2017
Annual Report
For the year ended March 31, 2017

TONAMI HOLDINGS CO., LTD.

Capitalizing on expertise originally gained in the transportation business, the Tonami Group has long been a trailblazer in logistics.

We were among the first in the industry to introduce computer systems.

In recent years, we have taken systematized distribution services fully utilizing IT to new heights. In particular, our third-party logistics (3PL), offering companies the optimum solutions to their logistics needs, has enabled us to cultivate a loyal and growing customer base.

Tonami Holdings Co., Ltd. is now strengthening the fundamentals of the business as it embarks on a new round of development, bringing its capabilities as a pure holding company into full play. Leveraging the accumulated expertise and business know-how of the Tonami Holdings Group, we are sharpening our responsiveness to customer needs not only in the field of logistics but also in related businesses and new fields.

We strive to offer value-added services that transcend the traditional conception of logistics. As a pioneer with strengths in information processing, we are committed to delivering value a stride ahead.

By deploying IT infrastructure attuned to the increasingly diverse and sophisticated needs of the era, we aim to maximize the corporate value of the Tonami Holdings Group and be an enterprise needed and respected by society.

We are taking a big stride toward realization of our “More Than Transportation” vision.

We Want to Deliver Value a Stride Ahead

Contents

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 HOLDINGS CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2017 and 2016

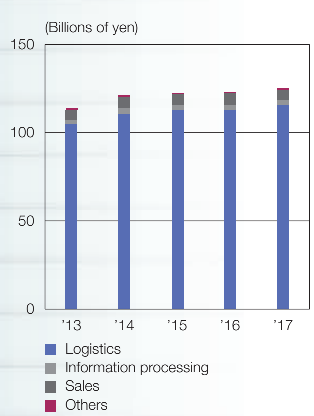
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
FOR THE YEAR:			
Operating revenues:	¥125,509	¥122,959	$1,118,719
Logistics	115,592	112,777	1,030,325
Information processing	2,853	2,897	25,433
Sales	5,734	6,624	51,116
Others	1,328	659	11,845
Operating income	5,118	5,239	45,620
Net income	3,762	3,526	33,535
Comprehensive income	4,706	3,177	41,955
PER SHARE (Yen and U.S. dollars):			
Net income, basic	¥ 41.48	¥ 38.88	$ 0.3697
Net income, diluted	—	—	—
Cash dividends	7.50	6.50	0.0669
AT YEAR-END:			
Total assets	¥126,769	¥121,212	$1,129,954
Total net assets	61,152	57,169	545,079

Notes: 1. U.S. dollar amounts presented herein are included solely for convenience. The rate of ¥122.19 = U.S.$1, prevailing on March 31, 2017, has been used for the translation into U.S. dollar amounts.

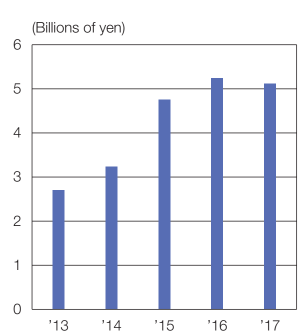
2. The computation of net income per share of common stock is based on the weighted average number of shares outstanding (which represents the number of issued shares less treasury stock.) during each fiscal year.

3. Diluted net income per share is not presented for the years ended March 31, 2017 and 2016, since there were no residual securities.

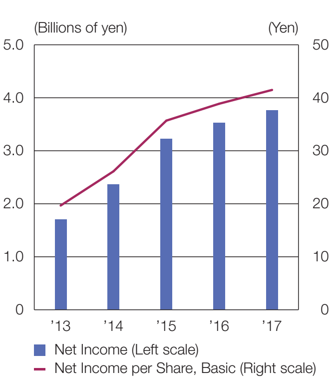
Operating Revenues by Business Segment



Operating Income



Net Income and Net Income per Share, Basic



To Our Shareholders and Investors

President, Katsusuke Watanuki

I welcome this opportunity to report to our shareholders and investors on the Group's operating environment and business results for the fiscal year ended March 31, 2017.

Corporate earnings of listed companies are expected to be brisk for the fiscal year ended March 31, 2017, reflecting the buoyancy of domestic demand, and record high net income attributable to owners of the parent is forecast for the first time in two years.

The Group implemented measures for the second fiscal year of the Three-year Medium-Term Business Plan covering the period from April 1, 2015 to March 31, 2018, "Leading step up 2017 — Aiming for even higher-quality management!"

With the addition of two new Group operating companies during the fiscal year under review, the Group strove to create corporate value and promote the sophistication of transportation services, while pushing forward with initiatives to pursue enhancement of logistics quality and cost improvements upon the development of customers' growing interest in logistics functions and diversifying logistics needs.

In addition, the Group is striving to expand the base for future growth, mainly by "expanding the business areas" in Kanto, Kansai and Tokai through the improvement and enhancement of the utilization rate of storage facilities (four distribution centers) that opened in the fiscal year under review, "strengthening business competitiveness" through the proactive promotion of business and capital alliances and M&A, "improving labor productivity" primarily through the utilization of IT, "conducting appropriate collection and management of freight charges and rates," and "ensuring a more comfortable work environment."

Furthermore, in order to meet the trust of customers and society as a social infrastructure, the Group is pushing ahead with developing a work environment where employees can work with peace of mind mainly through working hour management and creation of a new work style for employees by promoting compliance management.

Based on comprehensive consideration of financial position, profit level, payout ratio, and other factors, we increased the year-end ordinary dividend by ¥0.50 from ¥3.50 to ¥4.00 per share. With an interim dividend of ¥3.50 per share, total annual dividends for the year ended March 31, 2017 amounted to ¥7.50 per share.

Amid drastic change in the management environment and the competitive environment, we will work to strengthen the management system centering on the executive functions under the new executive system so as to further expand business and improve business performance with the aim of achieving the targets for the final fiscal year of the Three-year Medium-Term Business Plan.

In all our endeavors, we will be grateful for your continued support and guidance.

Overview of Operations

In the logistics industry, in view of further tightening in labor supply and demand in Japan and concerns about a decline in transportation capacity as well as increases in labor costs and fuel costs, business strategies for securing continued growth and initiatives for enhancing corporate value are becoming ever more important.

In these circumstances, the Group implemented measures for the second fiscal year of the Three-year Medium-Term Business Plan covering the period from April 1, 2015 to March 31, 2018, "Leading step up 2017 — Aiming for even higher-quality management!"

Having positioned the three years covered by the new plan as a period for further growth based on the progress of the structural reform pursued under the previous Three-year Medium-Term Business Plan, we are working to improve the "quality and comprehensive strength" of the entire Group with the aim of becoming a "strong corporate Group" offering high-value-added services.

With the addition of two new Group operating companies last year, the Group strove to create corporate value and promote the sophistication of transportation services, while pushing forward with initiatives to pursue enhancement of logistics quality and cost improvements upon the development of customers' growing interest in logistics functions and diversifying logistics needs.

In the road haulage business and the freight forwarding business, we strove to promote sales and marketing through cross-organizational collaboration throughout the Group, upgrade ICT with the aim of standardizing and refining business processes, strengthen human resources development, and enhance capabilities for field operations and workplace improvement, including improvement of the work environment.

Amid the mounting trend toward outsourcing and cost cutting of logistics operations among shipping companies, we strove to expand our businesses, including third-party logistics (3PL), as an area of focus.

As a result, the Group's operating revenues amounted to ¥125,509 million, an increase of ¥2,549 million or 2.1% from the previous year.

With regard to profits, owing to the initial cost associated with the distribution centers that began operation in the fiscal year under review and the burden of goodwill upon the consolidation of subsidiaries in the fiscal year under review, as well as the increased burden of the size-based business tax attributable to the increased labor cost in order to maintain service quality amid increasingly tight labor supply and demand, operating income decreased by ¥121 million or 2.3% to ¥5,118 million.

Ordinary income was ¥5,383 million, a decrease of ¥150 million or 2.7%. As a result of recording of income taxes-deferred by applying deferred tax accounting, net income attributable to owners of the parent was ¥3,762 million, an increase of ¥235 million or 6.7%.

Results by Segment

Operating revenues from the logistics-related business amounted to ¥115,592 million, an increase of ¥2,815 million or 2.5% from the previous year due to the continued moderate recovery of transportation demand in terms of freight volume, an increase in storage fee income due to opening of new distribution centers, and other factors.

Segment income was ¥4,475 million, a decrease of ¥158 million or 3.4% owing to the initial cost associated with investment and the increased burden of outsourcing, labor, and fuel costs, although improved transportation efficiency and upgraded operation of distribution centers contributed to higher profitability.

Operating revenues from the information processing business were ¥2,853 million, a decrease of ¥44 million or 1.5%. Segment income was ¥311 million, an increase of ¥122 million or 64.7%, partly due to improvement of the earnings structure.

Operating revenues from the sales business, which includes merchandising, consignment sales, and a non-life insurance agency, amounted to ¥5,734 million, a decrease of ¥890 million or 13.4%. Segment income was ¥294 million, a decrease of ¥6 million or 2.0%.

Operating revenues from other businesses, which include automobile repair and direct mail service, amounted to ¥1,328 million, an increase of ¥668 million or 101.3%. Segment income was ¥149 million, an increase of ¥33 million or 29.0%.

Outlook for the Year ending March 31, 2018

Although the moderate recovery of the Japanese economy is expected to continue, the outlook is expected to remain uncertain in view of the policies of the U.S. administration and the impact of the political situation in Europe.

For a logistics enterprise to meet the trust of customers and society as social infrastructure, it is essential to push ahead with developing a work environment where employees can work with peace of mind mainly through working hour management and creation of a new work style for employees by promoting compliance management.

Amid these trends, the business environment is expected to remain challenging in view of factors such as fluctuation of domestic freight transportation volume and a serious shortage of truck drivers, the need to improve the work environment and respond to changing customer needs, and concerns about a possible rise in fuel prices.

The Group will vigorously implement the growth strategy with the aim of achieving the performance targets for the final year of the Three-year Medium-Term Business Plan (from April 1, 2015 to March 31, 2018).

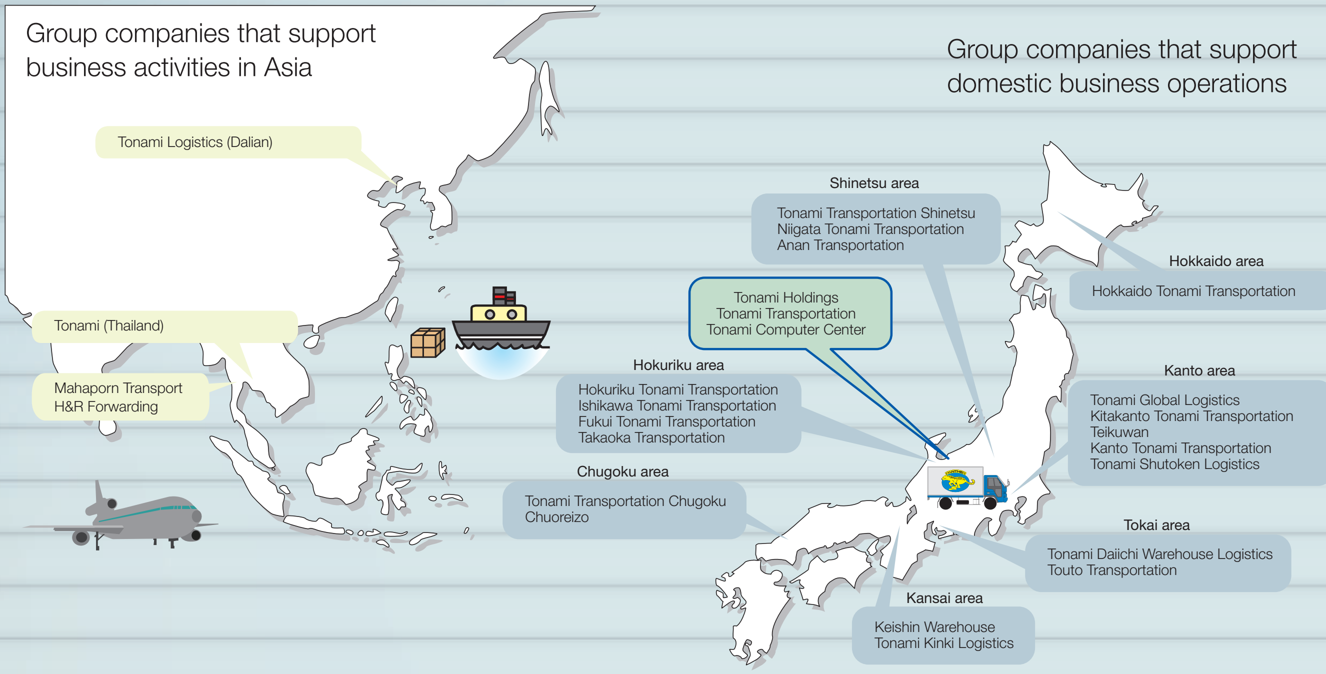
The Group is striving to expand the base for future growth, mainly by "expanding the business areas" in Kanto, Kansai and Tokai through the improvement and enhancement of the utilization rate of storage facilities opened in the previous fiscal year and a facility scheduled to open in the current fiscal year (Kiyosu City, Aichi Prefecture), "strengthening business competitiveness" through the proactive promotion of business and capital alliances and M&A, "improving labor productivity" primarily through the utilization of IT, "conducting appropriate collection and management of freight charges and rates," and "ensuring a more comfortable work environment."

June 2017

K. Watanuki

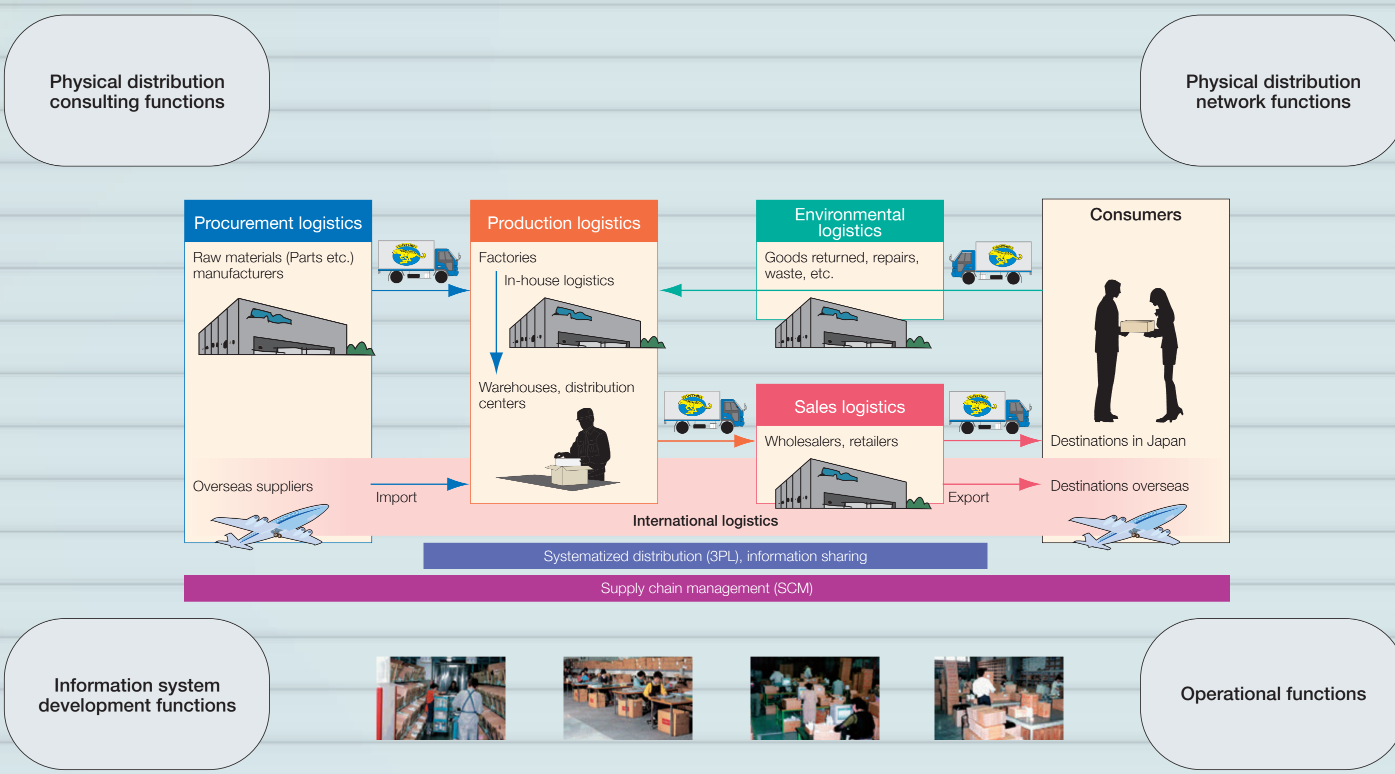
Katsusuke Watanuki
President and Representative Director

Operating Subsidiaries and Affiliates



Tonami Business Service, Tonami Trading, Toyo Gomu Hokuriku Hanbai, KSR, Takaoka Cable Network, etc.

Tonami Logistics Solutions



At a meeting of the Board of Directors held on October 1, 2008, the Company passed a resolution concerning a basic policy for the corporate governance. The Company, with the Internal Control Committee in a central role, is implementing sound internal control systems in accordance with the policy, aiming to increase the corporate value of the Tonami Holdings Group.

(1) Corporate Governance System

1) Overview of the Corporate Governance System and Reason for Adopting the System

The Board of Directors of the Company is the organization responsible for important matters concerning business policy and business strategy. The Board of Directors meets, in principle, once a month, in accordance with the Board of Directors Regulations.

The meetings of the Board of Directors are held, in principle, once a month, and as necessary, enabling the directors to attain mutual understanding and engage in mutual supervision of the execution of business. The Board of Directors utilizes the services of outside experts as necessary to prevent violations of the law or the Articles of Incorporation.

The Company employs a corporate auditor system as part of its internal control framework. The Board of Corporate Auditors consists of four corporate auditors (two standing corporate auditors and two outside corporate auditors). The corporate auditors audit the legality of the directors' actions by attending meetings of the Board of Directors and other important meetings, by offering their opinions, and by other means.

The corporate auditors, including the outside corporate auditors, audit the execution of business by the directors in accordance with the auditing policy and task assignments decided by the Board of Corporate Auditors.

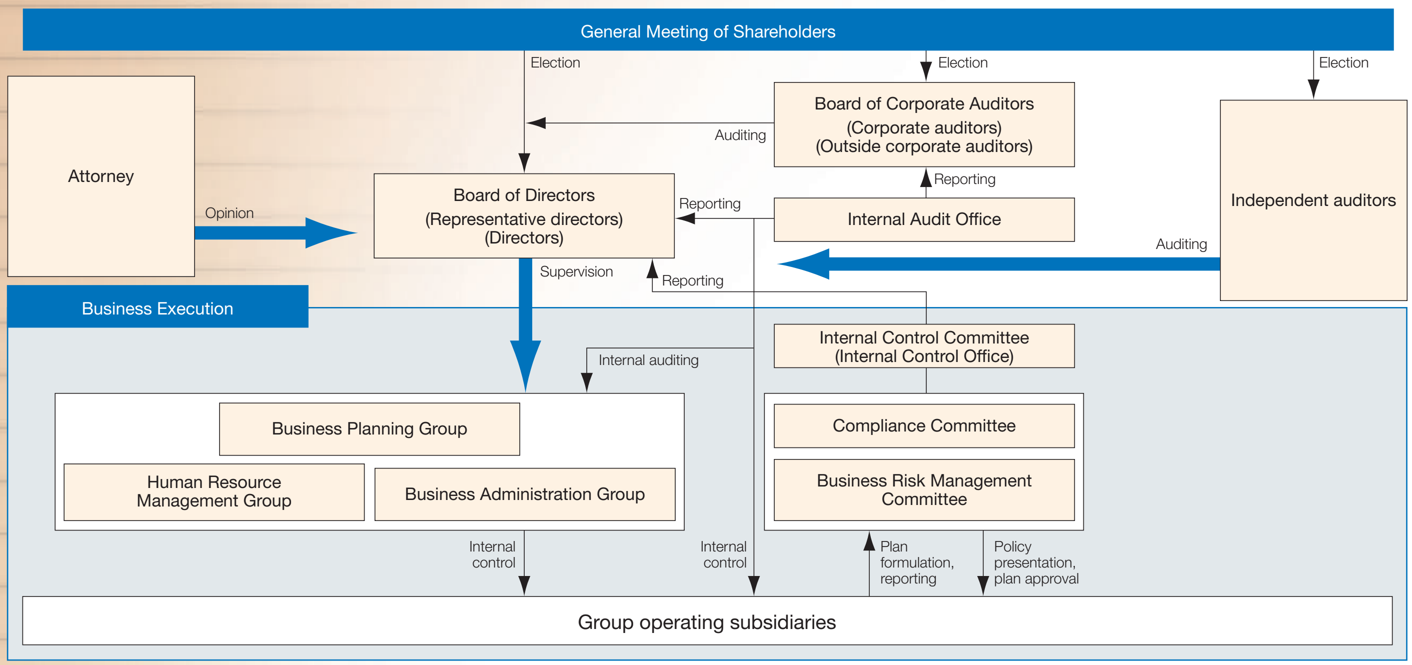
In the event that a director discovers a violation of the law or the Articles of Incorporation on the part of another director, the director is required to promptly report the violation to the corporate auditors and the Board of Directors and a remedy will be sought. The Company has an internal auditing unit, the Internal Audit Office, which is an organization independent of the business units.

Moreover, the Company has established the Tonami Group Employee Code of Conduct as the foundation of the Group's compliance system and the Internal Control Committee, chaired by the president, as the decision-making body. The Company's effort to enhance its internal control systems is led by an officer responsible for internal control.

The Compliance Committee is a compliance control organization, and the Internal Control Team within the Internal Audit Office performs control, operation and training in order to maintain and enhance internal control systems.

To ensure the propriety of business operations of the Group's operating subsidiaries, the Company applies the Tonami Group Employee Code of Conduct and the Group Operation Regulations to all operating subsidiaries of the Group, and each of the Group's operating subsidiaries has established its own regulations based on them. With regard to administration of operating subsidiaries, the Group Company Administration Procedures specify matters requiring approval by the headquarters and those to be reported.

2) The Relationship between the Management Organization and Internal Control



3) Description of Management Organization and State of Development of Internal Control Systems

With regard to the design of its internal control systems, the Company has established a basic policy concerning business risk management for the Tonami Holdings Group and is working to appropriately respond to various types of risk that might affect the operation of operating subsidiaries, in order to stabilize the fundamentals of the Group and, should a business risk materialize, to minimize the impact and as far as possible ensure that neither a business loss nor a social loss is incurred.

The Company recognizes the importance of legal compliance and has established the Compliance Committee to ensure compliance. The Group's operating subsidiaries have appointed compliance promotion officers and hold compliance education briefings to inculcate corporate ethics and compliance among their officers and employees in accordance with the Tonami Group Employee Code of Conduct.

Within the Company, activity plans etc. are required to be reported to the Compliance Committee to enable potential violations in the course of business activities to be detected in advance and their occurrence prevented. This system enables swift correction of any violations that occur and implementation of measures to prevent recurrence.

The executive officers strive to promptly execute business in accordance with the basic policy decided by the Board of Directors. The Board of Directors obtains and refers to advice from certified public accountants, attorneys, and other specialists concerning compliance matters related to management, as necessary.

The Company has put in place a structure enabling a rapid response to changes in the business environment and strives to ensure sound management. To this end, the Group's operating subsidiaries have established their own regulations based on the Group Operation Regulations and the Company conducts administration of the Group's operating subsidiaries in accordance with the Group Company Administration Procedures that specify matters requiring approval by the headquarters and those to be reported.

The Internal Audit Office conducts internal audits to verify whether business is executed appropriately and efficiently. It reports to the corporate auditors and the Board of Directors.

Specifically, a system is in place for subsidiaries to report to the Company on matters concerning performance of duties of subsidiaries' directors, executive officers, employees with executive functions, etc., whereby subsidiaries make a monthly report to the Company's Affiliated Company Management Division on the statuses of execution of businesses by subsidiaries' directors and details of their businesses as well as a quarterly report to the Company's Board of Directors on the details of their businesses.

In addition, as a system for ensuring efficient performance of duties by subsidiaries' directors etc., the Company assigns part-time directors and part-time corporate auditors to subsidiaries for supervision and auditing of appropriateness of decision-making and execution of business.

Important matters concerning management of Group companies require prior deliberation by the Company and approval at the Company's Board of Directors. Regarding execution of business based on the decision made by the Board of Directors, persons responsible for execution, details of responsibilities, and execution procedures are stipulated in the Organizational Regulations and the Regulations for Segregation of Duties to ensure efficient performance of duties.

4) State of Internal Auditing and Auditing by Corporate Auditors

Internal auditing at the Company is led by the Internal Audit Office, which is independent of the business units, and its staff assists with the work of the corporate auditors. The Internal Audit Office's independence from the Board of Directors is ensured since decisions of the Board of Directors on Internal Audit Office staff changes require approval of the Board of Corporate Auditors. The Internal Audit Office conducts periodic and unscheduled internal audits of the Company's business, reports to the Board of Corporate Auditors and the Board of Directors, and requests improvements.

The Company's corporate auditors exchange information with the independent auditors, cooperate with the Internal Audit Office, conduct appropriate audits, and hold periodic meetings of the Board of Corporate Auditors.

One standing corporate auditor and two outside corporate auditors possess significant expertise concerning financial and accounting matters gained through their experience over many years. In addition, one substitute corporate auditor has been elected under Article 329, Paragraph 3 of the Companies Act to prepare for any situation in which the number of corporate auditors falls below the number prescribed by laws and regulations.

5) Relationships between Outside Directors and Outside Corporate Auditors

The Company has appointed two outside directors. Directors Mr. Shinichiro Inushima and Mr. Ichiro Tanaka have no capital or business relationships with the Company or other interests in the Company.

The Company considers individuals who have no personal, capital, or business relationships with the Company or other interests in the Company, possess expertise, and are capable of overseeing the Company's overall management based on excellent insight to be suitable for election as outside directors.

Neither of the two outside directors have any of the above-mentioned relationships with the Company. The Company appointed one of the outside directors as an independent officer as required by the Tokyo Stock Exchange and has notified the Tokyo Stock Exchange accordingly.

The Company has appointed two outside corporate auditors. Although Corporate Auditor Mr. Yohji Ishiguro owns shares of the Company, the capital relationship between him and the Company is negligible and he has no business relationships with the Company or other interests in the Company. Outside Corporate Auditor Mr. Toshio Kaido has no capital or business relationships with the Company or other interests in the Company.

The Company considers individuals who have no personal, capital, or business relationships with the Company or other interests in the Company, possess expertise, and are capable of overseeing management based on excellent insight to be suitable for election as outside corporate auditors.

Neither of the two outside corporate auditors have any of the above-mentioned relationships with the Company. The Company appointed one of the outside corporate auditors as an independent officer as required by the Tokyo Stock Exchange and has notified the Tokyo Stock Exchange accordingly.

Linkage among auditing by corporate auditors, including outside corporate auditors, internal auditing, and accounting auditing as well as relationships with the internal control unit are described in 4) State of Internal Auditing and Auditing by Corporate Auditors. Through reporting and exchange of opinions at meetings of the Board of Directors, the Company strives to strengthen collaboration among supervision by the outside directors, auditing by corporate auditors, internal auditing, and accounting auditing and establish fruitful relationships between the outside directors and the internal control unit.

Pursuant to Article 427, Paragraph 1 of the Companies Act, the Company has concluded contracts with the outside directors and outside corporate auditors that limit their liability under Article 423, Paragraph 1. The liability for damages pursuant to these contracts is limited to the liability amount prescribed by laws and regulations. The limitation of liability stated above is only applicable if the outside director or outside corporate auditor is without knowledge and is not grossly negligent in performing his duties causing such liability.

(2) State of Development of the Risk Management Structure

In accordance with the Tonami Group Business Risk Management Regulations, the president serves as the Chief Risk Management Officer, risk management officers are appointed for each type of risk, and a risk management structure is established.

In the event of unforeseen circumstances, in accordance with the Tonami Group Large-scale Disaster Response Regulations and the Tonami Group Emergency Response Regulations, the Company will establish an Emergency Response Headquarters, which will be headed by the president. The Company will mount a rapid and appropriate response in accordance with the regulations and put in place a structure to prevent the spread of damage and minimize damage.

The status of operation of systems for ensuring appropriateness of business operations of the Company in the fiscal year ended March 31, 2017 is as follows. Periodic meetings of the Company's Board of Directors were held 11 times during the year under review. In addition to regular reporting and confirmation of matters, the Board of Directors deliberated and made decisions on important matters stipulated in the Board of Directors Regulations. Also, the results of monitoring of the statuses of directors' performance of duties were reported to the Board of Directors.

The Compliance Committee consisting of the president, directors in charge of compliance, and other members met every month and reported the statuses of compliance and operational risk management to subsidiaries' boards of directors and the Company's Board of Directors. Regarding retention and management of information concerning directors' performance of duties, documents pertaining to the Board of Directors meetings and other documents concerning directors' performance of duties were retained in chronological order in accordance with the Document Handling Regulations and the Document Retention Regulations.

To manage risks of loss, the Company received periodic reporting on major risks to which the Group's operating subsidiaries are exposed from the president of each operating subsidiary or its officer in charge via the Compliance Committee and checked the statuses of risk management.

To ensure the propriety of business operations of the Group's operating subsidiaries, the Company has established the Tonami Group Employee Code of Conduct, consisting of action guidelines, and the Group's operating subsidiaries have established regulations based on the code of conduct.

With regard to administration of the Group's operating subsidiaries, matters requiring approval by the headquarters and those to be reported are specified in the Group Company Administration Procedures and management of operations is in accordance with the Group Operation Regulations.

In the event that a director discovers a violation of the law or any other important matter related to compliance in an operating subsidiary of the Group, the director is required to report the matter to a corporate auditor. In the event that an operating subsidiary of the Group finds that the administration by the Company or management instructions issued by the Company violate the law or becomes aware of any other compliance-related problem, the subsidiary is required to report the matter to the Internal Audit Office. In such a case, the Internal Audit Office promptly reports the matter to a corporate auditor and the corporate auditor receiving the report may express an opinion and request improvement measures.

The Company has established the Tonami Group Internal Reporting Regulations and operates an internal reporting system concerning violations of the law and other matters related to compliance covering the entire Tonami Holdings Group.

The Company prohibits disadvantageous treatment of the Company's directors or employees who made such reports to the Group's corporate auditors on the grounds that they made such reports and ensures that the Group's directors and employees are thoroughly aware of this policy.

The Company will have no relationships with antisocial forces. The Company will take resolute action against any undue claims or actions by antisocial forces on the basis of cross-organizational cooperation in close collaboration with the police and other external specialist organizations and will never provide any benefit to antisocial forces.

Corporate Social Responsibility Activities

Basic Policy on Corporate Social Responsibility

Having positioned management that emphasizes fulfillment of social responsibility based on compliance as an essential element of its Three-year Medium-Term Business Plan, the Tonami Holdings Group aspires to contribute to society continuously from an increasingly global perspective.

Amid rapid change in the environment in which the logistics industry operates, the Legal Division is leading the Group's efforts to strengthen appropriate and flexible responses to legal and contractual risks.

Adhering to the Tonami Group Employee Code of Conduct, and with the action principle "Ensure compliance throughout business activities," the Tonami Holdings Group endeavors to create further value through its business and fulfill its corporate social responsibility (CSR).

In addition, we are working to bolster systems to ensure compliance based on appropriate operation of business processes by inspecting premises and issuing guidance to them through the business process improvement projects and periodic auditing of business processes by the Internal Audit Office.

As a logistics enterprise, we must ensure transportation safety, accord consideration to the environment, ensure legal compliance and compliance with other rules, respect human rights, and contribute to local communities. We are committed to further strengthening corporate governance and promoting compliance management.

Mindful that transportation is an aspect of social infrastructure and based on the concept of building a safe society, we are striving to protect the environment by promoting environmentally friendly business activities involving minimal waste of energy through our initiatives to improve logistics efficiency, encourage fuel-efficient driving by using digital tachographs, and promote joint transportation and delivery.

In view of the frequent occurrence of unprecedented disasters, we are working to compile business continuity plans (BCP) based on the Large-scale Disaster Response Regulations in order to swiftly obtain information on core business processes and fulfill our role as a logistics enterprise in the event of a disaster.

With an eye to the prosperity and quality of life of future generations, the Group endeavors to achieve sustainable growth of the business while minimizing environmental impacts. In this way, we are striving to fulfill our social responsibility far into the future.

Principal CSR Initiatives and State of Implementation

Annual social and environmental report

Environmental Protection Activities

Recognizing that environmental protection is a crucially important theme that concerns the maintenance of the ecosystem, adhering to our principle—"Contribute to society through transportation and strive to protect the environment"—we will act in accordance with the following policies.

This truck runs on natural gas

1. We will do the following to mitigate environmental pollution associated with transportation services:
   (a) We will introduce environmentally friendly vehicles.
   (b) We will practice environmentally friendly driving.
   (c) We will create eco-friendly distribution systems through more efficient distribution.
   (d) We will establish a recycling system to contribute to establishment of a recycling-based society.
   (e) We will promote development and provision of environmentally friendly products.
   (f) We will make continuous efforts to save resources and energy and to achieve improvements every day.
2. We will ensure compliance with environment-related laws and regulations at the national and municipal levels and other requirements that the Company undertakes to fulfill in its efforts to protect the environment.
3. We will set specific environmental objectives and environmental goals, conduct periodic reviews, and work to achieve continuous improvement of environmental management systems.
4. We will communicate these policies to all employees through internal environmental education and awareness-raising initiatives, and we will disclose these policies to the public. We will also vigorously participate in environmental protection activities in local communities.

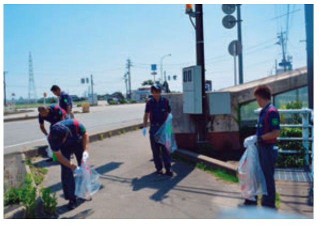
Encouraging local people to take up badminton

Social Contributions

The Tonami Holdings Group is contributing to society through involvement in various community activities, including providing support to welfare facilities and fostering of the next generation.

Our social contribution activities include participation in voluntary clean-up campaigns, such as "neighborhood adoption" programs promoted by local government, and the donation of vehicles to social welfare facilities through the General Incorporated Association "Tonami Holdings Shozyukai."

We transport relief supplies when natural disasters occur. The Tonami Transportation Badminton Club offers badminton coaching as a local sports promotion activity.



A clean-up in progress

Financial Section

Consolidated Five-Year Summary

TONAMI HOLDINGS CO., LTD
AND CONSOLIDATED SUBSIDIARIES

Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2013	2014	2015	2016	2017	2017
RESULTS OF OPERATIONS:						
Operating revenues	¥115,864	¥121,129	¥122,547	¥122,959	¥125,509	$1,118,719
Operating cost	106,908	111,651	111,775	111,666	113,674	1,013,233
Selling, general and administrative expenses	6,188	6,237	6,019	6,053	6,716	59,865
Operating income	2,767	3,240	4,752	5,239	5,118	45,620
Net income	1,785	2,370	3,238	3,526	3,762	33,535
Depreciation expenses	4,286	4,361	4,365	4,687	4,939	44,027
PER SHARE (yen and U.S. dollars):						
Net income	¥ 19.67	¥ 26.13	¥ 35.69	¥ 38.88	¥ 41.48	$ 0.3697
Cash dividends	5.00	4.50	6.00	6.50	7.50	0.0669
YEAR-END FINANCIAL POSITION:						
Total current assets	¥ 33,538	¥ 34,204	¥ 36,076	¥ 37,418	¥ 40,352	$ 359,679
Net property and equipment	71,856	70,837	71,168	70,857	71,465	637,004
Total assets	117,189	117,149	120,887	121,212	126,769	1,129,954
Total current liabilities	36,279	37,480	39,333	34,761	34,209	304,923
Long-term liabilities, excluding of current portion thereof	33,266	30,376	26,906	29,280	31,407	279,952
Total net assets	47,643	49,292	54,647	57,169	61,152	545,079
OTHER YEAR-END DATA:						
Number of employees	6,561	6,492	6,447	6,431	6,494	

Forward-looking statements in the discussion below represent the best judgment of the Tonami Holdings Group as of the end of the fiscal year under review.

Significant Accounting Policies and Estimates

The consolidated financial statements of the Tonami Holdings Group have been prepared in accordance with accounting principles generally accepted in Japan. Estimates used in the preparation of the consolidated financial statements that may affect the reported amounts of assets and liabilities on the closing date and the reported revenues and expenses for the reporting period are principally deferred tax assets, the allowance for doubtful accounts, net defined benefit liability, and income taxes. These estimates are subject to continuous, reasonable assessment.

Estimates, judgments, and assessments are made on the basis of factors that are deemed reasonable in light of past performance and conditions. However, since estimates invariably involve uncertainties, actual results may differ from the estimates.

Analysis of Consolidated Operating Results

Operating Revenues

Operating revenues increased slightly by 2.1% or ¥2,549 million year on year to ¥125,509 million, owing to improved demand for 3PL services and other logistics services.

Composition of Operating Revenues

	Composition	Percentage point change from the previous year
Logistics:	92.1%	+2.5%
Road haulage operations and freight forwarding operations	69.8	+2.0
Warehousing operations	18.2	+6.3
Harbor transport operations	4.1	−4.3
Information processing business	2.3	−1.5
Sales businesses	4.6	−13.4
Other businesses	1.0	101.3

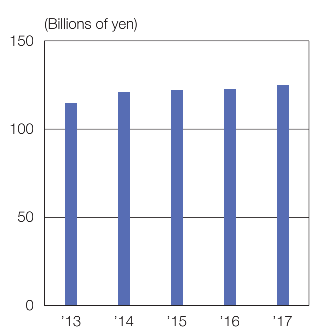
Operating income

Operating income amounted to ¥5,118 million, a decrease of 2.3% or ¥121 million year on year, owing to the initial cost associated with the distribution centers and the increased burden of outsourcing, labor, and fuel costs, although improved demand and revisions to freight charges in the logistics-related business contributed to profit.

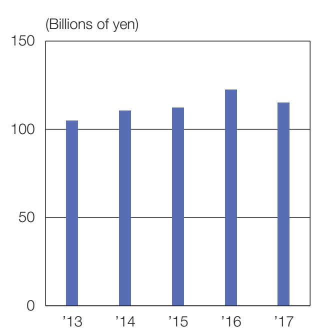
Net income attributable to owners of the parent

Net income attributable to owners of the parent amounted to ¥3,762 million, an increase of 6.7% or ¥235 million year on year.

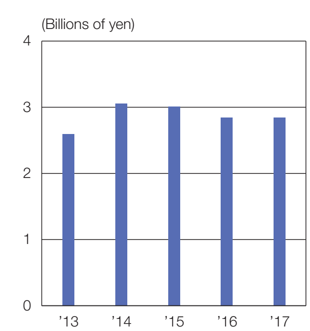
Operating Revenues



Sales of Logistics



Sales of Information Processing Business



Analysis of Cash Flows

Cash and cash equivalents on a consolidated basis for the year under review increased ¥2,212 million from the previous year to ¥15,571 million as a result of net cash provided by operating activities amounting to ¥8,907 million, net cash used in investing activities amounting to ¥3,388 million, and net cash used in financing activities amounting to ¥3,305 million.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥8,907 million, an increase of ¥2,479 million from the previous year. Principal items were income before income taxes amounting to ¥5,206 million, as well as the recording of ¥4,939 million as depreciation and amortization, and a ¥741 million increase in accounts payable.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥3,388 million, a decrease of ¥1,919 million from the previous year. The principal items were payments of ¥1,781 million for the purchase of property and equipment and payments of ¥1,544 million for the purchase of shares of subsidiaries resulting in change in scope of consolidation.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥3,305 million, a decrease of ¥478 million from the previous year. Cash outflows included repayment of long-term debt amounting to ¥2,699 million and repayment of lease obligations amounting to ¥2,464 million, whereas cash inflows included proceeds from long-term debt amounting to ¥3,500 million.

Analysis of the Financial Position

Assets

Current assets were ¥40,352 million, an increase of 7.8% from the previous fiscal year-end. This increase was mainly attributable to a ¥2,211 million increase in cash and time deposits and a ¥556 million increase in trade accounts receivable.

Non-current assets amounted to ¥86,417 million, an increase of 3.1% from the previous fiscal year-end. This increase was mainly attributable to a ¥689 million increase in land, an ¥868 increase in goodwill, and a ¥1,012 million increase in investments in securities.

As a result, total assets amounted to ¥126,769 million, an increase of 4.6% or ¥5,557 million from the previous fiscal year-end.

Liabilities

Current liabilities were ¥34,209 million, a decrease of 1.6% from the previous fiscal year-end. This decrease was mainly attributable to a ¥900 million decrease in short-term bank loans and a ¥1,943 million decrease in the current portion of long-term debt, whereas trade notes payable and trade accounts payable increased ¥618 million and ¥659 million, respectively.

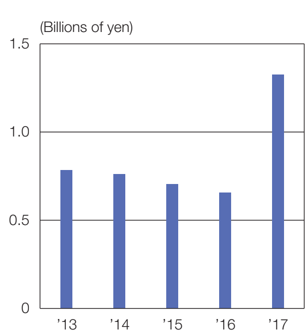
Long-term liabilities were ¥31,407 million, an increase of 7.3% from the previous fiscal year-end. This increase was mainly attributable to a ¥3,108 million increase in long-term debt, whereas lease obligations decreased ¥429 million.

As a result, total liabilities amounted to ¥65,617 million, an increase of 2.5% or ¥1,574 million from the previous fiscal year-end.

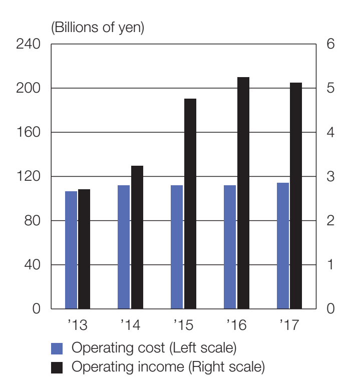
Net assets

Net assets amounted to ¥61,152 million, an increase of 7.0% from the previous fiscal year-end. The main factor was a ¥3,047 million increase in retained earnings as a result of recording net income attributable to owners of the parent of ¥3,762 million.

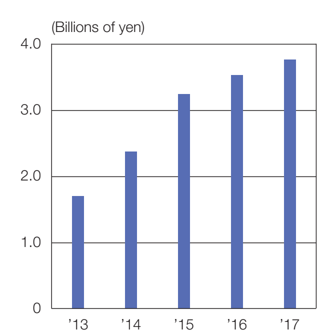
Sales of Other Business



Operating Cost and Operating Income



Net Income



Risk Factors

The principal business of the Tonami Holdings Group is the logistics-related business centering on road haulage operations and freight forwarding operations. The Group's business is subject to impacts of fluctuation of the Japanese economy and the world economy, customers' streamlining of logistics, restructuring, and deterioration of business results, and suspension of business transactions with customers. The business environment in which the Group operates entails the risk of difficulty in absorbing cost increases due to such factors as sharp increases in the price of crude oil and interest rate increases that exceed expectations.

In the event of the occurrence of a major disaster, such as an earthquake, in the regions where the Group operates, there is a risk that damage to facilities may greatly affect the Group's business operations.

In the event that the retention, development and recruitment of human resources indispensable for business expansion do not progress as envisaged in the plan, strategic tie-ups including acquisitions and capital partnerships do not develop as planned, or that social risks materialize with respect to the Group's overseas business expansion, there may be an adverse impact on the Group's business activities and business results.

The Group handles a huge amount of customer information and strives to appropriately manage such information. However, in the event of leakage of information owing to trouble concerning safekeeping, the credibility of the Group may be undermined and claims may be made for damages against the Group. In the event of trouble concerning IT systems caused by a natural disaster, computer virus infection, etc., there may be an adverse impact on the Group's business results and financial condition.

There is also a possibility of cost increases due to the strengthening of environmental regulations and for ensuring compliance with stricter safety regulations, and the increased burden may have an adverse impact on the Group's business results and financial condition.

In the event of the occurrence of a serious problem, such as a vehicle accident, there is a risk of loss of customer confidence and public trust that could have an adverse impact on the Group's business results and financial position.

In the event that impairment becomes necessary in accordance with the impairment accounting applicable to fixed assets for business use or there is a great change in the estimates of future taxable income and reversal of deferred tax assets is required, there may be an adverse impact on the Group's business results and financial position.

Strategic Position and Outlook

Although the moderate recovery of the Japanese economy is expected to continue, the outlook is expected to remain uncertain in view of the policies of the U.S. administration and the impact of the political situation in Europe.

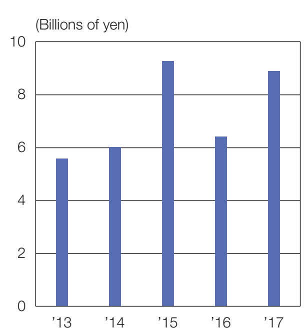
For a logistics enterprise to meet the trust of customers and society as social infrastructure, it is essential to push ahead with developing a work environment where employees can work with peace of mind mainly through working hour management and creation of a new work style for employees by promoting compliance management.

Amid these trends, the business environment is expected to remain challenging in view of factors such as fluctuation of domestic freight transportation volume and a serious shortage of truck drivers, the need to improve the work environment and respond to changing customer needs, and concerns about a possible rise in fuel prices.

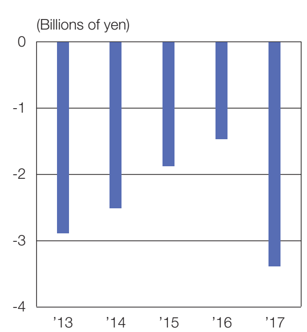
The Group will vigorously implement the growth strategy with the aim of achieving the performance targets for the final year of the Three-year Medium-Term Business Plan (from April 1, 2015 to March 31, 2018).

The Group is striving to expand the base for future growth, mainly by "expanding the business areas" in Kanto, Kansai and Tokai through the improvement and enhancement of the utilization rate of storage facilities opened in the previous fiscal year and a facility scheduled to open in the current fiscal year (Kiyosu City, Aichi Prefecture), "strengthening business competitiveness" through the proactive promotion of business and capital alliances and M&A, "improving labor productivity" primarily through the utilization of IT, "conducting appropriate collection and management of freight charges and rates," and "ensuring a more comfortable work environment."

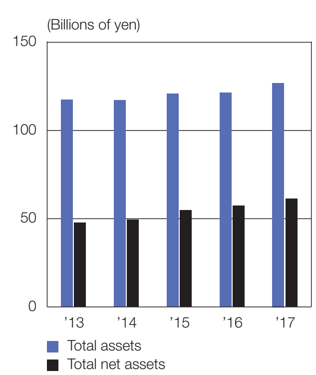
Net Cash Provided by Operating Activities



Net Cash Used in Investing Activities



Total Assets and Total Net Assets



Consolidated Balance Sheets

TONAMI HOLDINGS CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

As of March 31, 2017 and 2016

ASSETS	Millions of yen 2017	2016	Thousands of U.S. dollars (Note 1) 2017
Current assets:			
Cash and time deposits (Notes 10 and 12)	¥ 15,592	¥ 13,380	$ 138,985
Trade receivables:			
Notes and accounts (Notes 5 and 12)	20,908	20,587	186,367
Less: allowance for doubtful accounts	(27)	(32)	(243)
Investments in lease assets	55	38	494
Inventories	571	528	5,095
Deferred tax assets (Note 17)	774	752	6,904
Income taxes receivable	240	—	2,145
Other current assets	2,236	2,162	19,934
Total current assets	40,352	37,418	359,679
Property and equipment (Notes 3, 4 and 6):			
Land	40,713	40,024	362,900
Buildings and structures	20,352	20,373	181,412
Machinery and vehicles	2,493	2,202	22,229
Leased assets	7,208	7,595	64,251
Other	696	660	6,211
Total property and equipment	71,465	70,857	637,004
Investments and other assets:			
Investments in securities (Note 13)	8,879	7,866	79,144
Goodwill	875	7	7,805
Other	5,196	5,062	46,322
Total investments and other assets	14,951	12,936	133,271
Total assets	¥126,769	¥121,212	$1,129,954

The accompanying Notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2017	2016	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Short-term bank loans (Notes 7 and 12)	¥ 9,690	¥ 10,590	$ 86,371
Current portion of long-term debt (Notes 4, 7, 12 and 14)	701	2,645	6,252
Trade notes and accounts payable (Note 12)	12,531	11,254	111,702
Lease obligations (Note 12)	2,593	2,511	23,113
Income taxes payable	1,362	1,211	12,141
Other current liabilities	7,330	6,550	65,344
Total current liabilities	34,209	34,761	304,923
Long-term liabilities:			
Long-term debt, less current portion thereof (Notes 4, 7, 12 and 14)	11,562	8,453	103,062
Lease obligations (Note 12)	5,482	5,911	48,870
Deferred tax liability (Note 17)	1,620	1,691	14,449
Deferred tax liabilities from revaluation reserve for land (Note 6)	3,776	3,777	33,662
Retirement benefits for directors and corporate auditors	153	113	1,367
Net defined benefit liability (Note 15)	7,109	7,093	63,375
Other long-term liabilities	1,701	2,238	15,170
Total long-term liabilities	31,407	29,280	279,952
Total liabilities	65,617	64,042	584,875
Net assets			
Shareholders' equity (Note 16):			
Common stock:			
Authorized: 299,200,000 shares in 2017			
299,200,000 shares in 2016			
Issued: 97,610,118 shares in 2017			
97,610,118 shares in 2016	14,182	14,182	126,416
Capital surplus	11,699	11,699	104,280
Retained earnings	28,310	25,262	252,344
Treasury stock, at cost: 6,920,613 shares in 2017			
6,913,952 shares in 2016	(2,037)	(2,035)	(18,164)
Total shareholders' equity	52,154	49,109	464,876
Other comprehensive income			
Unrealized gain on other securities	2,355	1,532	20,996
Revaluation reserve for land	6,378	6,381	56,854
Remeasurements of defined benefit plans (Note 15)	231	119	2,062
Accumulated other comprehensive income (Note 9)	8,965	8,032	79,912
Minority interests:			
Minority interests	32	28	290
Total net assets	61,152	57,169	545,079
Total liabilities and net assets	¥126,769	¥121,212	$1,129,954

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

TONAMI HOLDINGS CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Operating revenues (Note 20):			
Operating revenues	¥125,509	¥122,959	$1,118,719
	125,509	122,959	1,118,719
Operating costs and selling, general and administrative expenses:			
Operating cost (Note 18)	113,674	111,666	1,013,233
Selling, general and administrative expenses (Note 18)	6,716	6,053	59,865
	120,390	117,719	1,073,098
Operating income (Note 20)	5,118	5,239	45,620
Other income and expenses:			
Interest and dividend income	313	343	2,796
Equity in earnings of unconsolidated subsidiaries and affiliates	19	87	172
Loss on sale of property and equipment, net	54	47	482
Interest expenses	(237)	(279)	(2,119)
Impairment losses (Note 8)	(56)	(36)	(507)
Other, net	(3)	128	(35)
	88	291	789
Income before income taxes and minority interests	5,206	5,530	46,409
Income taxes (Note 17):			
Current	1,991	2,149	17,751
Deferred	(556)	(158)	(4,958)
	1,435	1,991	12,793
Net income before minority interests	3,771	3,539	33,616
Minority interests	9	12	81
Net income	¥ 3,762	¥ 3,526	$ 33,535
Minority interests	9	12	81
Net income before minority interests	3,771	3,539	33,616
Other comprehensive income (Note 9):			
Valuation difference on other securities	820	(420)	7,317
Revaluation reserve for land	—	199	—
Remeasurement of defined benefit plans	112	(136)	999
Share of other comprehensive income (loss) of associates accounting for using the equity method	2	(4)	23
Total other comprehensive income	935	(362)	8,339
Total comprehensive income for the year	¥ 4,706	¥ 3,177	$ 41,955
Total comprehensive income attributable to:			
Owners of the parent	¥ 4,697	¥ 3,164	$ 41,874
Minority interests	9	12	81

The accompanying Notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

TONAMI HOLDINGS CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31, 2017 and 2016

		Millions of yen										
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on other securities	Revaluation reserve for land	Remeasurements of defined benefit plans	Accumulated other com-prehensive income	Minority interests	Total net assets
Balance as at April 1, 2015	97,610	¥14,182	¥11,682	¥22,324	¥(2,028)	¥46,160	¥1,957	¥6,182	¥256	¥8,395	¥91	¥54,647
Cash dividends applicable to the year (¥6.50 per share)				(589)		(589)						(589)
Net income				3,526		3,526						3,526
Change in ownership interests of the parent arising from transactions with non-controlling shareholders			17			17						17
Reversal of Revaluation reserve for land				0		0						0
Change of scope of equity method						—						—
Treasury stock					(6)	(6)						(6)
Net changes in items other than shareholders' equity						—	(424)	198	(136)	(363)	(62)	(426)
Balance as at March 31, 2016	97,610	¥14,182	¥11,699	¥25,262	¥(2,035)	¥49,109	¥1,532	¥6,381	¥119	¥8,032	¥28	¥57,169
Balance as at April 1, 2016	97,610	¥14,182	¥11,699	¥25,262	¥(2,035)	¥49,109	¥1,532	¥6,381	¥119	¥8,032	¥28	¥57,169
Cash dividends applicable to the year (¥7.50 per share)				(634)		(634)						(634)
Net income				3,762		3,762						3,762
Change in ownership interests of the parent arising from transactions with non-controlling shareholders						—						—
Reversal of Revaluation reserve for land				2		2						2
Change of scope of equity method				(82)		(82)						(82)
Treasury stock					(2)	(2)						(2)
Net changes in items other than shareholders' equity						—	823	(2)	112	932	4	936
Balance as at March 31, 2017	97,610	¥14,182	¥11,699	¥28,310	¥(2,037)	¥52,154	¥2,355	¥6,378	¥231	¥8,965	¥32	¥61,152

	Thousands of U.S. dollars (Note 1)										
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on other securities	Revaluation reserve for land	Remeasurements of defined benefit plans	Accumulated other com-prehensive income	Minority interests	Total net assets
Balance as at April 1, 2016	$126,416	$104,280	$225,178	$(18,144)	$437,731	$13,656	$56,880	$1,063	$71,600	$251	$509,581
Cash dividends applicable to the year ($0.0699 per share)			(5,660)		(5,660)				—		(5,660)
Net income			33,535		33,535				—		33,535
Change in ownership interests of the parent arising from transactions with non-controlling shareholders					—				—		—
Reversal of Revaluation reserve for land			26		26				—		26
Change of scope of equity method			(736)		(736)				—		(736)
Treasury stock				(20)	(20)				—		(20)
Net changes in items other than shareholders' equity					—	7,340	(26)	999	8,312	39	8,352
Balance as at March 31, 2017	$126,416	$104,280	$252,344	$(18,164)	$464,876	$20,996	$56,854	$2,062	$79,912	$290	$545,079

The accompanying Notes are an integral part of these statements.

Consolidated Statements of Cash Flows

TONAMI HOLDINGS CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 5,206	¥ 5,530	$ 46,410
Depreciation and amortization	4,939	4,687	44,028
Impairment losses	56	36	507
Gain on disposal of property and equipment	(54)	(47)	(482)
Gain on sales of investment in securities	(0)	—	(1)
Loss on devaluation of investments in securities	128	9	1,148
Loss on devaluation of golf club memberships	26	14	232
Amortization of goodwill	103	3	926
Equity in earnings of unconsolidated subsidiaries and affiliates	(19)	(87)	(172)
(Decrease) increase in allowance for doubtful accounts	83	19	748
Decrease in net defined benefit liability	110	145	984
Increase (decrease) in directors' and corporate auditors' retirement benefits	40	(17)	358
Increase in accrued bonuses to employees	78	17	703
Interest and dividend income	(313)	(343)	(2,796)
Interest expenses	237	279	2,119
Decrease (increase) in trade receivables	(102)	(57)	(916)
Decrease (increase) in inventories	61	46	551
(Decrease) increase in accounts payable	741	(113)	6,606
Increase in accrued consumption taxes	(95)	(990)	(851)
Other, net	(101)	(561)	(907)
Subtotal	11,128	8,572	99,189
Interest and dividends received	313	343	2,796
Interest paid	(236)	(279)	(2,106)
Income taxes paid	(2,298)	(2,208)	(20,484)
Net cash provided by operating activities	8,907	6,428	79,395
Cash flows from investing activities:			
Purchase of time deposits	(22)	(32)	(201)
Proceeds from redemption of time deposits	23	77	207
Purchase of property and equipment	(1,781)	(1,918)	(15,882)
Proceeds from sales of property and equipment	164	423	1,462
Purchase of investments in securities	(54)	(36)	(485)
Proceeds from redemption of investments in securities	—	10	—
(Payment for) proceeds from purchase of investments in consolidated subsidiaries	(1,544)	—	(13,766)
Investments in loans receivable	(280)	(244)	(2,502)
Proceeds from collection of loans receivable	297	241	2,652
Other, net	(189)	9	(1,692)
Net cash used in investing activities	(3,388)	(1,469)	(30,208)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans	(1,000)	(180)	(8,913)
Proceeds from long-term debt	3,500	200	31,197
Repayment of long-term debt	(2,699)	(1,065)	(24,064)
Proceeds from issuance of bonds	—	5,000	—
Redemption of bonds	—	(5,000)	—
Repayments of lease obligations	(2,464)	(2,083)	(21,966)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(56)	—
Purchase of treasury stock	(2)	(6)	(20)
Dividends paid	(634)	(589)	(5,660)
Dividends paid to minority interests	(4)	(2)	(42)
Net cash used in financing activities	(3,305)	(3,784)	(29,468)
Net increase (decrease) in cash and cash equivalents	2,212	1,174	19,720
Cash and cash equivalents at beginning of year	13,359	12,185	119,078
Cash and cash equivalents at end of year (Note 10)	¥ 15,571	¥ 13,359	$138,797

The accompanying Notes are an integral part of these statements.

1 Basis of presenting financial statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Tonami Holdings Co., Ltd. (the "Company") and consolidated subsidiaries in accordance with accounting principles generally accepted in Japan, which differ in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.19 to U.S.$1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2 Summary of significant accounting policies

(a) Consolidation

The accompanying consolidated financial statements as of March 31, 2017 include the accounts of the Company and its 22 (20 in 2016) consolidated subsidiaries and 6 (7 in 2016) affiliates accounted for by the equity method.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method. Four subsidiaries and one affiliate considered insignificant in view of total assets, operating revenues, net income and retained earnings are excluded from the scope of consolidation and not accounted for by the equity method.

The difference between the cost of an acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition is being equally amortized over a period of 5 years after incurred. However, if the amount is immaterial, it is fully charged to income at the date of acquisition.

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

(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 net assets, net of taxes.

Non-marketable securities classified as other securities are carried at cost determined by the moving-average method.

Cost of securities sold is determined principally by the moving average method.

(c) Inventories

Inventories are stated at the lower of cost, determined principally by the last purchase price method or partially by the specific identification method, or net selling value.

(d) Derivatives

Derivative financial instruments are stated at fair value.

Interest-rate swaps which meet specific matching criteria and qualify for hedge accounting treatment are not re-measured at market value; however, the differentials paid or received under the respective swap agreements are recognized and included as interest expense or income.

(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, except for leased assets, is computed by the declining balance method over the useful life of the assets as determined by law, 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	2–67 years
Machinery and vehicles	2–17 years

Leased assets under the finance lease arrangements which do not transfer ownership of the leased assets to the lessee are depreciated by the straight-line method over the respective lease periods without residual values.

However, if the guaranteed salvage value is specified in the lease contracts, they are depreciated by the straight-line method considering such salvage value.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on collection. Said 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.

(g) Retirement benefits for directors and corporate auditors

Some consolidated subsidiaries provide necessary payments to directors and corporate auditors at the end of the fiscal year determined according to internal company rules to a reserve for retirement benefits for directors and corporate auditors.

(h) Accounting method for retirement benefits

Full-time employees of the Company and its consolidated subsidiaries 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 record a net defined benefit liability, 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. In calculating the retirement benefit obligations, the benefit formula basis is used in determining the amount of the expected retirement benefit obligation attributed to service performed up to the end of the current fiscal year.

Actuarial gains and losses are recognized in expenses using the straight-line method over 9 years (a period not exceeding the employees' average remaining service years) commencing with the year following their occurrence.

Certain consolidated subsidiaries use the simplified method whereby the amount that would be required to be paid if all their eligible employees voluntarily terminated their employment as of the balance sheet date is treated as projected benefit obligation for the calculation of net defined benefit liability and retirement benefit cost.

(i) 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.

(j) Income taxes

Income taxes consist of corporate income tax, inhabitant taxes and enterprise tax.

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.

(k) Cash equivalents

Cash equivalents include 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.

(l) Net income per share

Basic income per share is computed using the weighted-average number of shares of common stock outstanding, which represents the number of issued shares less treasury stock, during each year.

Additional Information

Effective from the fiscal year ended March 31, 2017, the Company has applied ASBJ Guidance No. 26 Revised Implementation Guidance on Recoverability of Deferred Tax Assets (issued on March 28, 2016).

3 Property and equipment

Property and equipment are stated at the net book value in the consolidated balance sheets.

The amounts of accumulated depreciation were ¥60,570 million ($539,891 thousand) and ¥56,056 million on March 31, 2017 and 2016, 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 were ¥180 million ($1,599 thousand) and ¥180 million on March 31, 2017 and 2016, respectively.

4 Short-term bank loans and long-term debt

(a) Short-term bank loans

Short-term bank loans as at March 31, 2017 and 2016 were as follows:—

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Secured	¥ 2,720	¥ 2,720	$ 24,245
Unsecured	6,970	7,870	62,127

Interest rates range from 0.33% to 1.500%.

(b) Long-term debt

Long-term debt as at March 31, 2017 and 2016 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
0.48% ¥5.0 billion unsecured straight bonds due 2021	¥ 5,000	¥ 5,000	$ 44,567
1.000%-2.490% loans from financial institutions due 2016 to 2020 and thereafter:			
Secured	318	554	2,839
Unsecured	6,945	5,544	61,908
Total	12,263	11,098	109,314
Less: amount due within one year	701	2,645	6,252
	¥11,562	¥ 8,453	$103,062

The maturity date of the ¥5.0 billion 0.48% unsecured straight bonds, issued in February 2016, is February 4, 2021.

The annual maturities of long-term debt outstanding as at March 31, 2017 are as follows:—

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 701	$ 6,252
2019	644	5,742
2020	3,779	33,689
2021	5,050	45,019
2022	2,032	18,114
2023	55	497

(c) Pledged assets

Property and equipment having a net value of ¥12,643 million ($112,701 thousand) was pledged as collateral for short-term bank loans and long-term debt as at March 31, 2017.

5 Contingent liabilities

As at March 31, 2017, the Company was contingently liable as follows:—

	Millions of yen	Thousands of U.S. dollars
Notes endorsed	¥ 4	$ 38
Others	¥159	$1,420

6 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 under "Net assets."

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, 2016 and the revalued book value	¥12,141	$108,222

7 Restrictive financial covenants

(1) The Company has entered into overdraft facility and credit line commitment agreements (term of contract of three years) with ten banks for the purpose of efficient procurement of working capital.

Outstanding balance of unused credit concerning overdraft facility and credit line commitment agreements at March 31, 2017, was as follows:

	Millions of yen	Thousands of U.S. dollars
Maximum credit line of overdraft facility and commitment agreement	¥3,000	$26,740
Used credit	—	—
Total	¥3,000	$26,740

The agreements include restrictive financial covenants requiring net assets as of the fiscal year end to exceed predetermined amount.

(2) Of borrowings of the Company and certain subsidiaries, syndicated loan agreements (outstanding balance at March 31, 2017: ¥1,000 million ($8,913 thousand)) include restrictive financial covenants requiring assets at a fiscal year-end to exceed the predetermined amount.

8 Impairment losses

The Group recorded impairment losses on the asset groups stated below.

Fiscal year ended March 31, 2016

As a comprehensive logistics enterprise, the Group employs management accounting at offices that belong to road haulage business or other business groups.

The Group's business sites nationwide are the Group's bases for offering services as a comprehensive logistics enterprise to customers and, in many cases, offices of two or more business groups are located at a business site to respond to customers.

Offices of business groups complement one another and a business site is a unit that generates cash flows. Thus, the aggregate of assets of business groups' offices located at a business site constitutes an asset group.

With regard to an asset group for which the Company recognized impairment loss, the future cash flow is expected to be insufficient due to factors such as increases in personnel expenses and subcontractor fees. Accordingly, the book value of the asset group was reduced to the recoverable amount and ¥36 million ($327 thousand) was recognized as an impairment loss.

The impairment loss comprised ¥5 million ($46 thousand) for land and ¥31 million ($280 thousand) for buildings.

The recoverable amounts for land and buildings of the impaired asset group are measured by net sales value. Net sales value is assessed principally based on the appraisal value quoted by a real-estate appraiser and immaterial assets are assessed based on the residual book value.

Fiscal year ended March 31, 2017

As a comprehensive logistics enterprise, the Group employs management accounting at offices that belong to road haulage business or other business groups.

The Group's business sites nationwide are the Group's bases for offering services as a comprehensive logistics enterprise to customers and, in many cases, offices of two or more business groups are located at a business site to respond to customers.

Offices of business groups complement one another and a business site is a unit that generates cash flows. Thus, the aggregate of assets of business groups' offices located at a business site constitutes an asset group.

With regard to an asset group for which the Company recognized impairment loss, the future cash flow is expected to be insufficient due to factors such as increases in personnel expenses, fuel costs, and subcontractor fees. Accordingly, the book value of the asset group was reduced to the recoverable amount and ¥56 million ($507 thousand) was recognized as an impairment loss.

The impairment loss comprised ¥55 million ($493 thousand) for land, ¥1 million ($13 thousand) for buildings, and ¥0 million ($0 thousand) for structures.

The recoverable amounts of the impaired asset group are measured by net sales value. Net sales value is assessed principally based on the appraisal value from real-estate appraisal.

9 Consolidated statement of comprehensive income

Reclassification adjustments and tax effects relating to other comprehensive income

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Valuation difference on other securities:			
Amount arising during the year	¥ 1,181	¥ (674)	$ 10,527
Reclassification adjustment	—	9	0
Before tax-effect adjustment	1,181	(665)	10,527
Tax effect	(360)	244	(3,210)
Valuation difference on other securities	820	(420)	7,317
Revaluation reserve for land:			
Tax effect	—	199	—
Remeasurements of defined benefit plans:			
Amount arising during the year	(5)	(354)	(46)
Reclassification adjustment	165	154	1,474
Before tax-effect adjustment	160	(199)	1,428
Tax effect	(48)	62	(429)
Remeasurements of defined benefit plans	112	(136)	999
Share of other comprehensive income of affiliates accounted for using equity method:			
Amount arising during the year	2	(4)	23
Total other comprehensive income	¥ 935	¥ (362)	$ 8,339

10 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, 2017 and 2016 are as follows:—

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and time deposits	¥15,592	¥13,380	$138,985
Time deposits with maturities exceeding three months	(21)	(21)	(187)
Cash and cash equivalents	¥15,571	¥13,359	$138,797

11 Leases

(a) Finance leases other than those which are deemed to transfer the ownership of the leased assets to the lessee
- Contents of leased assets: Tangible fixed assets (mainly, machinery, equipment and vehicles for distribution-related business)
- Depreciation method: Leased assets are depreciated by the straight-line method over the respective lease periods without residual values. However, if the guaranteed salvage value is specified in the lease contracts, they are depreciated by the straight-line method considering such salvage value.

(b) Finance lease transactions which commenced prior to April 1, 2008 and do not transfer ownership of the leased assets to the lessee are accounted for as operating lease transactions as before.

The following are pro forma amounts of the acquisition costs, accumulated depreciation, accumulated impairment losses and net book value of leased property if they were capitalized as of March 31, 2017 and 2016 for finance leases accounted for as operating leases:—

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Acquisition costs:			
Buildings	¥ 5,833	¥ 5,833	$ 52,000
	¥ 5,833	¥ 5,833	$ 52,000
Accumulated depreciation:			
Buildings	¥ 3,460	¥ 3,213	$ 30,842
	¥ 3,460	¥ 3,213	$ 30,842
Accumulated impairment losses:			
Buildings	¥ 756	¥ 756	$ 6,740
	¥ 756	¥ 756	$ 6,740
Net book value:			
Buildings	¥ 1,617	¥ 1,864	$ 14,419
	¥ 1,617	¥ 1,864	$ 14,419

Amounts of depreciation expense equivalents and interest expense equivalents for the years ended March 31, 2017 and 2016 were as follows:—

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Depreciation expense	¥246	¥246	$2,198
Interest expense	68	76	612

Lease payments relating to finance leases accounted for as operating leases amounted to ¥427 million ($3,807 thousand) and ¥427 million, 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, 2017 and 2016, respectively.

In the year ended March 31, 2017, impairment losses on leased assets amounting to ¥756 million were recorded. Since these leased assets are off-balance-sheet, the equivalent amount is included in "Other long-term liabilities."

Impairment losses on leased assets are realized over the lease term. Reversal of impairment losses on leased assets recorded in the fiscal year ended March 31, 2017 and 2016, amounted to ¥42 million ($374 thousand) and ¥42 million, respectively.

Future minimum lease payments (including the interest portion thereon) and the balance of impairment losses on leased assets as at March 31, 2017 and 2016 for finance leases accounted for as operating leases were summarized as follows:—

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Due within one year	¥ 247	¥ 299	$ 2,206
Due over one year	1,939	2,186	17,287
Total	¥2,186	¥2,486	$19,493
Impairment losses on leased assets	¥ 252	¥ 294	$ 2,247

(c) Operating leases

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Due within one year	¥1,374	¥ 322	$12,248
Due over one year	7,144	2,595	63,683
Total	¥8,518	¥2,917	$75,931

12 Financial instruments and related disclosures

(a) Financial instruments

The Group invests cash surplus, if any, in low risk financial assets and raises funds for short-term working capital by bank borrowings. For capital investment, the Group raises necessary funds in light of the capital investment plan by bank borrowings or issuance of corporate bonds. Derivatives are employed to mitigate the risk of fluctuations in interest rates, and not used for speculative purposes.

Trade receivables such as notes and accounts are exposed to customer credit risk. For such credit risk, the Group has established the risk management system to monitor and control payment term and balances of customers.

Investments in securities such as equity securities are exposed to the market risk of fluctuation in market prices, but major components are equity securities issued by the business partners and their fair values are periodically reported to the directors responsible.

Almost all the trade payables such as notes and accounts payable are due within one year.

Of borrowings, short-term bank loans are used mainly to procure funds for operating transactions and long-term debt and corporate bonds are used to procure funds for capital investment. For floating-rate debt, derivative transactions (interest rate swaps) are used as hedges to avoid the risk of interest rate fluctuations and fix interest payments.

The Company executes and manages derivative transactions in accordance with internal rules that specify transaction authority, and since large borrowings are subject to the decision of the board of directors, the board of directors also decides whether to enter into corresponding swap agreements. Moreover, the Company enters into derivative transactions only with financial institutions with high credit ratings to mitigate counterparty default risk.

Trade payables and loans are exposed to the liquidity risk, but the Group controls such liquidity risk by the monthly cash management plans prepared by each company.

(b) Fair value of financial instruments

The carrying amount, fair value and the related difference of the financial instruments as of March 31, 2017 and 2016 were as indicated below.

Financial instruments whose fair values are extremely difficult to determine are not included in the following tables.

For the year ended March 31, 2017	Millions of yen		
	Carrying amount	Fair value	Difference
Assets:			
Cash and time deposits	¥15,592	¥15,592	¥ —
Trade receivables – notes	2,888	2,888	—
Trade receivables – accounts	18,020	18,020	—
Investments in securities (other securities)	6,328	6,328	—
Total assets	¥42,830	¥42,830	¥ —
Liabilities:			
Trade notes payable	¥ 1,369	¥ 1,369	¥ —
Trade accounts payable	11,162	11,162	—
Short-term bank loans	9,690	9,690	—
Bonds	5,000	5,023	23
Long-term debt	7,263	7,345	81
Lease obligations	8,075	8,193	117
Total liabilities	¥42,561	¥42,783	¥221
Derivatives	—	—	—

For the year ended March 31, 2016	Millions of yen		
	Carrying amount	Fair value	Difference
Assets:			
Cash and time deposits	¥13,380	¥13,380	¥ —
Trade receivables – notes	3,123	3,123	—
Trade receivables – accounts	17,464	17,464	—
Investments in securities (other securities)	5,131	5,131	—
Total assets	¥39,099	¥39,099	¥ —
Liabilities:			
Trade notes payable	¥ 750	¥ 750	¥ —
Trade accounts payable	10,503	10,503	—
Short-term bank loans	10,590	10,590	—
Bonds	5,000	5,034	34
Long-term debt	6,098	6,178	80
Lease obligations	8,423	8,563	140
Total liabilities	¥41,365	¥41,620	¥254
Derivatives	—	—	—

For the year ended March 31, 2017	Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference
Assets:			
Cash and time deposits	$138,985	$138,985	$ —
Trade receivables – notes	25,742	25,742	—
Trade receivables – accounts	160,625	160,625	—
Investments in securities (other securities)	56,412	56,412	—
Total assets	$381,764	$381,764	$ —
Liabilities:			
Trade notes payable	$ 12,207	$ 12,207	$ —
Trade accounts payable	99,495	99,495	—
Short-term bank loans	86,371	86,371	—
Bonds	44,567	44,775	208
Long-term debt	64,746	65,470	723
Lease obligations	71,982	73,029	1,046
Total liabilities	$379,369	$381,347	$1,978
Derivatives	—	—	—

For cash and time deposits, trade notes receivable and trade accounts receivable, the carrying amount is presented as the fair value since the fair value approximates the carrying amount because of the short maturity of these instruments.

For investments in securities, the fair value of equity securities is determined using the quoted prices of the stock exchanges. Unlisted equity securities whose fair value is extremely difficult to identify in the carrying amount of ¥2,550 million ($22,731 thousand) are not included in the above table. The unlisted equity securities were restated at fair value and related loss on impairment amounting to ¥128 million was charged to income for the year ended March 31, 2016.

For trade notes payable, trade accounts payable and short-term bank loans, the carrying amount is presented as the fair value since the fair value approximates the carrying amount because of the short maturity of these instruments.

For bonds, lease obligations and long-term debt, the fair value is determined using the present value of aggregated principal and interest discounted at a rate assumed if the new loans or lease arrangements were made.

For derivatives, please see Note 14 “Derivative transactions”.

(c) Information about maturities of financial instruments

Annual maturities of monetary receivables and other securities with contractual maturities as of March 31, 2017 and 2016 were as follows:

For the year ended March 31, 2017	Millions of yen			
	Due in one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Time deposits	¥15,574	¥—	¥—	¥—
Trade notes receivable	2,888	—	—	—
Trade accounts receivable	18,020	—	—	—
Total	¥36,483	¥—	¥—	¥—

For the year ended March 31, 2016	Millions of yen			
	Due in one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Time deposits	¥13,363	¥—	¥—	¥—
Trade notes receivable	3,123	—	—	—
Trade accounts receivable	17,464	—	—	—
Total	¥33,951	¥—	¥—	¥—

For the year ended March 31, 2017	Thousands of U.S. dollars			
	Due in one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Time deposits	$138,827	$—	$—	$—
Trade notes receivable	25,742	—	—	—
Trade accounts receivable	160,625	—	—	—
Total	$325,193	$—	$—	$—

Annual maturities of bonds, long-term debt, lease obligations, and other interest-bearing debts as of March 31, 2017 and 2016 are as follows:

For the year ended March 31, 2017	Millions of yen					
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term debt	¥ 9,690	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	—	—	—	5,000	—	—
Long-term debt	701	644	3,779	50	2,032	55
Lease obligations	2,593	2,168	1,597	1,035	422	257
Total	¥12,984	¥2,813	¥5,377	¥6,086	¥2,455	¥313

For the year ended March 31, 2016	Millions of yen					
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term debt	¥10,590	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	—	—	—	—	5,000	—
Long-term debt	2,645	637	583	2,222	10	—
Lease obligations	2,511	2,159	1,724	1,156	595	275
Total	¥15,746	¥2,797	¥2,307	¥3,379	¥5,605	¥275

For the year ended March 31, 2017	Thousands of U.S. dollars					
	Due in one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term debt	$ 86,371	$ —	$ —	$ —	$ —	$ —
Bonds	—	—	—	44,567	—	—
Long-term debt	6,252	5,742	33,689	452	18,114	497
Lease obligations	23,113	19,332	14,242	9,230	3,770	2,296
Total	$115,736	$25,074	$47,931	$54,249	$21,884	$2,793

13 Marketable securities and investments in securities

No trading securities or held-to-maturity securities were held at March 31, 2017 or 2016. 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, 2017 and 2016 are summarized as follows:—

At March 31, 2017	Millions of yen		
	2017		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Unrealized gain:			
Stocks	¥5,495	¥2,129	¥3,366
Bonds	—	—	—
Other	—	—	—
Unrealized loss:			
Stocks	833	879	(46)
Bonds	—	—	—
Other	—	—	—
Total	¥6,328	¥3,008	¥3,320

At March 31, 2016	Millions of yen		
	2016		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Unrealized gain:			
Stocks	¥4,165	¥1,801	¥2,364
Bonds	—	—	—
Other	—	—	—
Unrealized loss:			
Stocks	965	1,191	(226)
Bonds	—	—	—
Other			(0)
Total	¥5,131	¥2,993	¥2,138

At March 31, 2017	Thousands of U.S. dollars		
	2017		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Unrealized gain:			
Stocks	$48,987	$18,978	$30,009
Bonds	—	—	—
Other	—	—	—
Unrealized loss:			
Stocks	7,425	7,839	(414)
Bonds	—	—	—
Other	—	—	—
Total	$56,412	$26,817	$29,595

There are no applicable securities.

Equity securities whose fair value is 50% or less than the acquisition cost are necessarily restated at fair value and those whose fair value is between 50% and 30% of the acquisition cost are restated at fair value, if they are judged to be unrecoverable considering the trend of the market value for a past certain period and performances of the issuers.

14 Derivative transactions

(a) Derivative transactions to which hedge accounting is not applied

There is no applicable transaction.

(b) Derivative transactions to which hedge accounting is applied

Hedge accounting method: Special treatment for interest rate swaps
Type of transactions: Interest rate swaps:
Fixed rate payment/Floating rate receipt
Major hedged item: Long-term debt

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Contract amount	¥1,000	¥1,400	$8,913
Contract amount due after one year	600	1,000	5,348
Fair value	*	*	*

*The fair value is regarded to be included in the fair value of the long-term debt as hedged instruments, since the interest rate swaps which qualify for hedge accounting and meet specific criteria are not remeasured at market value, but the differentials paid or received under the swap agreements are recognized and included in interest expenses or income (special treatment).

15 Employees' severance and retirement benefits

(a) Outline of retirement benefit plans

In order to provide for the employees' severance and retirement benefits, the Company and its consolidated subsidiaries have funded and unfunded defined benefit plans and defined contribution plans.

Under the defined benefit corporate pension plans (all of which are funded plans), a lump sum or a pension based on the salary and the service years are paid. However, the Company and certain consolidated subsidiaries have introduced cash balance plans for the defined benefit corporate pension plans. In these plans, hypothetical individual employee accounts correspond to the funded amount and the principal of the pension amount for each participant. In each hypothetical individual employee account, the contributions based on the salary standard and interest amount based principally on the market interest rates are accumulated.

Under the lump-sum payment plans (all of which are unfunded plans), a lump sum based on the salary and service years are paid as retirement benefits. The Company and certain consolidated subsidiaries transferred part of the lump-sum payment plans to the defined contribution pension plans.

In the defined benefit corporate pension plans and lump-sum payment plans of certain consolidated subsidiaries, net defined benefit liability and retirement benefit cost are calculated by the simplified method.

(b) Defined benefit plans

Reconciliation of beginning and ending balances of retirement benefit obligation (excluding the plan for which the simplified method is applied)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligation at beginning of year	¥12,611	¥12,686	$112,411
Cumulative effects of changes in accounting policies	—	—	—
Restated balance at beginning of year	12,611	12,686	112,411
Service cost	657	665	5,864
Interest cost	100	101	899
Actuarial gain or loss	21	14	195
Payment of retirement benefits	(793)	(856)	(7,074)
Retirement benefit obligation at end of year	¥12,598	¥12,611	$112,296

Reconciliation of beginning and ending balances of plan assets (excluding the plan for which the simplified method is applied)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets at beginning of year	¥6,440	¥6,815	$57,403
Expected return on plan assets	161	170	1,435
Actuarial gain or loss	16	(339)	149
Contributions by the Company	82	82	735
Employee contributions	68	67	609
Payment of retirement benefits	(339)	(356)	(3,028)
Plan assets at end of year	¥6,428	¥6,440	$57,303

Reconciliation of beginning and ending balances of net defined benefit liability for which the simplified method is applied

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net defined benefit liability at beginning of year	¥922	¥876	$8,221
Retirement benefit costs	119	122	1,069
Payment of retirement benefits	(96)	(60)	(863)
Contributions to the plan	(18)	(16)	(164)
Increase resulting from change in scope of consolidation	13	—	118
Net defined benefit liability at end of year	¥940	¥922	$8,382

Reconciliation of ending balances of retirement benefit obligation and plan assets and net defined benefit liability/asset on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligation	¥ 7,651	¥ 7,705	$ 68,199
Plan assets	(6,566)	(6,588)	(58,532)
	1,084	1,116	9,667
Unfunded retirement benefit obligation	6,025	5,977	53,708
Net amount of liability (asset) on the consolidated balance sheets	7,109	7,093	63,375
Net defined benefit liability	7,109	7,093	63,375
Net defined benefit asset	—	—	—
Net amount of liability (asset) on the consolidated balance sheets	¥ 7,109	¥ 7,093	$ 63,375

Note: Including the plans for which the simplified method is applied

Retirement benefit costs and breakdown

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost (Note 1)	¥ 589	¥ 597	$ 5,255
Interest cost	100	101	899
Expected return on plan assets	(161)	(170)	(1,435)
Amortization of actuarial gain or loss	165	154	1,474
Retirement benefit costs calculated by the simplified method	119	122	1,069
Retirement benefit costs for defined benefit plans	¥ 814	¥ 804	$ 7,263

(Note 1) Employee contributions to the corporate pension fund are not included in the amounts shown.

Items recorded in other comprehensive income

Breakdown of items recorded in remeasurements of defined benefit plans (before tax effect deduction)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial gain or loss	¥160	¥(199)	$1,428

Items recorded in accumulated other comprehensive income

Breakdown of items recorded in remeasurements of defined benefit plans (before tax effect deduction)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized actuarial gain or loss	¥(339)	¥(179)	$(3,026)

Plan assets

Plan asset components as a percentage of total plan assets

	2017	2016
Bonds	31.4%	47.5%
Stocks	32.9	21.6
Insurance company general accounts	11.9	11.7
Cash and time deposits	14.2	1.4
Other	9.6	17.8
Total	100.0%	100.0%

Long-term expected rate of return on plan assets is determined considering the pension asset allocation and long-term expected return on plan assets composed of various types of assets, at the present and in the future.

Basis of actuarial calculation

	2017	2016
Discount rate	0.8%	0.8%
Long-term expected return on plan assets	2.5%	2.5%

(c) Defined contribution plan

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Required contributions to the defined contribution pension plan	¥327	331	$2,923

16 Net assets

The Company Law provides that an amount equal to at least 10% of the aggregate amount to be distributed as cash dividends or cash appropriations must be transferred to the legal reserve until the additional paid-in capital, which is part of the capital surplus account, and the legal reserve, which is part of retained earnings, equals 25% of the common stock account.

Transfers from the legal reserve to common stock, additional paid-in capital, and other reserves may be made by resolution of the shareholders.

Under the Company Law, distributions of reserves to shareholders may be made at any time by resolution of the shareholders.

The Company's Articles of Incorporation also provide that the Board of Directors may make distributions to shareholders based on a resolution of the Board of Directors, provided that such distributions are limited to once per fiscal year.

Information concerning changes in net assets

Treasury stock

Class of shares	At March 31, 2016	Increase	Decrease	At March 31, 2017
Common stock (shares)	6,913,952	6,661	—	6,920,613

Reason for the change:

The increase attributable to the purchase of shares less than one unit: 6,661 shares

17 Income taxes

As described in Note 2(j), 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.

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Provision for bonuses	¥ 462	¥ 432	$ 4,120
Net defined benefit liability	2,192	2,204	19,541
Allowance for doubtful accounts in excess of deductible limit	152	113	1,356
Depreciation and amortization in excess of deductible limit	122	128	1,088
Accounts payable upon transfer to defined contribution pension plan	462	609	4,122
Accumulated loss on impairment of property and equipment	2,135	2,183	19,031
Accumulated loss on impairment of leased assets	76	89	685
Accrued enterprise tax	146	104	1,309
Other	356	521	3,176
Gross deferred tax assets	6,106	6,388	54,428
Valuation allowance	(2,348)	(3,017)	(20,937)
Total deferred tax assets	3,757	3,370	33,491
Deferred tax liabilities:			
Unrealized gain on other securities	(962)	(602)	(8,582)
Reserve under Special Taxation Measures Law	(3,488)	(3,554)	(31,096)
Undistributed earnings	(152)	(152)	(1,359)
Total deferred tax liabilities	(4,603)	(4,310)	(41,037)
Net deferred tax assets	¥ (846)	¥ (939)	$ (7,545)

Income taxes applicable to the Company consist of corporate income tax, inhabitant taxes and enterprise tax.

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, 2017 and 2016 were as follows:—

	2017	2016
Statutory tax rate:	30.69%	32.82%
Increase (reduction) in tax resulting from:		
Nondeductible expenses including entertainment, etc.	0.87	0.87
Nontaxable income including dividends received deduction, etc.	(5.75)	(4.83)
Per capita portion of inhabitant taxes	4.68	4.19
Equity in earnings of affiliates	(0.11)	(0.52)
Elimination of dividends received from consolidated subsidiaries, etc.	5.63	4.71
Amortization of goodwill	0.61	0.02
Change in valuation allowance related to deferred tax assets	(10.27)	(4.29)
Adjustment of deferred tax assets following a change in statutory tax rates	—	(0.52)
Other	1.22	3.55
Effective tax rate	27.57%	36.00%

18 Supplementary income information

Supplementary income information for the years ended March 31, 2017 and 2016 is as follows:—

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Depreciation expenses	¥4,939	¥4,687	$44,028
Lease and rental	5,425	5,409	48,356

19 Amounts per share

Amounts per share of common stock for the years ended March 31, 2017 and 2016 were as follows:—

	Yen		U.S. dollars
	2017	2016	2017
Net income per share:			
Basic	¥ 41.48	¥ 38.88	$0.3697
Diluted	—	—	—
Cash dividends	7.50	6.50	0.0669
Net assets per share	673.95	630.04	6.0072

Basis for the calculation of net assets per share for the years ended March 31, 2017 and 2016 were as follows:—

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total net assets as reported on the consolidated balance sheets	¥61,152	¥57,169	$545,079
Deduction from total net assets:			
Non-controlling interests	32	28	290
Adjusted net assets allocated in common stock	61,119	57,141	544,788
Number of shares of common stock outstanding at the end of year on which net assets per share is calculated	90,689,505	90,696,166	

Basis for the calculation of basic and diluted net income per share for the years ended March 31, 2017 and 2016 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net income attributable to owners of the parent	¥3,762	¥3,526	$33,535
Amounts not attributable to shareholders of common stock	—	—	—
Net income attributable to common shareholders of the parent	3,762	3,526	33,535
Weighted-average number of shares of common stock outstanding (shares)	90,694,302	90,704,626	

20 Segment information

(1) Overview of reportable segments

The Company's segments are the Group's components for which discrete financial information is available and whose operating results are regularly reviewed by the Company's board of directors to make decisions on the allocation of resources to the segments and to assess their performance.

The Group, in doing business, classifies business models of operating companies, which are under the Company (pure holding company), according to the nature of services and formulates comprehensive strategies for individual business models.

Therefore, the Group consists of segments according to services based on these business models and the Group's reportable segments are: Logistics, Information Processing, and Sales.

Principal services of the Logistics segment are road haulage, freight forwarding, warehousing, and harbor transport. The principal service of the Information Processing segment is information processing. Principal services of the Sales segment are merchandising, consignment sales, and a non-life insurance agency.

(2) Methods of calculating operating revenues, income/loss, assets/liabilities, and other items by reportable segment

Accounting procedures applied to the reported operating segments are the same as those described in the "Basis of Presenting Consolidated Financial Statements." Income of reportable segments is on an operating income basis. Intersegment revenues and transfers are based on market prices.

(3) Information on operating revenues, income/loss, assets/liabilities, and other items by reportable segment

For the year ended March 31, 2017 — Millions of yen

	Reportable segment							
	Logistics	Information processing	Sales	Total	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:								
Revenues from outside customers	¥115,592	¥2,853	¥ 5,734	¥124,180	¥ 1,328	¥125,509	¥ —	¥125,509
Intersegment revenues or transfers	22	392	3,713	4,127	249	4,377	(4,377)	—
Total	115,615	3,245	9,447	128,308	1,578	129,886	(4,377)	125,509
Segment income	¥ 4,475	¥ 311	¥ 294	¥ 5,081	¥ 149	¥ 5,230	¥ (112)	¥ 5,118
Segment assets	¥108,946	¥2,852	¥ 9,835	¥121,634	¥11,470	¥133,104	¥(6,334)	¥126,769
Other items:								
Depreciation	¥ 4,300	¥ 545	¥ 42	¥ 4,888	¥ 38	¥ 4,927	¥ 12	¥ 4,939
Amortization of goodwill	¥ 92	¥ 3	¥ —	¥ 96	¥ 7	¥ 103	¥ —	¥ 103
Impairment losses	¥ 56	¥ —	¥ —	¥ 56	¥ —	¥ 56	¥ —	¥ 56
Increases in property and equipment and intangible fixed assets	¥ 4,369	¥ 630	¥ 19	¥ 5,018	¥ 32	¥ 5,051	¥ 1	¥ 5,052

For the year ended March 31, 2016 — Millions of yen

	Reportable segment							
	Logistics	Information processing	Sales	Total	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:								
Revenues from outside customers	¥112,777	¥2,897	¥ 6,624	¥122,299	¥ 659	¥122,959	¥ —	¥122,959
Intersegment revenues or transfers	32	357	3,657	4,047	284	4,331	(4,331)	—
Total	12,809	3,254	10,282	126,346	944	127,291	(4,331)	122,959
Segment income	¥ 4,634	¥ 189	¥ 300	¥ 5,123	¥ 115	¥ 5,239	¥ 0	¥ 5,239
Segment assets	¥105,861	¥2,695	¥10,213	¥118,770	¥11,077	¥129,847	¥ (8,635)	¥121,212
Other items:								
Depreciation	¥ 4,099	¥ 507	¥ 43	¥ 4,650	¥ 22	¥ 4,673	¥ 14	¥ 4,687
Amortization of goodwill	¥ —	¥ 3	¥ —	¥ 3	¥ —	¥ 3	¥ —	¥ 3
Gain on negative goodwill	¥ 36	¥ —	¥ —	¥ 36	¥ —	¥ 36	¥ —	¥ 36
Increases in property and equipment and intangible fixed assets	¥ 4,142	¥ 730	¥ 16	¥ 4,889	¥ 18	¥ 5,875	¥ 0	¥ 4,908

For the year ended March 31, 2017

	Thousands of U.S. dollars							
	Reportable segment							
	Logistics	Information processing	Sales	Total	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:								
Revenues from outside customers	$1,030,325	$25,433	$51,116	$1,106,874	$ 11,845	$1,118,719	$ —	$1,118,719
Intersegment revenues or transfers	204	3,494	33,096	36,794	2,228	39,022	(39,022)	—
Total	$1,030,529	$28,928	$84,211	$1,143,668	$ 14,073	$1,157,741	$(39,022)	$1,118,719
Segment income	$ 39,895	$ 2,777	$ 2,622	$ 45,294	$ 1,330	$ 46,624	$ (1,004)	$ 45,620
Segment assets	$ 971,090	$25,427	$87,664	$1,084,182	$102,238	$1,186,420	$(56,467)	$1,129,954
Other items:								
Depreciation	$ 38,332	$ 4,860	$ 381	$ 43,573	$ 346	$ 43,918	$ 109	$ 44,028
Amortization of goodwill	$ 829	$ 33	$ —	$ 862	$ 64	$ 926	$ —	$ 926
Impairment losses	$ 507	$ —	$ —	$ 507	$ —	$ 507	$ —	$ 507
Increases in property and equipment and intangible fixed assets	$ 38,947	$ 5,616	$ 172	$ 44,735	$ 288	$ 45,023	$ 13	$ 45,035

Notes:

1. "Others" corresponds to operating segments that are not included in the reported operating segments and includes automobile repair and direct mail service.
2. Adjustments are as follows:
   (1) Adjustments of segment income
   For the fiscal years ended March 31, 2017 and 2016, adjustments of segment income amounted to ¥(112) million ($(1,044) thousand) and ¥0 million, respectively. Adjustments include intersegment eliminations and corporate expenses not allocated to any reportable segments.
   For the fiscal years ended March 31, 2017 and 2016, the above-mentioned intersegment eliminations amounted to ¥780 million ($6,958 thousand) and ¥770 million, respectively, and corporate expenses not allocated to any reportable segments amounted to ¥(893) million ($(7,961) thousand) and ¥(770) million, respectively. Corporate expenses are mainly expenses of the Company's operations that do not belong to any reportable segments.
   (2) Adjustments of segment assets
   For the fiscal years ended March 31, 2017 and 2016, adjustments of segment assets amounted to ¥(6,334) million ($(56,467) thousand) and ¥(8,635) million, respectively. Adjustments include intersegment eliminations and corporate assets not allocated to any reportable segments.
   For the fiscal years ended March 31, 2017 and 2016, the above-mentioned intersegment eliminations amounted to ¥(28,264) million ($(251,938) thousand) and ¥(25,863) million, respectively, and corporate assets not allocated to any reportable segments amounted to ¥21,929 million ($195,472 thousand) and ¥17,227 million, respectively. Corporate assets are mainly cash and time deposits and investments in securities of the head office that do not belong to any reportable segments.
   (3) Adjustments of increases in property and equipment and intangible fixed assets
   For the fiscal years ended March 31, 2017 and 2016, adjustments of increases in property and equipment and intangible fixed assets amounted to ¥1 million ($13 thousand) and ¥0 million, respectively. Adjustments include intersegment eliminations and corporate assets not allocated to any reportable segments.
   For the fiscal years ended March 31, 2017 and 2016, the above-mentioned intersegment eliminations amounted to ¥(6) million ($(58) thousand) and ¥(3) million, respectively, and corporate assets not allocated to any reportable segments amounted to ¥7 million ($71 thousand) and ¥3 million, respectively.
3. Segment income is adjusted to operating income in the consolidated financial statements.

(4) Related information

For the year ended March 31, 2017

1) Information by product and service
   Information by product and service is omitted because similar information is presented in the segment information.
2) Information by geographical area
   Information about operating revenues by geographical area is omitted because operating revenues from outside customers in Japan exceeded 90% of operating revenues in the consolidated financial statements.
   Not applicable for property and equipment because there is no property and equipment located in places other than Japan.
3) Information by major customer
   Not applicable because, concerning operating revenues from outside customers, no outside customer accounts for 10% or more of operating revenues in the consolidated financial statements.

For the year ended March 31, 2016

1) Information by product and service
   Information by product and service is omitted because similar information is presented in the segment information.
2) Information by geographical area
   Not applicable for operating revenues because there are no operating revenues from outside customers other than those in Japan.
   Not applicable for property and equipment because there is no property and equipment located in places other than Japan.
3) Information by major customer
   Not applicable because, concerning operating revenues from outside customers, no outside customer accounts for 10% or more of operating revenues in the consolidated financial statements.

(5) Information on fixed asset impairment losses by reportable segment

For the year ended March 31, 2017

Information on fixed asset impairment losses by reportable segment is omitted because similar information is presented in the segment information.

For the year ended March 31, 2016

Information on fixed asset impairment losses by reportable segment is omitted because similar information is presented in the segment information.

(6) Information on amortization of goodwill and unamortized balance by reportable segment

For the year ended March 31, 2017 — Millions of yen

	Reportable segment						
	Logistics	Information processing	Sales	Total	Others	Adjustment	Total
Goodwill:							
Amortization	¥ 92	¥ 3	¥ —	¥ 96	¥ 7	¥ —	¥103
Balance at end of year	¥822	¥ 3	¥ —	¥825	¥ 49	¥ —	¥875
Negative goodwill:							
Amortization	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Balance at end of year	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

For the year ended March 31, 2016 — Millions of yen

	Reportable segment						
	Logistics	Information processing	Sales	Total	Others	Adjustment	Total
Goodwill:							
Amortization	¥ —	¥ 3	¥ —	¥ 3	¥ —	¥ —	¥ 3
Balance at end of year	¥ —	¥ 7	¥ —	¥ 7	¥ —	¥ —	¥ 7
Negative goodwill:							
Amortization	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Balance at end of year	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

For the year ended March 31, 2017 — Thousands of U.S. dollars

	Reportable segment						
	Logistics	Information processing	Sales	Total	Others	Adjustment	Total
Goodwill:							
Amortization	$ 829	$ 33	$ —	$ 862	$ 64	$ —	$ 926
Balance at end of year	$ 7,331	$ 31	$ —	$ 7,362	$442	$ —	$ 7,805
Negative goodwill:							
Amortization	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Balance at end of year	$ —	$ —	$ —	$ —	$ —	$ —	$ —

(7) Information on gain on negative goodwill by reportable segment

For the year ended March 31, 2017

Not applicable

For the year ended March 31, 2016

Not applicable

21 Subsequent events

Cash dividends

The annual shareholders' meeting of the Company, which was held on June 28, 2017, duly approved the payment of dividends as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥4.00 per share)	¥362	$3,234

Consolidated Subsidiaries

Logistics

Company Name	Business Line
Tonami Transportation Co., Ltd.	Road haulage
Tonami Transportation Shinetsu Co., Ltd.	Road haulage
Tonami Transportation Chugoku Co., Ltd.	Road haulage
Kanto Tonami Transportation Co., Ltd.	Road haulage
Hokuriku Tonami Transportation Co., Ltd.	Road haulage
Tonami Shutoken Logistics Co., Ltd.	Road haulage
Tonami Kinki Logistics Co., Ltd.	Road haulage
Ishikawa Tonami Transportation Co., Ltd.	Road haulage
Tonami Daiichi Warehouse Logistics Co., Ltd.	Road haulage / Warehousing
Fukui Tonami Transportation Co., Ltd.	Road haulage
Niigata Tonami Transportation Co., Ltd.	Road haulage
Anan Transportation Co., Ltd.	Road haulage
Tonami Global Logistics Co., Ltd.	Harbor transport service
Keishin Warehouse Co., Ltd.	Warehousing
Kitakanto Tonami Transportation Co., Ltd.	Road haulage
Take One Co., Ltd.	Road haulage

Information Processing and Others

Company Name	Business Line
Tonami Trading Co., Ltd.	Trading Company
Toyo Gomu Hokuriku Hanbai Co., Ltd.	Sale of tires
KSR Co., Ltd.	Development and sale of software
Chuo Reizo Co., Ltd.	Other
Tonami Automobile Technology Research Institute Co., Ltd.	Automobile technology R&D
Tonami Business Service Co., Ltd.	Financial service

Board of Directors and Corporate Auditors

President and Representative Director
Katsusuke Watanuki

Senior Managing Directors
Kazuo Takata
Shinichi Izumi

Directors
Yasuo Terabayashi
Toyonobu Terahai
Yasuhiro Saegusa
Mitsuharu Wadachi
Shinichiro Inushima
Ichiro Tanaka

Standing Corporate Auditors
Mitsuo Matsuda
Masafumi Takebe

Corporate Auditors
Yohji Ishiguro
Toshio Kaido

(As of June 28, 2017)

Corporate Data

Head Office
2-12, Showa-machi 3-chome, Takaoka,
Toyama Prefecture 933-8788, Japan
Phone: (0766) 32-1073
Fax: (0766) 32-1077

Tokyo Office
8-4, Nihonbashihoridome-cho 2-chome, Chuo-ku,
Tokyo 103-0012, Japan
Phone: (03) 3664-5403
Fax: (03) 3664-5405

Date of Established
June 1943

Common Stock
¥14,182 million

Issued and Outstanding Shares
97,610,118 shares

Shareholders
5,851

Employees
67

(As of March 31, 2017)

TONAMI

TONAMI HOLDINGS CO., LTD.

URL: http://www.tonamiholdings.co.jp/

Printed in Japan on recycled paper