

2015 Semiannual Report

For the six-month period ended September 30, 2014

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 on the operating environment and business results for the six-month period ended September 30, 2014.

Initiatives in and Performance for the First six-month period

During the first six-month period, the Japanese economy showed a modest recovery thanks to the government's economic measures. However, domestic freight volumes appeared to be sluggish due to factors including the aftermath of the last-minute demand before the consumption tax increase and unsettled weather.

In these circumstances, the Tonami Holdings Group is pushing forward with the growth strategy in the final year of the Three-year Medium-term Business Plan and doing its utmost to achieve the financial performance targets for the plan's final year. In truck transport and freight forwarding, we strove to secure stable revenues by expanding businesses with new customers while deepening relationships with existing ones and endeavoring to maintain freight charges at a reasonable level. At the same time, we strove to expand related businesses, including third-party logistics (3PL).

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, 2014	Six months ended September 30, 2013	Six months ended September 30, 2014
For the period:			
Operating revenues	¥ 59,710	¥ 58,427	\$ 545,547
Logistics	55,290	53,937	505,170
Information processing	1,441	1,376	13,171
Sales	2,646	2,759	24,175
Others	331	353	3,031
Operating income	1,891	1,282	17,281
Net income	1,422	790	13,001
Total comprehensive income	1,761	945	16,097
Per share (yen and U.S. dollars) (Note 2)			
Net income, basic	¥ 15.68	¥ 8.71	\$ 0.1433
Net income, diluted (Note 3).....	—	—	—
Cash dividends	2.50	2.00	0.0228
	September 30, 2014	March 31, 2014	September 30, 2014
At period-end:			
Total assets	¥118,459	¥117,149	\$1,082,314
Total net assets	51,439	49,292	469,983

Notes: 1. These financial statements are in principle presented in Japanese yen, and U.S. dollar amounts presented herein are included solely for convenience. The rate of ¥109.45 = U.S.\$1, prevailing on September 30, 2014, 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, 2014 and 2013, since there were no residual securities.

As a result, operating revenues were virtually the same as the forecast and both operating income and net income exceeded the forecast.

Full-Year Outlook

The Japanese economy is expected to recover, albeit at a modest pace, in line with recovery in capital investment against the backdrop of higher corporate earnings and an upturn in the labor market. On the other hand, there are concerns about the prolongation of the decline in demand following the last-minute demand and the impact of a possible downturn of overseas economies.

The business environment for the distribution industry is expected to remain challenging in view of negative factors including the worsening labor shortage and the persistence of high fuel prices.

The Group is striving to achieve further progress in the structural reform of the business, a key theme of the plan, in the final year of the Three-year Medium-term Business Plan. We will also conduct an overview of the progress of our initiatives with regard to M&A and capital and business alliances in readiness for formulation of a growth strategy for the next Medium-term Business Plan.

Interim Dividend

We have paid an interim dividend of ¥2.50 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 grateful for your continued support.

December 2014



Katsusuke Watanuki
President and Representative Director

OVERVIEW OF OPERATIONS

Market Conditions

The Group's mainstay truck transport and freight forwarding operations were somewhat affected by the aftermath of the last-minute demand before the consumption tax increase at the beginning of the fiscal year. However, transportation needs are on a gradual recovery track.

Meanwhile, amid concerns about cost increases due to high fuel prices and rising subcontractor fees in line with the shortage of truck drivers, the Group promoted initiatives to maintain freight charges and fees at a reasonable level while making efforts to reduce costs by streamlining internal operations and raising productivity.

Results of Operations

As a result, the Group's operating revenues amounted to ¥59,710 million, an increase of 2.2% compared with the same period of the previous year.

With regard to profits, the Group worked to absorb cost increases due to high fuel prices and rising raw materials costs by reinforcing profitability through the progress of the structural reform of the business in accordance with the Three-year Medium-term Business Plan and revisions to freight charges and unit rates. As a result, operating income increased 47.5% to ¥1,891 million.

Net income increased 80.1% to ¥1,422 million.

RESULTS BY SEGMENT

Logistics

The Group strengthened proposal-driven marketing in truck transport, freight forwarding, and 3PL services to meet customers' needs for rationalization of logistics and for procurement logistics and promoted revision of contracts concerning freight charges and fees. As a result, the logistics segment recorded operating revenues amounting to ¥55,290 million, an increase of 2.5% compared with the same period of the previous year. Segment income was ¥1,567 million, an increase of 59.5%, because the factors pushing costs higher, such as the increased burden of fuel costs and increases in subcontractor fees, were absorbed by the progress of the structural reform of the business and the improvement of the level of freight charges and fees.

Information Processing Business

Operating revenues from the information processing business increased 4.8% to ¥1,441 million, partly due to deepened relationships with existing customers. Segment income was ¥103 million, an increase of 12.3%.

Sales Businesses

Operating revenues from the sales business, which includes merchandising, consignment sales, and a non-life insurance agency, amounted to ¥2,646 million, a decrease of 4.1%. Segment income was ¥118 million, a decrease of 18.2%.

Others Businesses

Operating revenues from other businesses, which include automobile repair and direct mail service, amounted to ¥331 million, a decrease of 6.3%. Segment income increased 30.8% to ¥60 million.

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

September 30, 2014 and March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	September 30, 2014	March 31, 2014	September 30, 2014
ASSETS			
Current assets:			
Cash and time deposits (Note 3)	¥ 10,006	¥ 9,297	\$ 91,427
Trade receivables:			
Notes and accounts	19,930	21,313	182,094
Less: allowance for doubtful accounts	(67)	(75)	(620)
Inventories (Note 2)	873	613	7,976
Deferred tax assets	531	567	4,856
Other current assets	2,520	2,487	23,032
Total current assets	33,794	34,204	308,766
Property and equipment:			
Land	40,766	40,686	372,470
Buildings and structures	20,636	21,061	188,549
Machinery and vehicles	2,244	2,134	20,504
Other	8,403	6,955	76,777
Total property and equipment	72,050	70,837	658,300
Investments and other assets:			
Investments in securities	7,382	6,911	67,447
Goodwill	12	14	117
Other	5,218	5,182	47,683
Total investments and other assets	12,613	12,108	115,248
Total assets	¥118,459	¥117,149	\$1,082,314

The accompanying Notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	September 30, 2014	March 31, 2014	September 30, 2014
LIABILITIES			
Current liabilities:			
Short-term bank loans	¥ 11,900	¥ 12,940	\$ 108,725
Current portion of long-term debt	1,386	3,568	12,666
Trade notes and accounts payable	11,059	11,773	101,049
Income taxes payable	667	870	6,103
Other current liabilities	8,788	8,327	80,299
Total current liabilities	33,802	37,480	308,842
Long-term liabilities:			
Long-term debt, less current portion	11,319	8,111	103,426
Deferred tax liability	1,147	631	10,486
Deferred tax liabilities from revaluation reserve for land	4,534	4,534	41,434
Net defined benefit liability	7,783	9,030	71,117
Retirement benefits for directors and corporate auditors	116	113	1,066
Negative goodwill	38	76	350
Other long-term liabilities	8,275	7,877	75,610
Total long-term liabilities	33,216	30,376	303,489
Total liabilities	67,019	67,857	612,331
NET ASSETS			
Shareholders' equity:			
Common stock:			
Authorized: 299,200,000 shares at September 30, 2014			
299,200,000 shares at March 31, 2014			
Issued: 97,610,118 shares at September 30, 2014			
97,610,118 shares at March 31, 2014	14,182	14,182	129,581
Capital surplus	11,682	11,682	106,735
Retained earnings	20,471	18,724	187,040
Treasury stock, at cost: 6,879,967 shares at September 30, 2013 and 6,872,859 shares at March 31, 2014	(2,023)	(2,021)	(18,485)
Total shareholders' equity	44,313	42,567	404,872
Accumulated other comprehensive income:			
Unrealized gain on securities	1,315	1,040	12,023
Revaluation reserve for land	6,035	6,035	55,145
Remeasurements of defined benefit plans	(406)	(461)	(3,713)
Total accumulated other comprehensive income	6,945	6,614	63,455
Minority interest:			
Minority interest	181	110	1,657
Total net assets	51,439	49,292	469,983
Total liabilities and net assets	¥118,459	¥117,149	\$1,082,314

**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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Operating revenues:			
Operating revenues	¥59,710	¥58,427	\$545,547
	59,710	58,427	545,547
Operating costs and selling, general and administrative expenses:			
Operating cost	54,940	53,949	501,967
Selling, general and administrative expenses	2,878	3,195	26,298
	57,818	57,145	528,265
Operating income	1,891	1,282	17,281
Other income and expenses:			
Interest and dividend income	174	157	1,593
Equity in earnings of affiliates	37	33	341
Gain on disposal/sales of property and equipment, net	21	36	194
Interest expenses	(145)	(207)	(1,331)
Other, net	188	108	1,718
	275	127	2,514
Income before income taxes and minority interests	2,166	1,409	19,796
Income taxes:			
Current	627	437	5,736
Deferred	107	176	983
	735	614	6,718
Income before minority interests	1,431	794	13,077
Minority interests	8	4	77
Net income	¥ 1,422	¥ 790	\$ 13,001
Minority interests	8	4	77
Net income before minority interests	1,431	794	13,077
Other comprehensive income			
Valuation difference on other securities	274	150	2,509
Remeasurements of defined benefit plans	55	—	503
Share of other comprehensive income of associates accounted for using equity method	0	0	8
Total other comprehensive income	330	151	3,020
Total comprehensive income	1,761	945	16,097
Total comprehensive income attributable to:			
Owners of the parent	1,753	941	16,018
Minority interests	8	4	79

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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 2,166	¥ 1,409	\$ 19,796
Depreciation and amortization	2,084	2,149	19,043
Gain on disposal/sales of property and equipment, net	(21)	(35)	(194)
Gain on sales of investments in securities	0	1	7
Loss on devaluation of golf club memberships	1	18	16
Amortization of goodwill	(36)	(29)	(333)
Gain on negative goodwill	(37)	—	(339)
Equity in earnings of affiliates	(37)	(33)	(341)
Increase (decrease) in allowance for doubtful accounts	(62)	112	(575)
Decrease in net defined benefit liability	(305)	—	(2,790)
Decrease in employees' severance and retirement benefits	—	(298)	—
Decrease in retirement benefits for directors and corporate auditors	(7)	(16)	(68)
Increase in accrued bonuses to employees	69	27	635
Interest and dividend income	(174)	(157)	(1,593)
Interest expenses	145	207	1,331
Decrease in trade receivables	1,517	1,314	13,861
Increase in inventories	(256)	(357)	(2,340)
Decrease in accounts payable	(1,078)	(1,281)	(9,856)
Increase (decrease) in accrued consumption taxes	474	(83)	4,339
Other, net	(258)	313	(2,359)
Subtotal	4,185	3,260	38,242
Interest and dividends received	173	157	1,585
Interest paid	(143)	(250)	(1,311)
Income taxes paid	(832)	(652)	(7,607)
Net cash provided by operating activities	3,382	2,513	30,909
Cash flows from investing activities:			
Purchase of time deposits	(37)	(22)	(344)
Proceeds from redemption of time deposits	35	28	322
Purchase of property and equipment	(1,351)	(1,516)	(12,350)
Proceeds from sales of property and equipment	76	141	701
Purchase of investments in securities	(24)	(41)	(227)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(141)	6	(1,291)
Investments in loans receivable	(264)	(208)	(2,416)
Proceeds from collection of loans receivable	210	147	1,927
Other, net	0	52	1
Net cash used in investing activities	(1,496)	(1,412)	(13,676)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(1,040)	3,875	(9,502)
Proceeds from long-term debt	4,070	2,000	37,186
Repayment of long-term debt	(3,044)	(2,579)	(27,816)
Redemption of bonds	—	(3,000)	—
Repayments of lease obligations	(945)	(1,261)	(8,639)
Purchase of treasury stock	(1)	(0)	(15)
Dividends paid	(226)	(272)	(2,073)
Dividends paid to minority interests	(5)	(3)	(46)
Net cash used in financing activities	(1,193)	(1,242)	(10,905)
Net increase (decrease) in cash and cash equivalents	692	(141)	6,328
Cash and cash equivalents at beginning of period	9,238	9,645	84,413
Cash and cash equivalents at end of period (Note 3)	¥ 9,931	¥ 9,504	\$ 90,740

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 unaudited 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 unaudited 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 ¥109.45 to U.S.\$1, the approximate rate of exchange at September 30, 2014. 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, 2014 consisted of merchandise of ¥490 million (\$4,486 thousand), raw materials and supplies of ¥231 million (\$2,117 thousand), and work in process of ¥150 million (\$1,373 thousand).

3. Cash flow statements

Reconciliation of cash and time deposits shown in the unaudited consolidated balance sheets and cash and cash equivalents shown in the unaudited consolidated statements of cash flows as at September 30, 2014 and 2013 is as follows:—

	Millions of yen		Thousands of U.S. dollars
	September 30, 2014	September 30, 2013	September 30, 2014
Cash and time deposits	¥10,006	¥9,554	\$91,427
Time deposits with maturities exceeding three months	(75)	(50)	(687)
Cash and cash equivalents	¥ 9,931	¥9,504	\$90,740

4. Per share data

Net income per share

	Yen		U.S. dollars
	Six months ended September 30, 2014	Six months ended September 30, 2013	Six months ended September 30, 2014
Net income per share:			
Basic	¥15.68	¥8.71	\$0.1433
Diluted	—	—	—
Cash dividends	2.50	2.00	0.0228

Basis for the calculation of basic and diluted net income per share for the six months ended September 30, 2014 and 2013 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	Six months ended September 30, 2014	Six months ended September 30, 2013	Six months ended September 30, 2014
Net income per share:			
Net income	¥1,422	¥790	\$13,001
Net income not available to shareholders of common stock	—	—	—
Net income available to shareholders of common stock	1,422	790	13,001
Weighted-average number of shares of common stock outstanding (shares)	90,735,366	90,752,009	—

Diluted net income per share for the six months ended September 30, 2014 and 2013 is not presented since there were no outstanding potentially dilutive securities for the period.

5. Subsequent events

At a meeting held on November 7, 2014, the board of directors of the Company resolved the following interim cash dividends:—

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥2.50 per share)	¥226	\$2,073

6. Segment information

Information on operating revenues and income by reportable segment

(a) For the six months ended September 30, 2013

	Millions of yen						Adjustment *2	Consolidated *3
	Reportable segment				Others *1	Total		
	Logistics	Information processing	Sales	Subtotal				
Operating revenues:								
Revenues from outside customers	¥53,937	¥1,376	¥2,759	¥58,073	¥353	¥58,427	¥ —	¥58,427
Intersegment revenues or transfers	11	148	2,451	2,610	387	2,998	(2,998)	—
Total	53,948	1,524	5,211	60,683	741	61,425	(2,998)	58,427
Segment income	¥ 982	¥ 92	¥ 144	¥ 1,218	¥ 46	¥ 1,265	¥ 16	¥ 1,282

(b) For the six months ended September 30, 2014

	Millions of yen						Adjustment *2	Consolidated *3
	Reportable segment				Others *1	Total		
	Logistics	Information processing	Sales	Subtotal				
Operating revenues:								
Revenues from outside customers	¥55,290	¥1,441	¥2,646	¥59,378	¥331	¥59,710	¥ —	¥59,710
Intersegment revenues or transfers	10	143	2,383	2,537	184	2,721	(2,721)	—
Total	55,301	1,585	5,029	61,916	516	62,432	(2,721)	59,710
Segment income	¥ 1,567	¥ 103	¥ 118	¥ 1,788	¥ 60	¥ 1,849	¥ 42	¥ 1,891

	Thousands of U.S. dollars						Adjustment *2	Consolidated *3
	Reportable segment				Others *1	Total		
	Logistics	Information processing	Sales	Subtotal				
Operating revenues:								
Revenues from outside customers	\$505,170	\$13,171	\$24,175	\$542,516	\$3,031	\$545,547	\$ —	\$545,547
Intersegment revenues or transfers	94	1,312	21,780	23,186	1,684	24,870	(24,870)	—
Total	505,264	14,482	45,956	565,702	4,715	570,416	(24,870)	545,547
Segment income	\$ 14,317	\$ 945	\$ 1,078	\$ 16,341	\$ 555	\$ 16,896	\$ 386	\$ 17,281

*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, 2014 and 2013, adjustments of segment income amounted to ¥42 million (\$386 thousand) and ¥16 million, respectively. Adjustments include intersegment eliminations and corporate expenses not allocated to any reportable segments.

For the six months ended September 30, 2014 and 2013, the above-mentioned intersegment eliminations amounted to ¥391 million (\$3,576 thousand) and ¥358 million, respectively, and corporate expenses not allocated to any reportable segments amounted to ¥(349) million (\$(-3,190) thousand) and ¥(341) 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 unaudited consolidated statements of income.

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
Gosei Tonami Transportation Co., Ltd.	Road haulage
Tonami Shutoken Logistics Co., Ltd.	Road haulage
Tonami Kinki Logistics Co., Ltd.	Road haulage
Zento Transportation Co., Ltd.	Road haulage
Ishikawa Tonami Transportation Co., Ltd.	Road haulage
Ibaraki Tonami Transportation Co., Ltd.	Road haulage
Chukyo Tonami Transportation Co., Ltd.	Road haulage
Fukui Tonami Transportation Co., Ltd.	Road haulage
Niigata Tonami Transportation Co., Ltd.	Road haulage
Takefu Transportation Co., Ltd.	Road haulage
Anan Transportation Co., Ltd.	Road haulage
Ryosei Logistics Co., Ltd.	Road haulage
Tonami Global Logistics Co., Ltd.	Harbor transport service
Keishin Warehouse Co., Ltd.	Warehousing
Daiichi 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
Keishin System Research Co., Ltd.	Development and sale of software
Client Focus Co., Ltd.	Development and sales of software
Tonami Business Service Co., Ltd.	Financial service
Tonami Staff Support Co., Ltd.	Temporary Staffing
Tonami Automobile Technology Research Institute Co., Ltd.	Automobile technology R&D

BOARD OF DIRECTORS AND CORPORATE AUDITORS

President and Representative Director

Katsusuke Watanuki

Managing Director

Yasuo Terabayashi

Directors

Shigeki Sakamoto

Shigeyuki Okada

Yoshimi Nagahara

Kazuo Takata

Shinichi Izumi

Mitsuharu Wadachi

Standing Corporate Auditors

Mitsuo Matsuda

Masafumi Takebe

Corporate Auditors

Shinichiro Inushima

Yohji Ishiguro

Toshio Kaido

(As of September 30, 2014)

CORPORATE DATA

Head Office

2-12, Showa-machi 3-chome, Takaoka,
Toyama Prefecture 933-8788, Japan

Phone: +81-766-32-1073

Fax: +81-766-32-1077

Tokyo Headquarters

8-4, Nihonbashihoridome-cho 2-chome, Chuo-ku,
Tokyo 103-0012, Japan

Phone: +81-3-3664-5403

Fax: +81-3-3664-5405

Date of Establishment

June 1943

Common Stock

¥14,182 million

Issued and Outstanding Shares

97,610,118 shares

(As of September 30, 2014)



TONAMI

TONAMI HOLDINGS CO., LTD.

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