

TONAMI



TONAMI TRANSPORTATION CO., LTD.

ANNUAL REPORT 2003

NON-CONSOLIDATED FINANCIAL HIGHLIGHTS

TONAMI TRANSPORTATION CO., LTD.

Two years ended March 31, 2003

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
FOR THE YEAR:			
Service revenues	¥ 98,462	¥ 97,246	\$809,035
Operating income	1,942	1,978	16,456
Net income	578	4,407	36,664
PER SHARE (yen and U.S. dollars):			
Net income	¥ 5.92	¥ 45.10	\$ 0.3752
Cash dividends	6.00	6.00	0.0499
AT YEAR-END:			
Total assets	¥109,767	¥108,543	\$903,020
Total shareholders' equity	44,592	47,551	395,599

Notes: 1 U.S. dollar amounts presented herein are included solely for convenience. The rate of ¥120.20 = U.S.\$1, prevailing on 31st March, 2003, has been used for the translation into U.S. dollar amounts.

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

CONTENTS

1	PROFILE
2	A MESSAGE FROM THE PRESIDENT
4	BOARD OF DIRECTORS AND STATUTORY AUDITORS
5	FINANCIAL SECTION
34	CORPORATE DATA

TONAMI

System Distribution – Continually More to Offer



PROFILE

One of Japan's leading integrated distribution companies, Tonami has been developing solutions for the distribution needs of its customers for over 50 years. The pioneer of computerized distribution systems in Japan, the Company has a highly advanced computerized network system and strong information technology, and has recently completed an upgrade of its information network, including adding mobile connections to all of its vehicles.

In addition to Tonami's core business of road haulage services, the Company also offers rail and air freight; removal; warehousing; marketing, distribution and information management; specialty item sales; and casualty insurance agency services.

PERFORMANCE

During the first half of the fiscal year under review, the Japanese economy showed signs of recovery based on expanded exports and domestic production despite lethargic private sector capital investment and weak personal consumption. The negative pressures were compounded in the second half by anxiety caused by the situation in Iraq and a global slump in equities. In addition, deflation continued to plague the already difficult business environment.



Under these circumstances, Tonami introduced a new three-year medium-term business plan that aimed at establishing an organization that can accurately and quickly adapt to changes in the business environment. Specifically, to improve sales, we took steps to increase the quality of our transportation services and to expand sales of our logistics outsourcing services. These efforts produced significant results in the second half, but were not enough to compensate for the sales declines of the first half. Consequently, service revenues edged down 1.2%, to ¥97.2 billion.

The Company minimized the effects of falling freight prices combined with a hike in fuel costs by improving productivity through more effective use of the vehicle fleet and higher loading rates and by reducing man hours and administration costs through the use of information technology (IT). Moreover, the return of the substitutional portion of government's welfare pension fund insurance scheme had a beneficial effect on curtailing personnel expenses. Consequently, operating income edged forward 1.9%, to ¥2.0 billion. Boosted by a ¥3.5 billion gain on release from the substitutional portion of the government's scheme and a ¥2.8 billion gain of sale of land, net income surged 662%, to ¥4.4 billion.

In June 2003, Tonami celebrated its 60th anniversary. In commemoration, a special dividend of ¥2 per share was declared for the fiscal year under review. Combined with interim and year-end dividends of ¥3 per share respectively, total cash dividends for the fiscal year amounted to ¥8 per share.

Looking at divisional performance, our overall transportation business declined 1.8%. Our core transportation services, revenues from road haulage services, decreased 1.7% and accounted for 84.4% of total revenues. Among other transportation services, revenues from removal services dropped 7.3% while revenues from rail forwarding rose 4.6%. Our warehousing business remained one of our areas of growth, with its revenues increasing 5.6% and contributing 9.6% of total revenues. Revenues from other services decreased 5.8%.

STRATEGIES AND PERSPECTIVES

The quick end to the war in Iraq put the U.S. economy back on track to recovery and the Japanese economy is also viewed to be staging a mild recovery. However, a number of negative factors, including the continued low levels of personal consumption and private sector investment in Japan, suggest that real recovery is not yet in sight.

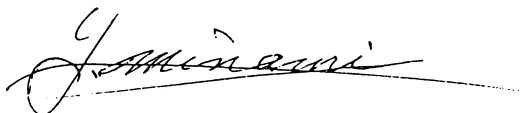
In the transportation industry, the weak economy and continued shift to overseas production make further declines in haulage volumes unavoidable, placing further pressure on performance.

Under our new three-year medium-term business plan, we will seek to stem the impact of these worsening conditions on our performance through business reform. In our sales efforts, we will continue to implement IT systems to improve administrative efficiency and productivity. And we will carry out cost reductions through thorough cost control programs that utilize administrative expense management systems to assess costs versus their benefits.

We are revising our system for managing the remaining portion of the government's welfare pension fund insurance scheme to reduce the burden of premium payments in the future. Another significant event is the October 2003 start of stricter emission standards for vehicles in the Kanto area. While we already meet these stricter requirements, we will be working to keep ahead of further hikes in emission standards. At the same time, we are proceeding with preparations to obtain ISO14001 environmental management certification during the current fiscal year. As a Group, we are wholly committed to steadily upgrading our environmental activities.

In the current fiscal year, we also will be integrating the facilities of the Hiratsuka and Atsugi offices, which are presently rather cramped, and will begin building the replacement facilities for the Kakogawa office in Hyogo Prefecture. As we move ahead to meet the challenges of the future, we look forward to the continued support of our shareholders.

August 2003

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

Yoshihiro Minami
President and Representative Director

BOARD OF DIRECTORS AND STATUTORY AUDITORS

PRESIDENT AND REPRESENTATIVE DIRECTOR

Yoshihiro Minami

STANDING STATUTORY AUDITORS

Makoto Nagai

Nariyuki Aoki

EXECUTIVE VICE PRESIDENTS

Yohsuke Konishi

Katsusuke Watanuki

STATUTORY AUDITORS

Shinichiro Inujima

Toshio Yaeta

Yoji Ishiguro

SENIOR MANAGING DIRECTOR

Akiyoshi Kunisada

(As of 27th June, 2003)

MANAGING DIRECTORS

Tsutomu Chujoh

Noriaki Murata

Kohichi Kishida

Iwao Hamano

DIRECTORS

Shigeki Sakamoto

Takashi Suzuki

6 MANAGEMENT DISCUSSION AND ANALYSIS
OF OPERATIONS AND FINANCIAL POSITION

9 NON-CONSOLIDATED FIVE-YEAR SUMMARY

10 NON-CONSOLIDATED BALANCE SHEETS

12 NON-CONSOLIDATED STATEMENTS OF
INCOME

13 NON-CONSOLIDATED STATEMENTS OF
SHAREHOLDERS' EQUITY

14 NON-CONSOLIDATED STATEMENTS OF
CASH FLOWS

15 NOTES TO THE NON-CONSOLIDATED
FINANCIAL STATEMENTS

20 REPORT OF THE INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS ON THE NON-
CONSOLIDATED FINANCIAL STATEMENTS

21 CONSOLIDATED FIVE-YEAR SUMMARY

22 CONSOLIDATED BALANCE SHEETS

24 CONSOLIDATED STATEMENTS OF INCOME

25 CONSOLIDATED STATEMENTS OF
SHAREHOLDERS' EQUITY

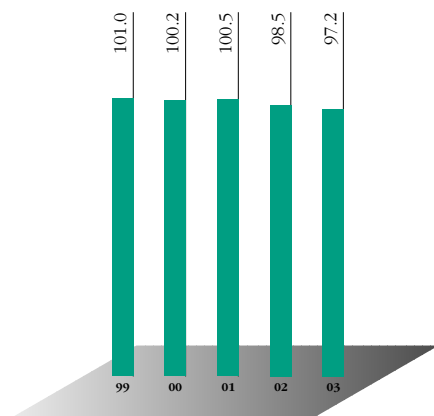
26 CONSOLIDATED STATEMENTS OF
CASH FLOWS

27 NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

33 REPORT OF THE INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS ON THE
CONSOLIDATED FINANCIAL STATEMENTS

Service Revenues

Billions of yen



ANALYSIS OF OPERATIONS

After a poor performance in the first half due to the continued slump in the Japanese economy and a weakening global economy, efforts to expand sales met with some success in the second half. However, these gains were not able to compensate for the sales declines of the first half, and service revenues for the year ended March 31, 2003 declined 1.2%, to ¥97.2 billion (\$809 million). In response to the difficult business conditions, the Company introduced a new medium-term business plan to promote accurate reading and quick response to customer needs and changes in the operating environment. Specifically, the Company improved the quality of transport services and expanded its logistics outsourcing business.

Revenues from Road Haulage

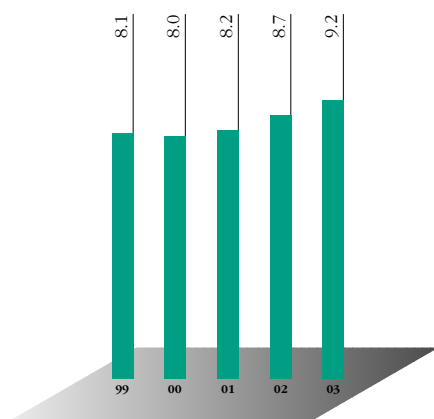
Billions of yen



Looking at performance by division, our major operations, revenues from road haulage services, decreased 1.7%, to ¥82,124 million, accounting for 84.4% of total service revenues. Business conditions continued to deteriorate, with total annual road haulage in Japan declining for the third consecutive year, competition intensifying, and prices weakening. The Company made strong efforts to contain the decline in road haulage by introducing a variety of sales efforts and service improvements.

Revenues from Warehousing

Billions of yen



Revenues from warehousing, Tonami's second largest operations, rose 5.6%, to ¥9,193 million, contributing 9.6% of total service revenues. Because of its sophisticated systems, the Company continues to be confident that demand will remain firm for its warehousing services. Revenues from removal services, which generated 1.6% of total services revenues, declined 7.3%, to ¥1,593 million. Revenues from rail forwarding services, which contributed 1.4% of total service revenues, climbed 4.6%, to ¥1,394 million, indicating that rail freight continues to provide an attractive option to trucking routes because of more reliable scheduling and highly competitive services. Revenues from other services fell 5.8%, to ¥2,939 million, accounting for 3.0% of total service revenues during the fiscal year in review.

Cost of services edged down 1.2%, to ¥92,510 million (\$770 million). Selling, general and administration expenses fell 2.9%, to ¥2,758 million (\$22.9 million). Overall, operating income expanded 1.9%, to ¥1,978 million (\$16.5 million).

Other income and expenses improved substantially to a net income of ¥6,253 million (\$52.0 million) compared with net expenses of ¥613 million in the previous fiscal year. A ¥2,793 million (\$23.2 million) gain on disposal of property and equipment, net and ¥3,502 million (\$29.1 million) in others income were mainly responsible for this improvement. Interest and dividend

income decreased 10.6%, to ¥288 million (\$2.4 million), while interest expenses declined 9.3%, to ¥330 million (\$2.7 million). Income before income taxes, therefore, amounted to ¥8,231 million (\$68.5 million) compared with ¥1,329 million a year earlier. Income taxes for the period increased substantially to ¥3,824 million (\$31.8 million), consisting of ¥1,768 million (\$14.7 million) in current income taxes and ¥2,056 million (\$17.1 million) in deferred income taxes. Consequently, the Company recorded net income of ¥4,407 million (\$36.7 million) compared with ¥578 million in the previous fiscal year. Net income per share was ¥45.10 (\$0.3752) compared with ¥5.92 per share in the previous year.

Net property and equipment declined 3.5%, to ¥57,942 million (\$482 million). Land declined 2.3%, buildings and structures edged down slightly, machinery and tools increased 3.8%, vehicles dropped 10.3%, and there was no construction in progress. Tonami continued to maintain its policy of limiting capital investment to essential areas, such as the maintenance of its haulage and warehousing network.

Investments and other assets decreased 20.2%, to ¥11,418 million (\$95.0 million) primarily due to a 57.8% reduction in deferred tax assets, to ¥1,710 million (\$14.2 million).

ANALYSIS OF FINANCIAL POSITION

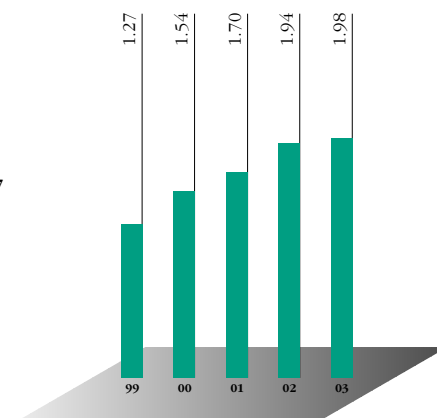
Current assets increased 10.6%, to ¥39,183 million (\$326 million), principally as a result of an increase in cash, which more than doubled to ¥15,750 million (\$131 million). Marketable securities fell 82.6%, to ¥1,362 million (\$11.3 million). Among trade receivables, notes and accounts receivable rose 2.8%, to ¥18,394 million (\$153 million).

Current liabilities jumped 25.8%, to ¥35,778 million (\$298 million), primarily because of ¥7,000 million (\$58.2 million) increase in the current portion of bonds. Accounts payable increased 11.6%, to ¥8,358 million (\$69.5 million). Income tax payable rose 20.6%, to ¥1,053 million (\$8.8 million). Other current liabilities decreased 9.4%, to ¥5,046 million (\$42.0 million). The current ratio declined to 1.10 from 1.25 in the previous year, chiefly due to the relative increase in current liabilities and the contraction in total assets.

Long-term liabilities dropped 31.4%, to ¥25,214 million (\$210 million), reflecting the decline in long-term debt, less current portion to ¥2,110 million (\$17.6 million) and the drop in employees' severance and retirement benefits to ¥17,975 million (\$150 million).

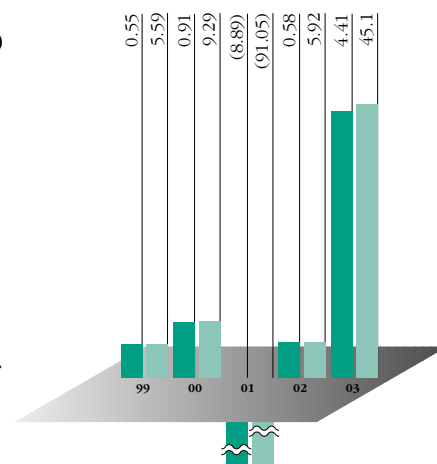
Operating Income

Billions of yen



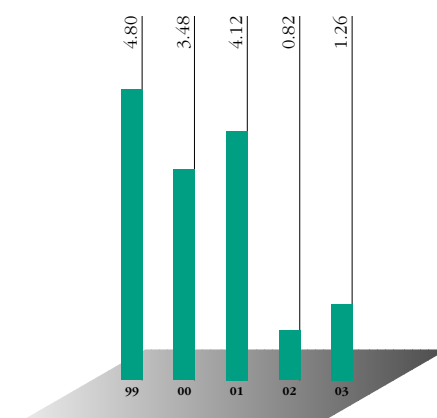
Net Income/Net Income per Share

Billions of yen/yen



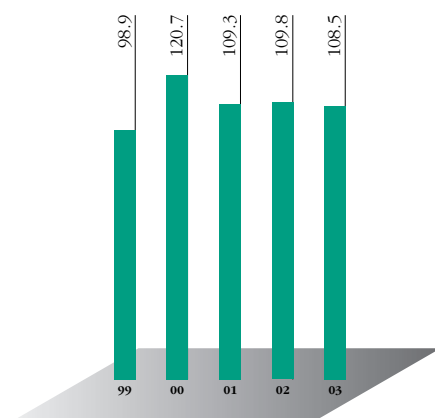
Capital Expenditures

Billions of yen



Total Assets

Billions of yen



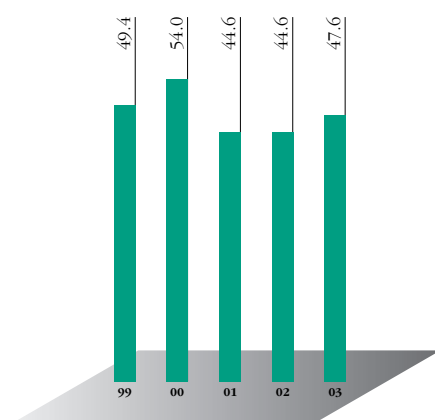
Shareholders' equity increased 6.6%, to ¥47,551 million (\$396 million), mainly because of the increase in net income for the fiscal year under review. A shift to a new accounting standard resulted in the reclassification of items under shareholders' equity in the fiscal year under review. Reflecting the increase in shareholders' equity, the equity ratio improved to 43.8% compared with 40.6% in the previous fiscal year.

ANALYSIS OF CASH FLOWS

Cash and cash equivalents at beginning of period were ¥13,862 million (\$115 million). Net cash provided by operating activities amounted to ¥3,011 million (\$25.0 million), down ¥2,538 million from the previous fiscal year. A ¥2,793 million (\$23.2 million) gain on disposal of property and equipment and a ¥3,491 million (\$29.0 million) gain on substitutional portion of government's welfare pension fund insurance scheme were the main contributors to the decline. Among other significant items in cash flow from operating activities, depreciation and amortization was ¥2,051 million (\$17.1 million), down 19.0%. There were also significant increases in trade receivables, accounts payable, and income taxes paid.

Shareholders' Equity

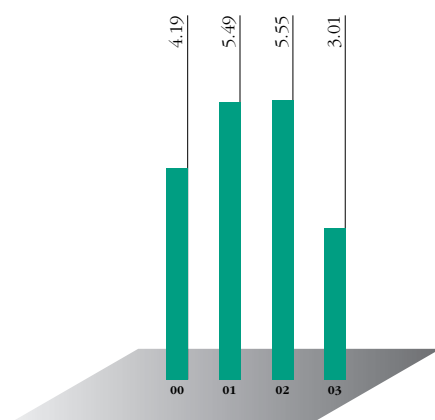
Billions of yen



Net cash provided by investing activities amounted to ¥2,995 million (\$24.9 million) compared with net cash used of ¥490 million in the previous fiscal year. The main contributor to this reversal was proceeds from sales of property and equipment, which expanded ¥4,028 million, to ¥4,088 million (\$34.0 million). Purchase of property and equipment increased ¥201 million, to ¥1,149 million (\$9.6 million).

Net Cash Provided by Operating Activities

Billions of yen



Net cash used in financing activities amounted to ¥2,242 million (\$18.7 million) compared with ¥1,039 million a year earlier. The principal reason for this increase was the purchase of ¥918 million (\$7.6 million) in treasury stock. Among fund procurement, decrease in short-term loans amounted to ¥160 million (\$1.3 million) and proceeds from long-term debt amounted to ¥148 million (\$1.2 million). Cash and cash equivalents at the end of the period, therefore, increased by ¥2,878 million (\$23.9 million) to ¥16,740 million (\$139 million), providing adequate liquidity for operations.

NON-CONSOLIDATED FIVE-YEAR SUMMARY TONAMI TRANSPORTATION CO., LTD

Years ended 31st March

	Millions of yen					Thousands of U.S. dollars	
	1999	2000	2001	2002	2003	2003	
RESULTS OF OPERATIONS:							
Service revenues	¥100,962	¥100,291	¥100,509	¥ 98,462	¥ 97,246	\$809,035	
Cost of services	97,019	96,070	95,808	93,679	92,510	769,634	
Selling, general and administrative expenses	2,675	2,678	3,006	2,841	2,758	22,945	
Operating income	1,268	1,543	1,695	1,942	1,978	16,456	
Income (loss) before income taxes	1,486	2,061	(14,915)	1,329	8,231	68,478	
Net income (loss)	551	910	(8,888)	578	4,407	36,664	
Capital expenditures	4,794	3,483	4,117	823	1,261	10,491	
Depreciation expenses	3,687	3,458	3,305	2,532	2,051	17,063	
PER SHARE (yen and U.S. dollars):							
Net income (loss)	¥ 5.59	¥ 9.29	¥(91.05)	¥ 5.92	¥ 45.10	\$0.3752	
Cash dividends	6.75	6.00	6.00	6.00	6.00	0.0499	
YEAR-END FINANCIAL POSITION:							
Total current assets	¥ 40,617	¥ 48,404	¥ 32,346	¥ 35,436	¥ 39,183	\$325,982	
Net property and equipment	48,217	61,731	61,883	60,023	57,942	482,047	
Total assets	98,901	120,697	109,261	109,767	108,543	903,020	
Total current liabilities	26,210	45,971	27,824	28,434	35,778	297,654	
Long-term liabilities, excluding of current portion thereof	23,324	20,706	36,802	36,741	25,214	209,767	
Total shareholders' equity	49,367	54,020	44,635	44,592	47,551	395,599	
OTHER YEAR-END DATA:							
Number of share outstanding (thousand)	98,410	97,610	97,610	97,610	97,610		
Number of employees	5,952	5,757	5,636	5,548	5,462		

As of 31st March, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
ASSETS			
Current assets:			
Cash	¥ 6,618	¥ 15,750	\$131,032
Marketable securities	7,823	1,362	11,331
Trade receivables:			
Notes and accounts (Note 7)	17,900	18,394	153,028
Less: allowance for doubtful accounts	(46)	(51)	(424)
Inventories	142	140	1,165
Deferred tax assets (Note 6)	549	507	4,218
Other current assets	2,450	3,081	25,632
Total current assets	35,436	39,183	325,982
Property and equipment (Notes 4 and 5):			
Land	35,968	35,140	292,346
Buildings and structures	40,588	40,633	338,045
Machinery and tools	5,868	6,091	50,674
Vehicles	19,761	17,730	147,504
Construction in progress	1	—	—
Less: accumulated depreciation	(42,163)	(41,652)	(346,522)
Net property and equipment	60,023	57,942	482,047
Investments and other assets:			
Investments in securities (Note 5)	4,511	4,108	34,176
Investments in subsidiaries and affiliates	1,584	1,631	13,569
Loans to employees	27	21	175
Deferred tax assets (Note 6)	4,054	1,710	14,226
Others	4,132	3,948	32,845
Total investments and other assets	14,308	11,418	94,991
Total assets	¥109,767	¥108,543	\$903,020

The accompanying Notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 13,520	¥ 13,360	\$111,148
Current portion of long-term debt (Note 5)	578	578	4,809
Current portion of bonds	—	7,000	58,236
Trade accounts payable (Note 7)	7,489	8,358	69,534
Deposits from employees	403	383	3,186
Income taxes payable	873	1,053	8,761
Other current liabilities	5,571	5,046	41,980
Total current liabilities	28,434	35,778	297,654
Long-term liabilities:			
Long-term debt, less current portion thereof (Note 5)	9,688	2,110	17,554
Deferred tax liabilities from revaluation reserve for land (Note 10)	5,640	5,088	42,330
Employees' severance and retirement benefits (Note 3)	21,365	17,975	149,542
Other long-term liabilities	48	41	341
Total long-term liabilities	36,741	25,214	209,767
Total liabilities	65,175	60,992	507,421
Contingent liabilities (Note 9)			
Shareholders' equity (Note 11):			
Common stock:			
Authorized: 299,200,000 shares in 2002			
299,200,000 shares in 2003			
Issued, par value ¥50 per share:			
97,610,118 shares in 2002			
97,610,118 shares in 2003			
	14,183	14,183	117,995
Capital surplus	14,687	14,687	122,188
Retained earnings	7,732	12,065	100,374
Revaluation reserve for land (Note 10)	7,872	7,494	62,346
Unrealized gain on securities	120	42	350
Treasury stock, at cost	(2)	(920)	(7,654)
Total shareholders' equity	44,592	47,551	395,599
Total liabilities and shareholders' equity	¥109,767	¥108,543	\$903,020

NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY TONAMI TRANSPORTATION CO., LTD.

For the two years ended 31st March, 2003

	Millions of yen						
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land	Unrealized gain on securities	Treasury stock
Balance as at 31st March, 2001	97,610	¥14,183	¥14,687	¥ 7,770	¥7,872	¥123	
Net income				578			
Cash dividends applicable to the year (¥6.00 per share)				(586)			
Revaluation reserve for land							
Unrealized gain on securities						(3)	
Treasury stock							¥ (2)
Bonuses to directors and statutory auditors				(30)			
Balance as at 31st March, 2002	97,610	14,183	14,687	7,732	7,872	120	(2)
Net income				4,407			
Cash dividends applicable to the year (¥6.00 per share)				(586)			
Revaluation reserve for land				542	(378)		
Unrealized gain on securities						(78)	
Treasury stock							(918)
Bonuses to directors and statutory auditors				(30)			
Balance as at 31st March, 2003	97,610	¥14,183	¥14,687	¥12,065	¥7,494	¥ 42	¥(920)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land	Unrealized gain on securities	Treasury stock	
Balance as at 31st March, 2001	\$117,995	\$122,188	\$ 64,642	\$65,491	\$1,023		
Net income			4,809				
Cash dividends applicable to the year (\$0.0499 per share)			(4,875)				
Revaluation reserve for land							
Unrealized gain on securities					(25)		
Treasury stock						\$ (17)	
Bonuses to directors and statutory auditors			(250)				
Balance as at 31st March, 2002	117,995	122,188	64,326	65,491	998	(17)	
Net income			36,664				
Cash dividends applicable to the year (\$0.0499 per share)			(4,875)				
Revaluation reserve for land			4,509	(3,145)			
Unrealized gain on securities					(648)		
Treasury stock						(7,637)	
Bonuses to directors and statutory auditors			(250)				
Balance as at 31st March, 2003	\$117,995	\$122,188	\$100,374	\$62,346	\$ 350	\$(7,654)	

The accompanying Notes are an integral part of these statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS TONAMI TRANSPORTATION CO., LTD.

For the two years ended 31st March, 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Cash flows from operating activities:			
Net income before income taxes	¥ 1,329	¥ 8,231	\$ 68,478
Depreciation and amortization	2,532	2,051	17,063
Loss (gain) on disposal of property and equipment	97	(2,793)	(23,236)
Loss (gain) on sales of marketable securities	0	(0)	(0)
Gain on release from substitutional portion of government's welfare pension fund insurance scheme	—	(3,491)	(29,043)
Gain (loss) on sales of investments in securities	(138)	39	324
Loss on devaluation of investments in securities	747	323	2,687
Loss on devaluation of golf club memberships	99	111	923
Increase (decrease) in allowance for doubtful accounts	247	(104)	(865)
Increase (decrease) in accrued employees' severance and retirement benefits	507	101	840
Increase (decrease) in accrued bonuses to employees	23	(169)	(1,406)
Interest and dividend income	(322)	(288)	(2,396)
Interest expenses	361	327	2,720
Decrease (increase) in trade receivables	1,071	(494)	(4,110)
Decrease in inventories	9	2	17
Decrease (increase) in accounts payable	(332)	872	7,255
Increase (decrease) in accrued consumption taxes	108	(156)	(1,298)
Other, net	129	75	624
Subtotal	6,467	4,637	38,577
Interest and dividends received	322	288	2,396
Interest paid	(361)	(327)	(2,720)
Income taxes paid	(879)	(1,587)	(13,203)
Net cash provided by operating activities	5,549	3,011	25,050
Cash flows from investing activities:			
Purchase of time deposits	(198)	(10)	(83)
Proceeds from redemption of time deposits	316	80	666
Purchase of marketable securities	(200)	(202)	(1,681)
Proceeds from sales of marketable securities	803	501	4,168
Purchase of property and equipment	(948)	(1,149)	(9,559)
Proceeds from sales of property and equipment	60	4,088	34,010
Purchase of investments in securities	(776)	(612)	(5,092)
Proceeds from sales of investments in securities	766	306	2,546
Liquidation of subsidiary	—	(19)	(158)
Investments in loans receivable	(1,443)	(585)	(4,867)
Proceeds from collection of loans receivable	1,283	700	5,824
Other, net	(153)	(989)	(8,228)
Net cash (used in) provided by investing activities	(490)	2,109	17,546
Cash flows from financing activities:			
Increase (decrease) in short-term loans	80	(160)	(1,331)
Proceeds from long-term debt	533	148	1,231
Repayments of long-term debt	(1,066)	(726)	(6,040)
Purchase of treasury stock	—	(918)	(7,637)
Dividends paid	(586)	(586)	(4,875)
Net cash used in financing activities	(1,039)	(2,242)	(18,652)
Effect of exchange rate change on cash and cash equivalents	—	—	—
Net increase in cash and cash equivalents	4,020	2,878	23,944
Cash and cash equivalents at beginning of year	9,842	13,862	115,324
Cash and cash equivalents at end of year	¥13,862	¥16,740	\$139,268

The accompanying Notes are an integral part of these statements.

1. Basis of presenting financial statements

The accompanying non-consolidated financial statements have been prepared from accounting records maintained by Tonami Transportation Co., Ltd. (the “Company”) in conformity with the Securities and Exchange Law of Japan and accounting principles generally accepted in Japan. However, in order to facilitate understanding for readers outside Japan, certain reclassifications have been made to the non-consolidated financial statements prepared for domestic purposes.

U.S. dollar amounts presented in the financial statements are included solely for convenience and should not be construed as representations that Japanese yen amounts have been or could in the future be converted into U.S. dollars. The rate of ¥120.20 = U.S.\$1, prevailing on 31st March, 2003, has been used for the translation into U.S. dollar amounts in the financial statements.

2. Summary of significant accounting policies

(a) Non-consolidation

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

Investments in subsidiaries and affiliates are stated at cost.

(b) Marketable securities and investments in securities

Securities for which market value is readily determinable are stated at market value as of the end of the year with unrealized gains and losses, not reflected in earnings but directly reported as a separate component of shareholders’ equity. The cost of such securities sold is determined by the moving-average method.

Securities for which market value is not readily determinable are stated at moving average cost.

(c) Allowance for doubtful accounts

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

(d) Property and equipment and intangible assets

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

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

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

- Buildings and structures 2-50 years
- Machinery and vehicles 2-15 years

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

Cost of software for internal use is amortized by the straight-line method over the estimated useful years (five years).

(e) Leases

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

(f) Employees’ severance and retirement benefits

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

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

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

(g) Stock issue expenses

Stock issue expenses are charged to income as incurred.

(h) Income taxes

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

The Company recognizes tax effects of temporary differences between the financial statement basis and the income tax basis of assets and liabilities.

(i) Net income per share of common stock

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

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, net income per share of common stock was computed based on the net income after subtracting a portion not available to shareholders of common stock.

(j) Statements of cash flows

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

(k) Reclassifications

Certain accounts and amounts stated in the shareholders' equity section of the balance sheets and the statements of shareholders' equity for the year ended 31st March, 2002 have been reclassified to conform to the presentation of the year ended 31st March, 2003.

3. Supplementary information

Employees' severance and retirement benefits

Based on the newly enacted Defined Benefit Corporate Pension Plan Law, the Company was permitted by the Minister of Health, Labor and Welfare on 13th August, 2002 to be released from its future obligation for payments for the substitutional portion of the Welfare Pension Fund Insurance Scheme.

The Company applied the provisional treatment under Clause 47-2 of "Practical Guidance for Accounting of Retirement Remuneration (Interim Report)" Report No. 13

of the Committee of Accounting System of The Association of Japan Certified Public Accountants), and accounted for assuming that the substitutional portion of the projected benefit obligation and the related pension plan assets to be transferred back to the government's scheme had been completed as of the permission date. The amount of the pension plan assets to be transferred back was ¥20,672 million (\$171,980 thousand), which was calculated as of 31st March, 2003.

4. Property and equipment

As stated above, capital gains arisen from disposals and other similar transactions are deducted from the cost of property and equipment acquired in substitution. The amount deducted in the cost of property and equipment was ¥269 million (\$2,238 thousand) and ¥269 million (\$2,238 thousand) as at 31st March, 2002 and 2003, respectively.

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

(a) Short-term bank loans

Short-term bank loans as at 31st March, 2002 and 2003 were as follows:—

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Secured	¥ 3,474	¥ 3,474	\$28,902
Unsecured	10,046	9,886	82,246

Interest rates range from 0.588% to 1.375%.

(b) Long-term debt

Long-term debt as at 31st March, 2002 and 2003 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
2.05% ¥7 billion unsecured straight bonds due 2003	¥ 7,000	¥7,000	\$58,236
1.700%-2.100% loans from financial institutions due 2004 to 2008			
Secured	1,867	1,689	14,052
Unsecured	1,400	1,000	8,319
Total	10,267	9,689	80,607
Less amount due within one year ...	578	7,578	63,045
	¥ 9,689	¥2,111	\$17,562

The maturity date of the ¥7 billion 2.05% unsecured straight bonds, issued in September 1999 is 16th September, 2003.

The annual maturities of long-term debt outstanding as at 31st March, 2002 were as follows:—

Year ending 31st March,	Millions of yen	Thousands of
		U.S. dollars
2004	¥7,578	\$63,045
2005	578	4,808
2006	378	3,145
2007	178	1,481
2008 and thereafter	977	8,128

(c) Pledged assets

As at 31st March, 2003, Property and equipment having a net value of ¥19,442 million (\$161,747 thousand) was pledged as collateral for short-term bank loans and long-term debt (including current portion of long-term debt), and investment in securities of ¥77 million (\$641 thousand) was pledged as collateral for short-term bank loans.

6. Income taxes

As described in Note 2(h), the Company recognizes tax effects of temporary differences between the financial statement basis and the income tax basis of assets and liabilities.

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

	Millions of yen		Thousands of
	2002	2003	U.S. dollars
Deferred tax assets:			
Excess bonuses accrued	¥ 327	¥ 332	\$ 2,762
Excess employees' severance and retirement benefits accrued	7,682	6,448	53,644
Other	363	411	3,419
Gross deferred tax assets ..	8,372	7,191	59,825
Valuation allowance	—	(194)	(1,614)
Total deferred tax assets ...	8,372	6,997	58,211
Deferred tax liabilities:			
Unrealized gain on securities	(86)	(28)	(233)
Reserve under Special Taxation Measures Law	(3,683)	(4,753)	(39,542)
Total deferred tax liabilities....	(3,769)	(4,781)	(39,775)
Net deferred tax assets	¥4,603	¥2,216	\$18,436

Income taxes applicable to the Company consist of corporation, enterprise, and inhabitant taxes, which, in aggregate, resulted in a statutory tax rate of 41.7% for the years ended 31st March, 2002 and 2003, respectively.

Significant differences between the statutory tax rate and the Company's effective tax rate after applying the deferred tax accounting for the years ended 31st March, 2002 and 2003 are as follows:—

	2002	2003
Statutory tax rate	41.7%	41.7%
Increase (decrease) in tax resulting from:		
Nondeductible expenses including		
entertainment, etc.	3.2	0.4
Nontaxable income including dividends		
received deduction, etc.	(3.2)	(0.4)
Per capita portion of inhabitant taxes.....	14.6	2.3
Other	0.2	2.4
Effective tax rate	56.5%	46.4%

On 31st March, 2003, a revised local tax law was enacted and become effective for fiscal years commencing on 1st April, 2004 or later. According to the revised local tax law, income tax law rates for enterprise taxes will be reduced resulting from introducing the assessment by estimation on the basis of paid-in capital and value added.

As a result, the statutory effective tax rate applied on or after 1st April, 2004 to deferred taxes assets and liabilities has been decreased from 41.7% to 40.4%. The reduction of the statutory effective tax rate resulted in a decrease in deferred tax assets, net of deferred tax liabilities, of ¥38 million (\$316 thousand) and a charge to income taxes—deferred of ¥38 million (\$316 thousand) for the year ended 31st March, 2003. Also, deferred tax liabilities on unrealized gain on revaluation for land decreased by ¥163 million (\$1,356 thousand) and unrealized gain on revaluation for land increased by the same amount for the year ended 31st March, 2003.

7. Accounts and transactions with subsidiaries and affiliates

As at 31st March, 2003, the Company had 24 subsidiaries and 8 affiliates.

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

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Notes and accounts receivable ..	¥ 327	¥ 306	\$ 2,546
Loans receivable	1,123	1,148	9,551
Trade accounts payable	1,544	1,418	11,797

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Service revenues	¥2,109	¥2,334	\$19,418
Cost of services	7,038	7,665	63,769
Interest income	25	22	183

8. Finance leases

The amount of lease payment under finance lease for the year ended 31st March, 2002 and 2003 were ¥1,339 million (\$11,140 thousand) and ¥1,859 million (\$15,466 thousand), respectively.

The amount of future lease payments of finance leases as at 31st March, 2002 and 2003 were as follows:—

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Due within one year	¥1,594	¥1,881	\$15,649
Due after one year	4,621	5,265	43,802
	¥6,215	¥7,146	\$59,451

9. Contingent liabilities

As at 31st March, 2003, the Company was contingently liable as follows:—

	Millions of yen		Thousands of U.S. dollars
Guarantees of welfare pension housing loans sublet to employees	¥ 8		\$ 67
Others	1,307		10,874

10. Revaluation reserve for land

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

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

	Millions of yen		Thousands of U.S. dollars
Difference between the fair market value of revaluated land at 31st March, 2003 and the revaluated book value		¥6,063	\$50,441

11. Shareholders' equity

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

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

12. Supplementary income information

Supplementary income information for the two years ended 31st March, 2003 is as follows:—

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Depreciation expenses	¥2,532	¥2,051	\$17,063
Lease and rental	3,290	3,282	27,304

14. Subsequent event

At the Board of Directors' meeting held on 20th June, 2003, the following decision on issuance of unsecured bonds was made.

The second issuance of unsecured bond:

Total amount of issue:	¥6,400 million
	(\$53,245 thousand)
Interest rate:	0.89%
Redemption date:	30th June, 2008
Payment date:	30th June, 2003

The third issuance of unsecured bond:

Total amount of issue:	¥600 million
	(\$4,992 thousand)
Interest rate:	0.52%
Redemption date:	30th June, 2008
Payment date:	30th June, 2003

The annual shareholders' meeting of the Company, which was held on 27th June, 2003, duly approved the following appropriations of retained earnings existing as at 31st March, 2003:—

	Millions of yen	Thousands of U.S. dollars
Dividends (¥5.00 per share)	¥472	\$3,927
Bonuses to directors and statutory auditors	30	250

**REPORT OF THE INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON THE NON-CONSOLIDATED FINANCIAL STATEMENTS
OF THE COMPANY**

To the Board of Directors of
Tonami Transportation Co., Ltd.

We have examined the non-consolidated balance sheets of Tonami Transportation Co., Ltd. as at 31st March, 2002 and 2003 and the related non-consolidated statements of income, shareholders' equity and cash flows for the years then ended.

Our examinations were made in accordance with **auditing standards generally accepted in Japan** and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the non-consolidated financial position of Tonami Transportation Co., Ltd. as at 31st March, 2002 and 2003 and the results of its operations and cash flows for the years then ended, in conformity with **accounting principles generally accepted in Japan** applied on a consistent basis.

The United States dollar amounts shown in the accompanying non-consolidated financial statements have been translated solely for convenience. We have reviewed this translation and, in our opinion, the non-consolidated financial statements expressed in yen have been translated into dollars on the basis described in Note 1.

Shin Nihon & Co.

Shin Nihon & Co.

Toyama Prefecture, Japan
27th June, 2003

CONSOLIDATED FIVE-YEAR SUMMARY

 TONAMI TRANSPORTATION CO., LTD
 AND CONSOLIDATED SUBSIDIARIES

Years ended 31st March

	Millions of yen					Thousands of U.S. dollars	
	1999	2000	2001	2002	2003	2003	
RESULTS OF OPERATIONS:							
Operating revenues	¥116,829	¥117,794	¥118,166	¥118,515	¥116,331	\$967,812	
Operating cost	108,979	108,902	109,672	110,302	107,928	897,903	
Selling, general and administrative expenses	5,906	6,480	6,090	5,755	5,630	46,839	
Operating income	1,944	2,412	2,404	2,458	2,773	23,070	
Net income (loss)	124	1,276	(8,786)	720	4,819	40,091	
Depreciation expenses	4,470	4,216	4,092	3,303	2,775	23,087	
PER SHARE (yen and U.S. dollars):							
Net income (loss)	¥ 1.26	¥13.04	¥(90.02)	¥ 7.38	¥48.99	\$0.4076	
YEAR-END FINANCIAL POSITION:							
Total current assets	¥ 44,610	¥ 52,002	¥ 37,583	¥ 40,245	¥ 43,692	\$363,494	
Net property and equipment	53,431	66,990	67,160	65,330	63,258	526,273	
Total assets	108,546	130,284	120,696	120,759	119,243	992,038	
Total current liabilities	31,579	51,113	34,113	34,184	41,298	343,577	
Long-term liabilities, excluding of current portion thereof	24,884	22,075	38,876	38,802	26,799	222,953	
Total shareholders' equity	51,491	56,431	47,113	47,170	50,508	420,200	
OTHER YEAR-END DATA:							
Number of employees	—	7,142	7,075	6,952	6,943		

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

As of 31st March, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
ASSETS			
Current assets:			
Cash and time deposits	¥ 8,183	¥ 17,023	\$141,623
Marketable securities (Note 4)	7,823	1,362	11,331
Trade receivables:			
Notes and accounts (Note 9)	21,022	21,239	176,697
Less: allowance for doubtful accounts	(76)	(84)	(699)
Inventories	602	636	5,291
Deferred tax assets (Note 7)	800	608	5,058
Other current assets	1,891	2,908	24,193
Total current assets	40,245	43,692	363,494
Property and equipment (Notes 5 and 6):			
Land	37,644	36,837	306,464
Buildings and structures	22,719	22,179	184,518
Machinery and vehicles	4,350	3,623	30,141
Construction in progress	1	—	—
Other	616	619	5,150
Total property and equipment	65,330	63,258	526,273
Investments and other assets:			
Investments in securities (Notes 4 and 6)	5,639	5,412	45,025
Deferred tax assets (Note 7)	4,187	1,928	16,040
Foreign currency translation adjustments	4	10	83
Others	5,354	4,943	41,123
Total investments and other assets	15,184	12,293	102,271
Total assets	¥120,759	¥119,243	\$992,038

The accompanying Notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 6)	¥ 15,809	¥ 15,435	\$128,411
Current portion of long-term debt (Note 6)	781	903	7,512
Current portion of bonds	—	7,000	58,236
Trade notes and accounts payable	9,535	10,347	86,082
Income taxes payable	1,021	1,230	10,233
Other current liabilities	7,038	6,383	53,103
Total current liabilities	34,184	41,298	343,577
Long-term liabilities:			
Long-term debt, less current portion (Note 6)	10,495	2,606	21,680
Deferred tax liabilities from revaluation reserve for land (Note 10)	5,640	5,089	42,338
Employees' severance and retirement benefits (Note 3)	22,496	18,964	157,770
Other long-term liabilities	171	140	1,165
Total long-term liabilities	38,802	26,799	222,953
Total liabilities	72,986	68,097	566,530
Minority interests	603	638	5,308
Contingent liabilities (Note 9)			
Shareholders' equity (Note 11):			
Common stock:			
Authorised: 299,200,000 shares in 2002			
299,200,000 shares in 2003			
Issued, par value ¥50 per share:			
97,610,118 shares in 2001			
97,610,118 shares in 2002	14,183	14,183	117,995
Capital surplus	14,687	14,687	122,188
Retained earnings	10,307	15,018	124,942
Revaluation reserve for land (Note 10)	7,872	7,494	62,346
Unrealized gain on securities	123	46	383
Treasury stock, at cost	(2)	(920)	(7,654)
Total shareholders' equity	47,170	50,508	420,200
Total liabilities, minority interests, and shareholders' equity	¥120,759	¥119,243	\$992,038

CONSOLIDATED STATEMENTS OF INCOME TONAMI TRANSPORTATION CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

For the two years ended 31st March, 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Operating revenues:			
Operating revenues	¥118,515	¥116,331	\$967,812
	118,515	116,331	967,812
Operating costs and selling, general and administrative expenses:			
Operating cost (Note 12)	110,302	107,928	897,903
Selling, general and administrative expenses (Note 12)	5,755	5,630	46,839
	116,057	113,558	944,742
Operating income	2,458	2,773	23,070
Other income and expenses:			
Interest and dividend income	363	368	3,062
Loss on sells of property and equipment, net	(107)	2,765	23,003
Interest expenses	(424)	(380)	(3,162)
Others, net	(531)	3,534	29,401
	(699)	6,287	52,304
Income before income taxes and minority interests	1,759	9,060	75,374
Income taxes (Note 7):			
Current	1,726	2,073	17,246
Deferred	(708)	2,121	17,646
	1,018	4,194	34,892
Minority interests	21	47	391
Net income	¥ 720	¥ 4,819	\$ 40,091

	Yen	U.S. dollars (Note 1)	
Net income per share of common stock	¥ 7.38	¥48.99	\$0.4076

The accompanying Notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY TONAMI TRANSPORTATION CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

For the two years ended 31st March, 2003

	Millions of yen						
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land	Unrealized gain on securities	Treasury stock
Balance as at 31st March, 2001	97,610	¥14,183	¥14,687	¥10,238	¥7,872	¥133	
Net income				720			
Cash dividends applicable to the year (¥6.00 per share)				(586)			
Revaluation reserve for land							
Unrealized gain on securities						(10)	
Treasury stock							¥ (2)
Bonuses to directors and statutory auditors				(65)			
Balance as at 31st March, 2002	97,610	14,183	14,687	10,307	7,872	123	(2)
Net income				4,819			
Cash dividends applicable to the year (¥6.00 per share)				(586)			
Revaluation reserve for land				542	(378)		
Unrealized gain on securities						(77)	
Treasury stock							¥ (918)
Bonuses to directors and statutory auditors				(64)			
Balance as at 31st March, 2003	97,610	¥14,183	¥14,687	¥15,018	¥7,494	¥ 46	¥ (920)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land	Unrealized gain on securities	Treasury stock	
Balance as at 31st March, 2001	\$117,995	\$122,188	\$ 85,175	\$65,491	\$1,106		
Net income			5,990				
Cash dividends applicable to the year (\$0.0499 per share)			(4,875)				
Revaluation reserve for land							
Unrealized gain on securities					(83)		
Treasury stock						\$ (17)	
Bonuses to directors and statutory auditors			(541)				
Balance as at 31st March, 2002	117,995	122,188	85,749	65,491	1,023	(17)	
Net income			40,091				
Cash dividends applicable to the year (\$0.0499 per share)			(4,875)				
Revaluation reserve for land			4,509	(3,145)			
Unrealized gain on securities					(640)		
Treasury stock						(7,637)	
Bonuses to directors and statutory auditors			(532)				
Balance as at 31st March, 2003	\$117,995	\$122,188	\$124,942	\$62,346	\$ 383	\$(7,654)	

The accompanying Notes are an integral part of these statements.

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

For the two years ended 31st March, 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Cash flows from operating activities:			
Net income before income taxes and minority interests	¥ 1,759	¥ 9,060	\$ 75,374
Depreciation and amortization	3,303	2,775	23,087
Loss (gain) on disposal of property and equipment	106	(2,765)	(23,003)
(Loss) gain on sales of marketable securities	2	(0)	0
Gain on release from substitutional portion of government's welfare pension fund insurance scheme	—	(3,626)	(30,166)
(Gain) loss on sales of investments in securities	(134)	32	266
Loss on devaluation of investments in securities	557	338	2,812
Loss on devaluation of golf club memberships	123	129	1,073
Amortization of consolidation difference	307	(7)	(58)
Equity in earnings of associated companies	(134)	(167)	(1,389)
Increase in allowance for doubtful accounts	132	81	674
Increase in employees' severance and retirement benefits	527	94	782
Increase (decrease) in accrued bonuses to employees	0	(186)	(1,547)
Interest and dividend income	(228)	(201)	(1,672)
Interest expenses	422	380	3,161
Decrease (increase) in trade receivables	1,347	(219)	(1,822)
Increase in inventories	(30)	(33)	(275)
Increase (decrease) in accounts payable	(784)	812	6,755
Increase (decrease) in accrued consumption taxes	93	(143)	(1,190)
Other, net	197	(228)	(1,897)
Subtotal	7,565	6,126	50,965
Interest and dividends received	228	201	1,672
Interest paid	(422)	(380)	(3,161)
Income taxes paid	(1,191)	(1,864)	(15,507)
Net cash provided by operating activities	6,180	4,083	33,969
Cash flows from investing activities:			
Purchase of time deposits	(494)	(111)	(923)
Proceeds from redemption of time deposits	569	295	2,454
Purchase of marketable securities	(200)	(202)	(1,681)
Proceeds from sales of marketable securities	803	501	4,168
Purchase of property and equipment	(1,649)	(2,080)	(17,305)
Proceeds from sales of property and equipment	84	4,118	34,260
Purchase of investments in securities	(756)	(764)	(6,356)
Proceeds from sales of investments in securities	778	322	2,679
Liquidation of subsidiary	—	(19)	(158)
Investments in loans receivable	(651)	(445)	(3,702)
Proceeds from collection of loans receivable	590	636	5,291
Other, net	(171)	(848)	(7,055)
Net (used in) provided by investing activities	(1,097)	1,403	11,672
Cash flows from financing activities:			
Net decrease in short-term loans	(118)	(534)	(4,443)
Proceeds from long-term debt	742	379	3,153
Repayment of long-term debt	(1,135)	(1,120)	(9,318)
Purchase of treasury stock	—	(918)	(7,637)
Dividends paid	(578)	(586)	(4,875)
Dividends paid to minority interests	(8)	(7)	(58)
Net cash used in financing activities	(1,097)	(2,786)	(23,178)
Effect of exchange rate change on cash and cash equivalents	—	—	—
Net increase in cash and cash equivalents	3,986	2,700	22,463
Cash and cash equivalents at beginning of year	11,187	15,173	126,231
Cash and cash equivalents at end of year	¥15,173	¥17,873	\$148,694

The accompanying Notes are an integral part of these statements.

1. Basis of presenting financial statements

The accompanying consolidated financial statements have been prepared from accounting records maintained by Tonami Transportation Co., Ltd. (the "Company") and its consolidated subsidiaries in conformity with the Securities and Exchange Law of Japan and accounting principles generally accepted in Japan. However, in order to facilitate understanding for readers outside Japan, certain reclassifications have been made to the consolidated financial statements prepared for domestic purposes.

U.S. dollar amounts presented in the financial statements are included solely for convenience and should not be construed as representations that Japanese yen amounts have been or could in the future be converted into U.S. dollars. The rate of ¥120.20 = U.S.\$1, prevailing on 31st March, 2003, has been used for the translation into U.S. dollar amounts in the financial statements.

2. Summary of significant accounting policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 24 significant majority-owned subsidiaries for the year ended 31st March, 2003 (25 for 2002).

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

Eight of the investments in unconsolidated subsidiaries or affiliates (9 for 2002) are accounted for by the equity method.

(b) Marketable securities and investments in securities

Securities for which market value is readily determinable are stated at market value as of the end of the year with unrealized gains and losses, not reflected in earnings but directly reported as a separate component of shareholders' equity. The cost of such securities sold is determined by the moving-average method.

Securities for which market value is not readily determinable are stated at moving average cost.

(c) Allowance for doubtful accounts

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

(d) Property and equipment and intangible assets

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

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

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

Buildings and structures 2-50 years
Machinery and vehicles 2-15 years

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

Cost of software for internal use is amortized by the straight-line method over the estimated useful years (five years).

(e) Leases

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

(f) Employees' severance and retirement benefits

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

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

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

(g) Stock issue expenses

Stock issue expenses are charged to income as incurred.

(h) Remeasurement of assets and liabilities of consolidated subsidiaries

Assets and liabilities of the consolidated subsidiaries are remeasured using the full fair value method.

(i) Amortization of consolidation difference

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

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

(j) Income taxes

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

The Company and its consolidated subsidiaries recognize tax effects of temporary differences between the financial statement basis and the income tax basis of assets and liabilities.

(k) Net income per share of common stock

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

(l) Statements of cash flows

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

(m) Foreign currency translation

The Company and its consolidated subsidiaries adopted the revised accounting standards for foreign currency translation.

(n) Reclassifications

Certain accounts and amounts stated in the shareholders' equity section of the balance sheets and the statements of shareholders' equity for the year ended 31st March, 2002 have been reclassified to conform to the presentation of the year ended 31st March, 2003.

3. Supplemental information

Employees' severance and retirement benefits

Based on the newly enacted Defined Benefit Corporate Pension Plan Law, the Company and its consolidated subsidiaries were permitted by the Minister of Health, Labor and Welfare on 13th August, 2002 to be released from their future obligation for payments for the substitutional portion of the Welfare Pension Fund Insurance Scheme.

The Company applied the provisional treatment under Clause 47-2 of "Practical Guidance for Accounting of Retirement Remuneration (Interim Report)" Report No. 13 of the Committee of Accounting System of The Association of Japan Certified Public Accountants, and accounted for assuming that the substitutional portion of the projected benefit obligation and the related pension plan assets to be transferred back to the government's scheme had been completed as of the permission date.

4. Marketable securities and investments in securities

Acquisition cost and book value of securities with available market values as at 31st March, 2002 are summarised as follows:—

	Millions of yen	Thousands of U.S. dollars
	2002	2002
Securities with book values		
exceeding acquisition costs:		
Acquisition cost	¥1,606	\$13,361
Book value	2,103	17,496
Securities with book values		
not exceeding acquisition costs:		
Acquisition cost	¥2,043	\$16,997
Book value	1,757	14,617

Acquisition costs and book values of securities with available market values as of 31st March, 2003 are summarized as follows:—

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Securities with book values		
exceeding acquisition costs:		
Acquisition cost	¥1,160	\$ 9,651
Book value	1,601	13,319
Securities with book values		
not exceeding acquisition costs:		
Acquisition cost	¥1,832	\$15,241
Book value	1,470	12,230

5. Property and equipment

Depreciable property is stated at the net book value in the consolidated balance sheets. The amounts of accumulated depreciation were ¥49,513 million (\$411,922 thousand) and ¥49,094 million (\$408,436 thousand) on 31st March, 2002 and 2003, respectively.

Capital gains arisen from disposals and other similar transactions are deducted from the cost of property and equipment acquired in substitution. The amount deducted in the cost of property and equipment was ¥269 million (\$2,238 thousand) and ¥269 million (\$2,238 thousand) on 31st March, 2002 and 2003, respectively.

6. Short-term bank loans and long-term debt

(a) Short-term bank loans

Short-term bank loans as at 31st March, 2002 and 2003 were as follows:—

	Millions of yen		Thousands of
	2002	2003	U.S. dollars
Secured	¥ 4,662	¥ 4,283	\$35,632
Unsecured	11,148	11,152	92,779

Interest rates range from 0.6% to 3.2%.

(b) Long-term debt

Long-term debt as at 31st March, 2002 and 2003 was as follows:—

	Millions of yen		Thousands of
	2002	2003	U.S. dollars
2.05% ¥7 billion unsecured straight bonds due 2003.....	¥ 7,000	¥ 7,000	\$58,236
0.6%–3.6% loans from financial institutions due 2004 to 2008 and thereafter			
Secured	2,348	2,049	17,047
Unsecured.....	1,928	1,460	12,146
Total	11,276	10,509	87,429
Less: amount due within one year	781	7,903	65,749
	¥10,495	¥ 2,606	\$21,680

The maturity date of the ¥7 billion 2.05% unsecured straight bonds, issued in September 1999 is 16th September, 2003.

The annual maturities of long-term debt outstanding as at 31st March, 2003 were as follows:—

Year ending 31st March,	Thousands of	
	Millions of yen	U.S. dollars
2004	¥7,903	\$65,749
2005	791	6,581
2006	517	4,301
2007	268	2,230
2008 and thereafter	1,030	8,569

(c) Pledged assets

Property and equipment having a net value of ¥20,557 million (\$171,023 thousand) was pledged as collateral for short-term bank loans and long-term debt, and investment in securities of ¥87 million (\$724 thousand) was pledged as collateral for short-term bank loans as at 31st March, 2003.

7. Income taxes

As described in Note 2(j), the Company and its consolidated subsidiaries recognizes tax effects of temporary differences between the financial statement basis and the income tax basis of assets and liabilities.

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

	Millions of yen		Thousands of
	2002	2003	U.S. dollars
Deferred tax assets:			
Excess bonuses accrued	¥ 385	¥ 394	\$ 3,278
Excess employees' severance and retirement benefits accrued ...	8,090	6,800	56,572
Other	323	384	3,195
Gross deferred tax assets ...	8,798	7,578	63,045
Valuation allowance	—	(216)	(1,797)
Total deferred tax assets	8,798	7,362	61,248
Deferred tax liabilities:			
Unrealized gain on securities	(88)	(31)	(258)
Reserve under Special Taxation			
Measures Law	(3,722)	(4,796)	(39,900)
Total deferred tax liabilities ..	(3,810)	(4,827)	(40,158)
Net deferred tax assets	¥4,988	¥2,535	\$21,090

Income taxes applicable to the Company consist of corporation, enterprise, and inhabitant taxes, which, in aggregate, resulted in a statutory tax rate of 41.6% for the years ended 31st March, 2002 and 2003, respectively.

Significant differences between the statutory tax rate and the Company's effective tax rate after applying the deferred tax accounting for the years ended 31st March, 2002 and 2003 are as follows:—

	2002	2003
Statutory tax rate	41.6%	41.6%
Increase (reduction) in tax resulting from:		
Nondeductible expenses including entertainment, etc.	4.0	0.6
Nontaxable income including dividends received deduction, etc.	(2.5)	(0.4)
Per capita portion of inhabitant taxes	11.5	2.2
Equity in earnings of affiliates	(3.2)	(0.8)
Other	6.5	3.1
Effective tax rate	57.9%	46.3%

On 31st March, 2003, a revised local tax law was enacted and become effective for fiscal years commencing on 1st April, 2004 or later. According to the revised local tax law, income tax law rates for enterprise taxes will be reduced resulting from introducing the assessment by estimation on the basis of paid-in capital and value added.

As a result, the statutory effective tax rate applied on or after 1st April, 2004 to deferred taxes assets and liabilities has been decreased from 41.59% to 41.58%. The reduction of the statutory effective tax rate resulted in a decrease in deferred tax assets, net of deferred tax liabilities, of ¥39 million (\$324 thousand) and a charge to income taxes-deferred of ¥39 million (\$324 thousand) for the year ended March 31, 2003. Also, deferred tax liabilities on unrealized gain on revaluation for land decreased by ¥163 million (\$1,356 thousand) and unrealized gain on revaluation for land increased by the same amount for the year ended March 31, 2003.

8. Finance leases

The amount of lease payment under finance lease for the year ended March 31, 2002 and 2003 were ¥1,429 million (\$11,889 thousand) and ¥2,048 million (\$17,038 thousand), respectively. Future lease payments of finance leases as at 31st March, 2002 and 2003 were as follows:—

	Millions of yen		Thousands of
	2002	2003	U.S. dollars
Due within one year	¥1,679	¥2,063	\$17,163
Due after one year	4,740	5,752	47,854
	¥6,419	¥7,815	\$65,017

9. Contingent liabilities

As at 31st March, 2003, the Company were contingently liable as follows:—

	Millions of yen		Thousands of
			U.S. dollars
Notes discounted with banks	¥ 399		\$ 3,319
Guarantees of welfare pension housing loans sublet to employees	8		67
Notes endorsed	55		458
Others	1,529		12,720

10. Revaluation reserve for land

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

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

	Millions of yen		Thousands of
			U.S. dollars
Difference between the fair market value of revalued land at 31st March, 2003 and the revalued book value	¥6,063		\$50,441

11. Shareholders' equity

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

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

12. Supplementary income information

Supplementary income information for the year ended 31st March, 2002 and 2003 is as follows:—

	Millions of yen		Thousands of
	2002	2003	U.S. dollars
Depreciation expenses	¥3,303	¥2,775	\$23,087
Lease and rental	4,882	4,866	40,483

13. Subsequent event

At the Board of Directors' meeting held on 20th June, 2003, the following decision on issuance of unsecured bonds was made.

The second issuance of unsecured bond:

Total amount of issue:	¥6,400 million (\$53,245 thousand)
Interest rate:	0.89%
Redemption date:	30th June, 2008
Payment date:	30th June, 2003

The third issuance of unsecured bond:

Total amount of issue:	¥600 million (\$4,992 thousand)
Interest rate:	0.52%
Redemption date:	30th June, 2008
Payment date:	30th June, 2003

The annual shareholders' meeting of the Company, which was held on 20th June, 2003, duly approved the following appropriations of retained earnings existing as at 31st March, 2003:—

	Millions of yen		Thousands of
			U.S. dollars
Dividends (¥3.00 per share)	¥293		\$2,199
Bonuses to directors and statutory auditors	30		225

14. Segment Information

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

A summary of segment information by industry segment for the two years ended 31st March 2003 is as follows:—

	For the year ended 31st March, 2002				
	Millions of yen				
	Logistics	Others	Total	Eliminations (Notes 1 and 2)	Consolidated
Net Sales:					
Outside customers	¥106,679	¥11,836	¥118,515	¥ —	¥118,515
Inter segment sales	16	4,140	4,156	(4,156)	—
Total	106,695	15,976	122,671	(4,156)	118,515
Costs and expenses	105,270	14,803	120,073	(4,016)	116,057
Operating income	¥ 1,425	¥ 1,173	¥ 2,598	¥ (140)	¥ 2,458
Assets, depreciation and capital expenditures:					
Identifiable assets:	¥ 90,704	¥ 8,104	¥ 98,808	¥ 21,951	¥120,759
Depreciation:	¥ 3,135	¥ 179	¥ 3,314	¥ 11	¥ 3,303
Capital expenditures:	¥ 1,397	¥ 279	¥ 1,676	¥ 9	¥ 1,667
For the year ended 31st March, 2003					
Millions of yen					
	Logistics	Others	Total	Eliminations (Notes 1 and 2)	Consolidated
Net Sales:					
Outside customers	¥105,785	¥10,546	¥116,331	¥ —	¥116,331
Inter segment sales	13	4,900	4,913	(4,913)	—
Total	105,798	15,446	121,244	(4,913)	116,331
Costs and expenses	103,711	14,621	118,332	(4,773)	113,559
Operating income	¥ 2,087	¥ 825	¥ 2,912	¥ (140)	¥ 2,772
Assets, depreciation and capital expenditures:					
Identifiable assets:	¥ 87,653	¥ 9,532	¥ 97,185	¥ 22,058	¥119,243
Depreciation:	¥ 2,603	¥ 184	¥ 2,787	¥ 12	¥ 2,775
Capital expenditures:	¥ 1,983	¥ 77	¥ 2,060	¥ 10	¥ 2,070

	For the year ended 31st March, 2002				
	Thousands of U.S. dollars				
	Logistics	Others	Total	Eliminations (Notes 1 and 2)	Consolidated
Net Sales:					
Outside customers	\$887,512	\$ 98,469	\$ 985,981	\$ —	\$ 985,981
Inter segment sales	133	34,443	34,576	(34,576)	—
Total	887,645	132,912	1,020,557	(34,576)	985,981
Costs and expenses	875,790	123,153	998,943	(33,411)	965,532
Operating income	\$ 11,855	\$ 9,759	\$ 21,614	\$ (1,165)	\$ 20,449
Assets, depreciation and capital expenditures:					
Identifiable assets:	\$754,609	\$ 67,421	\$ 822,030	\$182,621	\$1,004,651
Depreciation:	\$ 26,082	\$ 1,489	\$ 27,571	\$ 92	\$ 27,479
Capital expenditures:	\$ 11,622	\$ 2,321	\$ 13,943	\$ 75	\$ 13,868

	For the year ended 31st March, 2003				
	Thousands of U.S. dollars				
	Logistics	Others	Total	Eliminations (Notes 1 and 2)	Consolidated
Net Sales:					
Outside customers	\$880,075	\$ 87,737	\$ 967,812	\$ —	\$967,812
Inter segment sales	108	40,765	40,873	(40,873)	—
Total	880,183	128,502	1,008,685	(40,873)	967,812
Costs and expenses	862,820	121,639	984,459	(39,709)	944,750
Operating income	\$ 17,363	\$ 6,863	\$ 24,226	\$ (1,164)	\$ 23,062
Assets, depreciation and capital expenditures:					
Identifiable assets:	\$729,226	\$ 79,301	\$ 808,527	\$183,511	\$992,038
Depreciation:	\$ 21,655	\$ 1,531	\$ 23,186	\$ 99	\$ 23,087
Capital expenditures:	\$ 16,498	\$ 640	\$ 17,138	\$ 83	\$ 17,221

Note 1. Operating cost and expenses included in the column “Eliminations” mainly consist of those charged by the general affairs and finance divisions of the Company, amounting to ¥190 million (\$1,581 thousand) and ¥188 million (\$1,564 thousand) for the years ended 31st March, 2002 and 2003, respectively.

Note 2. Corporate assets included in the column “Eliminations” mainly consist of surplus working fund (cash and marketable securities), long-term investment fund (investments in securities), and other assets which belong to the administrative department, amounting to ¥28,181 million (\$234,451 thousand) and ¥28,287 million (\$235,333 thousand) for the years ended 31st March, 2002 and 2003, respectively.

The two business segments mainly consist of the following services:

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

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

Neither geographical segment information nor overseas sales have been presented because any of the Company's consolidated subsidiaries has not been domiciled outside Japan, and the Company and its consolidated subsidiaries have not overseas sales for the years ended March 31, 2002 and 2003.

**REPORT OF THE INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON THE CONSOLIDATED FINANCIAL STATEMENTS
OF THE COMPANY AND ITS CONSOLIDATED SUBSIDIARIES**

To the Board of Directors of
Tonami Transportation Co., Ltd.

We have examined the consolidated balance sheets of Tonami Transportation Co., Ltd. and its consolidated subsidiaries as at 31st March, 2002 and 2003 and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended.

Our examinations were made in accordance with **auditing standards generally accepted in Japan** and, accordingly, included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Tonami Transportation Co., Ltd. and its consolidated subsidiaries as at 31st March, 2002 and 2003 and the results of their operations and cash flows for the years then ended, in conformity with **accounting principles generally accepted in Japan** applied on a consistent basis.

The United States dollar amounts shown in the accompanying consolidated financial statements have been translated solely for convenience. We have reviewed this translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis described in Note 1.

Shin Nihon & Co.

Shin Nihon & Co.

Toyama Prefecture, Japan
27th June, 2003

CORPORATE DATA

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Date of Establishment

June 1943

Common Stock

¥14,183 million

Issued and Outstanding Shares

97,610,118 shares

Shareholders

8,641

Employees

5,462

Terminals

87

Warehouses

41

Motor Vehicles

5,582

(As of 31st March, 2003)

Consolidated Subsidiaries

Kanto Tonami Transportation Co., Ltd.
Road haulage

Gosei Tonami Transportation Co., Ltd.
Road haulage

Osaka Tonami Transportation Co., Ltd.
Road haulage

Shonan Tonami Transportation Co., Ltd.
Road haulage

Ibaraki Tonami Transportation Co., Ltd.
Road haulage

Fukui Tonami Transportation Co., Ltd.
Road haulage

Ishikawa Tonami Transportation Co., Ltd.
Road haulage

Kanagawa Tonami Transportation Co., Ltd.
Road haulage

Kansai Tonami Transportation Co., Ltd.
Road haulage

Zento Transportation Co., Ltd.
Road haulage

Takefu Transportation Co., Ltd.
Road haulage

Kawai Transportation Co., Ltd.
Road haulage

Chukyo Tonami Transportation Co., Ltd.
Road haulage

Saitama Tonami Transportation Co., Ltd.
Road haulage

ATS Co., Ltd.
Road haulage

Niigata Tonami Transportation Co., Ltd.
Road haulage

Nihon Unyu Co., Ltd.
Harbor transport

Tonami Trading Co., Ltd.
Trading Company

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

Shogawa Kanko Co., Ltd.
Travel inns

Toyama Jizake Hanbai Co., Ltd.
Sale of liquor

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

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

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

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