



# 2005 Annual Report

For the year ended March 31, 2005

TONAMI TRANSPORTATION CO., LTD.

*Tonami Transportation is a leader in total logistics solutions that span all aspects from design and development of distribution channels to freight haulage and all related information management functions. Tonami has pioneered computerized distribution services in Japan, integrating physical transport with information management to provide advanced systematized distribution services.*

*The Tonami Group offers a fully integrated distribution network in Japan and overseas, based on distribution centers in 47 locations around the country linked by an advanced information network. Tonami Group distribution services add value to industry and enhance the lifestyles of individuals.*

# *Strategic Logistics Solutions*



## **Contents**

- 1 Consolidated Financial Highlights
- 2 To Our Shareholders and Investors
- 3 The 17th Medium-Term Business Plan
- 4 Interview with the President
- 8 Environmental Protection Activities
- 9 Financial Section
- 41 Board of Directors and Statutory Auditors
- 42 Corporate Data

## **Forward-Looking Statements**

This annual report includes forward-looking statements that represent Tonami's assumptions and expectations in light of currently available information. These statements reflect industry trends, clients' situations and other factors, and involve risks and uncertainties which may cause actual performance results to differ from those discussed in the forward-looking statements in accordance with changes in the business environment.

## Consolidated Financial Highlights

TONAMI TRANSPORTATION CO., LTD.  
AND CONSOLIDATED SUBSIDIARIES

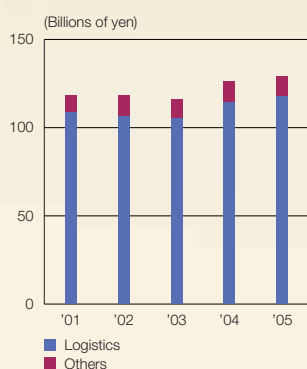
Two years ended March 31, 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>FOR THE YEAR:</b>			
Operating revenues	¥129,068	¥126,713	\$1,201,863
Logistics	117,816	114,796	1,097,086
Others	11,252	11,917	104,777
Operating income	2,983	2,859	27,778
Net income	2,173	1,429	20,235
<b>PER SHARE (Yen and U.S. dollars):</b>			
Net income, basic	¥ 22.94	¥ 14.50	\$ 0.2136
Net income, diluted	21.36	—	0.1989
Cash dividends	6.00	8.00	0.0559
<b>AT YEAR-END:</b>			
Total assets	¥127,909	¥128,293	\$1,191,070
Total shareholders' equity	52,496	50,735	488,835

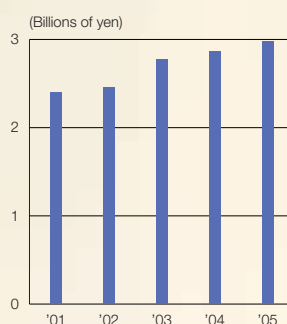
Notes: 1. U.S. dollar amounts presented herein are included solely for convenience. The rate of ¥107.39 = U.S.\$1, prevailing on March 31, 2005, has been used for the translation into U.S. dollar amounts.

2. The computation of net income per share of common stock is based on the weighted average number of shares outstanding (which represents the number of issued shares less treasury stock.) during each financial year.

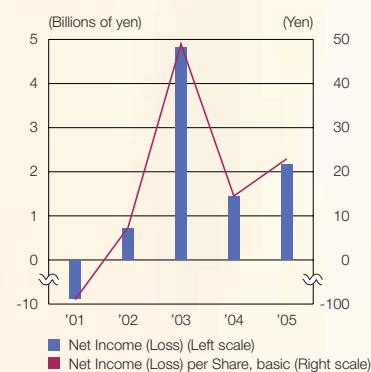
Operating Revenues by  
Business Segment



Operating Income



Net Income (Loss) and  
Net Income (Loss) per Share



## To Our Shareholders and Investors



Chairman, Yoshihiro Minami



President, Katsusuke Watanuki

Structural reforms twinned with widespread adoption of advanced IT are helping to transform the Japanese economy at a dramatic pace.

Since its establishment in 1943, Tonami Transportation has expanded to become a leader within Japan's distribution industry. Today, we provide a wide variety of distribution services to clients.

In April 2005, we embarked on a new path of internal change under our 17th medium-term business plan, which covers the period until March 2008. In an age characterized by rapid change, our goal is to create a "value-added corporate group" through innovation. We aim to add greater value to distribution operations while upgrading activities to fulfill our corporate social responsibility (CSR).

Having been recently appointed as the president of Tonami, I am committed to executing the various measures contained in our new medium-term business plan, based on an updated system. I also plan to create the structures necessary for implementing all the necessary innovations.

Commitment to customer satisfaction remains the core theme throughout all of our business activities. Building on this commitment, we will also strive harder to contribute to the development of local communities and the protection of the environment. In doing so, we hope to gain the trust of all shareholders and create a company in which employees can take pride and experience satisfaction through their work. A greater emphasis on business ethics, legal and regulatory compliance and corporate governance will underpin our greater commitment to CSR.

Facing the future, we are focused intently on taking up these challenges. I ask all shareholders and investors for their continued support and understanding.

June 2005

A handwritten signature in black ink, appearing to read "Y. Minami", with a horizontal line extending to the right.

Yoshihiro Minami  
Chairman and Representative Director

A handwritten signature in black ink, appearing to read "K. Watanuki", with a horizontal line extending to the right.

Katsusuke Watanuki  
President and Representative Director

## The 17th Medium-Term Business Plan

### Main slogan:

# *Aiming for a new value-added corporate group Committed to corporate innovation*

In a rapidly changing business environment, our goals are to be trusted and valued by customers and society alike, and to grow as a company in which employees can take pride and experience satisfaction through their work. To achieve these goals, our operations must add greater value within the distribution industry and we must take actions that fulfill Tonami's corporate social responsibility at the level of individual employees. In doing so, we hope to create an enterprise that is both competitive and of high value to society.

### Six Core Objectives

1. Build advanced distribution solutions business
2. Strengthen international operations
3. Invest in human capital
4. Upgrade quality of distribution services
5. Generate higher revenues from road haulage operations
6. Develop internal governance systems

### Final Year Performance Targets

	Year ending March 2008	
	Non-consolidated	Consolidated
	(Millions of yen)	
Operating revenues	¥110,000	¥142,000
Recurring profit *	2,530	4,400
Recurring profit margin	2.3%	3.1%

\* Recurring profit: operating income + non-operating income - non-operating expenses



President, Katsusuke Watanuki

## *The Route to Greater Success*

*In the year ended March 2004, Tonami introduced several corporate governance reforms as part of its efforts to create greater added value within the distribution industry. Measures included a reduction in the number of directors and the introduction of an executive officer system. These changes aimed to accelerate decision-making within Tonami. Following his recent appointment as president, Katsusuke Watanuki leads the senior management team. In this interview, he talks about the challenges in Tonami's new medium-term business plan and the various ongoing initiatives to create greater customer satisfaction.*

### **Results for Year Ended March 2005 and 16th Medium-Term Business Plan**

---

#### **Q1. What factors enabled Tonami to report higher revenues and profits in the year ended March 2005?**

With domestic freight volumes still on the decline, we redoubled our efforts to provide efficient distribution services for customers while trying to contain costs. The cost burden became heavier due to additional environmental and safety measures and higher oil prices. Overall, business conditions remained harsh.

On the sales side, we aggressively marketed advanced distribution solutions to clients based on system logistics and joint delivery systems. Besides trying to gain new clients, we also sought to boost consolidated operating revenues through the application of IT to raise the quality and accuracy of our road haulage and related distribution operations

Elsewhere, the completion of financial rehabilitation procedures for Keishin Warehousing Co., Ltd. helped to bolster our warehousing operations. Although there was some negative impact from the long typhoon season and the Niigata earthquake, we were able to post a year-on-year increase of 1.9% in consolidated operating revenues, which amounted to ¥129,068 million.

Measures across the Tonami Group to enhance productivity and reduce costs proved successful. We posted a 4.3% year-on-year rise in operating income to ¥2,983 million. Net income was ¥2,173 million, an increase of 52.1% compared with the previous year.

#### **Q2. The year ended March 2005 was the final one of Tonami's 16th medium-term business plan. How would you evaluate the results?**

The 16th medium-term business plan had two main themes. First, we aimed to rebuild our service infrastructure to enable us to offer clients high-value-added transport and related distribution services that would cater to more advanced customer requirements. Second, in an increasingly competitive distribution sector where customers seek rationalization gains and there are new standards for evaluating supplier performance, we aimed to institute aggressive structural reforms to maintain revenues while also protecting jobs.

I believe our performance at the consolidated level was broadly satisfactory in the year ended March 2005. There was a new contribution from the Keishin Warehousing group of three companies, which became subsidiaries in October 2003. However, there remain many issues for us to address as we move forward. Besides trying to boost revenues from core road haulage operations, we

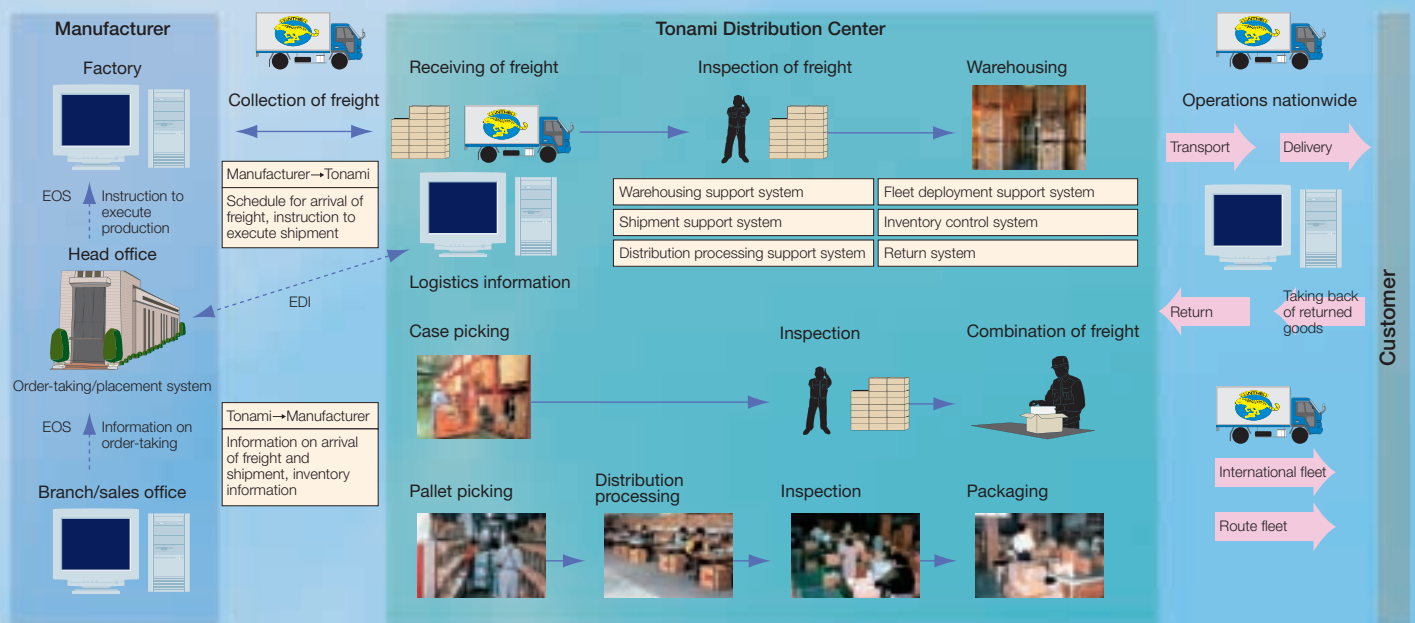
must also work on raising the quality of distribution services and customer relations management so that we can prevail amid fierce competition. In addition, developing a second core business alongside road haulage remains a prime ongoing concern. These are all issues we plan to tackle in the 17th medium-term business plan.

**Q3. One element of the new plan is to build up the “distribution solutions business.” What does that entail?**

The distribution solutions business is part of our system logistics operations. Based on our systematized distribution network, we add extra value through functions such as consulting, information systems and operations management. The combination of these services creates advanced distribution solutions that help give Tonami a competitive edge within the industry.

To develop these operations, we plan to focus on personnel training, on expanding the number of consignors, and on building up our operations management capabilities. We are also making the necessary investments in our network of operational bases.

**Diagram of Distribution System**



**Q4. Tonami’s road haulage operations are based around a hub-and-spoke system involving trucks with mixed freight loads traveling fixed routes. With revenues from this core business stagnant, how do you plan to generate fresh growth?**

Road haulage operations are our core business. To boost revenues, our strategy is for all our operations to tap into the distribution infrastructure to provide extra value-added functions to customers.

We are implementing four sets of measures to construct a transport system that ensures high productivity at low cost—a combination that will enable Tonami to remain cost-competitive within the



Japanese market. First, we are working to raise the quality of our transport operations. Second, we aim to strengthen strategic functions and create a powerful sales system with greater reach. Third, we are trying to boost productivity and reduce costs further. Fourth, we are making progress in shifting some freight haulage operations from trucks to other modes of transport.

**Q5. What is the international strategy for the Tonami Group?**

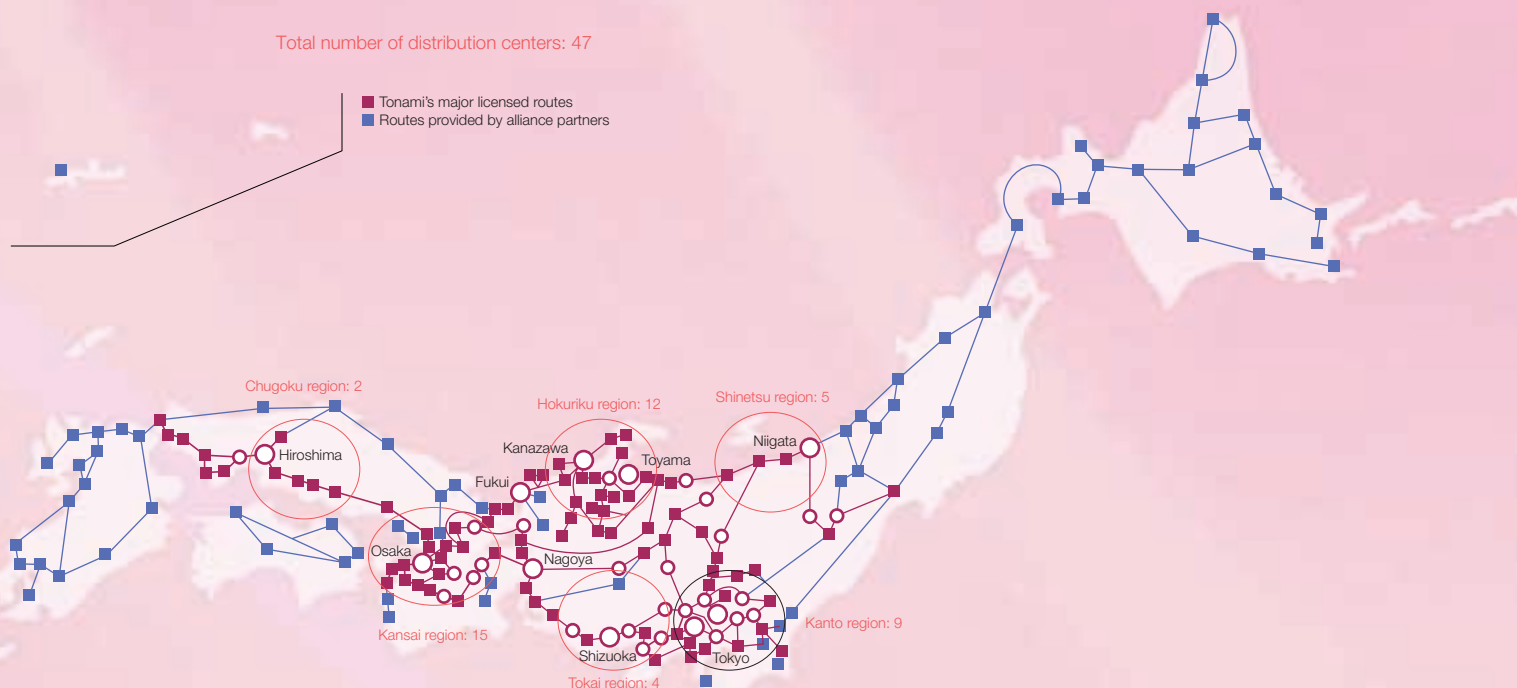
We aim to create a new integrated international distribution service by using all the various capabilities of Tonami Group companies. As part of these efforts, on August 1, 2005, the parent company opened a representative office in Shanghai, China. This facility will be used as a representative office by subsidiaries Keishin Warehousing Co., Ltd. and Tonami Trading Co., Ltd., both of which have prior experience in international freight operations, and as a contact office by Tonami Air Service Co., Ltd.

Our next step is to gather more information prior to the establishment of a local subsidiary to represent Tonami Group companies in Shanghai. Looking further ahead, we plan to keep our international expansion efforts focused on Asia.

**Q6. What is your policy on mergers, acquisitions and alliances?**

We are actively seeking opportunities for M&A and alliances with a view to expanding our operations. Potential targets or partners are thoroughly investigated to see whether the companies operate in a way that is compatible with our own business policies.

**Tonami's Transport Network and Distribution Centers**





One example of an ongoing alliance is our “Home Town” parcel delivery service. Through an agreement with Japan Post, we can make use of the national postal network to provide next-day delivery for many types of goods, including those of agricultural cooperatives. Japan’s post office has offered a similar next-day parcel delivery service since 1998. The service extends from Hokkaido to Okinawa, providing next-day deliveries nationwide except for some more remote islands in the Japanese archipelago.

**Q7. Please tell us about Tonami’s initiatives on corporate governance and CSR.**

Greater management transparency and improved compliance are our main goals. We are drafting various sets of regulations and boosting the monitoring capabilities of internal auditing functions to develop our governance systems. We believe that these measures will also help to raise management efficiency.

Environmental measures are a major issue for the Tonami Group following the moves by the Japanese government to tighten the regulations governing diesel exhaust emissions and industrial waste. We established an environmental department in June 2005, and we are investing further to ensure that we fulfill our corporate social responsibility concerning these important issues.

In summary, we aim to add greater value within our distribution operations while upgrading CSR-related activities. In doing so, we aim to improve the management of the Tonami Group to make it more competitive while also increasing its value to society.

***Shareholder Returns and Outlook for Year Ending March 2006***

---

**Q8. What is Tonami’s policy on returning profits to shareholders?**

Recognizing that a strong capital base and future-oriented capital investment are both key elements of sustained long-term development, we regard the return of profits to shareholders as an important management issue. Our basic policy on profit distribution is to pay a performance-related dividend, while retaining sufficient earnings to fund future development, strengthen the business and maintain sound finances.

For the year ended March 2005, we paid total annual dividends of ¥6.00 per share, composed of interim and final dividends of ¥3.00 per share each.

**Q9. What is the outlook for the year ending March 2006?**

In the coming year, we see few prospects for a fully fledged economic recovery in Japan while deflation continues. We expect growth to remain stable and modest.

Within the Japanese distribution industry, we do not project any recovery in domestic freight volumes. High fuel prices and strengthened regulations in the form of increased environmental and safety measures are also likely to add to our costs. We expect business conditions to become more difficult. Faced with such a highly challenging environment, we plan to focus on offering customers systematized distribution solutions of higher quality and efficiency.

As we embark on the 17th medium-term business plan, our core aims are to maintain operating revenues and to boost profitability. We will also place a fresh emphasis on upgrading CSR-related activities across the Tonami Group.

I hope that shareholders and investors will continue to extend us their support and understanding.

## Environmental Protection Activities

### Overview of Activities

Tonami's basic management policy is to develop its business as a means of contributing to society through distribution operations that support Japan's economy, industry and society in general.

The extensive use of trucks in road haulage make the distribution industry a major emitter of atmospheric pollutants (CO<sub>2</sub>, NO<sub>x</sub>, particulates and other exhaust emissions) that contribute to global warming. Tonami acknowledges that this is a genuine issue and is working to promote lower emissions through various measures. These include the use of low-emission vehicles in trucking fleets; initiatives to minimize vehicle idling while stationary; efforts to shift to different transport modes; and other measures to increase distribution efficiency. In the year ended March 2005, Tonami reduced total CO<sub>2</sub> emissions by 1.7% compared with the previous year (equivalent to a reduction of 2,423 ton-CO<sub>2</sub>).

Tonami gained ISO14001 accreditation in October 2003. In December 2003, the company formulated a code of conduct applicable to all Tonami Group employees. This code establishes a common set of behavioral principles on key CSR-related issues such as environmental protection and compliance.

### Status of Main Environmental Programs

#### Development of eco-conscious transport services

##### • Extension of "Eco-lock" system\*

Tonami developed and introduced this paper recycling system for sensitive company documents in 1998 as a method of promoting forest conservation. The system has been extended to different parts of the country, including central Japan and the Tokyo area. In the year ended March 2004, Tonami extended the system to the area around Shizuoka.

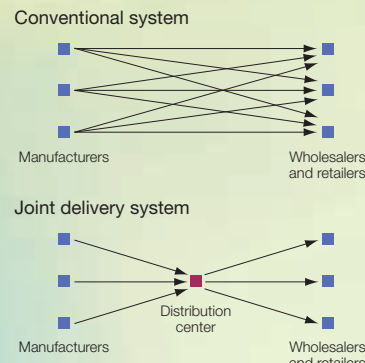
\* Documents containing important corporate information are normally shredded or incinerated to prevent leakage of any sensitive data. In recent years, more incinerators are placing restrictions on acceptance of such documents as a means to curb CO<sub>2</sub> and dioxin emissions. However, recycling yields for shredded paper are low (typically under 50%). Tonami's system involves dissolution of the paper documents. This process eliminates any data while also preserving the fibers contained in the paper, thereby boosting recycling yields to as high as 80–90%.



Toilet tissue made of recycled paper

- **Expansion of joint delivery system**  
Tonami has developed joint delivery systems with other firms in the Kanto and Hokuriku regions to lower environmental impacts by reducing delivery frequency. Tonami also operates six distribution hubs across Japan, a system that helps to restrict the use of vehicles and the total distance traveled.

#### Route diagrams showing before and after switch to joint deliveries



##### • Promotion of modal shift

Tonami is promoting greater use of other transport modes such as rail or ferry, whose CO<sub>2</sub> emissions are significantly lower than that of road haulage.

Tonami is shifting from road to rail freight for transport between the regions of Hokuriku and Kyushu. For transport to Hokkaido, Tonami has also switched to use of ferry services between Niigata and Otaru.

#### Eco-conscious purchasing and procurement

##### • Use of low-emission vehicles

In the year ended March 2005, Tonami introduced 10 trucks that use compressed natural gas as fuel and two trucks with hybrid systems. To date, Tonami has introduced 98 low-emission vehicles to its trucking fleet, which account for 2.25% of the total. For diesel trucks, Tonami undertakes annual replacement programs to ensure full compliance with the latest regulatory emission standards.

##### • Promotion of green purchasing

#### Reduction of efficiency losses in transport services (results for year ended March 2005)

- Average loading rates on trucks used on trunk routes raised by 1.4%
- Average fuel consumption per truck lowered by over 2% year-on-year
- Driver training programs undertaken to cut stationary idling and to promote other eco-efficient practices

#### Promotion of waste treatment and recycling

- Conservation of resources via trash separation
- Introduction of more water-efficient truck washes
- Participation in local community clean-up activities

## ***Financial Section***

10	Consolidated Five-Year Summary
11	Consolidated Financial Review
14	Consolidated Balance Sheets
16	Consolidated Statements of Income
17	Consolidated Statements of Shareholders' Equity
18	Consolidated Statements of Cash Flows
19	Notes to the Consolidated Financial Statements
28	Independent Auditors' Report
29	Non-Consolidated Five-Year Summary
30	Non-Consolidated Balance Sheets
32	Non-Consolidated Statements of Income
33	Non-Consolidated Statements of Shareholders' Equity
34	Non-Consolidated Statements of Cash Flows
35	Notes to the Non-Consolidated Financial Statements
40	Independent Auditors' Report

## Consolidated Five-Year Summary

TONAMI TRANSPORTATION CO., LTD  
AND CONSOLIDATED SUBSIDIARIES

Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2001	2002	2003	2004	2005	2005
<b>RESULTS OF OPERATIONS:</b>						
Operating revenues	¥118,166	¥118,515	¥116,331	¥126,713	¥129,068	\$1,201,863
Operating cost	109,672	110,302	107,928	117,860	119,722	1,114,834
Selling, general and administrative expenses	6,090	5,755	5,630	5,994	6,363	59,251
Operating income	2,404	2,458	2,773	2,859	2,983	27,778
Net income (loss)	(8,786)	720	4,819	1,429	2,173	20,235
Depreciation expenses	4,092	3,303	2,775	2,610	2,689	25,040
<b>PER SHARE (yen and U.S. dollars):</b>						
Net income (loss)	¥ (90.02)	¥ 7.38	¥ 48.99	¥ 14.50	¥ 22.94	\$ 0.2136
Cash dividends	6.00	6.00	6.00	8.00	6.00	0.0559
<b>YEAR-END FINANCIAL POSITION:</b>						
Total current assets	¥ 37,583	¥ 40,245	¥ 43,692	¥ 43,596	¥ 42,447	\$ 395,260
Net property and equipment	67,160	65,330	63,258	71,502	71,790	668,498
Total assets	120,696	120,759	119,243	128,293	127,909	1,191,070
Total current liabilities	34,113	34,184	41,298	39,018	37,010	344,632
Long-term liabilities, excluding of current portion thereof	38,876	38,802	26,799	37,832	37,759	351,606
Total shareholders' equity	47,113	47,170	50,508	50,735	52,496	488,835
<b>OTHER YEAR-END DATA:</b>						
Number of employees	7,075	6,952	6,943	7,320	7,289	

# Consolidated Financial Review

## Review of Fiscal Year Ended March 2005

Supported by robust corporate earnings and capital spending, the Japanese economy continued to recover in the year ended March 2005. However, lackluster consumer spending, which reflected a lack of confidence due to uncertain employment and income prospects, prevented a fully fledged recovery.

Business conditions remained harsh for the Japanese distribution industry. Amid an ongoing decline in domestic freight volumes, pressures to contain costs remained strong as customers sought increased logistical efficiencies. The cost burden also became heavier, reflecting factors such as environmental and safety measures, as well as higher oil prices.

The year marked the final stage of Tonami's three-year medium-term business plan that was initiated in April 2003. The primary management focus was on implementing the various measures contained in the plan to achieve the final objectives. On the sales side, Tonami aggressively marketed advanced distribution solutions to clients based on system logistics and joint delivery systems. Besides targeting new client acquisitions, Tonami also sought to boost consolidated operating revenues through the application of IT to raise the quality and accuracy of road haulage and related distribution operations.

Despite the impact of an unusually large number of natural disasters, operating revenues amounted to ¥129,068 million, an increase of 1.9% compared with the previous year.

Measures across the Tonami Group to enhance productivity and reduce costs proved successful, contributing to a 4.3% year-on-year rise in operating income to ¥2,983 million. Net income amounted to ¥2,173 million, an increase of 52.1% compared with the previous year.

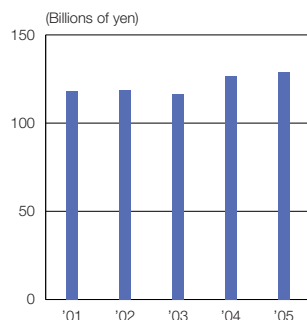
## Business Segment Review

Tonami Group service operations divide into two categories. Logistics-related businesses include core road haulage operations and associated services. Other non-logistics businesses include direct marketing services.

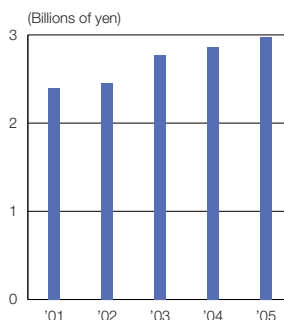
### **Logistics-related businesses**

Competition between operators intensified further as road haulage freight volumes continued to decline in Japan. Competitive pressures resulted in further erosion of haulage rates, creating an extremely harsh operating environment. The Tonami Group focused on raising the quality of its transport operations while undertaking aggressive sales and marketing activities to protect haulage volume. Tonami also focused on generating fresh revenue growth through the expansion of integrated warehousing operations to provide value-added services to companies seeking to rationalize logistics functions.

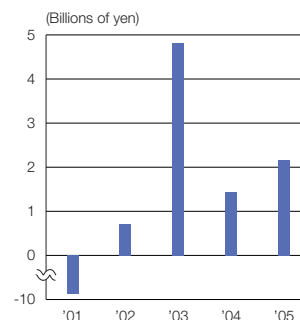
Operating Revenues



Operating Income



Net Income (Loss)



Operating revenues from logistics-related services totaled ¥117,816 million, an increase of 2.6% compared with the previous year. Efficient marshaling of resources together with efforts to raise productivity and to reduce various costs resulted in a significant increase in segment operating income, which rose 32.7% on a year-on-year basis to ¥2,812 million.

### Other businesses

In non-logistics operations, the automobile repair business performed well. However, direct marketing services and consignment sales operations posted lower service revenues due to a drop in handling volumes of limited-sale items (although non-seasonal goods generally sold well). Segment operating revenues declined 5.6% year-on-year to ¥11,252 million. Operating income fell 66.0% to ¥301 million, chiefly reflecting an increase in operating costs.

## Financial Position and Capital Expenditures

The issuance of convertible bonds contributed to a net increase in funds of ¥2,469 million during the year ended March 2005. Net positive cash flow totaled ¥240 million, although total assets declined by ¥384 million on a year-on-year basis.

Consolidated capital expenditures in logistics-related operations amounted to ¥3,290 million. Capital investments were primarily in operating bases, increased haulage capacity and improved IT functions to support advanced distribution service offerings by Tonami Group companies. These include systematized distribution services (targeting clients that seek improved logistics functions or outsourced distribution capacity) and other value-added services such as joint delivery systems or integrated contract distribution services (based on integrated national distribution capabilities that stem from the use of online systems to link trunk haulage routes with local delivery networks).

In logistics-related operations, capital expenditures on operating bases within Tonami's transport network amounted to ¥1,703 million. Vehicle replacement costs for the Tonami Group's road haulage truck fleet totaled ¥772 million.

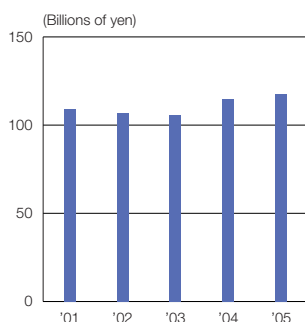
In other businesses, capital expenditures related to direct marketing and consignment sales operations totaled ¥159 million. Total investment in travel inn operations was ¥329 million.

Major capital spending projects that were completed during the year ended March 2005 included the construction of a new distribution center servicing the Kyoto-Osaka area and the refurbishment of the East Osaka office.

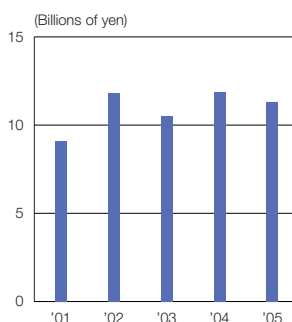
## Cash Flows

Consolidated cash and cash equivalents totaled ¥16,040 million as of March 31, 2005. This represented a net increase in cash from the previous year-end of ¥240 million. Cash used in investing activities offset positive cash flows from operating activities and financing activities (such as corporate bond issuance).

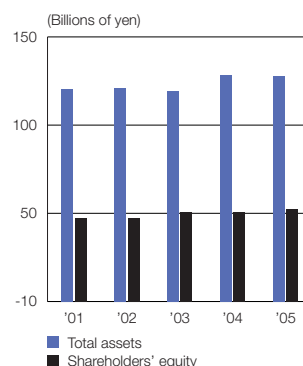
Sales of Logistics-Related Businesses



Sales of Other Businesses



Total Assets and Shareholders' Equity



### **Cash flows from operating activities**

Net cash provided by operating activities totaled ¥3,468 million (a year-on-year decline of ¥96 million). Major cash-generating factors included net income before income taxes (¥3,609 million) and depreciation and amortization (¥2,689 million). Significant offsetting factors resulting in net cash outflows included a decrease in the reserve for retirement allowance (¥733 million) and income tax payments (¥1,736 million).

### **Cash flows from investing activities**

Net cash used in investing activities totaled ¥4,062 million (a year-on-year fall of ¥660 million). The major factor was the purchase of property and equipment, which absorbed cash totaling ¥3,921 million.

### **Cash flows from financing activities**

Net cash provided by financing activities totaled ¥834 million (a year-on-year increase of ¥3,069 million). Major cash-generating factors included net proceeds of ¥2,469 million from corporate bond issuance. Significant financial outgoings included long-term debt repayments (¥947 million), acquisitions of treasury stock (¥211 million) and dividend payments (¥548 million).

## **Outlook for Fiscal Year Ending March 2006**

With deflation maintaining its grip, the prospects for a fully fledged economic recovery in Japan are poor. Tonami expects growth to remain stable and modest.

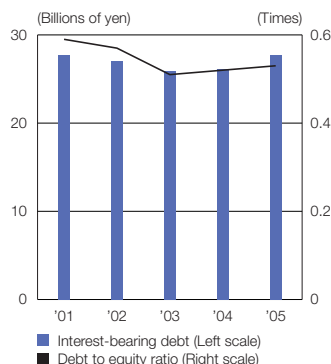
Within the Japanese distribution industry, domestic freight volumes are not projected to recover. High fuel prices and strengthened regulations in the form of increased environmental and safety measures are likely to add to the cost burden. Tonami expects business conditions to become increasingly harsh. Faced with a highly challenging environment, Tonami plans to focus on offering customers systematized distribution solutions of higher quality and efficiency.

The year marks the start of Tonami's 17th medium-term business plan. Besides aiming to maintain operating revenues and boost profitability, the plan places a fresh emphasis on upgrading all activities across the Tonami Group related to corporate social responsibility (CSR).

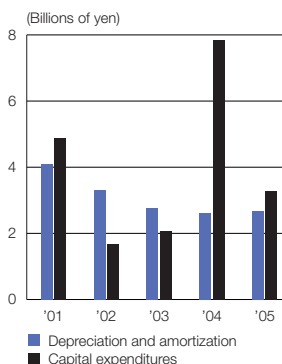
Operations have begun at the newly constructed distribution center located in Kyoto prefecture serving the Kyoto-Osaka area. The capital investment program for the year ending March 2006 aims to reinforce Tonami's transport network and warehousing facilities. Plans include the expansion of the newly refurbished East Osaka office (located in Osaka prefecture) and the construction of the West Yodogawa distribution center (also in Osaka prefecture).

For the year ending March 2006, Tonami forecasts consolidated operating revenues of ¥131.2 billion (a year-on-year increase of 1.7%) and net income of ¥1.55 billion (a drop of 28.7%). The net income forecast reflects a projected negative impact from the adoption of asset impairment accounting standards.

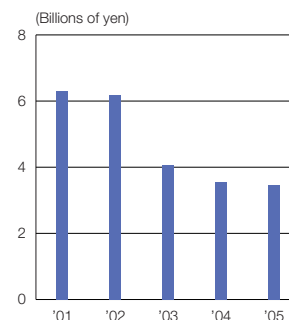
**Interest-Bearing Debt and Debt to Equity Ratio**



**Depreciation and Amortization and Capital Expenditures**



**Net Cash Provided by Operating Activities**





## Consolidated Balance Sheets

TONAMI TRANSPORTATION CO., LTD.  
AND CONSOLIDATED SUBSIDIARIES

As of March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Current assets:</b>			
Cash and time deposits	¥ 15,279	¥ 15,035	\$ 142,276
Marketable securities (Note 3)	1,065	1,046	9,917
Trade receivables:			
Notes and accounts (Note 10)	22,721	24,199	211,575
Less: allowance for doubtful accounts	(73)	(109)	(680)
Inventories	568	576	5,289
Deferred tax assets (Note 7)	795	711	7,403
Other current assets	2,092	2,138	19,480
Total current assets	42,447	43,596	395,260
<b>Property and equipment</b> (Notes 4 and 5):			
Land	42,165	41,256	392,634
Buildings and structures	25,820	25,068	240,432
Machinery and vehicles	3,038	3,431	28,290
Construction in progress	51	1,002	475
Other	716	745	6,667
Total property and equipment	71,790	71,502	668,498
<b>Investments and other assets:</b>			
Investments in securities (Notes 3 and 5)	7,837	6,765	72,977
Deferred tax assets (Note 7)	1,179	1,456	10,979
Other	4,656	4,974	43,356
Total investments and other assets	13,672	13,195	127,312
Total assets	¥127,909	¥128,293	\$1,191,070

The accompanying Notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Current liabilities:</b>			
Short-term bank loans (Note 5)	¥ 15,964	¥ 16,063	\$ 148,655
Current portion of long-term debt (Note 5)	653	911	6,081
Trade notes and accounts payable	11,313	12,514	105,345
Income taxes payable	684	907	6,369
Other current liabilities	8,396	8,623	78,182
Total current liabilities	37,010	39,018	344,632
<b>Long-term liabilities:</b>			
Long-term debt, less current portion (Note 5)	11,134	9,196	103,678
Deferred tax liabilities from revaluation reserve for land (Note 11)	4,595	4,596	42,788
Employees' severance and retirement benefits (Note 6)	19,377	20,110	180,436
Consolidation difference	402	648	3,743
Other long-term liabilities	2,251	3,282	20,961
Total long-term liabilities	37,759	37,832	351,606
Total liabilities	74,769	76,850	696,238
<b>Minority interests</b>	644	708	5,997
<b>Contingent liabilities</b> (Note 10)			
<b>Shareholders' equity</b> (Note 12):			
Common stock:			
Authorized: 299,200,000 shares in 2005			
299,200,000 shares in 2004			
Issued: 97,610,118 shares in 2005			
97,610,118 shares in 2004	14,183	14,183	132,070
Capital surplus	14,687	14,687	136,763
Retained earnings	17,479	15,934	162,762
Revaluation reserve for land (Note 11)	6,768	6,769	63,023
Unrealized gain on securities	1,329	901	12,375
Treasury stock, at cost: 6,592,631 shares in 2005			
6,032,839 shares in 2004	(1,950)	(1,739)	(18,158)
Total shareholders' equity	52,496	50,735	488,835
Total liabilities, minority interests, and shareholders' equity	¥127,909	¥128,293	\$1,191,070

## Consolidated Statements of Income

TONAMI TRANSPORTATION CO., LTD.  
AND CONSOLIDATED SUBSIDIARIES

For the two years ended March 31, 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Operating revenues:</b>			
Operating revenues	¥129,068	¥126,713	\$1,201,863
	129,068	126,713	1,201,863
<b>Operating costs and selling, general and administrative expenses:</b>			
Operating cost (Note 13)	119,722	117,860	1,114,834
Selling, general and administrative expenses (Note 13)	6,363	5,994	59,251
	126,085	123,854	1,174,085
<b>Operating income</b>	<b>2,983</b>	<b>2,859</b>	<b>27,778</b>
<b>Other income and expenses:</b>			
Interest and dividend income	228	174	2,123
Equity in earnings of unconsolidated subsidiaries and affiliates	148	65	1,378
Loss on sells of property and equipment, net	(132)	(19)	(1,229)
Interest expenses	(279)	(331)	(2,598)
Other, net	661	185	6,155
	626	74	5,829
<b>Income before income taxes and minority interests</b>	<b>3,609</b>	<b>2,933</b>	<b>33,607</b>
<b>Income taxes</b> (Note 7):			
Current	1,464	2,122	13,632
Deferred	(101)	(699)	(940)
	1,363	1,423	12,692
<b>Minority interests</b>	<b>73</b>	<b>81</b>	<b>680</b>
<b>Net income</b>	<b>¥ 2,173</b>	<b>¥ 1,429</b>	<b>\$ 20,235</b>

The accompanying Notes are an integral part of these statements.

## Consolidated Statements of Shareholders' Equity

TONAMI TRANSPORTATION CO., LTD.  
AND CONSOLIDATED SUBSIDIARIES

For the two years ended March 31, 2005

	Millions of yen						
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land	Unrealized gain on securities	Treasury stock
<b>Balance as at March 31, 2003</b>	97,610	¥14,183	¥14,687	¥15,018	¥7,494	¥ 46	¥ (920)
Net income				1,429			
Cash dividends applicable to the year (¥8.00 per share)				(749)			
Revaluation reserve for land				725	(725)		
Unrealized gain on securities						855	
Treasury stock							(819)
Decrease resulting from inclusion of consolidated subsidiaries				(421)			
Bonuses to directors and statutory auditors				(68)			
<b>Balance as at March 31, 2004</b>	97,610	¥14,183	¥14,687	¥15,934	¥6,769	¥ 901	¥(1,739)
Net income				2,173			
Cash dividends applicable to the year (¥6.00 per share)				(548)			
Revaluation reserve for land				1	(1)		
Unrealized gain on securities						428	
Treasury stock							(211)
Bonuses to directors and statutory auditors				(81)			
<b>Balance as at March 31, 2005</b>	97,610	¥14,183	¥14,687	¥17,479	¥6,768	¥1,329	¥(1,950)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land	Unrealized gain on securities	Treasury stock
Balance as at March 31, 2003	\$132,070	\$136,763	\$139,845	\$69,783	\$ 428	\$ (8,567)
Net income			13,307			
Cash dividends applicable to the year (\$0.0745 per share)			(6,975)			
Revaluation reserve for land			6,751	(6,751)		
Unrealized gain on securities					7,962	
Treasury stock						(7,626)
Decrease resulting from inclusion of consolidated subsidiaries			(3,920)			
Bonuses to directors and statutory auditors			(633)			
Balance as at March 31, 2004	\$132,070	\$136,763	\$148,375	\$63,032	\$ 8,390	\$(16,193)
Net income			20,235			
Cash dividends applicable to the year (\$0.0559 per share)			(5,103)			
Revaluation reserve for land			9	(9)		
Unrealized gain on securities					3,985	
Treasury stock						(1,965)
Bonuses to directors and statutory auditors			(754)			
Balance as at March 31, 2005	\$132,070	\$136,763	\$162,762	\$63,023	\$12,375	\$(18,158)

The accompanying Notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

TONAMI TRANSPORTATION CO., LTD.  
AND CONSOLIDATED SUBSIDIARIES

For the two years ended March 31, 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Cash flows from operating activities:</b>			
Net income before income taxes and minority interests	¥ 3,609	¥ 2,933	\$ 33,606
Depreciation and amortization	2,689	2,610	25,040
Loss (gain) on disposal of property and equipment	126	(30)	1,173
Gain on sales of investments in securities	(6)	(64)	(56)
Loss on devaluation of investments in securities	15	8	140
Loss on devaluation of golf club memberships	7	54	65
Bond issue expenses	31	86	289
Amortization of consolidation difference	(159)	(90)	(1,481)
Equity in earnings of unconsolidated subsidiaries and affiliates	(148)	(65)	(1,378)
(Decrease) increase in allowance for doubtful accounts	(169)	60	(1,574)
(Decrease) increase in employees' severance and retirement benefits	(733)	375	(6,826)
Increase (decrease) in accrued bonuses to employees	4	(56)	37
Interest and dividend income	(228)	(174)	(2,123)
Interest expenses	279	331	2,598
Decrease (increase) in trade receivables	1,574	(1,576)	14,657
Decrease in inventories	8	157	74
(Decrease) increase in accounts payable	(1,201)	1,505	(11,184)
Decrease in accrued consumption taxes	(30)	(60)	(279)
Other, net	(413)	124	(3,846)
Subtotal	5,255	6,128	48,933
Interest and dividends received	228	174	2,123
Interest paid	(279)	(331)	(2,598)
Income taxes paid	(1,736)	(2,407)	(16,165)
Net cash provided by operating activities	3,468	3,564	32,294
<b>Cash flows from investing activities:</b>			
Purchase of time deposits	(169)	(155)	(1,574)
Proceeds from redemption of time deposits	165	131	1,537
Purchase of marketable securities	(0)	(31)	0
Proceeds from sales of marketable securities	21	308	196
Purchase of property and equipment	(3,921)	(7,809)	(36,512)
Proceeds from sales of property and equipment	141	1,583	1,313
Purchase of investments in securities	(539)	(21)	(5,019)
Proceeds from sales of investments in securities	86	246	801
Proceeds from acquisition of subsidiaries resulting in changes in scope of consolidation	—	1,413	—
Investments in loans receivable	(66)	(339)	(615)
Proceeds from collection of loans receivable	100	471	931
Other, net	120	801	1,117
Net cash used in investing activities	(4,062)	(3,402)	(37,825)
<b>Cash flows from financing activities:</b>			
Net (decrease) increase in short-term loans	(99)	32	(922)
Proceeds from long-term debt	180	328	1,676
Repayment of long-term debt	(947)	(939)	(8,818)
Proceeds from issuance of bonds	2,469	6,914	22,991
Redemption of bonds	—	(7,000)	—
Proceeds from issuance of stock	—	6	—
Purchase of treasury stock	(211)	(819)	(1,965)
Dividends paid	(548)	(749)	(5,103)
Dividends paid to minority interests	(10)	(8)	(93)
Net cash provided by (used in) financing activities	834	(2,235)	7,766
<b>Effect of exchange rate change on cash and cash equivalents</b>	—	—	—
<b>Net increase (decrease) in cash and cash equivalents</b>	240	(2,073)	2,235
<b>Cash and cash equivalents at beginning of year</b>	15,800	17,873	147,127
<b>Cash and cash equivalents at end of year</b>	¥16,040	¥15,800	\$149,362

The accompanying Notes are an integral part of these statements.

# Notes to the Consolidated Financial Statements

TONAMI TRANSPORTATION CO., LTD.  
AND CONSOLIDATED SUBSIDIARIES

## 1 Basis of presenting financial statements

The accompanying consolidated financial statements of Tonami Transportation Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

U.S. dollar amounts presented in the financial statements are included solely for convenience and should not be construed as representations that Japanese yen amounts have been or could in the future be converted into U.S. dollars. The rate of ¥107.39 = U.S.\$1, prevailing on March 31, 2005, has been used for the translation into U.S. dollar amounts in the financial statements.

## 2 Summary of significant accounting policies

### **(a) Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its 28 significant majority-owned subsidiaries for the year ended March 31, 2005 (28 for 2004).

All significant intercompany accounts and transactions have been eliminated in consolidation.

Eight of the investments in unconsolidated subsidiaries or affiliates (7 for 2004) are accounted for by the equity method.

Differences between the acquisition cost and the underlying net equity of subsidiaries at the time of acquisition are amortized on the straight-line basis over the period of five or 20 years.

When their amounts are, however, not significant, the differences are fully charged or credited to income at the dates of acquisition.

### **(b) Marketable securities and investments in securities**

Securities, except for investments in unconsolidated subsidiaries and affiliates, are classified as trading securities, held-to-maturity securities or other securities. Trading securities are carried at fair value. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any unrealized gain or loss reported as a separate component of stockholders' equity, net of taxes. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the moving average method.

### **(c) Inventories**

Inventories are stated at cost, cost being determined principally by the last purchase price method. The specific identification cost method is used for certain inventories.

### **(d) Allowance for doubtful accounts**

Allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on collection. Such amount is computed by applying the rate of actual losses on collection experienced in the past with respect to general trade receivables and by individually reviewing their collectibility with respect to certain doubtful receivables.

### **(e) Property and equipment and intangible assets**

Property and equipment are stated at cost. However, under Japanese tax law, capital gains arisen from disposals and other similar transactions are deducted from the cost of the property and equipment acquired in substitution.

Depreciation of property and equipment is computed by the declining balance method, except for buildings and structures. The buildings and structures are depreciated by the straight-line method.

The ranges of useful lives of principal property and equipment are as follows:

Buildings and structures . 2-50 years

Machinery and vehicles . 2-15 years

Amortization of intangible assets is principally computed using the straight-line method on the presumption of having no salvage value.

**(f) Leases**

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessee are accounted for by the method similar to that applicable to ordinary operating leases.

**(g) Employees' severance and retirement benefits**

The Company's employees are entitled to a lump-sum payment upon retirement or severance of employment. In order to provide for the employees' severance and retirement benefits, the Company and its consolidated subsidiaries assume a liability for severance and retirement benefits, which is included in the liability section of the consolidated balance sheet, based on the estimated amounts of projected benefit obligation and plan assets at the balance sheet dates.

Past service costs are recognized in expenses using the straight-line method over 11 years (a certain period not exceeding the employees average remaining service lives) commencing with the year as occurred.

Actuarial gains and losses are recognized in expenses using the straight-line method over 11 years (a certain period not exceeding the employees' average remaining service lives) commencing with the next year as occurred.

**(h) Stock issue expenses**

Stock issue expenses are charged to income as incurred.

**(i) Income taxes**

Income taxes consist of corporation, enterprise, and inhabitants taxes.

The Company and its consolidated subsidiaries recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.

The corporation size-based enterprise tax was introduced by revision of the local law from the fiscal year beginning on or after April 1, 2004. The enterprise tax on value added and capital was accounted for as selling, general administrative expenses.

As a result, selling, general and administrative expenses increased by ¥176 million (\$1,639 thousand) and operating income and income before income taxes and minority interest decreased by ¥176 million (\$1,639 thousand).

**(j) Statements of cash flows**

Cash and cash equivalents include cash on hand, deposits placed with banks on demand, and highly liquid investments with insignificant risk of changes in value which have maturities of three months or less when purchased.

**(k) Foreign currency translation**

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the current exchange rates at the balance sheet date, and any gain or loss on translation is credited or charged to income.

### 3 Fair value of securities

No trading securities or held-to-maturity securities were held at March 31, 2005 or 2004. Securities classified as other securities are included in "marketable securities" and "investments in securities" in the accompanying consolidated balance sheets.

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2005 and 2004 are summarized as follows:—

	Millions of yen		
	2005		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Unrealized gain:			
Stocks	¥2,476	¥4,718	¥2,242
Bonds			
Corporate bonds	85	85	0
Other	—	—	—
Other	—	—	—
Unrealized loss:			
Stocks	72	67	(5)
Bonds			
Corporate bonds	—	—	—
Other	—	—	—
Other	110	109	(1)
Total	¥2,743	¥4,979	¥2,236



Millions of yen			
	Acquisition costs	2004 Carrying value	Unrealized gain (loss)
Unrealized gain:			
Stocks	¥1,772	¥3,332	¥1,560
Bonds			
Corporate bonds	106	107	1
Other	—	—	—
Other	—	—	—
Unrealized loss:			
Stocks	654	609	(45)
Bonds			
Corporate bonds	25	25	(0)
Other	—	—	—
Other	60	58	(2)
Total	¥2,617	¥4,131	¥1,514

Thousands of U.S. dollars			
	Acquisition costs	2005 Carrying value	Unrealized gain (loss)
Unrealized gain:			
Stocks	\$23,056	\$43,933	\$20,877
Bonds			
Corporate bonds	793	792	(1)
Other	—	—	—
Other	—	—	—
Unrealized loss:			
Stocks	670	624	(46)
Bonds			
Corporate bonds	—	—	—
Other	—	—	—
Other	1,024	1,015	(9)
Total	\$25,543	\$46,364	\$20,821

Non-marketable securities classified as other securities at March 31, 2005 and 2004 amounted to ¥3,923 million (\$36,530 thousand) and ¥3,680 million (\$34,268 thousand), respectively.

Proceeds from sales of securities classified as other securities amounted to ¥21 million (\$196 thousand) and ¥417 million (\$3,883 thousand) for the years ended March 31, 2005 and 2004, respectively.

The aggregate gain realized on those sales totaled ¥16 million (\$149 thousand) and ¥64 million (\$596 thousand) for the years ended March 31, 2005 and 2004, respectively.

The redemption schedule at March 31, 2005 for bonds with maturity dates is summarized as follows:—

Millions of yen				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Corporate bonds	¥65	¥20	¥ —	¥ —
Other	—	—	100	10
Total	¥65	¥20	¥100	¥10

Thousands of U.S. dollars				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Corporate bonds	\$605	\$186	\$ —	\$ —
Other	—	—	931	93
Total	\$605	\$186	\$931	\$93

#### 4 Property and equipment

Depreciable property is stated at the net book value in the consolidated balance sheets. The amounts of accumulated depreciation were ¥49,174 (457,901 thousand) million and ¥48,838 million (\$454,772 thousand) on March 31, 2005 and 2004, respectively.

Capital gains resulting from disposals and other similar transactions are deducted from the cost of property and equipment acquired in substitution. The amounts deducted from the cost of property and equipment was ¥269 million (\$2,505 thousand) on March 31, 2005 and 2004, respectively.

## 5 Short-term bank loans and long-term debt

### (a) Short-term bank loans

Short-term bank loans as at March 31, 2005 and 2004 were as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Secured	¥ 3,681	¥ 3,981	\$ 34,277
Unsecured	12,283	12,082	114,378

Interest rates range from 0.6% to 4.0%.

### (b) Long-term debt

Long-term debt as at March 31, 2005 and 2004 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
0.89% ¥6.4 billion unsecured straight bonds due 2008	¥ 6,400	¥ 6,400	\$ 59,596
0.52% ¥0.6 billion unsecured straight bonds due 2008	600	600	5,587
0.00% ¥2.5 billion unsecured convertible bond type-bonds with stock acquisition rights due 2009	2,500	—	23,280
0.55%_3.00% loans from financial institutions due 2006 to 2010 and thereafter Secured	1,513	1,773	14,089
Unsecured	774	1,334	7,207
Total	11,787	10,107	109,759
Less: amount due within one year	653	911	6,081
	¥11,134	¥ 9,196	\$103,678

The maturity date of the ¥6.4 billion 0.89% unsecured straight bonds, issued in June 2003 is June 30, 2008.

The maturity date of the ¥0.6 billion 0.52% unsecured straight bonds, issued in June 2003 is June 30, 2008.

The maturity date of the ¥2.5 billion 0.00% unsecured convertible bond type- bonds, issued in July 2004 is September 30, 2009.

The annual maturities of long-term debt outstanding as at March 31, 2005 are as follows:—

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 653	\$ 6,081
2007	393	3,659
2008	282	2,626
2009	7,221	67,241
2010 and thereafter	3,238	30,152

### (c) Pledged assets

Property and equipment having a net value of ¥18,972 million (\$176,664 thousand) was pledged as collateral for short-term bank loans and long-term debt as at March 31, 2005.

## 6 Employees' severance and retirement benefits

Employees who terminated their service with the Company and consolidated subsidiaries are, in most cases, entitled to pension annuity payments or to a lumpsum severance payment determined by reference to the basic rate of pay, length of service and the conditions under which the termination occurs.

The Company has two types of defined benefit plans, a lump-sum payment plan and an additional benefit type of pension plan. The Company revised its pension plans and shifted them to a money-market-rates linkage type from June 1, 2004.

The Company and certain significant domestic consolidated subsidiaries have established contributory defined benefit pension plans pursuant to the Welfare Pension Insurance Law of Japan, i.e., welfare pension fund plan (WFPF). The WFPF consists of the governmental welfare pension program (the substitutional portion) and an additional non-contributory pension plan portion.

On 13th August, 2002 the Company and certain domestic subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the benefit obligation related to future employee services under the substitutional portion of the WFPF.

The projected benefit obligation and the funded status of the plans summarized as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥(22,830)	¥(28,347)	\$ (212,590)
Plan assets	2,264	3,022	21,082
Accrued pension and severance costs	19,377	20,110	180,436
Prepaid pension and severance costs	—	—	—
Net unrecognized amount	1,189	5,215	11,072

The net unrecognized amounts were as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Unrecognized benefit obligation at transition:			
Adjustment for actuarial assumptions	¥ 5,422	¥4,633	\$ 50,489
Past service cost	(4,233)	582	(39,417)
Net unrecognized amounts	1,189	5,215	11,072

The components of net periodic pension and severance costs excluding the employees' contributory portion were as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥ 971	¥1,077	\$ 9,042
Interest cost on projected benefit obligation	564	662	5,252
Expected return on plan assets	(67)	(11)	(624)
Amortization of unrecognized severance benefit obligation at transition	—	—	—
Amortization of adjustment for actuarial assumptions	472	621	4,395
Amortization of past service cost	(332)	58	(3,092)
Net periodic pension and severance costs	¥1,608	¥2,408	\$14,973

The assumptions used were as follows:—

	2005	2004
Discount rates	2.5%	2.5%
Expected rates of return on plan assets	2.5%	2.5%

## 7 Income taxes

As described in Note 2(i), the Company and its consolidated subsidiaries recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.

Significant components of deferred tax assets and liabilities are as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Excess bonuses accrued	¥ 498	¥ 510	\$ 4,637
Excess employees' severance and retirement benefits accrued	7,225	7,305	67,278
Other	795	465	7,403
Gross deferred tax assets	8,518	8,280	79,318
Valuation allowance	(544)	(316)	(5,066)
Total deferred tax assets	7,974	7,964	74,253
Deferred tax liabilities:			
Unrealized gain on securities	(904)	(612)	(8,418)
Reserve under Special Taxation Measures Law	(5,095)	(5,185)	(47,444)
Total deferred tax liabilities	(5,999)	(5,797)	(55,862)
Net deferred tax assets	¥ 1,974	¥ 2,167	\$ 18,382

Income taxes applicable to the Company consist of corporation, enterprise, and inhabitant taxes, which, in aggregate, resulted in a statutory tax rate of 41.6% for the years ended March 31, 2005 and 2004, respectively.

Significant differences between the statutory tax rate and the Company's effective tax rate after applying the deferred tax accounting for the years ended March 31, 2005 and 2004 were as follows:—

	2005	2004
Statutory tax rate	41.6%	41.6%
Increase (reduction) in tax resulting from:		
Nondeductible expenses including entertainment, etc.	1.5	1.6
Nontaxable income including dividends received deduction, etc.	(1.4)	(1.5)
Per capita portion of inhabitant taxes	5.8	6.8
Equity in earnings of affiliates	(1.8)	(0.9)
Other	(7.9)	0.9
Effective tax rate	37.8%	48.5%

## 8 Cash flow statements

Reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as at March 31, 2005 and 2004 are as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits	¥15,279	¥15,035	\$142,276
Time deposits with maturities exceeding three months	(239)	(235)	(2,226)
Cash equivalents included in marketable securities	1,065	1,046	9,917
Bonds with maturities exceeding three months	(65)	(46)	(605)
Cash and cash equivalents	¥16,040	¥15,800	\$149,362

A summary of the acquired assets and assumed liabilities, the relevant acquisition cost, and the net cash flows as a result of the acquisition of shares of Keishin Warehousing Co., Ltd. for the year ended March 31, 2004 is as follows:—

	Millions of yen
	2004
Current assets	¥ 3,696
Non-current assets	4,895
Goodwill	(748)
Current liabilities	(680)
Non-current liabilities	(6,193)
Minority interest	—
Acquisition cost	970
Cash and cash equivalents acquired	(2,357)
Cash paid, net of cash and cash equivalents acquired	(1,387)

## 9 Finance leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2005 and 2004, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition costs:	¥15,821	¥14,387	\$147,323
Machinery and tools	84	115	782
Other assets	¥15,905	¥14,502	\$148,105
Accumulated depreciation:	¥ 8,546	¥ 6,200	\$ 79,579
Machinery and tools	51	69	475
Other assets	¥ 8,597	¥ 6,269	\$ 80,054
Net book value:	¥ 7,275	¥ 8,187	\$ 67,744
Machinery and tools	33	46	307
Other assets	¥ 7,308	¥ 8,233	\$ 68,051

Amounts of depreciation expense equivalents and interest expense equivalents for the years ended March 31, 2005 and 2004 are as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Depreciation expense	¥2,734	¥2,392	\$25,459
Interest expense	181	180	1,685

Lease payments relating to finance leases accounted for as operating leases amounted to ¥2,892 million (\$26,930 thousands) and ¥2,569 million (\$23,922 thousand), which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms, for the years ended March 31, 2005 and 2004, respectively.

Future minimum lease payments (including the interest portion thereon) as at March 31, 2005 and 2004 for finance leases accounted for as operating leases are summarized as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥2,722	¥2,510	\$25,347
Due over one year	4,675	5,789	43,533
Total	¥7,397	¥8,299	\$68,880

## 10 Contingent liabilities

As at March 31, 2005, the Company were contingently liable as follows:—

	Millions of yen	Thousands of U.S. dollars
Notes discounted with banks	¥ 113	\$1,052
Guarantees of welfare pension housing loans sublet to employees	4	37
Notes endorsed	67	624
Others	1,182	11,007

## 11 Revaluation reserve for land

In accordance with the Law concerning Revaluation of Land enacted on March 31, 1998, the Company has revaluated its owned land used for business operations on March 31, 2000 and reported a revaluation reserve for land in shareholders' equity section.

The revaluated book value of land was determined based on the value of land registered on the cadastres or their supplementary records, which are provided by the Local Tax Law under the Law Concerning Revaluation of Land, after making reasonable adjustments.

	Millions of yen	Thousands of U.S. dollars
Difference between the fair market value of revalued land at March 31, 2005 and the revalued book value	¥9,662	\$89,971

## 12 Shareholders' equity

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and capital surplus account equals 25% of the common stock account. The legal reserve amounted to ¥1,261 million (\$11,742 thousand) at March 31, 2005 and 2004, respectively.

The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

Year-end dividends shall be approved at a ordinary shareholders' meeting held after the end of each financial year and interim dividends may be declared by the Board of Directors held after the end of each first six month period, respectively.

In accordance with the Commercial Code, year-end dividends and the related appropriation of retained earnings are not reflected in the financial statements at the end of the financial year, but are recorded at the time they are approved.

## 13 Supplementary income information

Supplementary income information for the year ended March 31, 2005 and 2004 is as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Depreciation expenses	¥2,689	¥2,610	\$25,040
Lease and rental	6,083	5,301	56,644

## 14 Amounts per share

Net income per share has been computed using the weighted-average number of shares of common stock outstanding during each year.

In computing diluted net income per share, the weighted-average number of shares has been increased by the number of shares that would have been outstanding assuming the conversion of all convertible bond type-bonds with stock acquisition rights at the beginning of each year. Net income has been adjusted for interest expenses on such bonds, net of applicable income taxes.

Net assets per share has been computed using the number of shares of common stock outstanding at each balance sheet date.

Amounts per share of common stock for the years ended March 31, 2005 and 2004 were as follows:—

	Yen		U.S. dollars
	2005	2004	2005
Net income per share:			
Basic	¥ 22.94	¥ 14.50	\$0.2136
Diluted	21.36	—	0.1989
Net assets per share	¥575.96	¥553.26	\$5.3636

Basis for the calculation of net income per share and diluted net income per share for the years ended March 31, 2005 and 2004 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Net income available to shareholders of common stock:			
Net income	¥2,173	¥1,429	\$20,235
Net income not available to shareholders of common stock :	84	79	782
(of which appropriation of bonuses to directors and statutory auditors)	(84)	(79)	(782)
Net income available to shareholders of common stock :	2,089	1,350	19,452
Weighted-average number of shares of common stock outstanding	91,078,245	93,126,320	
Diluted net income available to shareholders of common stock			
Adjustments to net income:	0	—	0
(of which commission for bonds)	(0)	(—)	(0)
Incremental number of shares of common stock	6,738,544	—	
(of which stock acquisition rights)	(6,738,544)	(—)	
Common stock equivalents not included calculation of diluted net income per share due to their anti-dilutive effect	—	—	—

## 15 Subsequent event

The annual shareholders' meeting of the Company, which was held on June 29, 2005, duly approved the following appropriations of retained earnings existing as at March 31, 2005:—

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.00 per share)	¥273	\$2,542
Bonuses to directors and statutory auditors	34	317

## 16 Segment Information

The Company's business segments consist of logistics related services classified as Logistics and non-logistics services classified as Others.

A summary of segment information by industry segment for the two years ended March 31, 2005 is as follows:—

For the year ended March 31, 2005	Millions of yen			Eliminations (Notes 1 and 2)	Consolidated
	Logistics	Others	Total		
Net Sales:					
Outside customers	¥117,816	¥11,252	¥129,068	¥ —	¥129,068
Inter segment sales	20	6,802	6,822	(6,822)	—
Total	117,836	18,054	135,890	(6,822)	129,068
Costs and expenses	115,024	17,753	132,777	(6,692)	126,085
Operating income	¥ 2,812	¥ 301	¥ 3,113	¥ (130)	¥ 2,983
Assets, depreciation and capital expenditures:					
Identifiable assets	¥ 99,088	¥23,237	¥122,325	¥ 5,584	¥127,909
Depreciation	¥ 2,504	¥ 194	¥ 2,698	¥ (9)	¥ 2,689
Capital expenditures	¥ 2,966	¥ 328	¥ 3,294	¥ (4)	¥ 3,290

For the year ended March 31, 2004

Millions of yen

	Logistics	Others	Total	Eliminations (Notes 1 and 2)	Consolidated
Net Sales:					
Outside customers	¥114,796	¥11,917	¥126,713	¥ —	¥126,713
Inter segment sales	49	5,576	5,625	(5,625)	—
Total	114,845	17,493	132,338	(5,625)	126,713
Costs and expenses	112,727	16,607	129,334	(5,480)	123,854
Operating income	¥ 2,118	¥ ,886	¥ 3,004	¥ (145)	¥ 2,859
Assets, depreciation and capital expenditures:					
Identifiable assets	¥ 99,694	¥ 9,164	¥108,858	¥19,435	¥128,293
Depreciation	¥ 2,438	¥ 180	¥ 2,618	¥ (8)	¥ 2,610
Capital expenditures	¥ 7,674	¥ 182	¥ 7,856	¥ 0	¥ 7,856

For the year ended March 31, 2005

Thousands of U.S. dollars

	Logistics	Others	Total	Eliminations (Notes 1 and 2)	Consolidated
Net Sales:					
Outside customers	\$1,097,086	\$104,777	\$1,201,863	\$ —	\$1,201,863
Inter segment sales	186	63,339	63,525	( 63,525)	—
Total	1,097,272	168,116	1,265,388	( 63,525)	1,201,863
Costs and expenses	1,071,087	165,313	1,236,400	( 62,315)	1,174,085
Operating income	\$ 26,185	\$ 2,803	\$ 28,988	\$ (1,210)	\$ 27,778
Assets, depreciation and capital expenditures:					
Identifiable assets	\$ 922,693	\$216,380	\$1,139,073	\$ 51,997	\$1,191,070
Depreciation	\$ 23,317	\$ 1,806	\$ 25,123	\$ (84)	\$ 25,040
Capital expenditures	\$ 27,619	\$ 3,054	\$ 30,673	\$ (37)	\$ 30,636

Note 1. Operating cost and expenses included in the column “Eliminations” mainly consist of those charged by the general affairs and finance divisions of the Company, amounting to ¥197 million (\$1,834 thousand) and ¥200 million (\$1,862 thousand) for the years ended March 31, 2005 and 2004, respectively.

Note 2. Corporate assets included in the column “Eliminations” mainly consist of surplus working funds (cash and marketable securities), long-term investment funds (investments in securities), and other assets which belong to the administrative department, amounting to ¥30,220 million (\$281,404 thousand) and ¥27,598 million (\$256,989 thousand) for the years ended March, 2005 and 2004, respectively.

The two business segments mainly consist of the following services:

Logistics . . .	Road haulage, freight forwarding, warehousing, and harbor transport and customs services
Others . . .	Vehicle maintenance, casualty insurance, leasing, merchandising and commissioned sales and purchases, travel services, mail order services, travel inn, and other businesses

Neither geographical segment information nor overseas sales have been presented because none of the Company's consolidated subsidiaries are domiciled outside Japan, and the Company and its consolidated subsidiaries had no overseas sales for the years ended March 31, 2005 and 2004.



## ***Independent Auditors' Report***

The Board of Directors  
Tonami Transportation Co., Ltd.

We have audited the accompanying consolidated balance sheets of Tonami Transportation Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tonami Transportation Co., Ltd. and consolidated subsidiaries at March 31, 2005 and 2004, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

*Ernst & Young Shin Nihon*

June 29, 2005

## Non-Consolidated Five-Year Summary

TONAMI TRANSPORTATION CO., LTD

Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2001	2002	2003	2004	2005	2005
<b>RESULTS OF OPERATIONS:</b>						
Operating revenues	¥100,509	¥ 98,462	¥ 97,246	¥100,679	¥ 99,504	\$ 926,567
Operating cost	95,808	93,679	92,510	96,372	95,308	887,494
Selling, general and administrative expenses	3,006	2,841	2,758	2,800	2,819	26,250
Operating income	1,695	1,942	1,978	1,507	1,377	12,823
Income (loss) before income taxes	(14,915)	1,329	8,231	1,769	1,813	16,883
Net income (loss)	(8,888)	578	4,407	684	862	8,027
Capital expenditures	4,117	823	1,261	6,684	3,289	30,627
Depreciation expenses	3,305	2,532	2,051	1,796	1,860	17,320
<b>PER SHARE (yen and U.S. dollars):</b>						
Net income (loss)	¥ (91.05)	¥ 5.92	¥ 45.10	¥ 6.96	¥ 9.09	\$ 0.0846
Cash dividends	6.00	6.00	6.00	8.00	6.00	0.0559
<b>YEAR-END FINANCIAL POSITION:</b>						
Total current assets	¥ 32,346	¥ 35,436	¥ 39,183	¥ 33,883	¥ 39,631	\$ 369,038
Net property and equipment	61,883	60,023	57,942	62,260	62,695	583,807
Total assets	109,261	109,767	108,543	109,202	116,108	1,081,181
Total current liabilities	27,824	28,434	35,778	30,109	34,993	325,850
Long-term liabilities, excluding of current portion thereof	36,802	36,741	25,214	31,616	33,142	308,614
Total shareholders' equity	44,635	44,592	47,551	47,477	47,972	446,708
<b>OTHER YEAR-END DATA:</b>						
Number of share outstanding (thousand)	97,610	97,610	97,610	97,610	97,610	
Number of employees	5,636	5,548	5,462	5,462	5,429	

## Non-Consolidated Balance Sheets

TONAMI TRANSPORTATION CO., LTD

As of March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Current assets:</b>			
Cash	¥ 11,436	¥ 11,488	\$ 106,490
Marketable securities	1,065	1,046	9,917
Trade receivables:			
Notes and accounts (Note 6)	18,412	19,011	171,450
Less: allowance for doubtful accounts	(23)	(47)	(214)
Inventories	144	149	1,341
Deferred tax assets (Note 5)	668	579	6,220
Other current assets	7,929	1,657	73,834
Total current assets	39,631	33,883	369,038
<b>Property and equipment</b> (Notes 3 and 4):			
Land	37,599	36,660	350,116
Buildings and structures	45,110	43,463	420,058
Machinery and tools	6,513	6,505	60,648
Vehicles	14,833	15,957	138,123
Construction in progress	—	889	—
Less: accumulated depreciation	(41,360)	(41,214)	(385,138)
Net property and equipment	62,695	62,260	583,807
<b>Investments and other assets:</b>			
Investments in securities	6,407	5,552	59,661
Investments in subsidiaries and affiliates	3,041	2,725	28,317
Loans to employees	11	17	102
Deferred tax assets (Note 5)	1,025	1,234	9,545
Others	3,298	3,531	30,711
Total investments and other assets	13,782	13,059	128,336
Total assets	¥116,108	¥109,202	\$1,081,181

The accompanying Notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Current liabilities:</b>			
Trade notes payable	¥ 476	¥ —	\$ 4,432
Short-term bank loans (Note 4)	13,255	13,255	123,429
Current portion of long-term debt (Note 4)	412	612	3,836
Trade accounts payable (Note 6)	14,329	9,213	133,430
Deposits from employees	391	378	3,641
Income taxes payable	507	645	4,721
Other current liabilities	5,624	6,006	52,370
Total current liabilities	34,994	30,109	325,859
<b>Long-term liabilities:</b>			
Long-term debt, less current portion thereof (Note 4)	10,687	8,599	99,516
Deferred tax liabilities from revaluation reserve for land (Note 9)	4,595	4,596	42,788
Employees' severance and retirement benefits	17,805	18,374	165,798
Other long-term liabilities	55	47	512
Total long-term liabilities	33,142	31,616	308,614
Total liabilities	68,136	61,725	634,473
<b>Contingent liabilities</b> (Note 8)			
<b>Shareholders' equity</b> (Note 10):			
Common stock:			
Authorized: 299,200,000 shares in 2005			
299,200,000 shares in 2004			
Issued: 97,610,118 shares in 2005			
97,610,118 shares in 2004	14,183	14,183	132,070
Capital surplus	14,687	14,687	136,763
Retained earnings	12,975	12,695	120,821
Revaluation reserve for land (Note 9)	6,768	6,769	63,023
Unrealized gain on securities	1,309	882	12,189
Treasury stock, at cost 6,592,631 shares in 2005			
6,032,839 shares in 2004	(1,950)	(1,739)	(18,158)
Total shareholders' equity	47,972	47,477	446,708
Total liabilities and shareholders' equity	¥116,108	¥109,202	\$1,081,181

## Non-Consolidated Statements of Income

TONAMI TRANSPORTATION CO., LTD.

For the two years ended March 31, 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Operating revenues</b> (Note 6)	<b>¥99,504</b>	<b>¥100,679</b>	<b>\$926,567</b>
<b>Operating costs and expenses:</b>			
Operating cost (Notes 6 and 11)	95,308	96,372	887,494
Selling, general and administrative expenses (Note 11)	2,819	2,800	26,250
	98,127	99,172	913,744
<b>Operating income</b>	<b>1,377</b>	<b>1,507</b>	<b>12,823</b>
<b>Other income and expenses:</b>			
Interest and dividend income (Note 6)	327	272	3,045
(Loss) gain on disposal of property and equipment, net	(125)	1	(1,164)
Interest expenses	(223)	(276)	(2,077)
Others	457	265	4,256
	436	262	4,060
<b>Income before income taxes</b>	<b>1,813</b>	<b>1,769</b>	<b>16,883</b>
<b>Income taxes</b> (Note 5):			
Current	1,122	1,745	10,448
Deferred	(171)	(660)	(1,592)
	951	1,085	8,856
<b>Net income</b>	<b>¥ 862</b>	<b>¥ 684</b>	<b>\$ 8,027</b>

The accompanying Notes are an integral part of these statements.

# Non-Consolidated Statements of Shareholders' Equity

TONAMI TRANSPORTATION CO., LTD.

For the two years ended March 31, 2005

	Millions of yen						
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land	Unrealized gain on securities	Treasury stock
<b>Balance as at March 31, 2003</b>	97,610	¥14,183	¥14,687	¥12,065	¥7,494	¥ 42	¥ (920)
Net income				684			
Cash dividends applicable to the year (¥8.00 per share)				(749)			
Revaluation reserve for land				725	(725)		
Unrealized gain on securities						840	
Treasury stock							(819)
Bonuses to directors and statutory auditors				(30)			
<b>Balance as at March 31, 2004</b>	<b>97,610</b>	<b>¥14,183</b>	<b>¥14,687</b>	<b>¥12,695</b>	<b>¥6,769</b>	<b>¥882</b>	<b>¥(1,739)</b>
Net income				862			
Cash dividends applicable to the year (¥6.00 per share)				(548)			
Revaluation reserve for land				1	(1)		
Unrealized gain on securities						427	
Treasury stock							(211)
Bonuses to directors and statutory auditors				(35)			
<b>Balance as at March 31, 2005</b>	<b>97,610</b>	<b>¥14,183</b>	<b>¥14,687</b>	<b>¥12,975</b>	<b>¥6,768</b>	<b>¥1,309</b>	<b>¥(1,950)</b>

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land	Unrealized gain on securities	Treasury stock
Balance as at March 31, 2003	\$132,070	\$136,763	\$112,348	\$69,783	\$ 391	\$ (8,567)
Net income			6,369			
Cash dividends applicable to the year (\$0.0745 per share)			(6,975)			
Revaluation reserve for land			6,751	(6,751)		
Unrealized gain on securities				7,822		
Treasury stock					(7,626)	
Bonuses to directors and statutory auditors		(279)				
Balance as at March 31, 2004	\$132,070	\$136,763	\$118,214	\$63,032	\$ 8,213	\$(16,193)
Net income			8,027			
Cash dividends applicable to the year (\$0.0559 per share)			(5,103)			
Revaluation reserve for land			9	(9)		
Unrealized gain on securities					3,976	
Treasury stock						(1,965)
Bonuses to directors and statutory auditors			(326)			
Balance as at March 31, 2005	\$132,070	\$136,763	\$120,821	\$63,023	\$12,189	\$(18,158)

The accompanying Notes are an integral part of these statements.

## Non-Consolidated Statements of Cash Flows

TONAMI TRANSPORTATION CO., LTD.

For the two years ended March 31, 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Cash flows from operating activities:</b>			
Net income before income taxes	¥ 1,813	¥ 1,769	\$ 16,882
Depreciation and amortization	1,860	1,796	17,320
Loss (gain) on disposal of property and equipment	125	(1)	1,164
Loss on sales of investments in securities	(16)	(181)	(149)
Loss on devaluation of investments in securities	15	6	140
Loss on devaluation of golf club memberships	8	48	74
(Decrease) increase in allowance for doubtful accounts	(122)	40	(1,136)
Bond issue expenses	31	86	289
(Decrease) increase in employees' severance and retirement benefits	(569)	399	(5,298)
Decrease in accrued bonuses to employees	(21)	(52)	(196)
Interest and dividend income	(327)	(271)	(3,045)
Interest expenses	223	274	2,077
Decrease (increase) in trade receivables	733	(618)	6,826
Decrease (increase) in inventories	4	(9)	37
Increase in accounts payable	5,590	856	52,053
Increase (decrease) in accrued consumption taxes	6	(92)	56
Other, net	359	388	3,343
Subtotal	9,712	4,438	90,437
Interest and dividends received	327	271	3,045
Interest paid	(223)	(274)	(2,077)
Income taxes paid	(1,309)	(2,101)	(12,189)
Net cash provided by operating activities	8,507	2,334	79,216
<b>Cash flows from investing activities:</b>			
Purchase of time deposits	—	(20)	—
Proceeds from redemption of time deposits	10	20	93
Purchase of marketable securities	(0)	(31)	(0)
Proceeds from sales of marketable securities	21	308	196
Purchase of property and equipment	(3,174)	(5,857)	(29,556)
Proceeds from sales of property and equipment	(1)	1,465	(9)
Purchase of investments in securities	(583)	(1,335)	(5,429)
Proceeds from sales of investments in securities	85	291	791
Investments in loans receivable	(20,100)	(477)	(187,168)
Proceeds from collection of loans receivable	14,012	628	130,478
Other, net	84	649	782
Net cash used in investing activities	(9,646)	(4,359)	(89,822)
<b>Cash flows from financing activities:</b>			
Decrease in short-term loans	—	(105)	—
Proceeds from long-term debt	—	100	—
Repayments of long-term debt	(612)	(578)	(5,699)
Purchase of treasury stock	(211)	(819)	(1,965)
Dividends paid	(548)	(749)	(5,103)
Proceeds from issuance of bonds	2,469	6,914	22,991
Redemption of bonds	—	(7,000)	—
Net cash provided by (used in) investing activities	1,098	(2,237)	10,224
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(41)</b>	<b>(4,262)</b>	<b>(382)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>12,477</b>	<b>16,739</b>	<b>116,184</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 12,436</b>	<b>¥ 12,477</b>	<b>\$ 115,802</b>

The accompanying Notes are an integral part of these statements.



# Notes to the Non-Consolidated Financial Statements

TONAMI TRANSPORTATION CO., LTD.

## 1 Basis of presenting financial statements

The accompanying non-consolidated financial statements of Tonami Transportation Co., Ltd. (the “Company”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

U.S. dollar amounts presented in the financial statements are included solely for convenience and should not be construed as representations that Japanese yen amounts have been or could in the future be converted into U.S. dollars. The rate of ¥107.39 = U.S.\$1, prevailing on March 31, 2005, has been used for the translation into U.S. dollar amounts in the financial statements.

## 2 Summary of significant accounting policies

### **(a) Non-consolidation**

The accompanying non-consolidated financial statements include only the accounts of the Company.

Investments in subsidiaries and affiliates are stated at cost.

### **(b) Marketable securities and investments in securities**

Securities, except for investments in unconsolidated subsidiaries and affiliates, are classified as trading securities, held-to-maturity securities or other securities. Trading securities are carried at fair value. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any unrealized gain or loss reported as a separate component of stockholders' equity, net of taxes. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the moving average method.

### **(c) Inventories**

Inventories are stated at cost, cost being determined principally by the last purchase price method.

### **(d) Allowance for doubtful accounts**

Allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on collection. Such amount is computed by applying the rate of actual losses on collection experienced in the past with respect to general trade receivables and by individually reviewing their collectibility with respect to certain doubtful receivables.

### **(e) Property and equipment and intangible assets**

Property and equipment are stated at cost. However, under Japanese tax law, capital gains resulting from disposals and other similar transactions are deducted from the cost of the property and equipment acquired in substitution.

Depreciation of property and equipment is computed by the declining-balance method, except for buildings and structures, which are depreciated by the straight-line method.

The ranges of useful lives of principal property and equipment are as follows:

Buildings and structures . 2-50 years

Machinery and vehicles . 2-15 years

Amortization of intangible assets is principally computed using the straight-line method assuming that the assets have no salvage value.

### **(f) Leases**

Finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for by the method similar to that applicable to ordinary operating leases.

### **(g) Employees' severance and retirement benefits**

The Company's employees are entitled to a lump-sum payment upon retirement or severance of employment. In order to provide for the employees' severance and retirement benefits, the Company assumes a liability for severance and retirement benefits, which is included in the liability section of the non-consolidated balance sheets, based on the estimated amounts of projected benefit obligation and plan assets at the balance sheet dates.

Past service costs are recognized in expenses using the straight-line method over 11 years (a certain period not exceeding the employees average remaining service lives) commencing with the year as occurred.

Actuarial gains and losses are recognized in expenses using the straight-line method over 11 years (a certain period not exceeding the employees' average remaining service lives) commencing with the next year as occurred.

The Company has two types of defined benefit plans, a lump-sum payment plan and an additional benefit type of pension plan. The Company revised its pension plans and shifted them to a money-market-rates linkage type from June 1, 2004.

The Company has established contributory defined benefit pension plans pursuant to the Welfare Pension Insurance Law of Japan.

#### **(h) Bond issue expenses**

Bond issue expenses are charged to income as incurred.

#### **(i) Income taxes**

Income taxes consist of corporation, enterprise, and inhabitants taxes.

The Company recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.

The corporation size-based enterprise tax was introduced by revision of the local law from the fiscal year beginning on or after April 1, 2004. The enterprise tax on value added and capital was accounted for as selling, general administrative expenses.

As a result, selling, general and administrative expenses increased by ¥176 million (\$1,639 thousand) and operating income and income before income taxes and minority interest decreased by ¥176 million (\$1,639 thousand).

#### **(j) Statements of cash flows**

Cash and cash equivalents include cash on hand, deposits placed with banks on demand, and highly liquid investments with insignificant risk of changes in value which have maturities of three months or less when purchased.

### **3 Property and equipment**

As stated above, capital gains resulting from disposals and other similar transactions are deducted from the cost of property and equipment acquired in substitution. The amounts deducted from the cost of property and equipment was ¥269 million (\$2,505 thousand) as at March 31, 2005 and 2004.

### **4 Short-term bank loans and long-term debt**

#### **(a) Short-term bank loans**

Short-term bank loans as at March 31, 2005 and 2004 were as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Secured	¥ 3,080	¥ 3,080	\$28,681
Unsecured	10,175	10,175	94,748

Interest rates range from 0.600% to 1.375%.

#### **(b) Long-term debt**

Long-term debt as at March 31, 2005 and 2004 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
0.89% ¥6.4 billion unsecured straight bonds due 2008	¥ 6,400	¥6,400	\$ 59,596
0.52% ¥0.6 billion unsecured straight bonds due 2008	600	600	5,587
0.00% ¥2.5 billion unsecured convertible bond type- bonds with stock acquisition rights due 2009	2,500	—	23,280
0.850%-2.100% loans from financial institutions due 2006 to 2010 and thereafter			
Secured	1,333	1,511	12,413
Unsecured	266	700	2,477
Total	11,099	9,211	103,352
Less: amount due within one year	412	612	3,836
	¥10,687	¥8,599	\$ 99,516

The maturity date of the ¥6.4 billion 0.89% unsecured straight bonds, issued in June 2003 is June 30, 2008.

The maturity date of the ¥0.6 billion 0.52% unsecured straight bonds, issued in June 2003 is June 30, 2008.

The maturity date of the ¥2.5 billion 0.00% unsecured convertible bond type- bonds, issued in July 2004 is September 30, 2009.

The annual maturities of long-term debt outstanding as at March 31, 2005 were as follows:—

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 412	\$ 3,836
2007	210	1,956
2008	178	1,658
2009	7,178	66,840
2010 and thereafter	3,121	29,062

**(c) Pledged assets**

As at March 31, 2005, Property and equipment having a net value of ¥17,963 million (\$167,269 thousand) was pledged as collateral for short-term bank loans and long-term debt (including current portion of long-term debt).

## 5 Income taxes

As described in Note 2(i), the Company recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.

Significant components of deferred tax assets and liabilities are as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Excess bonuses accrued	¥ 405	¥ 414	\$ 3,771
Excess employees' severance and retirement benefits accrued	6,928	6,951	64,513
Other	505	422	4,702
Gross deferred tax assets	7,838	7,787	72,986
Valuation allowance	(199)	(228)	(1,853)
Total deferred tax assets	7,640	7,559	71,143
Deferred tax liabilities:			
Unrealized gain on securities	(889)	(599)	(8,278)
Reserve under Special Taxation Measures Law	(5,058)	(5,147)	(47,099)
Total deferred tax liabilities	(5,947)	(5,746)	(55,378)
Net deferred tax assets	¥ 1,693	¥ 1,813	\$ 15,765

Income taxes applicable to the Company consist of corporation, enterprise, and inhabitant taxes, which, in aggregate, resulted in a statutory tax rate of 40.4% and 41.7% for the years ended March 31, 2005 and 2004, respectively.

Significant differences between the statutory tax rate and the Company's effective tax rate after applying the deferred tax accounting for the years ended March 31, 2005 and 2004 are as follows:—

	2005	2004
Statutory tax rate	40.4%	41.7%
Increase (decrease) in tax resulting from:		
Nondeductible expenses including entertainment, etc.	2.0	2.6
Nontaxable income including dividends received deduction, etc.	(2.8)	(2.4)
Per capita portion of inhabitant taxes	11.0	10.8
Other	1.9	8.7
Effective tax rate	52.5%	61.4%

## 6 Accounts and transactions with subsidiaries and affiliates

As at March 31, 2005, the Company had 28 subsidiaries and 8 affiliates.

Receivables from, payables to, and transactions with these subsidiaries and affiliates are summarized as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Notes and accounts receivable	¥ 246	¥ 210	\$ 2,291
Loans receivable	7,007	1,032	65,248
Trade accounts payable	9,815	1,739	91,396
	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Operating revenues	¥2,480	¥2,357	\$23,093
Operating cost	9,487	9,073	88,342
Interest income	102	17	950

## 7 Finance leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2005 and 2004, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition costs:			
Machinery and tools	¥ 2,793	¥ 2,861	\$ 26,008
Other assets	10,861	9,725	101,136
	¥13,654	¥12,586	\$127,144
Accumulated depreciation:			
Machinery and tools	¥ 2,264	¥ 1,853	\$ 21,082
Other assets	5,301	3,675	49,362
	¥ 7,565	¥ 5,528	\$ 70,444
Net book value:			
Machinery and tools	¥ 528	¥ 1,008	\$ 4,917
Other assets	5,561	6,050	51,783
	¥ 6,089	¥ 7,058	\$ 56,700

Amounts of depreciation expense equivalents and interest expense equivalents for the years ended March 31, 2005 and 2004 are as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Depreciation expense	¥2,346	¥2,083	\$21,846
Interest expense	143	146	1,332

Lease payments relating to finance leases accounted for as operating leases amounted to ¥2,470 million (\$23,000 thousand) and ¥2,230 million(\$20,765 thousand), which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms, for the years ended March 31, 2005 and 2004, respectively.

Future minimum lease payments (including the interest portion thereon) as at March 31, 2005 and 2004 for finance leases accounted for as operating leases are summarized as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥2,326	¥2,179	\$21,659
Due over one year	3,836	4,934	35,720
Total	¥6,162	¥7,113	\$57,380

## 8 Contingent liabilities

As at March 31, 2005, the Company was contingently liable as follows:—

	Millions of yen	Thousands of U.S. dollars
Guarantees of welfare pension housing loans sublet to employees	¥ 4	\$ 37
Others	1,707	15,895

## 9 Revaluation reserve for land

In accordance with the Law concerning Revaluation of Land enacted on March 31, 1998, the Company has revaluated its owned land used for business operations as at March 31, 2000 and reported a revaluation reserve for land in shareholders' equity section.

The revaluated book value of land was determined based on the value of land registered on the cadastres or their supplementary records, which are provided by the Local Tax Law under the Law Concerning Revaluation of Land, after making reasonable adjustments.

	Millions of yen	Thousands of U.S. dollars
Difference between the fair market value of revaluated land at March 31, 2005 and the revaluated book value	¥9,661	\$89,962

## 10 Shareholders' equity

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and capital surplus account equals 25% of the common stock account. The legal reserve amounted to ¥1,261 million (\$11,742 thousand) at March 31, 2005 and 2004, respectively.

The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

Year-end dividends shall be approved at a ordinary shareholders' meeting held after the end of each financial year and interim dividends may be declared by the Board of Directors held after the end of each first six month period, respectively.

In accordance with the Commercial Code, year-end dividends and the related appropriation of retained earnings are not reflected in the financial statements at the end of the financial year, but are recorded at the time they are approved.

## 11 Supplementary income information

Supplementary income information for the two years ended March 31, 2005 and 2004 is as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Depreciation expenses	¥1,860	¥1,796	\$17,320
Lease and rental	3,543	3,313	32,992

## 12 Amounts per share

Net income per share has been computed using the weighted-average number of shares of common stock outstanding during each year.

In computing diluted net income per share, the weighted-average number of shares has been increased by the number of shares that would have been outstanding assuming the conversion of all convertible bond type-bonds with stock acquisition rights at the beginning of each year. Net income has been adjusted for interest expenses on such bonds, net of applicable income taxes.

Net assets per share has been computed using the number of shares of common stock outstanding at each balance sheet date.

Amounts per share of common stock for the years ended March 31, 2005 and 2004 were as follows:—

	Yen		U.S. dollars
	2005	2004	2005
Net income per share:			
Basic	¥ 9.09	¥ 6.96	\$0.0846
Diluted	8.47	—	0.0789
Net assets per share	¥526.70	¥518.06	\$4.9046

Basis for the calculation of net income per share and diluted net income per share for the years ended March 31, 2005 and 2004 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Net income available to shareholders of common stock:			
Net income	¥ 862	¥ 684	\$8,027
Net income not available to shareholders of common stock :	34	35	317
(of which appropriation of bonuses to directors and statutory auditors)	(34)	(35)	(317)
Net income available to shareholders of common stock :	828	649	7,710
Weighted-average number of shares of common stock outstanding	91,095,825	93,143,900	
Diluted net income available to shareholders of common stock			
Adjustments to net income:	0	—	0
(of which commission for bonds)	(0)	(—)	(0)
Incremental number of shares of common stock	6,738,000	—	
(of which stock acquisition rights)	(6,738,000)	(—)	
Common stock equivalents not included calculation of diluted net income per share due to their anti-dilutive effect	—	—	—

## 13 Subsequent event

The annual shareholders' meeting of the Company, which was held on June 29, 2005, duly approved the following appropriations of retained earnings existing as at March 31, 2005:—

	Millions of yen	Thousands of U.S. dollars
Dividends (¥3.00 per share)	¥273	\$2,542
Bonuses to directors and statutory auditors	34	317

## ***Independent Auditors' Report***

The Board of Directors  
Tonami Transportation Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of Tonami Transportation Co., Ltd. as of March 31, 2005 and 2004, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Tonami Transportation Co., Ltd. at March 31, 2005 and 2004, and the non-consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

*Ernst & Young Shin Nihon*

June 29, 2005

## ***Board of Directors and Statutory Auditors***

### **Chairman and Representative Director**

Yoshihiro Minami

### **President and Representative Director**

Katsusuke Watanuki

### **Senior Managing Director**

Akiyoshi Kunisada

### **Managing Directors**

Kohichi Kishida

Shigeki Sakamoto

### **Director and Adviser**

Yohsuke Konishi

### **Directors**

Noriaki Murata

Kiyomi Asamizu

Yasuo Terabayashi

Yoshinobu Watanabe

Toshiyuki Koroku

Shigeyuki Okada

### **Standing Statutory Auditors**

Makoto Nagai

Nariyuki Aoki

### **Statutory Auditors**

Shinichiro Inushima

Toshio Yaeda

Yohji Ishiguro

(As of June 29, 2005)

**Head Office**

2-12, Showa-machi 3-chome, Takaoka,  
Toyama Prefecture 933-8566, Japan  
Phone: (0766) 21-1073  
Fax: (0766) 21-3640

**Tokyo Office**

3-8, Higashinohonbashi 3-chome, Chuo-ku,  
Tokyo 103-0004, Japan  
Phone: (03) 3664-5401  
Fax: (03) 3664-5405

<b>Date of Established</b>	June 1943
<b>Common Stock</b>	¥14,183 million
<b>Issued and Outstanding Shares</b>	97,610,118 shares
<b>Shareholders</b>	8,186
<b>Employees</b>	5,429
<b>Terminals</b>	84
<b>Warehouses</b>	47
<b>Motor Vehicles</b>	5,608

(As of March 31, 2005)

**Consolidated Subsidiaries**

**Kanto Tonami Transportation Co., Ltd.**  
Road haulage

**Gosei Tonami Transportation Co., Ltd.**  
Road haulage

**Shonan Tonami Transportation Co., Ltd.**  
Road haulage

**Osaka Tonami Transportation Co., Ltd.**  
Road haulage

**Zento Transportation Co., Ltd.**  
Road haulage

**Kanagawa Tonami Transportation Co., Ltd.**  
Road haulage

**Ishikawa Tonami Transportation Co., Ltd.**  
Road haulage

**Ibaraki Tonami Transportation Co., Ltd.**  
Road haulage

**Kansai Tonami Transportation Co., Ltd.**  
Road haulage

**Chukyo Tonami Transportation Co., Ltd.**  
Road haulage

**Fukui Tonami Transportation Co., Ltd.**  
Road haulage

**Niigata Tonami Transportation Co., Ltd.**  
Road haulage

**Saitama Tonami Transportation Co., Ltd.**  
Road haulage

**Kawai Transportation Co., Ltd.**  
Road haulage

**ATS Co., Ltd.**  
Road haulage

**Takefu Transportation Co., Ltd.**  
Road haulage

**Nihon Unyu Co., Ltd.**  
Ocean-freight forwarder

**Tonami Air Service Co., Ltd.**  
Customs clearance service

**Tonami Trading Co., Ltd.**  
Trading Company

**Toyo Gomu Hokuriku Hanbai Co., Ltd.**  
Sale of tires

**Keishin System Research Co., Ltd.**  
Development and sale of software

**Shogawa Kanko Co., Ltd.**  
Travel inns

**Toyama Jizake Hanbai Co., Ltd.**  
Sale of liquor

**Tonami Automobile Technology Research Institute Co., Ltd.**  
Automobile technology R&D

**Tonami Business Service Co., Ltd.**  
Financial service

**Toyo Shinso Co., Ltd.**  
Sale of bed-clothes

**Toyo Tire Toyama shop Co., Ltd.**  
Sale of tires

**Keishin Warehousing Co., Ltd.**  
Warehousing







**TONAMI**

TONAMI TRANSPORTATION CO., LTD.

URL:<http://www.tonami.co.jp/>