

# 2007 Semiannual Report

For the six-month period ended September 30, 2006

**TONAMI TRANSPORTATION CO., LTD.**



**TONAMI**

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## **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.

# A MESSAGE FROM THE PRESIDENT

## Performance

I am pleased to report to our shareholders on the operating environment and business results for the six-month period ended September 30, 2006.

During the period under review, despite a sharp increase in the price of crude oil and higher interest rates the Japanese economy remained on a recovery trajectory owing to an increase in capital investment fueled by improvement in corporate earnings, strong personal consumption, and improvement in the employment situation.

In the distribution industry, the business environment remained adverse. Amid a continued decline in domestic freight volumes,

customer demands for greater distribution efficiency and intensification of competition among companies resulted in a continuation of the downturn in unit freight charges. At the same time, the cost burden on companies that provide distribution services increased due to the revised Road Traffic Law and higher crude oil prices.

In these circumstances, the Tonami Group continued to implement the 17th medium-term business plan, a three-year plan launched the previous term with the slogan “Committed to Corporate Innovation.” Specifically, we worked to expand highly profitable businesses by integrating systematized distribution (third party logistics) — the provision of comprehensive physical distribution services that combine business processes including existing transport,

## UNAUDITED CONSOLIDATED FINANCIAL HIGHLIGHTS

TONAMI TRANSPORTATION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Six months ended September 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>For the period:</b>			
Operating revenues .....	¥ 64,257	¥ 63,131	\$ 545,013
Logistics .....	58,426	57,794	495,556
Other .....	5,831	5,337	49,457
Operating income .....	755	794	6,404
Net income (loss) .....	615	(5,780)	5,216
<b>Per share (yen and U.S. dollars):</b>			
Net income (loss), basic .....	¥ 6.76	¥ (63.52)	\$ 0.0573
Net income, diluted .....	6.30	—	0.0534
Cash dividends .....	3.00	3.00	0.0254
<b>At period-end:</b>			
Total assets .....	¥119,986	¥121,021	\$1,017,693
Total shareholders' equity .....	47,388	46,033	401,934

Notes: 1. U.S. dollar amounts presented herein are included solely for convenience. The rate of ¥117.90 = U.S.\$1, prevailing on September 30, 2006, has been used for the translation into U.S. dollar amounts.

2. The computation of net income (loss) 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 period.

storage, distribution processing, inventory management, delivery, and information processing — with proposal capabilities and strengthening sales power by deploying a distribution solutions business characterized by improved logistics.

In the period under review, the midway point of the business plan, operating revenues were ¥64,257 million, up 1.8% from the same period of the previous term, as a result of higher revenues from the mainstay less-than-a-truckload freight transport operations and warehousing operations.

With regard to internal business operations, we achieved increased operating efficiency due to productivity enhancement and a group-wide effort to cut operating costs through improved fuel efficiency and other means. Nevertheless, operating income decreased by 5.0% year on year to ¥755 million. Net income was ¥615 million.

In the results by business segment, operating revenues from logistics-related businesses increased by 1.1% from the same period of the previous term to ¥58,426 million. In road haulage operations, amid sluggish growth in the volume of domestic freight transport and continued erosion of unit freight charges, the Tonami Group strove to provide distribution services that deliver customer satisfaction by promoting a solutions business centered on systematized distribution (third party logistics) and increasing transportation quality. Operating revenues from other businesses, which include automobile repair and merchandising, increased by 9.2% ¥5,831 million.

With regard to capital expenditures during the period, we plan to commence operations at the Minami-Osaka Branch and Minami-Osaka Distribution Center (in Sakai City, Osaka prefecture) in February 2007. We will continue to strategically expand and upgrade our transport network and distribution facilities.

## **Full-Year Outlook**

Although the domestic economy is expected to continue to perform solidly, it will be necessary to pay close attention to protracted high crude oil prices, signs of rising interest rates, and destabilizing factors in the international situation, notably with regard to the United States and China. Also, as previously mentioned, the distribution industry faces a number of issues, and the operating environment is likely to remain challenging. In this context, we are stepping up our efforts to achieve the goals set forth in the 17th medium-term business plan, which is in its second year.

As a result of the above circumstances, we forecast full-year operating revenues of ¥130,000 million (100.7% of the previous year), operating income of ¥2,000 million (97.3%), and net income of ¥1,800 million.

## **Issues to Be Addressed**

Although the economic recovery trend in Japan is expected to continue, in the distribution industry a decrease in the volume of domestic freight transport for the seventh consecutive year is forecast. In these circumstances, the

Tonami Transport Group has many issues to address, including the increase in fuel costs due to a spike in crude oil prices, the strengthening of government environmental and safety regulations, the globalization of physical distribution, and the implementation of information and communication technologies in the industry. In this business environment, inspired by the slogan “Aiming for a New Value-Added Corporate Group — Committed to Corporate Innovation,” we have been executing the 17th medium-term business plan since the previous fiscal year.

The business plan sets forth the following six core objectives:

- 1) Develop the distribution solutions business;
- 2) Upgrade the quality of distribution services;
- 3) Strengthen international operations;
- 4) Increase revenues from road haulage operations;
- 5) Recruit, retain, and develop human resources; and
- 6) Build an internal control structure.

By engaging in focused efforts within the framework of these objectives, we will manage with the aim of expanding the Group’s business by increasing our competitive advantage and enhancing value to society through the creation of additional value in our distribution operations and the fulfillment of corporate social responsibility. Specific numerical targets for the final year of the plan (the year ending March 2008) are operating revenues of ¥142,000 million, operating income of ¥2,700 million, and an operating margin of 1.9%. We are committed to achieving these targets.

We plan to pay annual dividends of ¥6.00 per share for the fiscal year ending March 31, 2007, including the ¥3.00 per share interim dividend.

We will continue to strive to improve business performance so as to meet the expectations of our shareholders. We request your continued support for our endeavors.

December 2006



Katsusuke Watanuki  
President and Representative Director

**UNAUDITED CONSOLIDATED BALANCE SHEETS**  
 TONAMI TRANSPORTATION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

As of September 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits .....	¥ 11,956	¥ 13,672	\$ 101,408
Marketable securities (Note 2) .....	1,000	1,000	8,482
Trade receivables:			
Notes and accounts .....	22,507	21,510	190,899
Less: allowance for doubtful accounts .....	(30)	(39)	(254)
Inventories .....	673	796	5,708
Deferred tax assets .....	667	709	5,657
Other current assets .....	2,509	2,568	21,281
Total current assets .....	39,282	40,216	333,181
<b>Property and equipment (Note 3):</b>			
Land .....	38,293	38,260	324,792
Buildings and structures .....	21,904	22,631	185,785
Machinery and vehicles.....	3,126	3,026	26,514
Other .....	711	973	6,030
Total property and equipment .....	64,034	64,890	543,121
<b>Investments and other assets:</b>			
Investments in securities (Note 2) .....	9,275	8,943	78,668
Deferred tax assets .....	2,055	2,301	17,430
Goodwill .....	95	—	806
Other .....	5,245	4,671	44,487
Total investments and other assets .....	16,670	15,915	141,391
Total assets .....	¥119,986	¥121,021	\$1,017,693

*The accompanying Notes are an integral part of these statements.*

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Short-term bank loans (Note 3) .....	¥ 14,094	¥ 15,827	\$ 119,542
Current portion of long-term debt (Note 3) .....	729	417	6,183
Trade notes and accounts payable .....	10,895	10,788	92,409
Income taxes payable .....	376	437	3,189
Other current liabilities .....	7,906	7,426	67,057
Total current liabilities .....	34,000	34,895	288,380
<b>Long-term liabilities:</b>			
Long-term debt, less current portion (Note 3) .....	12,291	11,200	104,249
Deferred tax liabilities from revaluation reserve for land .....	5,801	5,801	49,203
Employees' severance and retirement benefits .....	18,278	19,137	155,030
Consolidation difference .....	—	327	—
Negative goodwill .....	260	—	2,205
Other long-term liabilities .....	1,968	2,981	16,692
Total long-term liabilities .....	38,598	39,446	327,379
Total liabilities .....	72,598	74,341	615,759
<b>NET ASSETS</b>			
<b>Shareholders' equity:</b>			
Common stock:			
Authorised: 299,200,000 shares in 2005			
299,200,000 shares in 2006			
Issued: 97,610,118 shares in 2005			
97,610,118 shares in 2006 .....	14,183	14,183	120,297
Capital surplus .....	12,775	14,687	108,354
Retained earnings .....	13,600	10,936	115,352
Treasury stock, at cost: 6,613,886 shares in 2005 and			
6,656,403 shares in 2006 .....	(1,972)	(1,957)	(16,726)
Total shareholders' equity .....	38,586	37,849	327,277
<b>Valuation and translation adjustments:</b>			
Unrealized gain on securities .....	2,006	1,939	17,014
Revaluation reserve for land .....	6,245	6,245	52,969
Total valuation and translation adjustments .....	8,251	8,184	69,983
<b>Minority interest:</b>			
Minority interest .....	551	647	4,674
Total net assets .....	47,388	46,680	401,934
Total liabilities and net assets .....	¥119,986	¥121,021	\$1,017,693

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**TONAMI TRANSPORTATION CO., LTD. AND CONSOLIDATED SUBSIDIARIES**

For the six months ended September 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Operating revenues:</b>			
Operating revenues .....	¥64,257	¥63,131	\$545,013
	64,257	63,131	545,013
<b>Operating costs and selling, general and administrative expenses:</b>			
Operating cost .....	60,564	59,248	513,690
Selling, general and administrative expenses .....	2,938	3,089	24,919
	63,502	62,337	538,609
<b>Operating income</b> .....	<b>755</b>	<b>794</b>	<b>6,404</b>
<b>Other income and expenses:</b>			
Interest and dividend income .....	154	142	1,306
Equity in earnings of unconsolidated subsidiaries and affiliates ....	69	98	585
Loss on sells of property and equipment, net .....	(72)	(51)	(610)
Interest expenses .....	(114)	(159)	(967)
Impairment losses .....	—	(7,678)	—
Other, net .....	287	214	2,434
	324	(7,434)	2,748
<b>Income (loss) before income taxes and minority interests</b> .....	<b>1,079</b>	<b>(6,640)</b>	<b>9,152</b>
<b>Income taxes:</b>			
Current .....	312	350	2,646
Deferred .....	140	(1,176)	1,188
	452	(826)	3,834
<b>Minority interests</b> .....	<b>12</b>	<b>(34)</b>	<b>102</b>
<b>Net income (loss)</b> .....	<b>¥ 615</b>	<b>¥ (5,780)</b>	<b>\$ 5,216</b>

The accompanying Notes are an integral part of these statements.



**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**TONAMI TRANSPORTATION CO., LTD. AND CONSOLIDATED SUBSIDIARIES**

For the six months ended September 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes and minority interests .....	¥ 1,079	¥(6,640)	\$ 9,152
Depreciation and amortization .....	1,250	1,178	10,602
Impairment losses .....	—	7,678	—
Gain on disposal of property and equipment .....	73	23	619
Gain on sales of investments in securities .....	—	35	—
Loss on devaluation of investments in securities .....	—	0	—
Loss on devaluation of golf club memberships .....	—	8	—
Amortization of consolidation difference .....	—	(75)	—
Amortization of goodwill .....	(71)	—	(602)
Equity in earnings of unconsolidated subsidiaries and affiliates ....	(69)	(98)	(585)
Increase (decrease) in allowance for doubtful accounts .....	25	(50)	212
Decrease in employees' severance and retirement benefits .....	(438)	(240)	(3,715)
Increase in accrued bonuses to employees .....	121	74	1,026
Interest and dividend income .....	(154)	(142)	(1,306)
Interest expenses .....	114	159	967
Decrease in trade receivables .....	607	1,224	5,148
Increase in inventories .....	(171)	(250)	(1,450)
Decrease in accounts payable .....	(896)	(525)	(7,600)
Increase (decrease) in accrued consumption taxes .....	159	(48)	1,348
Other, net .....	(989)	(823)	(8,388)
Subtotal .....	640	1,488	5,428
Interest and dividends received .....	155	142	1,315
Interest paid .....	(114)	(158)	(967)
Income taxes paid .....	(2)	(601)	(17)
Net cash provided by operating activities .....	679	871	5,759
<b>Cash flows from investing activities:</b>			
Purchase of time deposits .....	(117)	(78)	(992)
Proceeds from redemption of time deposits .....	99	130	840
Purchase of marketable securities .....	—	(0)	—
Proceeds from sales of marketable securities .....	—	65	—
Purchase of property and equipment .....	(1,223)	(2,105)	(10,373)
Proceeds from sales of property and equipment .....	87	92	738
Purchase of investments in securities .....	(67)	(36)	(568)
Proceeds from sales of investments in securities .....	1	70	8
Investments in loans receivable .....	(3)	(1)	(25)
Proceeds from collection of loans receivable .....	15	16	127
Other, net .....	5	15	42
Net cash used in investing activities .....	(1,203)	(1,832)	(10,203)
<b>Cash flows from financing activities:</b>			
Net decrease in short-term loans .....	(1,846)	(136)	(15,657)
Proceeds from long-term debt .....	1,790	280	15,182
Repayment of long-term debt .....	(439)	(449)	(3,723)
Purchase of treasury stock .....	(8)	(8)	(68)
Dividends paid .....	(273)	(273)	(2,316)
Dividends paid to minority interests .....	(6)	(8)	(51)
Net cash used in by financing activities .....	(782)	(594)	(6,633)
<b>Net decrease in cash and cash equivalents .....</b>	<b>(1,306)</b>	<b>(1,555)</b>	<b>(11,077)</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>14,034</b>	<b>16,040</b>	<b>119,033</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥12,728</b>	<b>¥14,485</b>	<b>\$107,956</b>

The accompanying Notes are an integral part of these statements.

# NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## TONAMI TRANSPORTATION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

### 1. Basis of presenting financial statements

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

U.S. dollar amounts presented in the unaudited financial statements are included solely for convenience and should not be construed as representations that Japanese yen amounts have been or could in the future be converted into U.S. dollars. The rate of ¥117.90 = U.S.\$1, prevailing on September 30, 2006, has been used for the translation into U.S. dollar amounts in the unaudited financial statements.

#### *Change in Important Items that Form the Basis for Preparation of Interim Consolidated Financial Statements*

Accounting Standards for Presentation of Net Assets in the Balance Sheet

Effective from the interim fiscal period under review, the Company has adopted Accounting Standards for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Corporate Accounting Standard No. 5, December 9, 2005) and Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan, Corporate Accounting Standard Implementation Guidance No. 8, December 9, 2005).

The change had no impact on profit and loss.

The amount corresponding to the previous "Total shareholders' equity" is ¥46,836 million (US\$397,252 thousand).

Owing to the revision of the regulations for interim consolidated financial statements, the interim consolidated financial statements for the period under review were prepared in accordance with the revised regulations for interim consolidated financial statements.

### 2. Fair Value of Securities

No trading securities or held-to-maturity securities were held at September 30, 2006 or 2005. Securities classified as other securities are included in "marketable securities" and "investments in securities" in the accompanying unaudited consolidated balance sheets.

#### *Change of Accounting Category for Selling, General, and Administrative Expenses and Cost of Sales*

In view of the increased importance of the Company's information processing operations, beginning with the interim fiscal period under review the Company has changed the information processing operations to a divisional structure, as is the case with its other business operations.

Previously, expenses incurred in the conduct of information processing operations were recorded as selling, general, and administrative expenses. Beginning with the interim fiscal period under review, in order to more appropriately present gross operating income the Company has included information processing business expenses in operating cost so that they directly correspond to operating revenues.

As a result of this change, as compared to the previous accounting treatment, operating cost increased ¥266 million (US\$2,256 thousand), and gross operating income decreased by the same amount. As selling, general, and administrative expenses decreased by the same amount, the change has had no effect on operating income, income before taxes and minority interests, or net income.

#### *Change in Method of Presentation*

Interim Consolidated Balance Sheets

Effective from the interim fiscal period under review, items recorded in the consolidation difference account in previous interim consolidated accounting periods are expressed as goodwill or negative goodwill.

Interim Consolidated Statements of Operations  
Effective from the interim fiscal period under review, items recorded as amortization of consolidation difference account in previous interim consolidated accounting periods are expressed as amortization of negative goodwill.

Interim Consolidated Statements of Cash Flows  
Effective from the interim fiscal period under review, items recorded as amortization of consolidation difference account in previous interim consolidated accounting periods are expressed as amortization of goodwill.

The components of unrealized gain or loss on marketable securities classified as other securities at September 30, 2006 and 2005 are summarized as follows:—

	Millions of yen		
	Acquisition costs	2006 Carrying value	Unrealized gain(loss)
Unrealized gain:			
Stocks	¥2,512	¥5,912	¥3,400
Bonds:			
Corporate bonds	20	21	1
Other	—	—	—
Other	—	—	—
Unrealized loss:			
Stocks	78	62	(16)
Bonds:			
Corporate bonds	101	94	(7)
Other	100	98	(2)
Total	¥2,811	¥6,187	¥3,376

	Millions of yen		
	2006	2005	
	Acquisition costs	Carrying value	Unrealized gain(loss)
Unrealized gain:			
Stocks	¥2,555	¥5,821	¥3,266
Bonds:			
Corporate bonds	20	20	0
Other	—	—	—
Other	—	—	—
Unrealized loss:			
Stocks	8	7	(1)
Bonds:			
Corporate bonds	—	—	—
Other	—	—	—
Other	100	99	(1)
Total	¥2,683	¥5,947	¥3,264
	Thousands of U.S. dollars		
	2006	2005	
	Acquisition costs	Carrying value	Unrealized gain(loss)
Unrealized gain:			
Stocks	\$21,306	\$50,144	\$28,838
Bonds:			
Corporate bonds	170	178	8
Other	—	—	—
Other	—	—	—
Unrealized loss:			
Stocks	662	526	(136)
Bonds:			
Corporate bonds	856	798	(58)
Other	—	—	—
Other	848	831	(17)
Total	\$23,842	\$52,477	\$28,635

### 3. Short-term bank loans and long-term debt

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

Short-term bank loans as at September 30, 2006 and 2005 were as follows:—

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Secured	¥ 3,255	¥ 3,635	\$ 27,608
Unsecured	10,839	12,193	91,934

Interest rates range from 0.6% to 2.6%.

#### (b) Long-term debt

Long-term debt as at September 30, 2006 and 2005 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
0.89% ¥6.4 billion unsecured straight bonds due 2008	¥ 6,400	¥ 6,400	\$ 54,283
0.52% ¥0.6 billion unsecured straight bonds due 2008	600	600	5,089
0.00% ¥2.5 billion unsecured convertible bond type—bonds with stock acquisition rights due 2009	2,500	2,500	21,204
0.7%–3.7% loans from financial institutions due 2006 to 2010 and thereafter			
Secured	1,140	1,369	9,669
Unsecured	2,380	748	20,187
Total	13,020	11,617	110,432
Less: amount due within one year	729	417	6,183
	¥12,291	¥11,200	\$104,249

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

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

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

#### (c) Pledged assets

Property and equipment having a net value of ¥15,674 million (\$132,943 thousand) was pledged as collateral for short-term bank loans and long-term debt.

#### 4. Cash flow statements

Reconciliation of cash and time deposits shown in the unaudited consolidated balance sheets and cash and cash equivalents shown in the unaudited consolidated statements of cash flows as at September 30, 2006 and 2005 is as follows:—

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and time deposits	¥11,956	¥13,672	\$101,408
Time deposits with maturities exceeding three months	(228)	(187)	(1,934)
Cash equivalents included in marketable securities	1,000	1,000	8,482
Bonds with maturities exceeding three months	—	—	—
Cash and cash equivalents	¥12,728	¥14,485	\$107,956

#### 5. Amounts per share

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

Although dilutive securities were outstanding, diluted net income per share for the six months ended September 30, 2005 was not disclosed because of the net loss in this period.

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

Amounts per share of common stock for the six months ended September 30, 2006 and 2005 were as follows:—

	Yen		U.S. dollars
	2006	2005	2006
Net income (loss) per share:			
Basic	¥ 6.76	(¥ 63.52)	\$0.0573
Diluted	6.30	—	0.0534
Net assets per share	¥515.05	¥505.97	\$4.3685

Basis for the calculation of net income (loss) per share and diluted net income per share for the six months ended September 30, 2006 and 2005 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Net income (loss) available to shareholders of common stock:			
Net income (loss)	¥615	(¥5,780)	\$5,216
Net income (loss) not available to shareholders of common stock: [of which appropriation of bonuses to directors and statutory auditors]	(—)	(—)	(—)
Net income (loss) available to shareholders of common stock	615	(¥5,780)	\$5,216
Weighted-average number of shares of common stock outstanding	90,952,300	90,991,074	—
Diluted net income available to shareholders of common stock:			
Adjustments to net income: [of which commission for bonds]	¥ — (—)	¥ — (—)	\$ — (—)
Incremental number of shares of common stock: [of which stock acquisition rights]	6,738,544 (6,738,544)	— (—)	— (—)
Common stock equivalents not included computation of diluted net income per share due to their anti-dilutive effect			

Stock options (The grant of 1,340 options was approved at the Company's Annual General Meeting of Shareholders held on June 29, 2005.)

(a) Stock acquisition rights (The ¥2.5 billion convertible bond type-bonds with stock acquisition rights to mature on September 30, 2009)

(b) Stock options (The grant of 1,340 options was approved at the Company's Annual General Meeting of Shareholders held on June 29, 2005.)

#### 6. Subsequent event

At a meeting held on November 13, 2006, the board of directors of the Company resolved the following interim cash dividends:—

	Millions of yen	Thousands of U.S. dollars
Dividends (¥3.00 per share)	¥273	\$2,316

## 7. Segment Information

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

A summary of segment information by industry segment for the six months ended September 30, 2006 and 2005 is as follows:—

	For the six months ended September 30, 2006				
	Millions of yen				
	Logistics	Others	Total	Eliminations (Note)	Consolidated
Net Sales:					
Outside customers .....	¥58,426	¥5,831	¥64,257	¥ —	¥64,257
Inter segment sales .....	12	3,804	3,816	(3,816)	—
Total .....	58,438	9,635	68,073	(3,816)	64,257
Costs and expenses .....	57,826	9,461	67,287	(3,785)	63,502
Operating income .....	¥ 612	¥ 174	¥ 786	¥ (31)	¥ 755
	For the six months ended September 30, 2005				
	Millions of yen				
	Logistics	Others	Total	Eliminations (Note)	Consolidated
Net Sales:					
Outside customers .....	¥ 57,794	¥ 5,337	¥ 63,131	¥ —	¥ 63,131
Inter segment sales .....	146	3,675	3,821	(3,821)	—
Total .....	57,940	9,012	66,952	(3,821)	63,131
Costs and expenses .....	57,499	8,592	66,091	(3,754)	62,337
Operating income .....	¥ 441	¥ 420	¥ 861	¥ (67)	¥ 794
	For the six months ended September 30, 2006				
	Thousands of U.S. dollars				
	Logistics	Others	Total	Eliminations (Note)	Consolidated
Net Sales:					
Outside customers .....	\$495,556	\$49,457	\$545,013	\$ —	\$545,013
Inter segment sales .....	101	32,265	32,366	(32,366)	—
Total .....	495,657	81,722	577,379	(32,366)	545,013
Costs and expenses .....	490,466	80,246	570,712	(32,103)	538,609
Operating income .....	\$ 5,191	\$ 1,476	\$ 6,667	\$ (263)	\$ 6,404

Note: Operating cost and expenses included in the column "Eliminations" mainly consist of those charged by the general affairs and finance divisions of the Company, amounting to ¥64 million (\$543 thousand) and ¥95 million (\$806 thousand) for the six months ended September 30, 2006 and 2005, respectively.

The two business segments mainly consist of the following services:

Logistics ..... Road haulage, freight forwarding, warehousing, and harbor transport and customs services

Others ..... Vehicle maintenance, casualty insurance, leasing, merchandising and commissioned sales and purchases, travel services, mail order services, travel inn, information processing, and other businesses

### **Change in the Business Segmentation Method**

In view of the increased importance of the Company's information processing operations, the Company has changed the information processing operations to a divisional structure, as is the case with its other business operations. In order to classify its businesses in more appropriate business segments that reflect the actual state of the business, beginning with the interim fiscal period under review the Company has transferred information processing operations from the Logistics-Related Businesses segment to the Other Businesses segment.

As a result of this change, as compared to the previous accounting treatment, for the interim fiscal period under review operating revenues from logistics-related businesses decreased ¥439 million (US\$3,723 thousand), operating revenues from other businesses increased ¥385 million (US\$3,265 thousand), and eliminations increased ¥54 million (US\$458 thousand). Operating cost and expenses of logistics-related businesses decreased ¥313 million (US\$2,655 thousand), operating cost and expenses of other businesses increased ¥259 million (US\$2,197 thousand), and eliminations increased ¥54 million (US\$458 thousand). Operating income from logistics-related businesses decreased ¥126 million (US\$1,069 thousand), and operating income from other businesses increased ¥126 million (US\$1,069 thousand).

Neither geographical segment information nor overseas sales have been presented because none of the Company's consolidated subsidiaries are domiciled outside Japan, and the Company and its consolidated subsidiaries had no overseas sales for the six months ended September 30, 2006 and 2005.

## CONSOLIDATED SUBSIDIARIES

<b>Location (Prefecture)</b>	<b>Company Name</b>	<b>Business Line</b>
Tokyo	Tonami Business Service Co., Ltd.	Financial service
	Tonami Air Service Co., Ltd.	Customs clearance service
Ibaraki	Ibaraki Tonami Transportation Co., Ltd.	Road haulage
Kanagawa	Shonan Tonami Transportation Co., Ltd.	Road haulage
	Kanagawa Tonami Transportation Co., Ltd.	Road haulage
	Tonami Global Logistics Co., Ltd.	Harbor transport service
Saitama	Kanto Tonami Transportation Co., Ltd.	Road haulage
	Saitama Tonami Transportation Co., Ltd.	Road haulage
Niigata	Niigata Tonami Transportation Co., Ltd.	Road haulage
Toyama	Gosei Tonami Transportation Co., Ltd.	Road haulage
	Zento Transportation Co., Ltd.	Road haulage
	ATS Co., Ltd.	Road haulage
	Tonami Trading Co., Ltd.	Trading Company
	Toyo Gomu Hokuriku Hanbai Co., Ltd.	Sale of tires
	Toyama Jizake Hanbai Co., Ltd.	Sale of liquor
	Toyo Tire Toyama shop Co., Ltd.	Sale of tires
	Tonami Staff Support Co., Ltd.	Detached service
	Shogawa Kanko Co., Ltd.	Travel inns
Tonami Automobile Technology Research Institute Co., Ltd.	Automobile technology R&D	
Ishikawa	Ishikawa Tonami Transportation Co., Ltd.	Road haulage
Fukui	Fukui Tonami Transportation Co., Ltd.	Road haulage
	Takefu Transportation Co., Ltd.	Road haulage
Aichi	Chukyo Tonami Transportation Co., Ltd.	Road haulage
Shiga	Kawai Transportation Co., Ltd.	Road haulage
Kyoto	Keishin Warehousing Co., Ltd.	Warehousing
	Keishin System Research Co., Ltd.	Development and sale of software
Osaka	Osaka Tonami Transportation Co., Ltd.	Road haulage
	Kansai Tonami Transportation Co., Ltd.	Road haulage

## **BOARD OF DIRECTORS AND STATUTORY AUDITORS**

### **Chairman and Representative Director**

Yoshihiro Minami

### **President and Representative Director**

Katsusuke Watanuki

### **Senior Managing Director**

Akiyoshi Kunisada

### **Managing Director**

Kohichi Kishida

Shigeki Sakamoto

### **Director and Adviser**

Yohsuke Konishi

### **Directors**

Noriaki Murata

Kiyomi Asamizu

Yasuo Terabayashi

Yoshinobu Watanabe

Toshiyuki Koroku

Shigeyuki Okada

### **Standing Statutory Auditors**

Makoto Nagai

Nariyuki Aoki

### **Statutory Auditors**

Shinichiro Inushima

Toshio Yaeda

Yohji Ishiguro

(As of September 30, 2006)

## **CORPORATE DATA**

### **Head Office**

2-12, Showa-machi 3-chome, Takaoka,  
Toyama Prefecture 933-8566, Japan

Phone: (0766) 21-1073

Fax: (0766) 21-3640

### **Tokyo Headquarters**

3-8, Higashinohonbashi 3-chome, Chuo-ku,  
Tokyo 103-0004, Japan

Phone: (03) 3664-5401

Fax: (03) 3664-5405

### **Date of Establishment**

June 1943

### **Common Stock**

¥14,183 million

### **Issued and Outstanding Shares**

97,610,118 shares

### **Shareholders**

7,994

### **Employees**

5,236

### **Terminals**

84

### **Warehouses**

47

### **Motor Vehicles**

5,548

(As of September 30, 2006)



**TONAMI**

**TONAMI TRANSPORTATION CO., LTD.**

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