Analysis of Financial Position and Management Results

Kenichi Shibasaki
Managing Executive Officer responsible for Financing and Accounting

In this year's annual report, I would like to look back on the year ended March 31, 2013 based on the following themes and discuss the Yamato Group's capital policies.

1. Attainment of Numerical Targets in Fiscal 2013 and Evaluation
2. The Yamato Group's Long-term Management Plan and ROE Target
3. Agility and Flexibility of Financial Activities
4. Implementation Status of Capital Policies to Enhance Financial Quality and Basic Policy on Shareholder Returns
5. Business Risks

1. Attainment of Numerical Targets in Fiscal 2013 and Evaluation

Regarding the business environment during the fiscal year ended March 31, 2013, economic conditions have shown some signs of improvement since December 2012. These include the reversal of the yen's appreciation and a rise in stock prices on the back of anticipation of the new administration of Prime Minister Shinzō Abe and its growth strategies toward revival of the Japanese economy. Meanwhile, the economic recovery remained in the balance due to uncertain factors such as concerns about a resurgence of the debt crisis in Europe.

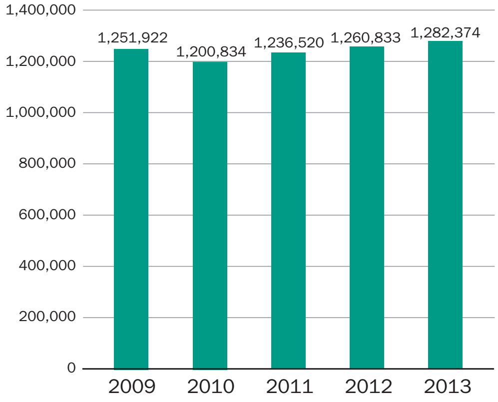
Operating in this environment, the Yamato Group worked to achieve greater sophistication of its existing businesses, particularly the *TA-Q-BIN* business, and took steps to develop new businesses by utilizing a multiple assortment of the management resources within the Group for properly responding to customers' ever-evolving needs.

In our existing Delivery Business, the handling volume of *Kuroneko Mail* decreased due to stricter policies on parcel acceptance that emphasize compliance, along with intensified competition.

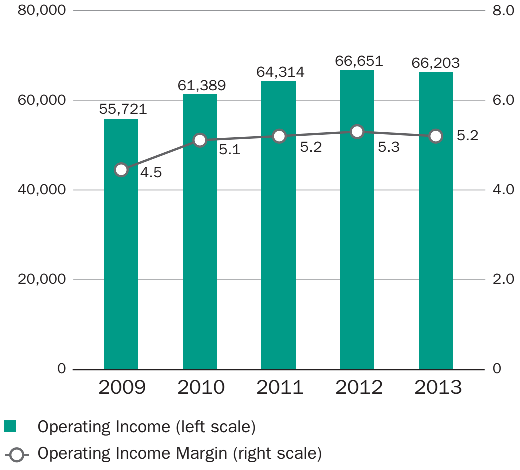
In our mainstay *TA-Q-BIN* service, we organically integrated a pioneering consumer-centric strategy of differentiation with non-delivery businesses to successfully expand our solution business. This enabled us to capture package delivery demand in the growing mail-order market.

As a new business, the Yamato Group launched a service that delivers documents to destinations inside overseas

Operating Revenues
(Millions of Yen)



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



TA-Q-BIN service areas as early as the next day by utilizing the *Okinawa International Logistics Hub*.

As a result, operating revenues increased 1.7% year on year to ¥1,282,374 million, while operating income decreased 0.7% to ¥66,203 million.

ROE for the fiscal year ended March 31, 2013 rose to 6.7%, helped partly by share buybacks of approximately ¥10.0 billion conducted in February 2013. In this manner, ROE has gradually shown steady improvement.

2. The Yamato Group's Long-term Management Plan and ROE Target

The management philosophy of the Yamato Group is to help "enrich our society by enhancing the social infrastructure of *TA-Q-BIN* networks, creating more convenient services for comfortable lifestyles and developing an innovative logistics system." The entire Yamato Group is making a concerted effort to realize this philosophy.

To this end, in January 2011, we formulated a long-term management plan, DAN-TOTSU Management Plan 2019, whose final year is fiscal 2020. Guided by this plan, we are making every effort to become a leading provider of distribution and lifestyle support solution services in Asia by the year ending March 2020, when we will celebrate the 100th anniversary of our founding.

The major theme of this long-term management plan is to increase satisfaction of shareholders, customers, the public, employees and all other stakeholders.

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

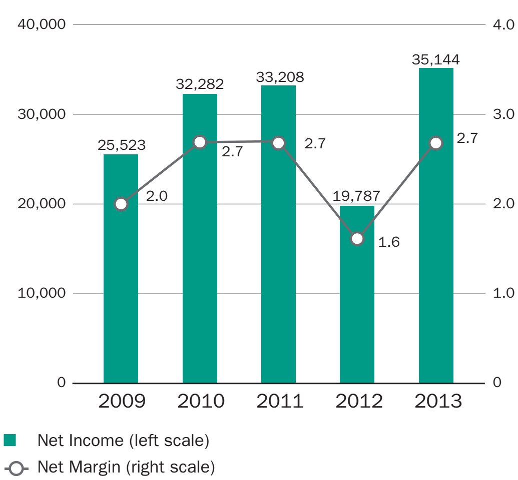
From this perspective, we consider ROE to be a key benchmark to keep in mind as we seek to raise shareholder value, in order to achieve both strengthened capital accumulation and utilization of business assets.

We plan to raise ROE to over 7.0% in the year ending March 2014, the final year of the medium-term management plan DAN-TOTSU Three-Year Plan HOP, and to over 11.0% in the year ending March 2020, the final year of the long-term management plan DAN-TOTSU Management Plan 2019.

We revised the ROE target for the year ending March 2014, the final year of the medium-term management plan, from 8.5% to over 7.0%. However, our basic approach toward achieving the overall objectives of our business and financial strategies remains unchanged.

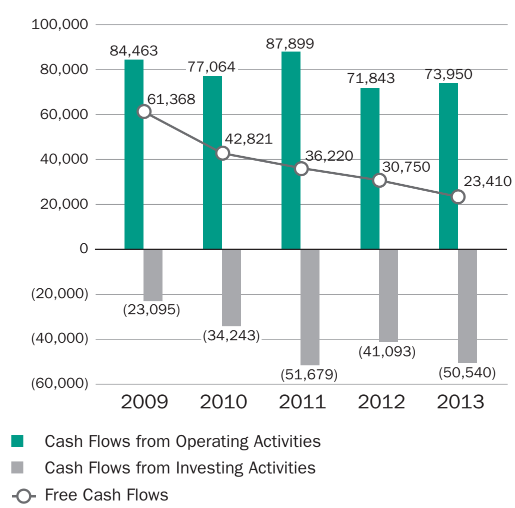
Net Income/Net Margin

(Millions of Yen, %)



Operating and Investing Cash Flows/Free Cash Flows

(Millions of Yen)



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

While steadily executing our business plan, we will consider and implement capital policies by taking into consideration financial stability and soundness, as well as efficiency, with the aim of achieving our targets.

3. Agility and Flexibility of Financial Activities

The Yamato Group consistently and continually generates between ¥70.0 billion and ¥80.0 billion in cash annually to maintain the agility and flexibility of financial activities while sufficiently covering ordinary expenditures.

As of March 2013, Yamato Holdings has received the following credit rating from Rating and Investment Information, Inc. (R&I):

R&I AA–

The Yamato Group will strive to remain aware of capital costs, while at the same time maintain the existing credit rating in order to facilitate smooth capital procurement.

4. Implementation Status of Capital Policies to Enhance Financial Quality and Basic Policy on Shareholder Returns

The Yamato Group seeks to provide returns to shareholders based on the return to shareholders ratio, a combination of both dividends and share buybacks.

We have a basic policy of paying dividends with a target consolidated dividend payout ratio of 30% of consolidated net income.

During the fiscal year ended March 31, 2013, we bought back about ¥10.0 billion in shares, and retired 6.7 million shares of treasury stock.

For the fiscal year ended March 31, 2013, we paid dividends of ¥23 per share, ¥1 higher than in the previous fiscal year. The return to shareholders ratio, a combination of both dividends and share buybacks, was over 50% for the fiscal year ended March 31, 2013.

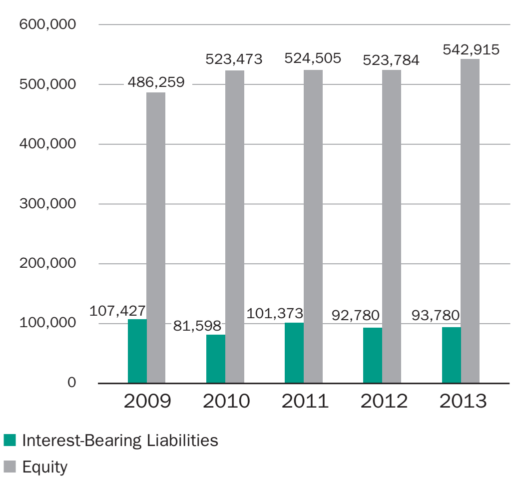
For the fiscal year ending March 31, 2014, we are considering plans to increase the dividend slightly. We are planning an annual dividend of ¥24 per share, ¥1 higher than in the fiscal year ended March 31, 2013.

While increasing our profitability by steadily executing our business plan, we will work to raise capital efficiency by implementing capital policies that take advantage of our solid financial base. And we will strive to tie these improvements to a further increase in corporate value.

The following is a review of our capital policy measures in past years:

Interest-Bearing Liabilities/Equity

(Millions of Yen)



ROA/ROE

(%)

From the fiscal years ended March 31, 2003 to 2007

The Yamato Group bought back about ¥10.0 billion in shares continuously every year for five years from the fiscal year ended March 31, 2003 to the fiscal year ended March 31, 2007.

Of these shares, approximately 12.0 million shares were retired in the fiscal year ended March 31, 2006, and approximately 3 million shares were used for M&As in the fiscal years ended March 31, 2007 and March 31, 2008.

Fiscal year ended March 31, 2011

In February 2011, we issued corporate bonds with new share warrants attached for the purpose of share buybacks as part of efforts to implement flexible financial strategies.

Proceeds of approximately ¥20.0 billion from the issuance of corporate bonds with new share warrants were allocated in their entirety to share buybacks for the purpose of enhancing capital efficiency.

These buybacks resulted in the repurchase of shares at a total cost of approximately ¥30.0 billion, representing our largest buybacks ever.

Considering the prevailing market conditions then, we selected this scheme for share buybacks because we believed that buying back shares using low-cost corporate bonds with new share warrants attached and enhanced debt characteristics would maximize the positive impact on capital efficiency, such as ROE and EPS.

Fiscal year ended March 31, 2012

No share buybacks were conducted during the fiscal year ended March 31, 2012.

The Company did not conduct share buybacks in the fiscal year ended March 31, 2012 because it decided to devote resources to fulfilling the Group's social mission in response to the unprecedented damage caused by the major earthquake that struck in March 2011. To this end, the Yamato Group helped deliver supplies to the region to assist in its recovery, while Group employees donated their time as volunteers. The Group also donated ¥10 per *TA-Q-BIN* parcel to help in the revitalization of local people's living conditions and industrial infrastructure, and continued the initiative for a full year.

These donations, which totaled ¥14.2 billion, were used to provide grants exclusively for the restoration and revitalization of the local infrastructure and for rebuilding of the fishing and agriculture industries in the region. An independent committee of experts selected projects for grants under a basic policy of visible, quick and effective assistance. Priority was placed on subsidizing the types of projects that do not normally receive government support.

5. Business Risks

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

The following risks are solely within the scope of projections possible from information available at the end of March 2013, and may not encompass all of the risks related to the business of the Yamato Group.

(1) Legal Regulations
(2) High Reliance on the *TA-Q-BIN* Business for Operating Revenues
(3) Secure Human Resources
(4) Loss of Business Expertise Caused by Personnel Leaving the Company
(5) Decline in Trust in the Company
(6) Leak of Customer Information
(7) Loss of Social Trust Due to Major Traffic Accident and Administrative Action
(8) Official Regulation Due to Environmental Issues
(9) Natural Disasters or Power Outages
(10) Computer Viruses and Criminal Hacking Activity
(11) International Developments or Terrorism
(12) Credit Management Costs and Interest Rate Fluctuations

We ask our shareholders and other investors for their ongoing encouragement and support.