Analysis of Financial Position and Management Results

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In this year's annual report, I would like to look back on the year ended March 31, 2014 based on the following themes and discuss the Yamato Group's capital policies.

1. Attainment of Numerical Targets in Fiscal 2014 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 2014 and Evaluation

With respect to the business environment during the fiscal year ended March 31, 2014, the internet mail-order market continued to expand, while consumer spending, corporate earnings and employment showed signs of recovery.

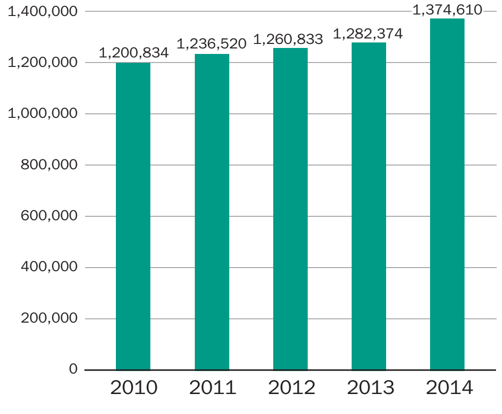
Operating in this environment, the Yamato Group worked to establish new networks that will realize a revolution in logistics, create new services, and achieve greater sophistication of its existing businesses in order to achieve the objectives of the long-term management plan *DAN-TOTSU Management Plan 2019* and the medium-term management plan *DAN-TOTSU Three-Year Plan HOP*.

In the Delivery Business, revenues steadily climbed due to a significant increase in *TA-Q-BIN* delivery volumes amid growth in the internet mail-order market and surging demand ahead of the consumption tax hike.

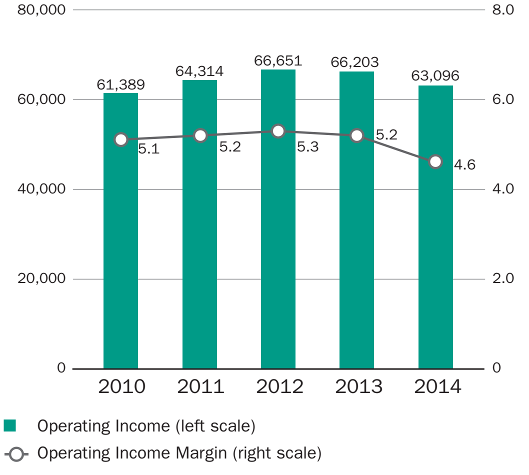
Nevertheless, earnings declined as a consequence of greatly increased one-time expenses incurred for initiatives that included building a framework to improve *Cool TA-Q-BIN* quality, setting up collection and delivery mechanisms in line with increasing *TA-Q-BIN* delivery volumes, and addressing issues caused by record-level snowfalls in February.

In the non-delivery businesses, we provided a diverse range of services drawing on various managerial resources with respect to information, logistics, and transaction settlement. At the same time, we aggressively pursued proposal-based sales through alliances with respective

Operating Revenues
(Millions of Yen)



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



Group companies, with the aim of helping corporate clients find solutions to management challenges.

As a result, operating revenues increased 7.2% year on year to ¥1,374,610 million, while operating income decreased 4.7% to ¥63,096 million.

Net income per share rose 0.5% as a result of the shares we bought back in January 2014.

ROE was 6.4%, a decline from the previous fiscal year.

We fell short of achieving the targets in our medium-term management plan *DAN-TOTSU Three-Year Plan HOP*. That said, our cost structure reforms aimed primarily at revolutionizing the Yamato Group's logistics network and parcel pickup and delivery system were successful at strategically capturing changes in the market place. In my analysis, we managed in the year under review to build a foundation for keeping our long-term management plan, ending March 2020, on track and significantly differentiating the Yamato Group from our competitors.

Going forward, we are aiming for a record ¥70.0 billion in consolidated operating income in the year ending March 2015. To this end, we will implement pricing strategies, by first effectively raising our unit price by strictly sorting the *TA-Q-BIN* parcels we accept according to size, to ensure that the Group is working together to provide customers high added value. At the same time, cost structure reforms for revolutionizing our logistics network and parcel pickup and delivery system will be expanded to include other parts of Asia, as we continue to apply strategies for differentiating the Yamato Group from the competition.

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.

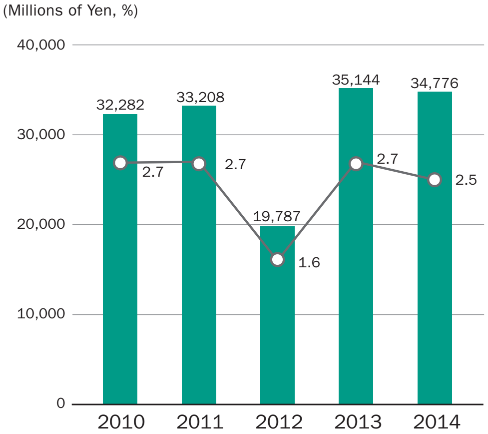
To this end, in January 2011, we formulated a long-term management plan, *DAN-TOTSU Management Plan 2019*, that's final year is fiscal 2020. Guided by this plan, we are making every effort to become a leading provider of distribution and lifestyle support solution services in Asia by the year ending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

This long-term management plan aims to increase satisfaction of shareholders, customers, the public, employees and all other stakeholders.

We recognize that the keys for success are to increase the profitability by steadily executing our business plan,

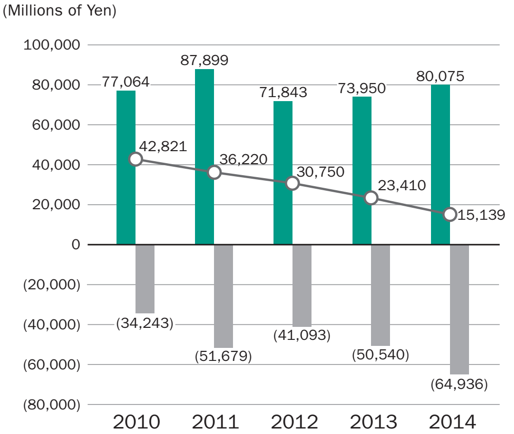
Net Income/Net Margin

(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

and also to raise 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, which we plan to attain by combining our business and financial strategies.

We aim to raise ROE to over 9.0% in the year ending March 2017, the final year of the medium-term management plan *DAN-TOTSU Three-Year Plan STEP*, 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*.

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 2014, 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.

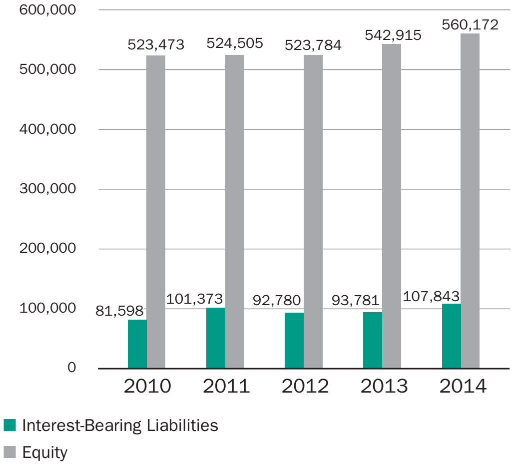
During the fiscal year ended March 31, 2014, we bought back about ¥10.0 billion in shares, and retired 6.7 million shares of treasury stock to allay concerns for the dilution of equity.

For the fiscal year ended March 31, 2014, we paid dividends of ¥24 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, 2014.

For the fiscal year ending March 31, 2015, we will take our earnings performance into consideration as we aim for a consolidated dividend payout ratio of 30%.

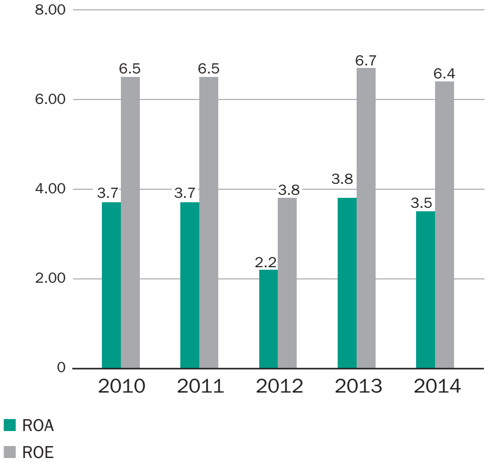
Interest-Bearing Liabilities/Equity

(Millions of Yen)



ROA/ROE

(%)



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.

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 2014, and may not encompass all of the risks related to the business of the Yamato Group.

(1) Legal Regulations
The risk of revenues decreasing as a result of restrictions on operations, and expenses increasing as a result of compliance with laws and regulations

(2) High Reliance on the *TA-Q-BIN* Business for Operating Revenues
The risk of delivery volumes and unit prices declining as a result of a change in environment surrounding the *TA-Q-Bin* Business

(3) Securing Human Resources
The risk of growth slowing as a result of difficulty recruiting high-quality human resources

(4) Loss of Business Expertise Caused by Personnel Leaving the Company
The risk of competitive advantage declining as a result of an outflow of business expertise from the Company

(5) Decline in Trust in the Company
The risk of society's trust declining as a result of a deterioration in service quality, or accidents involving damage or loss of entrusted packages

(6) Leak of Customer Information
The risk of society's trust declining as a result of a leakage of customer information to the outside

(7) Loss of Social Trust Due to Major Traffic Accident and Administrative Action
The risk of society's trust declining as a result of a major traffic accident, and business suspension as a result of government sanction

(8) Official Regulation Due to Environmental Issues
The risk of incurring expenses as a result of complying with environmental regulations more rigorous than envisioned

(9) Natural Disasters or Power Outages
The risk of business being suspended as a result of an unexpected major natural disaster or power outage

(10) Computer Viruses and Criminal Hacking Activity
The risk of computer systems or operations being partly suspended as a result of infection by a computer virus or hacking.

(11) International Developments or Terrorism
The risk of business being suspended in certain regions as a result of terrorism, warfare or outbreak of a new contagious disease.

(12) Credit Management Costs and Interest Rate Fluctuations
The risk of credit management costs increasing as a result of economic trends and other impacts, and fund procurement costs increasing as a result of a rise in long-term interest rates.

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