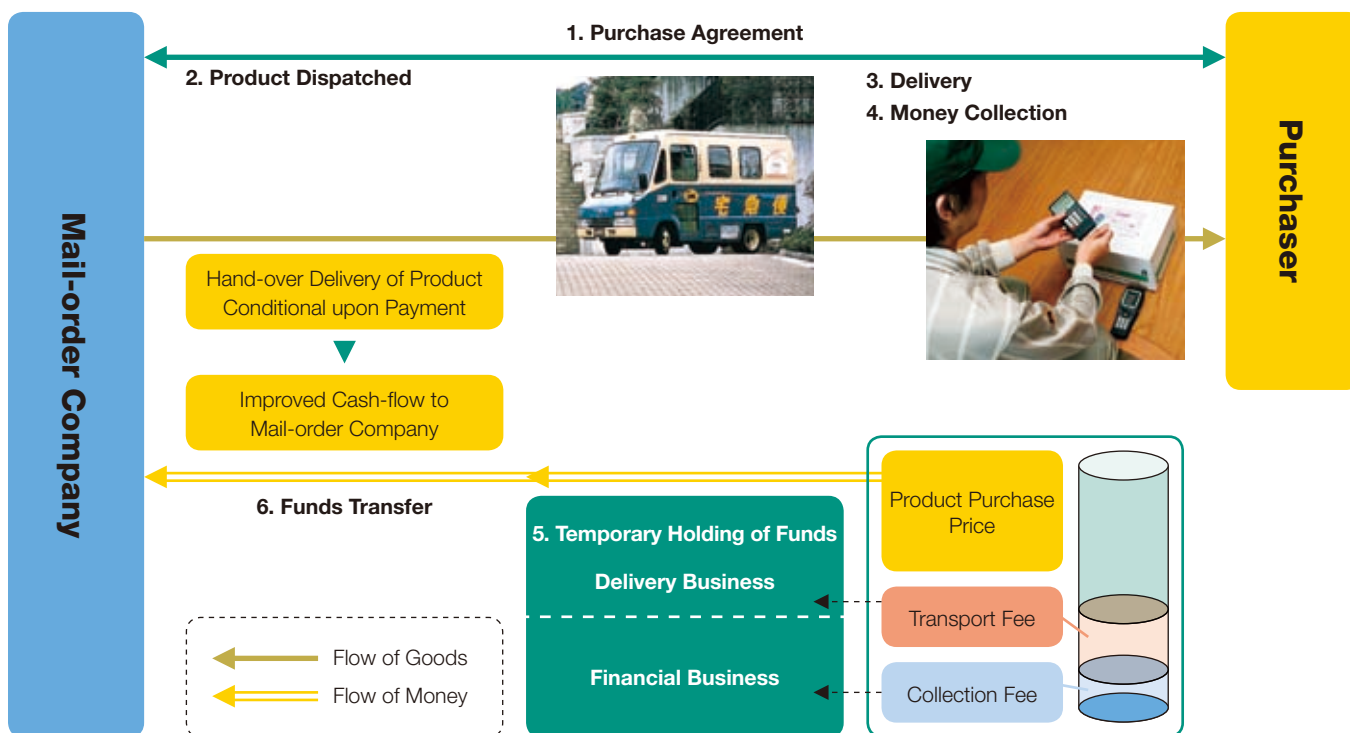
In this segment, we are currently diversifying our offerings from collection of payment upon delivery to provision of inter-company logistics settlement services.

In July 2007, we launched *Payment Slip Issuance Service*, which provides all-round support for customers engaged in the mail-order business, from issuance of payment slips to delivery and collection of payment. In November 2007, we added an electronic money (Edy) settlement service to the various

payment options provided under our *Takkyubin Collect* service, thus further expanding our settlement offerings. Striving to enhance customer convenience, in February 2008 we introduced *Kuroneko Mail Collect*, which simplifies the payment collection process by issuing an all-in-one payment slip that includes the address label.

As a result, operating revenues in this segment climbed 6.3%, to ¥51,458 million, and operating income rose 20.7%, to ¥10,925 million.

Cash on Delivery Service



Other

Overview of Fiscal 2008

In this business segment, Yamato provides vehicle maintenance services aimed at enhancing convenience for truck and bus transport operators. We offer these services 24 hours a day, 365 days a year, to help these customers keep their vehicles on the road.

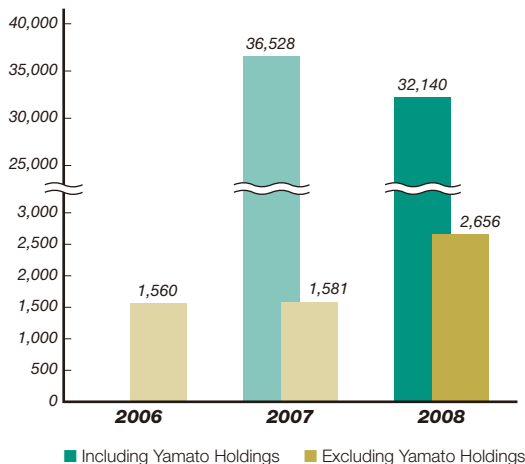
In fiscal 2008, we actively promoted solutions to help reduce overall vehicle operation costs by providing all-inclusive agency services that include maintenance, fuel and parts procurement, and insurance. The number of vehicles handled by this business increased as a result.

In fiscal 2008, we aggressively promoted our *JITBOX Charter* service, which is underpinned by a sales structure based on a group of 15 companies. Here, we provided services to meet the diversified needs of customers distributing goods between companies, including just-in-time, high-frequency, right-volume delivery by transport box. In this way, we sought to raise our presence in product-driven markets, and the number of *JITBOX Charter* deliveries grew steadily as a result.

Operating income in this segment surged 68.0%, to ¥2,656 million, excluding dividends received by Yamato Holdings from other companies in the Group.

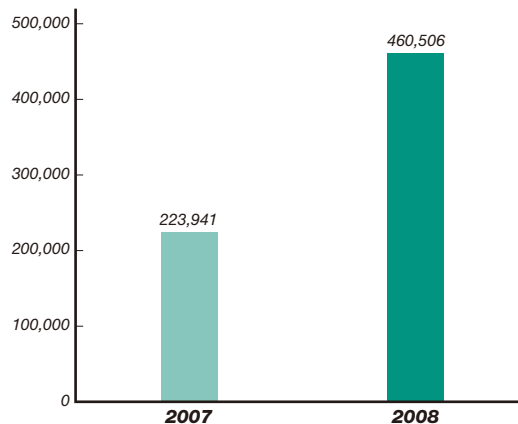
Operating Income

(Millions of Yen)



Track Record of *JITBOX Charter*

(Units)



Corporate Social Responsibility

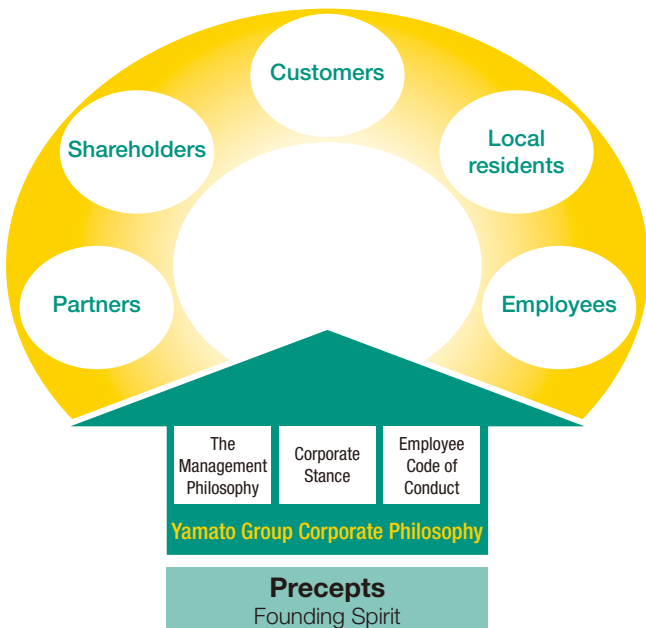
Compliance is one of the top priorities of management at the Group. As such, the Group believes that the company's sustained growth is largely contingent upon not only business profitability, but also proper conduct as a business group with operations that require a high degree of social interaction.

With the interests of all stakeholders in mind, the Group actively conducts social contribution activities to fulfill its Corporate Social Responsibility (CSR) from the perspectives of safety, the environment and society in line with the Yamato Group Corporate Philosophy.

The extensive promotion of CSR management in tandem with business expansion is also an integral part of the "Create Satisfaction Three-Year Plan," the Yamato Group's new medium-term management plan for guiding management policy that we launched in April 2008.

The Group is placing particular emphasis on two elements of the plan—compliance and environmental concerns.

Diagram of Yamato Group Corporate Philosophy



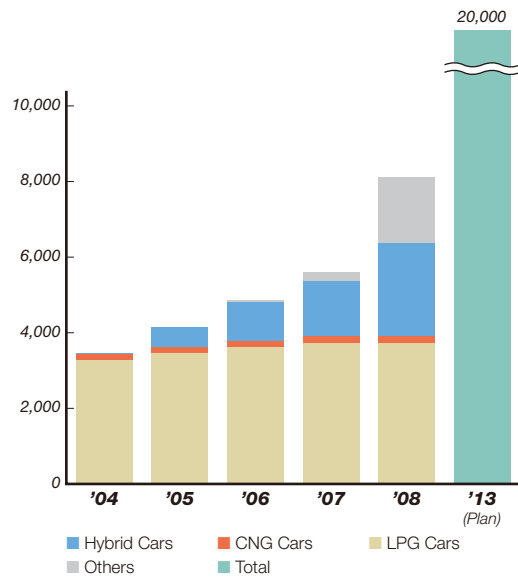
Environment

Deployment of Low-emission Delivery Vehicles

To reduce overall CO₂ emission volume, the Yamato Group is targeting a 1% reduction in its total CO₂ emissions compared to fiscal 2007 by fiscal 2011. The Group is striving to reach this goal through a more robust environmental stance, including reductions in fuel usage through the introduction of low-emission vehicles.

As a specific measure for achieving this objective, Yamato Transport is aiming to put 20,000 low-emission delivery

Changes in the Number of Low-emission Vehicles



vehicles into operation by fiscal 2013. In fiscal 2008, we added 2,503 low-emission vehicles, including 1,015 hybrids, to bring the total to 8,096. This number represents 17.6% of Yamato Transport's total fleet of vehicles, which accounts for 87% of the Group's total vehicle fleet.

Opening of Satellite Centers to Reduce Vehicle Usage

As of March 2008, Yamato Transport had a nationwide network of 949 satellite centers for parcel delivery located primarily in urban centers. Parcel delivery from these satellite centers is conducted primarily through the use of handcarts and bicycles with attached trailers, rather than motor vehicles.

The opening of more satellite centers reduces the parcel delivery volume per sales driver for a given delivery area. This lighter load not only enables drivers to provide more detailed services to each customer, but also helps to curb increases in the number of vehicles required to keep pace with increased parcel volume. The Group is targeting a network of 1,000 satellite centers across Japan by fiscal 2013.

Society

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. Held all over Japan, these classes seek to teach children ways to protect themselves from traffic accidents. Taught entirely by Yamato Transport employees, the fun and entertaining classes employ various means to teach children about traffic safety. In fiscal 2008, classes were held at 1,503 locations and a total of 160,977 children participated.

Outside Evaluation

The FTSE Group confirms that Yamato Holdings has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series.



FTSE4Good

Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognized corporate responsibility standards.

Companies in the FTSE4Good Index Series have met stringent social and environmental criteria, and are positioned to capitalize on the benefits of responsible business practices.





Corporate Governance

(As of March 31, 2008)

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.

Status of Corporate Governance Provisions

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 number of Board members cannot exceed 12 as stipulated in the Company's articles of incorporation, and the term of office of directors has been set at one year in order to clarify management responsibilities for each fiscal year.

In fiscal 2008, of the Company's five Board members, two were outside directors. As of June 26, 2008, the Company has six Board members, including two outside directors. Outside directors provide necessary comments and advice on overall management as appropriate from the perspective of managers with rich experience.

The Board of Auditors is made up of two full-time auditors and two outside auditors. Auditors attend meetings of the Board of Directors and other important meetings to assist them in conducting audits on the legality of business execution, and otherwise endeavor to improve the soundness of management and the trust of the public. A full-time staff member has been appointed to assist the auditors to put in place a framework that enables the auditors to smoothly carry out their functions. In addition, Group Auditors' Liaison Meetings are held periodically for the full-time auditors of the major operating companies to confer on auditing policies and procedures, exchange information and otherwise enhance collaboration. Meetings with internal auditors are also held periodically to exchange information.

Outside auditors attend Board of Auditors meetings as well as periodic meetings to exchange opinions with the president and auditors and to present opinions from their own standpoint as auditors. These meetings also serve to confirm the status of directors' execution of duties, by means including questions regarding management policy.

Internal audits are performed by a six-member team that operates independently from any other Group organ. These internal auditors check whether business and affairs of the Group as a whole are being carried out appropriately and efficiently based on the annual auditing plan. The results are reported to the Board of Directors and the Board of Auditors.

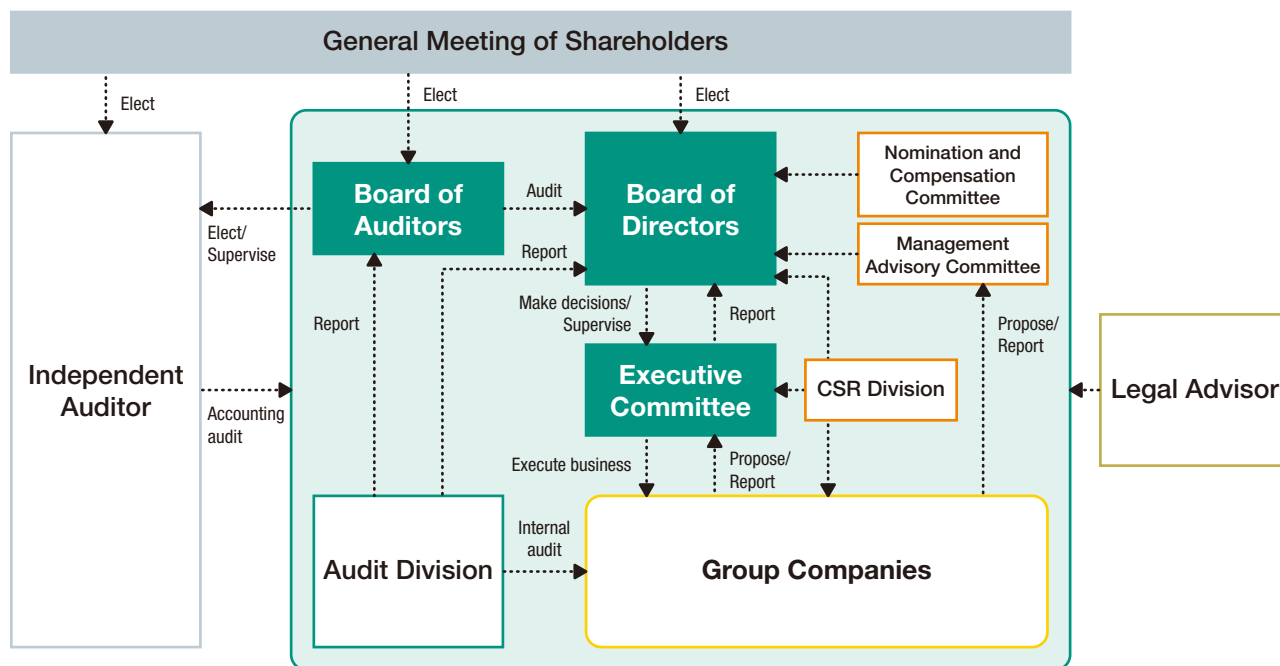
Also, the Group Internal Auditing Committee meets regularly for the internal auditors of the operating companies to confer on auditing policies and audit results, exchange information, and to otherwise enhance collaboration.

As the Group's appointed accounting auditor, Deloitte Touche Tohmatsu holds regular meetings with auditors and conducts effective accounting audits. Accounting audits are

performed by two certified public accountants, Yutaka Kawakami and Takeshi Kosaka, assisted by another four certified public accountants, five assistant accountants, and three others.

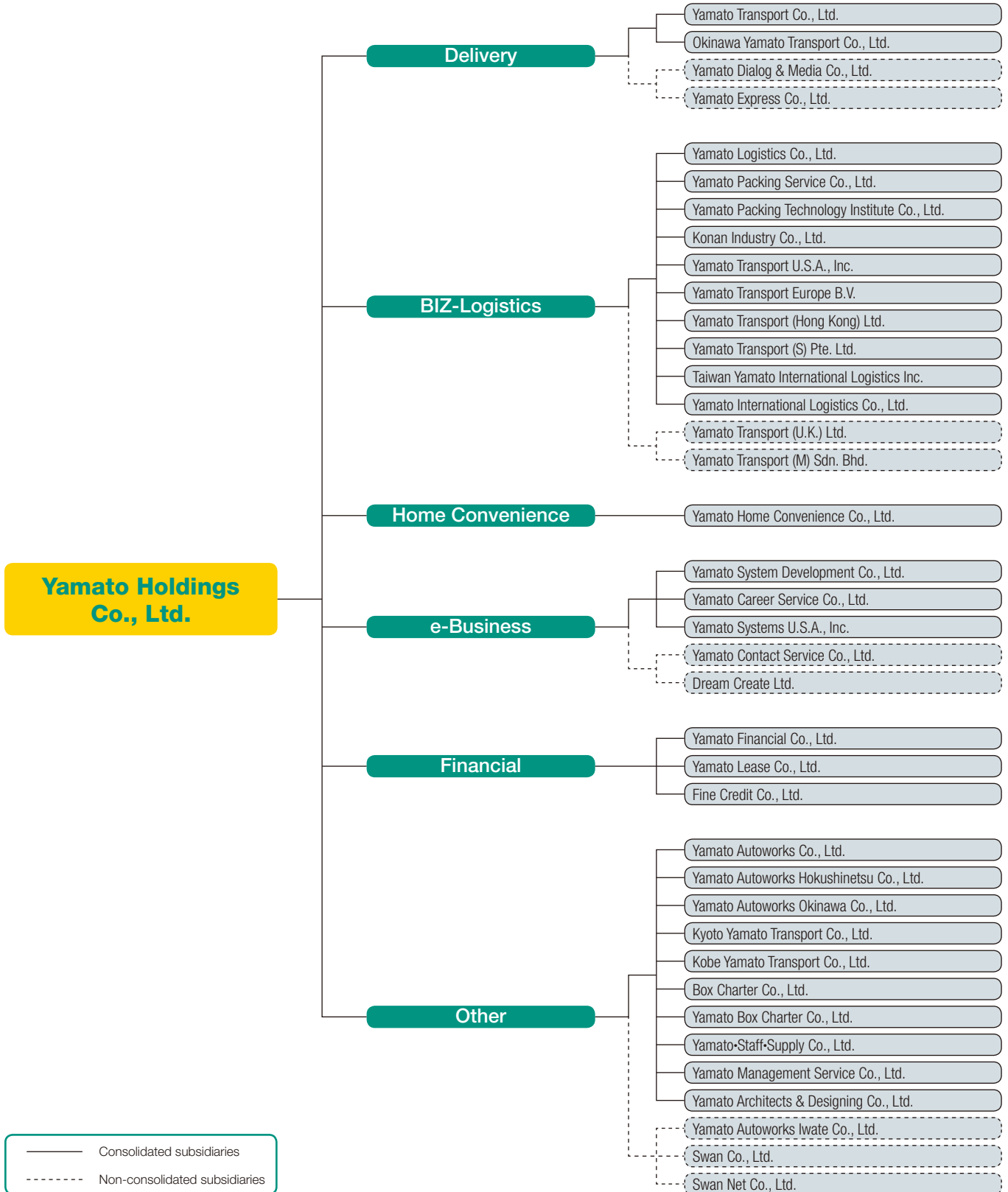
The current status of provision for oversight of business execution and management, internal control and related functions at Yamato Holdings is illustrated in the figure below.

Corporate Governance Framework



Organization

(As of March 31, 2008)





Directors and Auditors

(As of June 26, 2008)

Director and Chairman

Keiji Aritomi

Representative Director, President and Executive Officer

Kaoru Seto

Representative Director, Managing Executive Officer

Haruo Kanda

(Planning and Administration, Human Resources,
Public Relations, Legal Affairs, CSR, Audit)

Director and Executive Officer

Makoto Kigawa

(Representative Director and President of
Yamato Transport Co., Ltd.)

Members of the Board

Takeshi Yoshii

Masayoshi Sato

Auditors

Takeshi Morishita

Hiroshi Kawada

Keiko Kitamura

Koji Okawa

Executive Officers

Kenji Minaki

(Representative Director and President of
Yamato System Development Co., Ltd.)

Kenichi Shibasaki

(Representative Director and President of
Yamato Financial Co., Ltd.)

Toshizo Kurisu

(Financing and Accounting, Investor Relations)

Masaki Yamauchi

(Representative Director and President of
Yamato Logistics Co., Ltd.)

Makoto Hasegawa

(Representative Director and President of
Yamato Home Convenience Co., Ltd.)

Takahiro Nishio

(Planning and Administration, IT Planning)

Atsushi Ichino

(Planning and Administration)

Management's Discussion and Analysis

- Amid difficult business conditions, the Yamato Group reported a 5.5% year-on-year increase in consolidated operating revenues and a 1.5% rise in operating income.
- Due to increasing costs, operating income in the Delivery business declined 7.9%.
- In the BIZ-Logistics business, efforts to upgrade services and cut costs led to increases in operating revenues and operating income, which rose 4.7% and 35.7%, respectively.
- The purchase of land for construction of a terminal complex led to an ¥84,194 million, or 29.7%, increase in property, plant, and equipment.
- Cash and cash equivalents rose ¥12,176 million owing to an increase in cash flows from operating activities.

Scope of Consolidation

At the end of the fiscal year ended March 31, 2008 (fiscal 2008), the Yamato Group consisted of Yamato Holdings Co., Ltd. (the Company), 38 subsidiaries, and five affiliated companies. The number of subsidiaries included in the consolidated statements was 37 at the previous fiscal year-end, but declined to 29 at the end of fiscal 2008, due to reorganization of the Group and other factors. As Yamato Autoworks Hokushinetsu Co., Ltd. increased in importance, it was included in the scope of consolidation from fiscal 2008. By contrast, Book Service Co., Ltd., included in consolidation until the previous fiscal year, has been excluded in fiscal 2008 due to the sale of its shares. There were no non-consolidated subsidiaries or affiliates accounted for by the equity method at the end of the period under review.

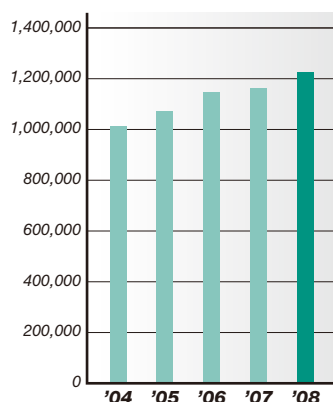
Results of Operations

In the fiscal year ended March 31, 2008, the Yamato Group posted a 5.5% year-on-year increase in consolidated operating revenues. Due largely to rising costs of fuel and personnel, however, growth in operating income was limited to 1.5%.

During the period, the Japanese economy remained on a growth path, buoyed by firm private-sector capital expenditures and personal consumption. This was despite concerns of an economic slowdown arising from various risk factors, such as financial market instability stemming from the subprime loan crisis in the United States, as well as soaring prices of raw materials. The domestic logistics market (including the *Takkyubin* door-to-door parcel delivery market) continued to face a harsh operating environment, impacted by surging crude oil prices and the enactment of the revised Road Transportation Law, as well as privatization of Japan Post and the intensifying competition.

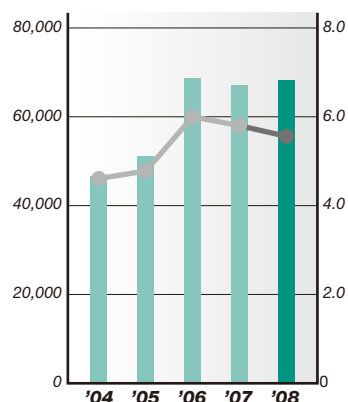
Operating Revenues

(Millions of Yen)



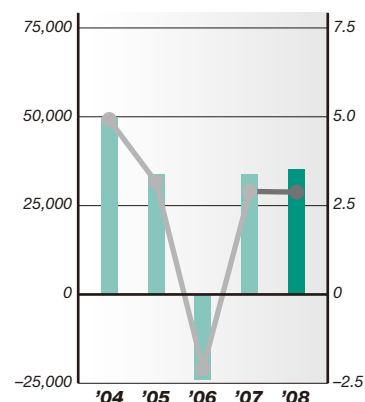
Operating Income / Operating Margin

(Millions of Yen, %)



Net Income (Loss) / Return on Revenues

(Millions of Yen, %)



The year under review was the final year of the Yamato Group's medium-term management plan, entitled "Yamato Group Revolution Plan 2007: New Value & Innovation Three-Year Plan." Guided by the plan, the Group continued targeting steady growth in its Delivery business while advancing initiatives aimed at expediting growth in other businesses.

Under our strategic alliance with MARUI GROUP, in September 2007 we integrated the door-to-door parcel businesses of Yamato Home Convenience Co., Ltd. and MOVING CO., LTD., a member of the MARUI GROUP.

In a future-oriented initiative aimed at providing highly competitive, integrated domestic and overseas services, we purchased by tender a piece of land next to the Tokyo International Airport (Haneda Airport), which is slated for further internationalization. In this way, we prepared to build the infrastructure necessary to function as an air, land, and sea logistics service provider.

As a result, consolidated operating revenues for the year amounted to ¥1,225,974 million, up ¥64,406 million, or 5.5%, from the previous fiscal year. However, operating income rose only ¥1,019 million, or 1.5%, to ¥68,180 million, due to increased fuel costs in the Delivery business accompanying escalating oil prices, as well as higher personnel and other expenses. The operating margin edged down 0.2 of a percentage point, to 5.6%. Net income climbed ¥1,540 million, or 4.6%, to ¥35,353 million, and the return on revenues remained unchanged, at 2.9%.

Review by Operating Segment

The following are summaries from each operating segment.

Delivery

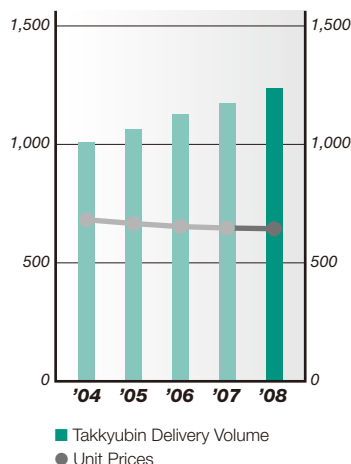
In the Delivery business, we reported a 5.0% increase in operating revenues as we upgraded our services and advanced our integrated solutions sales approach. However, segment operating income declined 7.9% due to increases in fuel, personnel, and other costs.

The Delivery business focuses mainly on small parcel delivery services for consumers and small to medium-sized corporate clients and includes *Takkyubin* and *Kuroneko Mail* services.

In the *Takkyubin* business, the Group sought to provide highly convenient services, based on its "Total Reliability" corporate philosophy. In November 2007, we launched *Kuroneko Members*, a membership-based service for individual customers. During the year, we also introduced *Takkyubin Easy Address Label Issuance Service*, provided via service terminals installed at *Takkyubin* centers. In addition, we targeted more

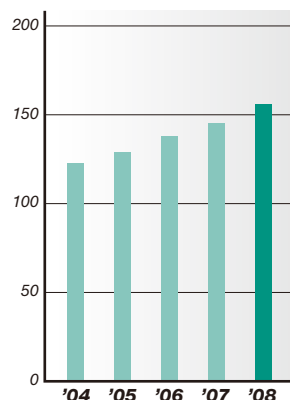
Takkyubin Delivery Volume / Unit Prices

(Millions of Parcels, Yen)



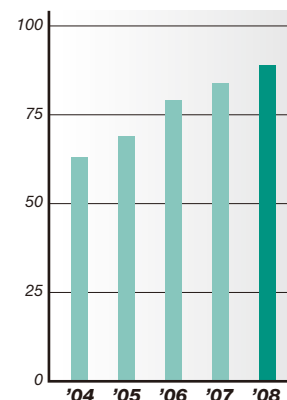
Cool Takkyubin Handling Volume

(Millions of Parcels)



Takkyubin Collect Handling Volume

(Millions of Parcels)



meticulous services by increasing the number of outlets, and we strove to further differentiate ourselves from competitors in terms of delivery service quality.

For corporate customers, we promoted solution-based marketing combining three key functions of the Yamato Group—logistics technology (LT), information technology (IT), and financial technology (FT)—as we targeted flexible responses to customers' diversified needs.

As a result, total delivery volume in the parcel delivery business reached 1,236 million parcels in fiscal 2008, up 5.2% from the previous year. Within this figure, *Cool Takkyubin* reported an increase of 10 million parcels, or 7.2%, to 155 million parcels. In the *Takkyubin Collect* cash-on-delivery service, handling volume grew 5 million units, or 6.8%. In the *Time Service*, which promises to deliver goods quickly within a definite time period, handling volume edged down 0.6%, to 17 million parcels. Meanwhile, the unit price for the *Takkyubin* service slipped ¥3, from ¥647 to ¥644.

In the expanding direct mail market, the Group endeavored to increase transactions through aggressive sales activities targeting corporate customers. As a result, total handling volume for the *Kuroneko Mail* service increased 236 million units, or 12.0%, to 2,206 million units. Meanwhile, the unit price for the *Kuroneko Mail* service declined ¥2, from ¥66 to ¥64.

As a result, total operating revenues for the Delivery business were ¥981,142 million, an increase of ¥46,535 million, or 5.0%. However, operating income fell ¥3,430 million, or 7.9%, to ¥39,872 million. This was due to increased personnel costs associated with our employees' meticulous service approach, as well as various expenses aimed at raising our service quality. Surging oil prices also affected earnings in this segment.

Takkyubin Delivery Volume and Unit Prices

Years ended March 31	2004	2005	2006	2007	2008
<i>Takkyubin</i> delivery volume (Millions of Parcels)	1,011	1,063	1,128	1,174	1,236
<i>Cool Takkyubin</i>	122	129	137	145	155
<i>Takkyubin Collect</i>	63	68	78	83	89
<i>Time Service</i>	16	17	17	18	17
Unit price (Yen)	682	666	653	647	644

Kuroneko Mail Delivery Volume and Unit Price

Years ended March 31	2004	2005	2006	2007	2008
<i>Kuroneko Mail</i> handling volume (Millions of Units)	994	1,432	1,734	1,970	2,206
Unit price (Yen)	84	73	69	66	64

BIZ-Logistics

Operating revenues in this business segment rose 4.7% year-on-year, owing to enhanced responses to recalls and improved trade logistics services. Segment operating income jumped 35.7% thanks to cost-cutting efforts.

BIZ-Logistics provides inter-company logistics services, including trade logistics services, sales logistics services, and overseas lifestyle support services.

In October 2007, we launched the *Kuroneko Yamato Recall Support Service* to provide swift responses to corporate clients who need to recall or voluntarily collect their products. By offering one-stop services, including notification, acceptance of recall request, and collection on behalf of the client, we provide an innovative solution that minimizes both time and risk. Handling volume for this service has been solid.

Export Factory is a trade logistics service to support the export business of customers. This is an integrated outsourced service combining multiple functions, including weighing and packaging, customs clearance, and arrangement of overseas delivery. In providing this service, we have built a business model that realizes reductions in the time and cost associated with the export business.

As a result, operating revenues from the trade logistics services business edged up ¥614 million, or 0.8%, to ¥75,159 million; operating revenues from the sales logistics services business increased ¥1,316 million, or 5.4%, to ¥25,500 million; and operating revenues from the overseas lifestyle support services business declined ¥295 million, or 3.5%, to ¥8,220 million.

Overall operating revenues in the BIZ-Logistics segment rose ¥4,301 million, or 4.7%, to ¥95,693 million. Operating income jumped ¥1,353 million, or 35.7%, to ¥5,148 million, as the Group sought to constrict loading fare and otherwise reduce subcontracting expenses.

Home Convenience

During the year, the Group strengthened its sales system through integration with MARUI GROUP operations. Accordingly, operating revenues from the Home Convenience segment increased 8.8%. Due to higher initial costs for business integration and other cost increases, however, segment operating income fell 51.3%.

Home convenience services include moving services, lifestyle support services, and merchandise marketing, mainly targeting general individual consumers.

In September 2007, we reinforced our sales system by integrating the delivery businesses of Yamato Home Convenience Co., Ltd. and MOVING CO., LTD., a member of the MARUI GROUP. The purpose of the integration was to bring together the respective strengths of the two companies—a nationwide delivery network and know-how in electronic product installation. The unique combination of a delivery function with a technical component has made deep inroads into the market, attracting an increase in corporate customers and resulting in a strong performance for *Household Takkyubin*. In January 2008, we merged the operations of Yamato Home Convenience and eight regional Home Convenience companies in the Yamato Group, thus further enhancing efficiency.

Despite a tough market environment due to intensified competition, our moving services business generated an increase in revenue of ¥8,288 million, or 23.3%, to ¥43,819 million. This solid performance stemmed largely from our success in attracting corporate customers. By contrast, revenue from merchandise marketing decreased ¥2,357 million, or 10.8%, to ¥19,526 million.

As a result, overall operating revenues in the Home Convenience segment rose ¥3,955 million, or 8.8%, to ¥48,938 million. However, operating income fell 51.3% to ¥657 million, due to an increase in initial costs related to the integration with MOVING, as well as higher subcontracting expenses for hired vehicles and other items.

e-Business

In fiscal 2008, the Yamato Group actively promoted its solution-based marketing, centering on ASP services. Accordingly, the e-Business segment posted a 6.8% increase in operating revenues and a 23.8% rise in operating income.

This segment encompasses development of ASP and information systems, mainly targeting business customers. The three keywords in e-Business are “tracking,” “security,” and “packages.” In the year under review, we actively promoted solution-based marketing tailored to the needs of industries and business segments. Through unified management and sharing of tracking data with customers who require traceability of specific items, we offer *e-Logistics Tracing Solution*, which optimizes the overall process for customers by enabling them to “visualize” the movement of products shipped. These services performed steadily in the year under review.

As a result, operating revenues in this segment grew ¥2,081 million, or 6.8%, to ¥32,795 million, while operating income rose ¥1,199 million, or 23.8%, to ¥6,228 million.

Financial

In the year under review, we sought to enhance convenience for customers with the launch of electronic money settlement services. Operating revenues in the Financial business increased 6.3%, and operating income climbed 20.7%.

The Financial business covers settlement services and provision of financial products, mainly to business customers and general consumers.

In July 2007, we launched *Payment Slip Issuance Service*, which provides all-round support for customers engaged in the mail-order business, from issuance of payment slips to delivery and collection of payment. In November 2007, we started an electronic money (Edy) settlement service as a new means of settlement for the *Takkyubin Collect PC & Cell Phone* service in an effort to expand settlement options. Striving to enhance customer convenience, in February 2008 we introduced *Kuroneko Mail Collect*, an all-in-one payment slip that includes the address label and a variety of settlement methods to choose from.

Consequently, operating revenues for this segment increased ¥3,028 million, or 6.3%, to ¥51,458 million. Operating income rose ¥1,876 million, or 20.7%, to ¥10,925 million.

Other

In the Other business segment, operating revenues jumped 39.4%, and operating income surged 68.0%, to ¥2,656 million, excluding dividends received by Yamato Holdings from other companies in the Group. These results were thanks to solid expansion of the vehicle maintenance business and significant growth in volume handled by the *JITBOX Charter* service.

The main activities of the Other business segment are vehicle maintenance, carried out primarily by Yamato Autoworks Co., Ltd., and the *JITBOX Charter* service, operated mainly by Box Charter Co., Ltd.

In the vehicle maintenance category, we actively targeted truck and bus transport companies, promoting solutions that help reduce overall outlays related to vehicle operation, including maintenance, fuel, parts procurement, and insurance. The number of vehicles handled by this business increased as a result.

The *JITBOX Charter* service is underpinned by a sales structure based on a group of 15 companies. In fiscal 2008, we provided services to meet the diversified needs of customers distributing goods between companies, including just-in-time, high-frequency, right-volume delivery by transport box. In this way, we sought to raise our presence in product-driven markets. As a result, the number of *JITBOX Charter* deliveries jumped 236,565, or 105.6%, to 460,506.

Financial Review

Operating Costs

In fiscal 2008, the Company recorded consolidated operating costs and expenses of ¥1,157,794 million, up ¥63,387 million, or 5.8%, from the previous fiscal year. Significant components of the operating costs were as follows.

Breakdown of operating costs	Millions of Yen		
	2007	2008	Increase/ Decrease
Years ended March 31			
Personnel expenses	¥ 580,188	¥ 609,994	¥ 29,806
Subcontracting expenses	402,605	430,023	27,418
Vehicle expenses	34,968	38,946	3,978
Other expenses	243,424	256,668	13,244
Elimination of internal procurement costs	(166,778)	(177,837)	(11,059)
Total	¥1,094,407	¥1,157,794	¥ 63,387

Major factors causing increased operating costs and expenses were higher personnel expenses and subcontracting expenses.

Personnel expenses rose ¥29,806 million, due mainly to a correction advice received from the Labor Standards Supervision Office pertaining to the vehicle maintenance business. Subcontracting expenses rose ¥27,418 million, due mainly to an increase in costs for such items as outsourcing and hire vehicles.

The number of employees at fiscal year-end was 169,836, up 12,183 from 157,653 a year earlier, due largely to a higher number of part-time and full-time employees in the Delivery business.

Net Income

In fiscal 2008, income before income taxes and minority interests increased ¥771 million, or 1.2%, to ¥67,596 million. Income taxes declined ¥1,023 million, to ¥31,447 million. After deducting income taxes and ¥796 million in minority interests, net income improved ¥1,540 million, or 4.6%, to ¥35,353 million. As a result, net income per share was ¥79.80, and return on equity (ROE) was 7.8%. The annual dividend was ¥22.00 per share, up ¥2.00 from the previous fiscal year.

Cash Flows

Operating Activities

Net cash provided by operating activities in fiscal 2008 amounted to ¥116,896 million, an increase of ¥36,133 million from fiscal 2007. Major factors included a ¥13,933 million decrease in notes and accounts receivable—trade, due to a decline in installment receivables in the Financial business, as well as an ¥11,288 million increase in notes and accounts payable—trade and a ¥5,389 million decrease in income taxes—paid.

Investing Activities

Net cash used in investing activities totaled ¥112,039 million, up ¥51,141 million. This mainly reflected a ¥67,661 million year-on-year increase in purchases of property, plant and equipment, including land for construction of a terminal complex. By contrast, purchases of investment securities declined ¥15,019 million.

Financing Activities

Net cash provided by financing activities was ¥7,301 million, compared with ¥15,172 million used in such activities in the previous fiscal year. This was mainly due to a ¥24,056 million increase in proceeds from long-term debt in the form of long-term borrowings from financial institutions associated with the purchase of land for construction of a terminal complex. By contrast, there was a ¥3,771 million decrease in proceeds from short-term bank loans stemming from a decline in installment receivables in the Financial business.

Financial Position

The equity ratio edged down 0.4 of a percentage point to 53.3%, due to the purchase of land for construction of a terminal complex and other factors.

At March 31, 2008, total current assets amounted to ¥404,594 million, down ¥20,509 million, or 4.8%, from a year earlier. This was mainly due to a ¥25,707 million decline in installment receivables in the Financial business.

Property, plant, and equipment increased ¥84,194 million, or 29.7%, to ¥367,336 million. This was primarily the result of an ¥85,083 million increase in land following the purchase of land adjacent to Haneda Airport for the construction of a terminal complex.

Investments and other assets declined ¥19,187 million, or 15.8%, to ¥102,289 million. This was due mainly to a ¥14,659 million decrease in investment securities.

As a result of the foregoing, total assets increased ¥44,498 million, or 5.4%, to ¥874,219 million.

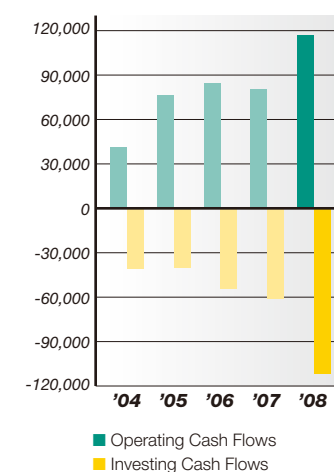
Total liabilities rose ¥20,209 million, or 5.3%, to ¥398,235 million. The primary factor was an increase in short-term bank loans and long-term debt as the Company raised funds from financial institutions to purchase land for construction of a terminal complex. Accordingly, total interest-bearing debt rose ¥15,796 million, or 14.1%, to ¥112,222 million.

Total equity climbed ¥24,289 million, or 5.4%, to ¥475,984 million. This was attributable mainly to ¥35,353 million in net income, which outweighed an ¥8,860 million decline in retained earnings due to payment of cash dividends.

As a result of the above, total shareholders' equity was ¥465,801 million, and the equity ratio was 53.3%, down 0.4 of a percentage point.

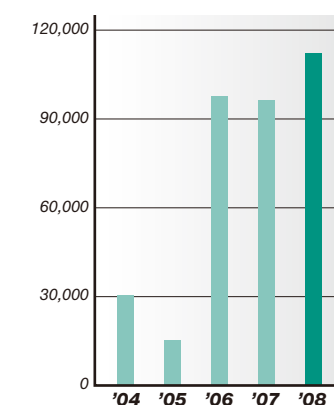
Operating and Investing Cash Flows

(Millions of Yen)



Interest-bearing Liabilities

(Millions of Yen)



Capital Expenditures

Capital expenditures in fiscal 2008 totaled ¥124,832 million, up ¥75,951 million, or 155.4%, from the previous fiscal year. The increase stemmed mainly from purchase of land by the Delivery business for construction of a terminal complex. The following is a breakdown of capital expenditures.

	Millions of Yen	
	2007	2008
Delivery	¥33,132	¥106,991
BIZ-Logistics	1,507	1,437
Home Convenience	408	375
e-Business	605	606
Financial	11,773	13,503
Other	1,408	1,912
Eliminations and Corporate	48	8
Consolidated	¥48,881	¥124,832

Major changes in the Delivery business network are detailed below.

Network

	2007	2008	Increase/ Decrease
Number of vehicles	51,386	52,947	1,561
Number of delivery channels	13,171	13,391	220
Number of sub-agents	282,719	274,924	(7,795)

Forecasts for Fiscal 2009

In the Delivery business, the Yamato Group will strive to achieve recovery and get the business on a path of renewed growth. In non-delivery activities, we will seek to transform our unique business model into a market-leading model.

We expect domestic operating conditions to become even more challenging in fiscal 2009 as sluggish growth in the U.S. economy threatens to cause economic slowdown in Japan. Other factors include rising prices of crude oil and other raw materials, as well as winding down of capital expenditures by Japanese companies.

In the Delivery business, we will strengthen solution-based marketing to better address the needs of customers. At the same time, we will seek to differentiate Yamato from its competitors by providing meticulous, high-quality services. In addition, we will significantly raise productivity by enhancing existing functions and implementing new mechanisms. In these ways, we will target drastic reforms of our earnings structure, restore our performance, and shift to a path of renewed growth.

In non-delivery businesses, we will organically combine our three key functions—logistics technology (LT), information technology (IT), and financial technology (FT)—to create a unique business model to satisfy customers in a compartmentalized market. By also strengthening cooperation across the Group, we will transform this model into a market-leading business model targeting significant future growth.

For fiscal 2009, the Yamato Group forecasts operating revenues of ¥1,290 billion, operating income of ¥74 billion, and net income of ¥38 billion.

Major Risk Factors

The Yamato Group believes that the following matters related to the implementation of the Group's business operations may have a significant impact on the decisions of investors.

It should be noted that forward-looking statements in this document are based on information available as of the end of fiscal 2008.

Operating Revenues Highly Dependent on *Takkyubin* Business

In fiscal 2008, the *Takkyubin* business accounted for more than 60% of the Yamato Group's consolidated operating revenues. Consequently, earnings in the *Takkyubin* business have a large impact on the Group's earnings.

The *Takkyubin* business is significantly affected by the impact of domestic economic trends. Moreover, packages handled include agricultural produce, and this is affected by the natural environment, including inclement weather conditions. Furthermore, transportation volume for midsummer, year-end, and other gifts tends to change according to customs that are in trend at the time. If the rate of market growth slows because of these factors, this could have an adverse impact on the Yamato Group's business performance.

In addition, for customers that send packages, *Takkyubin* is only one of the options available among express home delivery services, and is thus not indispensable. The Yamato Group is endeavoring to achieve differentiation based on service composition and delivery quality rather than on price. However, if unit prices decline beyond the range expected and the Group's customers switch to its competitors as a result of fierce price competition among companies in the industry, this could have an adverse impact on the Yamato Group's business performance.

Securing Human Resources

Many of the businesses that the Yamato Group operates are labor intensive. It is important to secure high-quality personnel in terms of manpower for these businesses, and in specialized fields such as e-business, it is also important to secure human resources. Moreover, it is important for the growth of the Yamato Group to continuously hire competent staff and allocate staff to appropriate positions as well as to endeavor to keep employees in the Group by developing a good work environment and improving training and education systems. However, if we are unable to achieve these objectives, the growth of the Yamato Group could slow in the future, and this could have an adverse impact on the Yamato Group's business performance.

Leakage of Business Know-how Resulting From Personnel Leaving the Group

The Yamato Group has accumulated various kinds of know-how, such as ways to develop new products and methods of building networks, in an effort to differentiate its services from those of its competitors. As it is difficult to legally protect most of this know-how we have accumulated, the know-how could leak outside when personnel leave their employment in the Group and it may not be possible to effectively prevent a third party from providing similar services. This could have an adverse impact on the Yamato Group's business performance.

International Factors

The Yamato Group and its main business partners are active in a number of geographical regions. If any such regions are subject to acts of terrorism, war, or other international conflicts or spread of disease, it may be necessary to suspend deliveries or evacuate employees, which could have an adverse impact on the Group's business performance.

The Group's delivery business and other businesses center mainly on the transport of cargo using vehicles. In such businesses, the regular, stable, and optimal supply of diesel and other fuel is indispensable. Addressing this issue, we are taking measures to reduce the amount of fuel used, including by shifting transport modes, introducing low-emission vehicles, and promoting handcart-based collection and delivery. If the stable supply of fuel is restricted due to international events, however, or if fuel prices continue to surge, this could have an adverse impact on the Group's business performance.

Consolidated Balance Sheets

March 31, 2008 and 2007

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
CURRENT ASSETS:			
Cash (Note 2.c)	¥ 147,569	¥ 130,157	\$ 1,472,894
Marketable securities (Note 4)		4,000	
Notes and accounts receivable:			
Trade	144,275	136,130	1,440,014
Installment (Note 3)	77,712	103,419	775,642
Allowance for doubtful accounts	(5,477)	(6,618)	(54,666)
Inventories	2,298	2,177	22,932
Deferred tax assets (Note 9)	17,686	17,452	176,525
Prepaid expenses and other current assets	20,531	38,386	204,925
Total current assets	404,594	425,103	4,038,266
PROPERTY, PLANT AND EQUIPMENT—At cost:			
Land (Notes 5 and 6)	176,916	91,833	1,765,806
Buildings and structures (Note 5)	252,399	237,142	2,519,206
Vehicles	173,383	169,249	1,730,538
Leasing property	34,598	27,358	345,320
Machinery and equipment	91,135	86,345	909,628
Construction in progress	746	9,836	7,445
Total	729,177	621,763	7,277,943
Accumulated depreciation	(361,841)	(338,621)	(3,611,542)
Net property, plant and equipment	367,336	283,142	3,666,401
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 6)	41,726	56,385	416,472
Investments in and advances to non-consolidated subsidiaries and affiliates, net of valuation allowance of ¥118 million (\$1,178 thousand) in 2008 and 2007	1,309	1,654	13,061
Long-term loans	2,862	3,155	28,569
Lease deposits	25,521	25,917	254,724
Deferred tax assets (Note 9)	13,215	12,870	131,903
Other assets	17,656	21,495	176,220
Total investments and other assets	102,289	121,476	1,020,949
TOTAL	¥ 874,219	¥ 829,721	\$ 8,725,616

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	¥ 18,249	¥ 32,519	\$ 182,143
Current portion of long-term debt (Note 6)	22,008	3,180	219,663
Notes and accounts payable:			
Trade	122,791	107,170	1,225,582
Construction	7,291	14,906	72,771
Income taxes payable	20,571	23,438	205,320
Employees' savings deposits	3,359	3,389	33,526
Accrued expenses	52,820	50,613	527,199
Deferred profit on installment sales (Note 3)	16,096	21,233	160,654
Other current liabilities	16,054	28,278	160,242
Total current liabilities	279,239	284,726	2,787,100
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	71,965	60,727	718,285
Long-term accounts payable	15,784	191	157,544
Liability for employees' retirement benefits (Note 7)	27,215	25,948	271,633
Retirement allowances for directors and corporate auditors	14	34	136
Deferred tax liabilities (Note 9)	2,019	4,553	20,156
Other long-term liabilities	1,999	1,847	19,950
Total long-term liabilities	118,996	93,300	1,187,704
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10 and 11)			
EQUITY (Notes 6, 8 and 14):			
Common stock—authorized, 1,787,541,000 shares in 2008 and 2007; issued, 457,309,400 shares in 2008 and 457,295,372 shares in 2007	120,725	120,717	1,204,964
Capital surplus	114,847	114,894	1,146,290
Retained earnings	250,711	224,226	2,502,352
Unrealized gain on available-for-sale securities	5,994	12,583	59,825
Deferred loss on derivatives under hedge accounting	(63)		(624)
Foreign currency translation adjustments	(93)	(26)	(930)
Treasury stock—at cost, 14,106,234 shares in 2008 and 14,525,492 shares in 2007	(26,320)	(27,131)	(262,698)
Total	465,801	445,263	4,649,179
Minority interests	10,183	6,432	101,633
Total equity	475,984	451,695	4,750,812
TOTAL	¥874,219	¥829,721	\$8,725,616

Consolidated Statements of Changes in Equity

Years Ended March 31, 2008 and 2007

	Thousands				Millions of Yen						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2006	445,408	¥120,576	¥113,474	¥199,972	¥11,380		¥(172)	¥(21,540)	¥423,690		¥423,690
Reclassified balance as of March 31, 2006 (Note 2.k)										¥ 3,625	3,625
Adjustment of retained earnings for newly consolidated subsidiaries				53					53		53
Net income				33,813					33,813		33,813
Cash dividends, ¥21 per share				(9,380)					(9,380)		(9,380)
Bonuses to directors and corporate auditors				(71)					(71)		(71)
Adjustment of retained earnings for exception of consolidated subsidiaries				(161)					(161)		(161)
Purchase of treasury stock	(5,437)							(10,336)	(10,336)		(10,336)
Disposal of treasury stock	2,566		1,279					4,745	6,024		6,024
Shares issued on conversion of convertible debt	233	141	141						282		282
Net change in the year					1,203		146		1,349	2,807	4,156
BALANCE, MARCH 31, 2007	442,770	120,717	114,894	224,226	12,583		(26)	(27,131)	445,263	6,432	451,695
Net income				35,353					35,353		35,353
Cash dividends, ¥20 per share				(8,860)					(8,860)		(8,860)
Adjustment of retained earnings for changes in the scope of consolidation				(8)					(8)		(8)
Purchase of treasury stock	(158)							(267)	(267)		(267)
Disposal of treasury stock	577		(56)					1,078	1,022		1,022
Shares issued on conversion of convertible debt	14	8	9						17		17
Net change in the year					(6,589)	¥(63)	(67)		(6,719)	3,751	(2,968)
BALANCE, MARCH 31, 2008	443,203	¥120,725	¥114,847	¥250,711	¥ 5,994	¥(63)	¥ (93)	¥(26,320)	¥465,801	¥10,183	¥475,984

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2007	\$1,204,879	\$1,146,765	\$2,238,011	\$125,590		\$(262)	\$(270,797)	\$4,444,186	\$ 64,196	\$4,508,382
Net income			352,856					352,856		352,856
Cash dividends, \$0.20 per share			(88,435)					(88,435)		(88,435)
Adjustment of retained earnings for changes in the scope of consolidation			(80)					(80)		(80)
Purchase of treasury stock							(2,661)	(2,661)		(2,661)
Disposal of treasury stock			(560)				10,760	10,200		10,200
Shares issued on conversion of convertible debt		85	85					170		170
Net change in the year				(65,765)	\$(624)	(668)		(67,057)	37,437	(29,620)
BALANCE, MARCH 31, 2008	\$1,204,964	\$1,146,290	\$2,502,352	\$ 59,825	\$(624)	\$(930)	\$(262,698)	\$4,649,179	\$101,633	\$4,750,812

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 67,596	¥ 66,825	\$ 674,674
Adjustments for:			
Income taxes—paid	(32,396)	(37,785)	(323,346)
Depreciation and amortization	44,772	40,150	446,874
Loss on disposal of property, plant and equipment	399	919	3,980
Loss on impairment of long-lived assets		1,127	
Gain on sales of marketable and investment securities	(1,222)	(628)	(12,202)
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
Decrease in notes and accounts receivable	17,501	3,568	174,681
(Increase) decrease in inventories	(67)	582	(665)
Increase in notes and accounts payable	15,497	4,209	154,679
Increase in liability for employees' retirement benefits	1,292	3,207	12,896
Other—net	3,524	(1,411)	35,171
Total adjustments	49,300	13,938	492,068
Net cash provided by operating activities	116,896	80,763	1,166,742
INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	1,114	1,144	11,116
Purchases of property, plant and equipment	(114,778)	(47,117)	(1,145,605)
Proceeds from sales of marketable and investment securities	9,423	4,435	94,049
Purchases of marketable and investment securities	(1,011)	(16,030)	(10,094)
Payment for acquisition and succeeding the delivery business	(5,570)		(55,597)
Increase in investments in and advances to non-consolidated subsidiaries and affiliates	(262)	(1,270)	(2,613)
Cash collected from long-term loans	1,940	2,159	19,363
Cash advanced for long-term loans	(1,633)	(2,332)	(16,294)
Other	(1,262)	(1,887)	(12,593)
Net cash used in investing activities	(112,039)	(60,898)	(1,118,268)
FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	33,750	37,521	336,860
Repayments of short-term bank loans	(49,442)	(48,033)	(493,482)
Proceeds from long-term debt	34,000	9,944	339,355
Repayments of long-term debt	(2,737)	(680)	(27,318)
Dividends paid	(9,023)	(9,565)	(90,054)
Repurchase of treasury stocks	755	(4,312)	7,539
Other	(2)	(47)	(22)
Net cash provided by (used in) financing activities	7,301	(15,172)	72,878
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS			
ON CASH AND CASH EQUIVALENTS	(22)	47	(222)
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,136	4,740	121,130
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	23	84	233
CASH AND CASH EQUIVALENTS DECREASED BY EXCEPTION OF CONSOLIDATED SUBSIDIARIES		(190)	
CASH AND CASH EQUIVALENTS INCREASED BY CORPORATE DIVISION	17	7	168
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	130,145	125,504	1,298,984
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 2.c)	¥ 142,321	¥130,145	\$ 1,420,515

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2008 and 2007

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2007 financial statements to conform to the classifications and presentations used in 2008.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yamato Holdings Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥100.19 to \$1, the approximate rate of exchange at March 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2008 include the accounts of the Company and its 29 significant (37 in 2007) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The remaining non-consolidated subsidiaries, whose combined assets, net sales, net income and retained earnings in the aggregate are not significant to the consolidated financial statements, have not been consolidated with the Company.

There were no affiliates accounted for by the equity method in 2008 or 2007.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

l. Leases—Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements. All leases are accounted for as operating leases.

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

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

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

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

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

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

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

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

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

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

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

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

t. New Accounting Pronouncements

Measurement of Inventories

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

Lease Accounting

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

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

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

- (1) Amortization of goodwill
 - (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
 - (3) Capitalization of intangible assets arising from development phases
 - (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
 - (5) Retrospective application when accounting policies are changed
 - (6) Accounting for net income attributable to a minority interest
- The new task force is effective for fiscal years beginning on or after April 1, 2008.

3. NOTES AND ACCOUNTS RECEIVABLE

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

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

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

4. MARKETABLE AND INVESTMENT SECURITIES

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

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

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

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

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

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

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

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

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

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2007 and, as a result, recognized an impairment loss of ¥1,127 million as other expense for the asset groups of the Akita Regional Branch of Yamato Transport Co., Ltd. and another three regional branches for the year ended March 31, 2007 due to continuous operating losses of those units. The carrying amounts of the relevant asset groups were written down to the recoverable amounts. In the case where net selling prices were used as recoverable amounts, relevant buildings were evaluated based on assessed value of fixed assets, and relevant lands were evaluated based on posted land price. No impairment loss was recognized for the year ended March 31, 2008.

6. BANK LOANS AND LONG-TERM DEBT

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

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

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

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

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

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

7. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for employees.

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

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

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

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

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

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

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

8. EQUITY

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

a. Dividends

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

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

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

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

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

c. Treasury Stock

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

9. INCOME TAXES

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

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

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Current:			
Accrued expenses	¥ 10,878	¥ 10,771	\$ 108,574
Enterprise tax	1,964	2,253	19,602
Allowance for doubtful accounts	1,417	1,472	14,139
Legal welfare expense	1,460	1,452	14,577
Other	2,109	1,551	21,055
Less valuation allowance			(4)
Deferred tax assets—current	¥ 17,828	¥ 17,499	\$ 177,943

Non-current:			
Liability for employees' retirement benefits	¥ 10,833	¥ 10,290	\$ 108,121
Investment securities	3,541	2,702	35,348
Investment in and advances to non-consolidated subsidiaries and affiliates	265	197	2,642
Loss on devaluation of land	27,181	27,182	271,299
Loss on impairment of long-lived assets	3,265	3,265	32,588
Loss on devaluation of telephone subscription rights	600	604	5,989
Unrealized profit	760	698	7,585
Other	2,167	1,631	21,629
Less valuation allowance	(34,079)	(32,303)	(340,145)
Deferred tax assets—non-current	¥ 14,533	¥ 14,266	\$ 145,056

Deferred tax liabilities:			
Current—other	¥ 142	¥ 47	\$ 1,418
Deferred tax liabilities—current	¥ 142	¥ 47	\$ 1,418

Non-current:			
Unrealized gain on available-for-sale securities	¥ 2,741	¥ 5,421	\$ 27,358
Other	596	528	5,951
Deferred tax liabilities—non-current	¥ 3,337	¥ 5,949	\$ 33,309
Deferred tax assets—net	¥ 28,882	¥ 25,769	\$ 288,272

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

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

10. LEASES

(1) Lessee

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

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

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

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

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

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

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

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

(2) Lessor

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

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

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

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

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

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

11. CONTINGENT LIABILITIES

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

12. NET INCOME PER SHARE

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

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
		Weighted-average Shares		
Year Ended March 31, 2008	Net Income		EPS	
Basic EPS—Net income available to common shareholders	¥35,353	443,023	¥79.80	\$0.80
Effect of dilutive securities—Convertible bonds	98	10,788		
Diluted EPS—Net income for computation	¥35,451	453,811	¥78.12	\$0.78
Year Ended March 31, 2007	Net Income		EPS	
Basic EPS—Net income available to common shareholders	¥33,813	447,350	¥75.59	
Effect of dilutive securities—Convertible bonds	99	10,909		
Diluted EPS—Net income for computation	¥33,912	458,259	¥74.00	

13. SEGMENT INFORMATION

Information about industry segments, geographic segments and operating revenues to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2008 and 2007 is as follows:

(1) Industry Segments

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

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

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

Notes: Delivery: Small-parcel delivery services such as Takkyubin (door-to-door parcel delivery) and Kuroneko Mail
 BIZ-Logistics: Intercompany logistics services, aimed at the B2B supply-chain management market
 Home Convenience: Lifestyle support services intimately connected with the needs of local markets, such as moving and household effects delivery services
 e-Business: Information services targeted at the business market, including ASP services and the development of information systems
 Financial: Financial services targeted at business customers and consumers, such as settlement and collection
 Other: Group support service and shared service centering on vehicle maintenance, mainline transport, and staffing services

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

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

(2) Geographic Segments

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

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

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

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

Operating revenues and assets are summarized by geographic area based on the countries where subsidiaries are located.

(3) Operating Revenues to Foreign Customers

Operating revenues to foreign customers for the years ended March 31, 2008 and 2007 amounted to ¥26,123 million (\$260,730 thousand) and ¥26,243 million, respectively.

14. SUBSEQUENT EVENT

Appropriations of Retained Earnings

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

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



Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel: +81(3) 3457 7321
Fax: +81(3) 3457 1694
www.deloitte.com/jp

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

We have audited the accompanying consolidated balance sheets of Yamato Holdings Co., Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in 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, 2008 and 2007, 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.

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.



June 26, 2008

Corporate Data

(As of March 31, 2008)

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

Common Stock

Authorized: 1,787,541,000 shares
Issued: 457,309,400 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)	6.55%
Japan Trustee Services Bank, Ltd. (Trust Account)	4.76%
Mizuho Bank, Ltd.	3.77%
State Street Bank and Trust Company	3.53%
Yamato Employees' Shareholding Association	3.12%
Nippon Life Insurance Company	2.68%
Meiji Yasuda Life Insurance Company	2.68%
Yamato Trading-Partner Shareholding Association	2.14%
OM04 SSB Client Omnibus	1.99%
Sumitomo Life Insurance Company	1.85%
Total	33.07%

Stock Price Range (Tokyo Stock Exchange)

