

2018 Semiannual Report

For the six-month period ended September 30, 2017

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.

TO OUR SHAREHOLDERS AND INVESTORS

I welcome this opportunity to report to our shareholders and investors on the Group's operating environment and business results for the six-month period ended September 30, 2017.

In the logistics industry, there is a pressing need to resolve issues arising from changes in the business environment, such as rising costs brought about by the persistent lack of labor. With this, the Group expects that the role of logistics will grow to be even more significant going forward, for the sake of both corporate and social development.

In addition to aiming for sustainable growth through achieving the targets of the final year of the Three-year

Medium-Term Business Plan covering the period from April 1, 2015 to March 31, 2018, the Group is also working to implement "work style reforms," in order to become a "company worth working for," where employees who hold the Group's future in their hands can fully demonstrate their potential.

Based on various combinations of "transportation modes," as well as the development of "AI and IoT," the Group is working on increasing productivity and cost improvements through strengthening cost control and reducing labor time as responses to logistics needs, alongside the further enhancement of our sales capabilities that provides

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, 2017	Six months ended September 30, 2016	Six months ended September 30, 2017
For the period:			
Operating revenues	¥ 63,978	¥ 60,679	\$ 567,537
Logistics	59,352	56,240	526,500
Information processing	1,286	1,355	11,413
Sales	2,540	2,440	22,537
Others	798	642	7,086
Operating income	2,660	2,439	23,605
Net income attributable to owners of the parent	1,835	2,020	16,280
Total comprehensive income	2,586	2,230	22,941
Per share (yen and U.S. dollars) (Note 2,4)			
Net income, basic	¥ 202.37	¥ 222.77	\$ 1.7952
Net income, diluted (Note 3).....	—	—	—
Cash dividends	4.00	3.50	0.0355
	September 30, 2017	March 31, 2017	September 30, 2017
At period-end:			
Total assets	¥127,352	¥126,769	\$1,129,714
Total net assets	63,368	61,152	562,128

- Notes: 1. These financial statements are in principle presented in Japanese yen, and U.S. dollar amounts presented herein are included solely for the convenience of readers outside Japan. The rate of ¥112.73 = U.S.\$1, prevailing on September 29, 2017, 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, 2017 and 2016, since there were no potentially dilutive securities.
4. The Company conducted a 1-for-10 reverse stock split of its common shares effective October 1, 2017. Accordingly, the net income per share was calculated under the assumption that said reverse stock split had been conducted at the beginning of the previous fiscal year.

new “strategies” and “value” as a logistics partner to our customers.

As announced at the beginning of the fiscal year, the interim ordinary dividend shall be ¥4.00 per share. The Group is planning to pay out a year-end ordinary dividend of ¥40.00 per share, taking into consideration the effects of the recent reverse stock split.

Going forward, through providing logistics services based on “safety, security, and stability,” the Group plans to respond to increasing and diversifying logistics needs, so as to become an acclaimed solution provider in the eyes of customers and stakeholders, and to contribute to societal development and sustainable corporate growth.

At the beginning of the fiscal year, the Group changed its core operation system to an open system to strengthen its business foundation. Through this, the Group aims to create new “value” through vitalizing “co-creation” with customers and partners, and will further aim to increase its corporate value through enhancing the Group’s “earning power,” “growth power,” and the “power to sustain these two powers.” In all our endeavors, we will be grateful for your continued support and guidance.

(Notes) *1. Artificial intelligence
*2. A new business model enabled by the Internet connectivity of various devices, appliances and other items.

December 2017



Katsusuke Watanuki
President and Representative Director

OVERVIEW OF OPERATIONS

In the logistics industry, although domestic freight transportation volume was on an increasing trend against a background of an increase in domestic demand, there was a notable change in the business environment, as evidenced by the further progress on initiatives in work style reforms, due to the lack of labor for positions including drivers and on-site workers, and other factors.

The Group aims to increase customer satisfaction and further enhance operational efficiency through the provision of quality logistics services, and is therefore pursuing “a comfortable working environment and work style reforms,” such as through “increasing profitability per person and per unit of time,” “building a safe, secure and stable workplace environment,” and measures to sustain the employees, which include “promoting recruiting activities” and “implementing a mentoring system,” taking into consideration the aging population and decreasing labor force.

Amid such circumstances, in the road haulage business and the freight forwarding business, we strove to secure stable profits by appropriately collecting transport and other fees, as well as expanding sales to new customers and deepening relationships with existing customers. Alongside this, amid the mounting trend toward outsourcing and synergizing of logistics operations among shipping companies, we strove to expand our businesses, including third-party logistics (3PL), as an area of focus.

As a result, the Group’s operating revenues amounted to ¥63,978 million, an increase of 5.4% from the previous year.

With regard to profits, owing to initiatives such as the thorough management of profits and the improvement of productivity of existing businesses, both through the increase in revenue and cost control, operating income increased 9.1% to ¥2,660 million. Net income attributable to owners of the parent decreased 9.1% to ¥1,835 million, due mainly to the effects of tax accounting.

RESULTS BY SEGMENT

Operating revenues from the logistics-related business amounted to ¥59,352 million, an increase of 5.5% from the previous year due to the continued moderate recovery of transportation demand, as well as the development of the 3PL business. Segment income was ¥2,414 million, an increase of 8.4% owing to increased revenues, improved transportation efficiency and the upgraded operation of distribution centers. Operating revenues from the information processing business were ¥1,286 million, a decrease of 5.1%. Segment income was ¥122 million, an increase of 2.2%.

Operating revenues from the sales business, which includes merchandising, consignment sales, and a non-life insurance agency, amounted to ¥2,540 million, an increase of 4.1%. Segment income was ¥72 million, an increase of 73.7%.

Operating revenues from other businesses, which includes automobile repair service, amounted to ¥798 million, an increase of 24.4%. Segment income was ¥59 million, a decrease of 39.1%.

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

September 30, 2017 and March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	September 30, 2017	March 31, 2017	September 30, 2017
ASSETS			
Current assets:			
Cash and time deposits	¥ 14,930	¥ 15,592	\$ 132,447
Trade receivables:			
Notes and accounts	21,063	20,908	186,851
Less: allowance for doubtful accounts	(27)	(27)	(244)
Inventories (Note 2)	676	571	5,998
Deferred tax assets	684	774	6,073
Income taxes receivable	355	240	3,152
Other current assets	2,586	2,291	22,948
Total current assets	40,269	40,352	357,225
Property and equipment:			
Land	41,003	40,713	363,731
Buildings and structures	19,946	20,352	176,936
Machinery and vehicles	2,541	2,493	22,542
Other	7,682	7,905	68,149
Total property and equipment	71,172	71,465	631,358
Investments and other assets:			
Investments in securities	9,907	8,879	87,891
Goodwill	809	875	7,183
Other	5,192	5,196	46,058
Total investments and other assets	15,909	14,951	141,132
Total assets	¥127,352	¥126,769	\$1,129,714

The accompanying Notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	September 30, 2017	March 31, 2017	September 30, 2017
LIABILITIES			
Current liabilities:			
Short-term bank loans	¥ 9,710	¥ 9,690	\$ 86,135
Current portion of long-term debt	684	701	6,071
Trade notes and accounts payable	11,448	12,531	101,561
Income taxes payable	1,304	1,362	11,575
Other current liabilities	9,708	9,923	86,125
Total current liabilities	32,856	34,209	291,466
Long-term liabilities:			
Long-term debt, less current portion thereof	11,274	11,562	100,015
Deferred tax liability	2,041	1,620	18,106
Deferred tax liabilities from revaluation reserve for land	3,776	3,776	33,500
Retirement benefits for directors and corporate auditors	138	153	1,231
Net defined benefit liability	7,073	7,109	62,749
Other long-term liabilities	6,822	7,184	60,519
Total long-term liabilities	31,126	31,407	276,120
Total liabilities	63,983	65,617	567,586
NET ASSETS			
Shareholders' equity:			
Common stock:			
Authorized: 299,200,000 shares at September 30, 2017 299,200,000 shares at March 31, 2016			
Issued: 97,610,118 shares at September 30, 2017 97,610,118 shares at March 31, 2016	14,182	14,182	125,811
Capital surplus	11,699	11,699	103,781
Retained earnings	29,782	28,310	264,196
Treasury stock: 6,930,358 shares at September 30, 2017 and 6,915,550 shares at March 31, 2016	(2,042)	(2,037)	(18,114)
Total shareholders' equity	53,622	52,154	475,673
Accumulated other comprehensive income:			
Unrealized gain on securities	3,063	2,355	27,179
Revaluation reserve for land	6,378	6,378	56,581
Remeasurements of defined benefit plans	270	231	2,397
Total accumulated other comprehensive income	9,712	8,965	86,157
Minority interests:			
Minority interests	33	32	298
Total net assets	63,368	61,152	562,128
Total liabilities and net assets	¥ 127,352	¥ 126,769	\$ 1,129,714

**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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Operating revenues:			
Operating revenues	¥63,978	¥60,679	\$567,537
	63,978	60,679	567,537
Operating costs and selling, general and administrative expenses:			
Operating cost	57,851	55,193	513,188
Selling, general and administrative expenses	3,465	3,046	30,744
	61,317	58,240	543,932
Operating income	2,660	2,439	23,605
Other income and expenses:			
Interest and dividend income	206	174	1,832
Equity in earnings of affiliates	67	47	598
Gain on disposal/sales of property and equipment, net	41	37	371
Interest expenses	(114)	(120)	(1,013)
Other, net	101	84	896
	302	221	2,684
Income before income taxes	2,963	2,661	26,289
Income taxes:			
Current	1,035	912	9,190
Deferred	88	(275)	785
	1,124	637	9,975
Net income	1,839	2,024	16,314
Net income attributable to non-controlling interests	3	3	34
Net income attributable to owners of the parent	¥ 1,835	¥ 2,020	\$ 16,280
Net income attributable to non-controlling interests	3	3	34
Net income	1,839	2,024	16,314
Other comprehensive income			
Valuation difference on other securities	706	148	6,267
Remeasurements of defined benefit plans	38	58	345
Share of other comprehensive income of associates accounted for using equity method	1	(0)	16
Total other comprehensive income	747	206	6,628
Total comprehensive income	2,586	2,230	22,941
Total comprehensive income attributable to:			
Owners of the parent	2,582	2,226	22,908
Non-controlling interests	3	3	34

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	¥ 2,963	¥ 2,661	\$ 26,289
Depreciation and amortization	2,472	2,368	21,936
Gain on disposal/sales of property and equipment, net	(41)	(37)	(371)
Loss on sales of investments in securities	3	0	32
Loss on devaluation of investments in securities	32	0	290
Loss on devaluation of golf club memberships	0	—	5
Amortization of goodwill	100	4	889
Equity in earnings of unconsolidated subsidiaries and affiliates	(67)	(47)	(598)
Decrease in allowance for doubtful accounts	(16)	(70)	(144)
Increase (decrease) in net defined benefit liability	14	96	127
Decrease in directors' and corporate auditors' retirement benefits	(14)	(2)	(129)
Increase in accrued bonuses to employees	22	41	203
Interest and dividend income	(206)	(174)	(1,832)
Interest expenses	114	120	1,013
Decrease in trade receivables	(149)	1,335	(1,326)
Increase in inventories	(104)	(106)	(928)
Decrease in accounts payable	(698)	(205)	(6,200)
(Decrease) increase in accrued consumption taxes	(17)	(184)	(155)
Other, net	298	375	2,645
Subtotal	4,706	6,176	41,748
Interest and dividends received	206	174	1,832
Interest paid	(114)	(119)	(1,012)
Income taxes paid	(1,211)	(1,238)	(10,747)
Net cash provided by operating activities	3,587	4,993	31,821
Cash flows from investing activities:			
Purchase of time deposits	(16)	(16)	(142)
Proceeds from redemption of time deposits	22	22	195
Purchase of property and equipment	(1,782)	(1,342)	(15,810)
Proceeds from sales of property and equipment	100	91	895
Purchase of investments in securities	(11)	(46)	(103)
Proceeds from sales of investments in securities	15	0	139
Payment for purchase of investments in consolidated subsidiaries	(198)	(257)	(1,760)
Investments in loans receivable	(299)	(263)	(2,658)
Proceeds from collection of loans receivable	239	246	2,125
Other, net	(23)	(19)	(211)
Net cash used in investing activities	(1,953)	(1,586)	(17,331)
Cash flows from financing activities:			
Net decrease in short-term loans	7	(750)	62
Proceeds from long-term debt	50	3,500	444
Repayment of long-term debt	(427)	(2,343)	(3,790)
Repayments of lease obligations	(1,549)	(1,501)	(13,744)
Purchase of treasury stock	(4)	(0)	(37)
Dividends paid	(362)	(317)	(3,219)
Dividends paid to non-controlling interests	(2)	(2)	(25)
Net cash used in financing activities	(2,289)	(1,415)	(20,309)
Net increase (decrease) in cash and cash equivalents	(655)	1,990	(5,819)
Cash and cash equivalents at beginning of period	15,571	13,359	138,133
Cash and cash equivalents at end of period (Note 3)	¥14,915	¥15,350	\$132,314

The accompanying Notes are an integral part of these statements.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

TONAMI HOLDINGS CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of presenting financial statements

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

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.73 to U.S.\$1, the approximate rate of exchange at September 29, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Inventories

Inventories as of September 30, 2017 consisted of merchandise of ¥242 million (\$2,150 thousand), work in process of ¥90 million (\$807 thousand), and raw materials and supplies of ¥342 million (\$3,041 thousand).

3. Cash flow statements

Reconciliation of cash and time deposits shown in the consolidated balance sheets, and cash and cash equivalents shown in the consolidated statements of cash flows as at September 30, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	September 30, 2017	September 30, 2016	September 30, 2017
Cash and time deposits	¥14,930	¥15,366	\$132,447
Time deposits with maturities exceeding three months	(15)	(16)	(133)
Cash and cash equivalents	¥14,915	¥15,350	\$132,314

4. Amounts per share

Net income per share

	Yen		U.S. dollars
	Six months ended September 30, 2017	Six months ended September 30, 2016	Six months ended September 30, 2017
Basic	¥202.37	¥222.77	\$1.7952
Diluted	—	—	—
Cash dividends	4.00	3.50	0.0355

Basis for the calculation of net income per share for the six months ended September 30, 2017 and 2016 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	Six months ended September 30, 2017	Six months ended September 30, 2016	Six months ended September 30, 2017
Net income per share:			
Net income	¥1,835	¥2,020	\$16,280
Net income not available to shareholders of common stock	—	—	—
Net income available to shareholders of common stock	1,835	2,020	16,280
Weighted-average number of shares of common stock outstanding (shares)	9,068,516	9,069,590	

Diluted net income per share is not presented for the six months ended September 30, 2017 and 2016 since there were no outstanding potentially dilutive securities.

(Note)

The Company conducted a 1-for-10 reverse stock split of its common shares effective October 1, 2017. Accordingly, the net income per share was calculated under the assumption that said reverse stock split had been conducted at the beginning of the previous fiscal year.

5. Subsequent events

At a meeting held on November 10, 2017, the board of directors of the Company resolved the following interim cash dividends:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥4.0 per share)	¥362	\$3,218

6. Segment information

Information on operating revenues and income/loss by reportable segment

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

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

(b) For the six months ended September 30, 2017

	Millions of yen							
	Reportable segment				Others *1	Total	Adjustment *2	Consolidated *3
	Logistics	Information processing	Sales	Total				
Operating revenues:								
1. Revenues from outside customers	¥59,352	¥1,286	¥2,540	¥63,179	¥798	¥63,978	¥ —	¥63,978
2. Intersegment revenues or transfers	9	119	1,941	2,070	121	2,192	(2,192)	—
Total	59,361	1,406	4,482	65,250	920	66,170	(2,192)	63,978
Segment income	¥ 2,414	¥ 122	¥ 72	¥ 2,609	¥ 59	¥ 2,668	¥ (7)	¥ 2,660

	Thousands of U.S. dollars							
	Reportable segment				Others *1	Total	Adjustment *2	Consolidated *3
	Logistics	Information processing	Sales	Total				
Operating revenues:								
1. Revenues from outside customers	\$526,500	\$11,413	\$22,537	\$560,450	\$7,086	\$567,537	\$ —	\$567,537
2. Intersegment revenues or transfers	81	1,063	17,223	18,366	1,081	19,447	(19,447)	—
Total	526,581	12,476	39,760	578,817	8,167	586,984	(19,447)	567,537
Segment income	\$ 21,414	\$ 1,086	\$ 643	\$ 23,144	\$ 524	\$ 23,668	\$ (63)	\$ 23,605

*1 "Others" corresponds to operating segments that are not included in the reported operating segments and includes automobile repair service and other operations.

*2 Adjustments are as follows

Adjustments of segment income

For the six months ended September 30, 2017 and 2016, adjustments of segment income amounted to ¥(7) million (\$ (63) thousand) and ¥(47) million, respectively. Adjustments include intersegment eliminations and corporate expenses not allocated to any reportable segments.

For the six months ended September 30, 2017 and 2016, the above-mentioned intersegment eliminations amounted to ¥404 million (\$3,590 thousand) and ¥379 million, respectively, and corporate expenses not allocated to any reportable segments amounted to ¥(411) million (\$ (3,653) thousand) and ¥(426) million, respectively. Corporate expenses are mainly expenses of the Company's operations that do not belong to any reportable segments.

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

CONSOLIDATED SUBSIDIARIES

Logistics

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

Information Processing and Others

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

BOARD OF DIRECTORS AND CORPORATE AUDITORS

President and Representative Director

Katsusuke Watanuki

Senior Managing Directors

Kazuo Takata

Shinichi Izumi

Directors

Yasuo Terabayashi

Toyonobu Terahai

Yasuhiro Saegusa

Mitsuharu Wadachi

Shinichiro Inushima

Ichiro Tanaka

Standing Corporate Auditors

Mitsuo Matsuda

Masafumi Takebe

Corporate Auditors

Yohji Ishiguro

Toshio Kaido

(As of September 30, 2017)

CORPORATE DATA

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Date of Establishment

June 1943

Common Stock

¥14,182 million

Issued and Outstanding Shares

97,610,118 shares

(As of September 30, 2017)



TONAMI
TONAMI HOLDINGS CO., LTD.

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