Management's Discussion and Analysis

Scope of Consolidation

Yamato's consolidated financial statements include 27 consolidated subsidiaries and three affiliates accounted for by the equity method.

Results of Operations

In the fiscal year ended March 31, 2003, the Japanese economy saw improvement in some indices, including those for exports and production. These trends temporarily heightened expectations for a recovery. Subsequently, however, the economy remained in a general slump as capital spending and exports were dampened by lower stock prices and economic deceleration, mainly in the United States.

Under these conditions, in April 2002 the Yamato Group embarked on a new three-year plan aimed at increasing the quality of existing services, including *Takkyubin* and *Kuroneko* Mail. Simultaneously, the Group radically rebuilt its information systems, increased the number of delivery centers, and implemented other policies to enhance customer convenience. The Group also took steps to boost transactions with new customers in every business area. These efforts produced a 4.3% rise in consolidated operating revenues to ¥972,135 million (US$8,087.6 million). Results by segment are presented below.

Domestic Transportation Industry

The domestic transportation industry continued to experience a harsh business environment, with price competition escalating amid a slump in demand for both ground transportation and air transportation. The Yamato Group still fared generally well under these conditions, thanks to efforts to increase transactions with corporate customers and the provision of a variety of Internet-based services, including the SD direct communication system in October 2002.

Sales in the *Takkyubin* business are greatly affected by delivery volume and average unit prices. Handling volume increased 10.1% to 58 million units, with the collect service posting the highest growth rate. Also contributing to growth was Cool *Takkyubin*, where volume increased 3.3% to 115 million units. Consequently, overall delivery volume in the parcel delivery business climbed 3.8% to 983 million units. The average unit price per parcel fell ¥11 from ¥721 to ¥710 (US$5.9) because of a greater number of transactions with corporate customers.

In the moving business, orders received for moves by families increased year on year. However, there was a downturn in orders for moves by single people because of intense competition. *Kuroneko* Mail registered solid volume as a result of efforts to increase transactions with small- and medium-sized companies. Domestic airfreight volume rose year-on-year, buoyed by efforts to acquire new customers and a recovery in volume in the wake of a downturn caused by the imposition of strict regulations governing the loading of freight in response to the terrorist attacks in the United States. Altogether, operating revenues in the domestic transportation business rose 2.7% to ¥856,827 million (US$7,128.3 million), accounting for 88.1% of consolidated operating revenues, down 1.4 percentage points from 89.5% in the previous fiscal year.

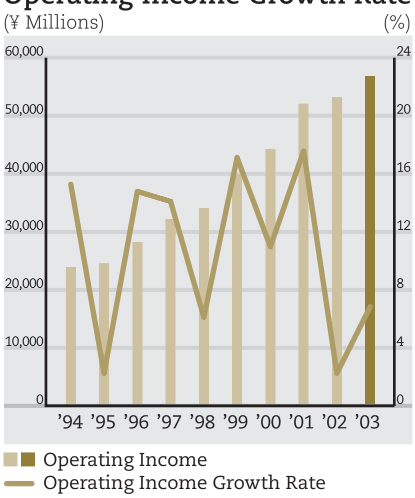
International Transportation Industry

In the international transportation industry, the dockworkers' strike on the West Coast of the United States caused many sea shipments to be shifted to air transportation, resulting in an increase in volume for that mode of transport. Even so, volume was generally weak, reflecting mainly downturns in economies overseas, principally in the United States. Under these conditions, we sought to acquire new small- and medium-sized export customers. This, combined with higher export volume to Asia by automobile-related customers, and the inclusion of three additional consolidated subsidiaries, resulted in a 21.1% rise in operating revenues to ¥74,117 million (US$616.6 million), accounting for 7.6% of consolidated operating revenues, up 1.0 percentage point from 6.6% in the previous fiscal year.

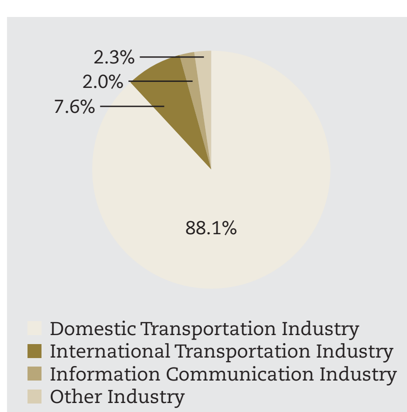
Information Communications Industry

The information communications industry continued to perform poorly, continuing a trend from the second half of the previous fiscal year. The main factors behind this situation were a lack of willingness to invest on the part of users and stiffer competition from industry rivals, manifested in lower order prices. Amid this environment, the IT business established new distribution centers in Tokyo, Kanagawa Prefecture and the Nagoya district, proactively negotiated with customers about the purchase of logistics information systems, and held seminars to support E-business and foster logistics system software sales. As a result of these efforts to generate new business, segment operating revenues rose 2.5% to ¥18,888 million (US$157.1 million), accounting for 2.0% of consolidated operating revenues, unchanged from the previous fiscal year.

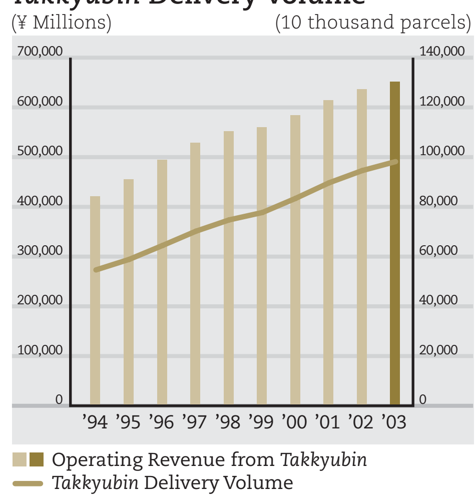
Operating Income/ Operating Income Growth Rate



Operating Revenue by Segment



Operating Revenue from *Takkyubin*/ *Takkyubin* Delivery Volume



Other Industry

In this segment, sales of books were strong, thanks to an increase in orders placed from PCs and cellular phones via the Internet. This, combined with sales in the packaging business and the addition of eight consolidated subsidiaries, resulted in a 23.3% increase in operating revenues to ¥22,303 million (US$185.6 million), accounting for 2.3% of consolidated operating revenues, up 0.4 percentage point from 1.9% in the previous fiscal year.

Financial Review

Operating Revenues

In the fiscal year ended March 31, 2003, Yamato Transport recorded consolidated operating revenues of ¥972,135 million (US$8,087.6 million), up 4.3% from the previous fiscal year.

Looking at sales by segment, although the domestic transportation industry registered a slight decline in revenues in the moving businesses, revenues in other businesses were strong. Revenues in the logistics business jumped 53.5% as a result of efforts by Yamato Logistics Corporation (YLC) to expand its corporate business. Consequently, overall operating revenues in the domestic transportation industry climbed 2.7% to ¥856,827 million (US$7,128.3 million).

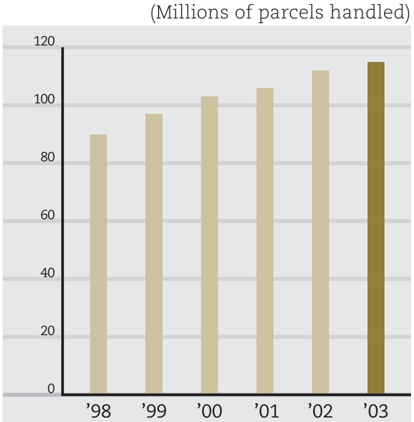
In the international transportation industry, higher export volume and the addition of three companies to the scope of consolidation resulted in higher profits in both the sea transport and air transport businesses. Consequently, operating revenues in the international transportation business rose 21.1% to ¥74,117 million (US$616.6 million).

In the information communications industry, sales of information equipment fell 10.9%. Altogether, segment operating revenues increased 2.5% to ¥18,888 million (US$157.1 million).

In other industry, the addition of eight consolidated subsidiaries lifted sales in the marketing business 119.2%. This, combined with sales in the packaging business and other businesses, resulted in a 23.3% rise in segment operating revenues to ¥22,303 million (US$185.6 million).

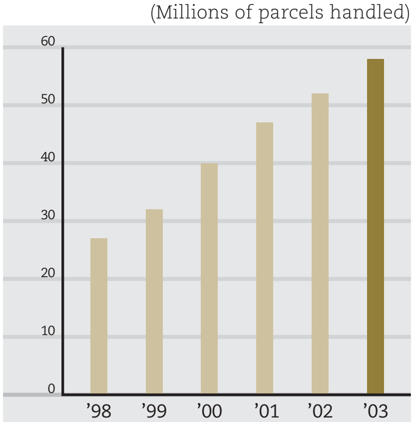
Cool *Takkyubin* Delivery Volume

(Millions of parcels handled)



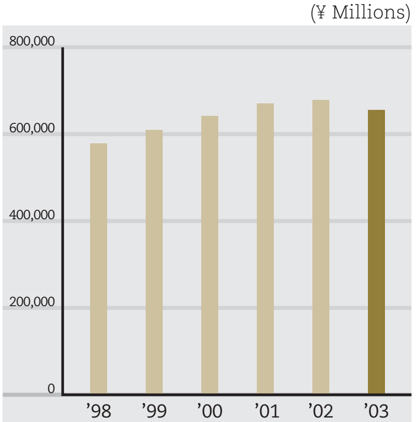
***Collect Service* Delivery Volume**

(Millions of parcels handled)



Total Assets

(¥ Millions)



Operating Income

Operating income rose 6.8% to ¥56,818 million (US$472.7 million) as thorough cost cutting more than offset higher expenses due to the rebuilding of information systems and a 51.4% increase in expenses for retirement benefits. The number of employees (total of full-time and part-time personnel) rose 3.9% to 112,948, but the ratio of personnel expenses to operating revenues declined 1.3 percentage point to 46.0%, also contributing to the rise in operating income.

Net Income

Regarding other expenses (income), interest expense declined ¥590 million. Also, gain on release of future responsibility for contributed national pension plan resulted in a gain of ¥45,703 million (US$380.2 million), while loss on valuation of land from merger and demerger totaled ¥8,697 million (US$72.4 million). Meanwhile, the Company recorded a loss on bond redemption of ¥1,103 million (US$9.2 million). Consequently, income before income taxes and minority interest jumped 82.5% to ¥91,063 million (US$757.6 million). The result was a 76.3% increase in net income to ¥48,502 million (US$403.5 million).

As a result of these factors, net income per share amounted to ¥104.51 (US$0.87), and return on equity was 12.6%.

Cash Flows

(Operating Activities)

Net cash provided by operating activities totaled ¥86,035 million (US$715.8 million), an increase of ¥16,311 million from the previous fiscal year. Income before income taxes and minority interest totaled ¥91,063 million (US$757.6 million), boosted by a gain on release of future responsibility for contributed national pension plan. Provisions for employees' retirement benefits declined ¥25,605 million (US$213.0 million), while loss on valuation of land from merger and demerger totaled ¥8,697 million (US$72.4 million), and notes and accounts payable rose to ¥7,150 million (US$59.5 million).

(Investing Activities)

Net cash used in investing activities totaled ¥39,375 million (US$327.6 million), a decline of ¥7,093 million (US$59.0 million) from the previous fiscal year. Purchases of property, plant, and equipment declined ¥6,496 million (US$54.0 million), as measures to reduce capital expenditures offset costs associated with the ongoing introduction of low-emission vehicles. Purchases of marketable and investment securities declined ¥1,371 million (US$11.4 million) as a result of a reduction in bond purchases compared with the previous fiscal year. Reflecting the need for cash to redeem corporate bonds, proceeds from sales of marketable and investment securities rose ¥622 million (US$5.2 million).

(Financing Activities)

Net cash used in financing activities totaled ¥73,595 million (US$612.3 million), an increase of ¥46,648 million (US$388.1 million) from the previous fiscal year. Repayments of long-term debt rose ¥33,657 million (US$280.0 million), reflecting the repayment of ¥16,141 million (US$134.3 million) in borrowings from financial institutions as part of efforts to reduce interest-bearing debt to strengthen the Company's financial position. Redemption of corporate bonds totaled ¥41,324 million (US$343.8 million), ¥26,324 million (US$219.0 million) more than in the previous fiscal year. This rise was due to the redemption of corporate bonds and the assumption of debt. Stock repurchases totaled ¥10,685 million (US$88.9 million), ¥10,452 million (US$87.0 million) more than in the previous fiscal year, reflecting the buyback of 4.5 million shares of the Company's stock (based on resolution approved by shareholders). Dividend payments totaled ¥6,694 million (US$55.7 million).

As a result of the above actions, cash and cash equivalents at the end of the fiscal year totaled ¥132,393 million (US$1,101.4 million), down ¥22,910 million (US$190.6 million) from the end of the previous fiscal year.

Financial Position

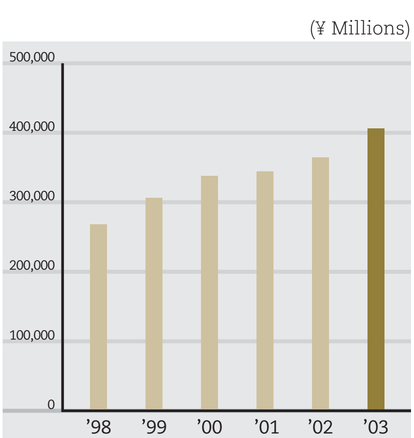
Total assets declined 3.4% to ¥655,877 million (US$5,456.6 million).

Current assets were down 5.0% to ¥248,108 million (US$2,064.1 million). The principal reason was that cash decreased ¥20,543 million (US$170.9 million) as a result of ¥40,000 million (US$332.8 million) used to redeem bonds and ¥9,405 million (US$78.2 million) used to repurchase stock.

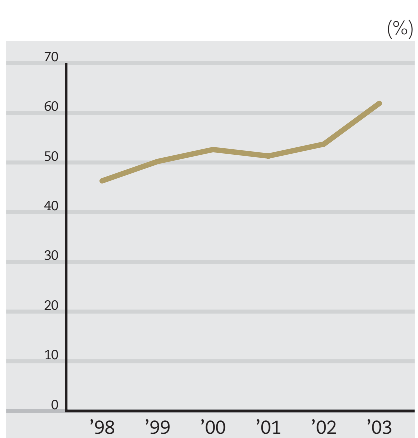
Net property, plant, and equipment declined 0.5% to ¥318,794 million (US$2,652.2 million), reflecting ¥4,030 million (US$33.5 million) in construction in progress for the computer center of Yamato System Development Co., Ltd. and ¥8,697 million (US$72.4 million) in land valuation losses. Under investments and other assets, deferred tax assets fell ¥8,932 million (US$74.3 million) to ¥20,777 million (US$172.9 million) as a result of transfers to the reserve for retirement benefits and other factors.

Total current liabilities fell 3.4% to ¥170,594 million (US$1,419.3 million). There was a ¥5,186 million (US$43.1 million) decline in short-term bank loans and the current portion

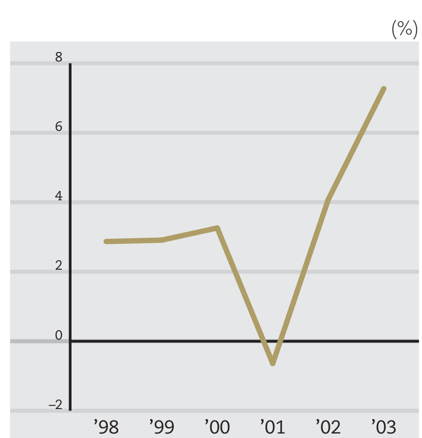
Total Shareholders' Equity



Equity Ratio



ROA



of long-term debt declined because of the redemption of ¥15,200 million (US$126.5 million) in bonds. Offsetting this, however, were increases in accounts payable, income taxes payable, and notes payable related to the purchase of plant, property, and equipment.

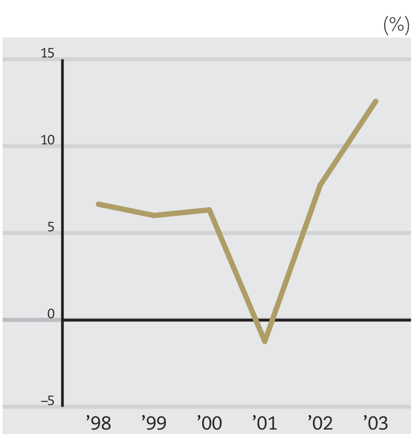
Total long-term liabilities fell 42.3% to ¥78,528 million (US$653.3 million). The principal factors were the redemption of ¥25,000 million (US$208.0 million) of straight bonds prior to maturity, the conversion to stock of ¥8,516 million (US$70.8 million) of convertible bonds, and the repayment of ¥6,499 million (US$54.1 million) of long-term debt. Another factor was that liabilities for employees' retirement benefits fell ¥25,131 million (US$209.1 million) to ¥47,724 million (US$397.0 million) as a result of the net effect of an increase due to transfers to the reserve for retirement benefits and a decrease due to reserve reversals and gain on release of future responsibility for contributed national pension plan.

Total shareholders' equity rose 11.4% to ¥406,306 million (US$3,380.3 million). The principal factors were the addition of ¥4,248 million (US$35.3 million) to both the common stock and additional paid-in capital accounts as a result of the conversion of convertible bonds. Another factor was a ¥10,685 million (US$88.9 million) increase in treasury stock associated with the repurchase of 4.5 million shares of the Company's stock. The shareholders' equity ratio rose 8.2 percentage points to 61.9%.

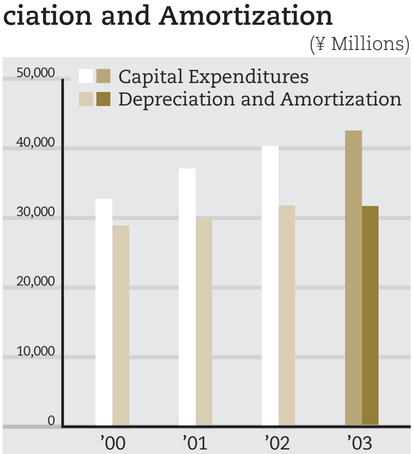
Interest-bearing debt (the sum of short-term bank loans, the current portion of long-term debt and long-term debt) fell 67.6% from ¥95,046 million (US$790.7 million) to ¥30,839 million (US$256.6 million), corresponding to a decline of ¥64,207 million (US$534.2 million).

The interest coverage ratio (operating income plus interest and dividend income divided by interest expense) improved sharply, rising from 24.99 times to 36.68 times. The debt payback period (interesting-bearing debt/operating cash flows) improved from 1.4 year to 0.4 years.

ROE



Capital Expenditures/Depreciation and Amortization



Interest Coverage Ratio