

2017 Semiannual Report

For the six-month period ended September 30, 2016

TONAMI HOLDINGS CO., LTD.



TONAMI

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Forward-Looking Statements

This report includes forward-looking statements that represent Tonami Group'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

I welcome this opportunity to report to our shareholders and investors on the Group's operating environment and business results for the six-month period ended September 30, 2016.

Initiatives in and Performance for the First six-month period

During the first six-month period, the Japanese economy continued to be at a standstill due to the impact of the slowdown in economic growth centered around emerging countries and the U.K.'s departure from the E.U. on the financial market, the rapid strengthening of the yen, the falling stock prices, as

well as the regression of the recovery in corporate earnings and lower business confidence.

The Group has begun implementing 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!"

As a part of our initiatives, in July 2016, the Group acquired all the issued and outstanding shares of Chuo Reizo Co., Ltd. (West Ward, Hiroshima City), which is involved in the business of three-temperature-zone logistics, to create new corporate value, make the transportation services more sophisticated and expand

UNAUDITED CONSOLIDATED FINANCIAL HIGHLIGHTS

TONAMI HOLDINGS CO., LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Six months ended September 30, 2016	Six months ended September 30, 2015	Six months ended September 30, 2016
For the period:			
Operating revenues	¥ 60,679	¥ 60,325	\$ 600,071
Logistics	56,240	55,575	566,176
Information processing	1,355	1,479	13,406
Sales	2,440	2,929	24,139
Others	642	340	6,350
Operating income	2,439	2,344	24,121
Net income attributable to owners of the parent	2,020	1,589	19,980
Total comprehensive income	2,230	1,885	22,058
Per share (yen and U.S. dollars) (Note 2)			
Net income, basic	¥ 22.28	¥ 17.52	\$ 0.2203
Net income, diluted (Note 3).....	—	—	—
Cash dividends	3.50	3.00	0.0346
	September 30, 2016	March 31, 2016	September 30, 2016
At period-end:			
Total assets	¥123,240	¥121,212	\$1,218,753
Total net assets	59,079	57,169	584,253

- Notes: 1. These financial statements are in principle presented in Japanese yen, and U.S. dollar amounts presented herein are included solely for the convenience of readers outside Japan. The rate of ¥101.12 = U.S.\$1, prevailing on September 30, 2016, has been used for the translation into U.S. dollar amounts. Such translation should not be construed as representations that the Japanese yen amount can be or have been converted into U.S. dollars at that rate.
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 period.
3. Diluted net income per share is not presented for the six months ended September 30, 2016 and 2015, since there were no potentially dilutive securities.

the scope of business in the sales and procurement markets.

In order to further strengthen its business structure in the second half of this fiscal year, in October 2016, the Group acquired all the issued and the outstanding shares of Take One Corporation (Kawaguchi City, Saitama), which is involved in the business of delivering and installing home electronics mainly through mass merchandisers in order to exert the Group's actual forwarding capabilities and know-how related to region-based delivery services and to continue expanding its business.

Full-Year Outlook

The Group continues its efforts in improving utilization rates of its facilities that open in this fiscal year. In addition, the Group will strive to strengthen its growth structure for the future, by effectively using management resources such as in the development of facilities scheduled to open (Kiyosu City, Aichi), expanding the revenue base via actively engaging in business and capital alliances and M&As, cooperating even more closely with business partners, and promoting the effective utilization of information technology.

Interim Dividend

We have paid an interim dividend of ¥3.50 per share. We will continue making a concerted effort to raise business performance so as to meet the expectations of our shareholders. In all our endeavors, we will be sincerely grateful for your continued support.

December 2016



Katsusuke Watanuki
President and Representative Director

OVERVIEW OF OPERATIONS

Market Conditions

In the logistics industry, on the back of a decrease in domestic demand, a strong yen, fluctuations in fuel prices and a sluggish volume of domestic transportation, the market was weak on the whole. Under these circumstances, in the road haulage business and the freight forwarding business, we strove to secure stable revenues by expanding businesses with new customers while deepening relationships with existing ones. Amid the progressing trend of outsourcing and cost cutting of logistics operations among freight owning companies, we strove to expand our businesses, including third-party logistics (3PL), an area of focus.

Results of Operations

As a result, the Group's operating revenues during the six months ended September 30, 2016 amounted to ¥60,679 million, an increase of 0.6% compared with the same period of the previous year.

With regard to profits, amid cost increases reflecting soaring subcontractor fees and rising raw materials costs, operating income increased 4.1% to ¥2,439 million as a result of our efforts mainly in thorough revenue management in line with ongoing structural reform of business, productivity improvement of existing businesses and reduction of fuel expenses. Net income attributable to owners of the parent increased 27.1% to ¥2,020 million.

RESULTS BY SEGMENT

Logistics

Regarding the logistics-related business, owing to factors including a gradual recovery in needs for logistics and the opening of new distribution centers, operating revenues from the logistics-related business amounted to ¥56,240 million, an increase of 1.2% compared with the same period of the previous year. As a result of an increasing revenue trend in line with increased freight transportation volume and the enhancement of distribution center operations, segment income was ¥2,227 million, an increase of 9.9%.

Information Processing Business

Operating revenues from the information processing business were ¥1,355 million, a decrease of 8.4%. Segment income was ¥119 million, a decrease of 4.7%.

Sales Businesses

Operating revenues from the sales business, which includes merchandising, consignment sales and a non-life insurance agency, amounted to ¥2,440 million, a decrease of 16.7%. Segment income was ¥41 million, a decrease of 64.4%.

Others Businesses

Operating revenues from other businesses, which include automobile repair and direct mail service, amounted to ¥642 million, an increase of 88.4%. Segment income was ¥97 million, an increase of 62.9%.

UNAUDITED CONSOLIDATED BALANCE SHEETS
TONAMI HOLDINGS CO., LTD. AND CONSOLIDATED SUBSIDIARIES

September 30, 2016 and March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	September 30, 2016	March 31, 2016	September 30, 2016
ASSETS			
Current assets:			
Cash and time deposits	¥ 15,366	¥ 13,380	\$ 151,962
Trade receivables:			
Notes and accounts	19,377	20,587	191,631
Less: allowance for doubtful accounts	(29)	(32)	(288)
Inventories (Note 2)	737	528	7,290
Deferred tax assets	613	752	6,069
Other current assets	2,441	2,201	24,148
Total current assets	38,507	37,418	380,813
Property and equipment:			
Land	40,359	40,024	399,125
Buildings and structures	20,085	20,373	198,630
Machinery and vehicles	2,478	2,202	24,511
Other	8,416	8,256	83,233
Total property and equipment	71,340	70,857	705,499
Investments and other assets:			
Investments in securities	8,157	7,866	80,669
Goodwill	60	7	602
Other	5,174	5,062	51,171
Total investments and other assets	13,392	12,936	132,441
Total assets	¥123,240	¥121,212	\$1,218,753

The accompanying Notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	September 30, 2016	March 31, 2016	September 30, 2016
LIABILITIES			
Current liabilities:			
Short-term bank loans	¥ 9,940	¥ 10,590	\$ 98,299
Current portion of long-term debt	711	2,645	7,041
Trade notes and accounts payable	11,105	11,254	109,823
Income taxes payable	959	1,211	9,485
Other current liabilities	9,223	9,061	91,211
Total current liabilities	31,939	34,761	315,858
Long-term liabilities:			
Long-term debt, less current portion thereof	11,907	8,453	117,760
Deferred tax liability	1,400	1,691	13,853
Deferred tax liabilities from revaluation reserve for land	3,777	3,777	37,359
Net defined benefit liability	7,107	7,093	70,292
Retirement benefits for directors and corporate auditors	111	113	1,099
Other long-term liabilities	7,915	8,150	78,278
Total long-term liabilities	32,221	29,280	318,642
Total liabilities	64,160	64,042	634,500
NET ASSETS			
Shareholders' equity:			
Common stock:			
Authorized: 299,200,000 shares at September 30, 2016 299,200,000 shares at March 31, 2016			
Issued: 97,610,118 shares at September 30, 2016 97,610,118 shares at March 31, 2016	14,182	14,182	140,256
Capital surplus	11,699	11,699	115,696
Retained earnings	26,965	25,262	266,670
Treasury stock, at cost: 6,915,550 shares at September 30, 2016 and 6,913,952 shares at March 31, 2016	(2,036)	(2,035)	(20,135)
Total shareholders' equity	50,811	49,109	502,487
Accumulated other comprehensive income:			
Unrealized gain on securities	1,679	1,532	16,613
Revaluation reserve for land	6,381	6,381	63,107
Remeasurements of defined benefit plans	178	119	1,761
Total accumulated other comprehensive income	8,239	8,032	81,480
Non-controlling interests:			
Non-controlling interests	28	28	286
Total net assets	59,079	57,169	584,253
Total liabilities and net assets	¥123,240	¥121,212	\$1,218,753

**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
TONAMI HOLDINGS CO., LTD. AND CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Operating revenues:			
Operating revenues	¥60,679	¥60,325	\$600,071
	60,679	60,325	600,071
Operating costs and selling, general and administrative expenses:			
Operating cost	55,193	55,045	545,817
Selling, general and administrative expenses	3,046	2,936	30,132
	58,240	57,981	575,950
Operating income	2,439	2,344	24,121
Other income and expenses:			
Interest and dividend income	174	179	1,722
Equity in earnings of affiliates	47	33	466
Gain on disposal/sales of property and equipment, net	37	55	367
Interest expenses	(120)	(138)	(1,196)
Other, net	84	41	835
	221	170	2,194
Income before income taxes	2,661	2,514	26,315
Income taxes:			
Current	912	912	9,028
Deferred	(275)	9	(2,729)
	637	921	6,300
Net income	2,024	1,593	20,016
Net income attributable to non-controlling interests	3	4	36
Net income attributable to owners of the parent	¥ 2,020	¥ 1,589	\$ 19,980
Net income attributable to non-controlling interests	3	4	36
Net income	2,024	1,593	20,016
Other comprehensive income			
Valuation difference on other securities	148	238	1,464
Remeasurements of defined benefit plans	58	53	581
Share of other comprehensive income of associates accounted for using equity method	(0)	0	(2)
Total other comprehensive income	206	291	2,042
Total comprehensive income	2,230	1,885	22,058
Total comprehensive income attributable to:			
Owners of the parent	2,226	1,880	22,022
Non-controlling interests	3	4	36

The accompanying Notes are an integral part of these statements.

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

For the six months ended September 30, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes	¥ 2,661	¥ 2,514	\$ 26,315
Depreciation and amortization	2,368	2,242	23,422
Gain on disposal/sales of property and equipment, net	(37)	(55)	(367)
Loss on devaluation of investments in securities	0	7	1
Amortization of goodwill	4	1	47
Equity in earnings of unconsolidated subsidiaries and affiliates	(47)	(33)	(466)
Decrease in allowance for doubtful accounts	(70)	(22)	(700)
Increase (decrease) in net defined benefit liability	96	57	958
Decrease in directors' and corporate auditors' retirement benefits	(2)	(28)	(20)
Increase in accrued bonuses to employees	41	80	408
Interest and dividend income	(174)	(179)	(1,722)
Interest expenses	120	138	1,196
Decrease in trade receivables	1,335	1,089	13,207
Increase in inventories	(106)	(297)	(1,056)
Decrease in accounts payable	(205)	(663)	(2,037)
(Decrease) increase in accrued consumption taxes	(184)	(1,162)	(1,823)
Other, net	375	(827)	3,717
Subtotal	6,176	2,862	61,081
Interest and dividends received	174	179	1,722
Interest paid	(119)	(140)	(1,178)
Income taxes paid	(1,238)	(1,057)	(12,249)
Net cash provided by operating activities	4,993	1,843	49,377
Cash flows from investing activities:			
Purchase of time deposits	(16)	(24)	(164)
Proceeds from redemption of time deposits	22	34	218
Purchase of property and equipment	(1,342)	(1,080)	(13,276)
Proceeds from sales of property and equipment	91	375	901
Purchase of investments in securities	(46)	(28)	(461)
Payment for purchase of investments in consolidated subsidiaries	(257)	—	(2,549)
Investments in loans receivable	(263)	(214)	(2,602)
Proceeds from collection of loans receivable	246	219	2,441
Other, net	(19)	29	(194)
Net cash used in investing activities	(1,586)	(689)	(15,687)
Cash flows from financing activities:			
Net decrease in short-term loans	(750)	(130)	(7,417)
Proceeds from long-term debt	3,500	100	34,612
Repayment of long-term debt	(2,343)	(645)	(23,177)
Repayments of lease obligations	(1,501)	(756)	(14,847)
Purchase of treasury stock	(0)	(4)	(4)
Dividends paid	(317)	(317)	(3,140)
Dividends paid to non-controlling interests	(2)	(1)	(29)
Net cash used in financing activities	(1,415)	(1,755)	(14,002)
Net increase (decrease) in cash and cash equivalents	1,990	(601)	19,689
Cash and cash equivalents at beginning of period	13,359	12,185	132,113
Cash and cash equivalents at end of period (Note 3)	¥15,350	¥11,584	\$151,802

The accompanying Notes are an integral part of these statements.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

TONAMI HOLDINGS CO., LTD. AND CONSOLIDATED SUBSIDIARIES

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 ¥101.12 to U.S.\$1, the approximate rate of exchange at September 30, 2016. 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. Inventories

Inventories as at September 30, 2016 consisted of merchandise of ¥425 million (\$4,207 thousand), raw materials and supplies of ¥194 million (\$1,927 thousand), and work in process of ¥116 million (\$1,156 thousand).

3. 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 September 30, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	September 30, 2016	September 30, 2015	September 30, 2016
Cash and time deposits	¥15,366	¥11,641	\$151,962
Time deposits with maturities exceeding three months	(16)	(57)	(160)
Cash and cash equivalents	¥15,350	¥11,584	\$151,802

4. Amounts per share

Net income per share

	Yen		U.S. dollars
	Six months ended September 30, 2016	Six months ended September 30, 2015	Six months ended September 30, 2016
Basic	¥22.28	¥17.52	\$0.2203
Diluted	—	—	—
Cash dividends	3.50	3.00	0.0346

Basis for the calculation of net income per share for the six months ended September 30, 2016 and 2015 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	Six months ended September 30, 2016	Six months ended September 30, 2015	Six months ended September 30, 2016
Net income per share:			
Net income	¥2,020	¥1,589	\$19,980
Net income not available to shareholders of common stock	—	—	—
Net income available to shareholders of common stock	2,020	1,589	19,980
Weighted-average number of shares of common stock outstanding (shares)	90,695,906	90,708,495	

Diluted net income per share is not presented for the six months ended September 30, 2016 and 2015 since there were no outstanding potentially dilutive securities.

5. Subsequent events

At a meeting held on November 8, 2016, the board of directors of the Company resolved the following interim cash dividends:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.50 per share)	¥317	\$3,140

6. Segment information

Information on operating revenues and income/loss by reportable segment

(a) For the six months ended September 30, 2015

	Millions of yen							
	Reportable segment				Others *1	Total	Adjustment *2	Consolidated *3
	Logistics	Information processing	Sales	Total				
Operating revenues:								
1. Revenues from outside customers	¥55,575	¥1,479	¥2,929	¥59,985	¥340	¥60,325	¥ —	60,325
2. Intersegment revenues or transfers	11	164	1,853	2,029	134	2,164	(2,164)	—
Total	55,587	1,644	4,783	62,014	475	62,490	(2,164)	60,325
Segment income	¥ 2,027	¥ 125	¥ 117	¥ 2,269	¥ 59	¥ 2,329	¥ 14	¥ 2,344

(b) For the six months ended September 30, 2016

	Millions of yen							
	Reportable segment				Others *1	Total	Adjustment *2	Consolidated *3
	Logistics	Information processing	Sales	Total				
Operating revenues:								
1. Revenues from outside customers	¥56,240	¥1,355	¥2,440	¥60,037	¥642	¥60,679	¥ —	60,679
2. Intersegment revenues or transfers	9	220	1,726	1,956	75	2,032	(2,032)	—
Total	56,250	1,576	4,167	61,993	718	62,711	(2,032)	60,679
Segment income	¥ 2,227	¥ 119	¥ 41	¥ 2,389	¥ 97	¥ 2,486	¥ (47)	¥ 2,439

	Thousands of U.S. dollars							
	Reportable segment				Others *1	Total	Adjustment *2	Consolidated *3
	Logistics	Information processing	Sales	Total				
Operating revenues:								
1. Revenues from outside customers	\$556,176	\$13,406	\$24,139	\$593,721	\$6,350	\$600,071	\$ —	\$600,071
2. Intersegment revenues or transfers	96	2,180	17,074	19,349	751	20,100	(20,100)	—
Total	556,271	15,586	41,213	613,070	7,101	620,171	(20,100)	600,071
Segment income	\$ 22,028	\$ 1,185	\$ 413	\$ 23,626	\$ 961	\$ 24,586	\$ (465)	\$ 24,121

*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:

Adjustments of segment income

For the six months ended September 30, 2016 and 2015, adjustments of segment income amounted to ¥(47) million (\$ (465) thousand) and ¥14 million, respectively. Adjustments include intersegment eliminations and corporate expenses not allocated to any reportable segments.

For the six months ended September 30, 2016 and 2015, the above-mentioned intersegment eliminations amounted to ¥379 million (\$3,751 thousand) and ¥389 million, respectively, and corporate expenses not allocated to any reportable segments amounted to ¥(426) million (\$ (4,216) thousand) and ¥(374) million, respectively. Corporate expenses are mainly expenses of the Company's operations that do not belong to any reportable segments.

*3 Segment income is adjusted to operating income in the consolidated financial statements.

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
Kitakanto Tonami Transportation Co., Ltd.	Road haulage
Tonami Global Logistics Co., Ltd.	Harbor transport service
Keishin Warehouse Co., Ltd.	Warehousing

Non-logistics

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
Tonami Business Service Co., Ltd.	Financial service
Tonami Automobile Technology Research Institute Co., Ltd.	Automobile technology R&D
Chuo Reizo Co., Ltd.	Manufacturing and sales of snow and ice, refrigerated warehousing

BOARD OF DIRECTORS AND CORPORATE AUDITORS

President and Representative Director

Katsusuke Watanuki

Managing Director

Yasuo Terabayashi

Directors

Yoshimi Nagahara

Kazuo Takata

Shinichi Izumi

Takeshi Akamatsu

Mitsuharu Wadachi

Shinichiro Inushima

Ichiro Tanaka

Standing Corporate Auditors

Mitsuo Matsuda

Masafumi Takebe

Corporate Auditors

Yohji Ishiguro

Toshio Kaido

(As of September 30, 2016)

CORPORATE DATA

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Date of Establishment

June 1943

Common Stock

¥14,183 million

Issued and Outstanding Shares

97,610,118 shares

(As of September 30, 2016)



TONAMI
TONAMI HOLDINGS CO., LTD.

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