

Corporate Governance

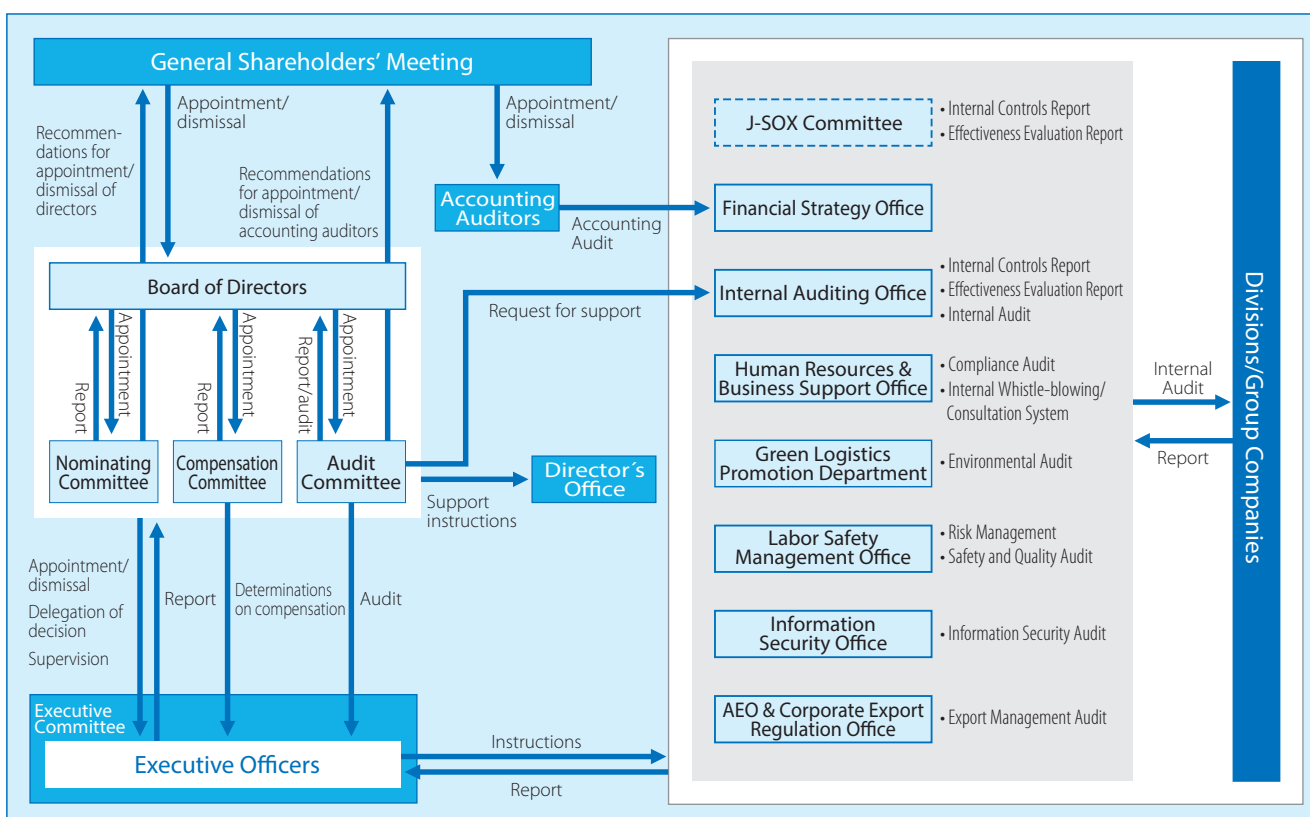
Basic Views

At the HTS group, we consider corporate governance to be key to realizing even greater financial health and transparency, as well as ensuring that our business is carried out with compliancy and in accordance with correct corporate ethics. By extension, the crux of corporate governance lies in boosting corporate value and sustainable development. Rooted in our corporate philosophy, we have adopted a corporate governance structure capable of responding deftly to changes in the business environment as well as boosting operational transparency and efficiency—namely a company with a Nominating Committee, etc. System. This means that we have effectively separated our corporate management and our business implementation—a setup that largely transfers business decision-making rights from our board of directors to our executive officers. The result is rapid decision-making and implementation on initiatives such as restructuring and strategic investment. In addition, because we believe that considering the subjective opinions of outside directors facilitates both monitoring of the Board of Directors and transparency of management, we have also established three committees overseeing nomination, auditing, and compensation respectively.

Measures to Enhance Corporate Governance Implemented in the Past

	Measures	Purpose
2003	Transitioned to a Company with Committees (established Nominating Committee, Audit Committee and Compensation Committee)	To strengthen management supervision function of the Board of Directors
2014	Developed Criteria for Independence of Outside Directors	To secure independence of directors
	Appointed a female director	To diversify the Board of Directors
2015	Transitioned to a Company with a Nominating Committee, etc. System	To comply with the amended Companies Act
	Responded to the Corporate Governance Code Established Corporate Governance Guidelines of Hitachi Transport System	To strengthen governance
2016	Evaluated the effectiveness of the Board of Directors	To strengthen functions of the Board of Directors
2017	Appointed the second female director	To diversify the Board of Directors

The Current Corporate Governance System and Internal Control System



HTS's Organization Design

By using a Company with a Nominating Committee, etc. System, substantial authorities related to business execution are delegated from the Board of Directors to executive officers, who make prompt decision making about business restructuring and strategic investments.

Executive Committee meeting consisting of all executive officers is held once a month in general to discuss material subjects which have impacts on the Company and the entire Group and clarify responsibilities and authorities of the executive officers.

Board of Directors

Attendance record of Board of Directors meetings and Committee meetings in FY2018

Name	Registration	Current positions and Assignments in the Company*2	Number of attendances for the Board of Directors meetings during FY2018
Independent Officer Sayoko Izumoto	2017	Outside Director Audit Committee 16/16 Compensation Committee 5/5	14/14
Independent Officer Mitsudo Urano	2014	Outside Director Nominating Committee Chairman 8/8 Compensation Committee Chairman 5/5	14/14
Koji Tanaka	2018	Chairman of the Board, Outside Director	12/12 ¹
Independent Officer Tetsu Fusayama	2016	Outside Director Nominating Committee 6/6*1 Audit Committee 16/16	14/14
Independent Officer Emiko Magoshi	2014	Outside Director Nominating Committee 8/8	14/14
Hiroshi Maruta	2015	Outside Director Audit Committee Chairman 16/16	14/14
Takashi Jinguji	2016	Representative Executive Officer Executive Vice President and Executive Officer	14/14
Yasuo Nakatani	2013	Representative Executive Officer President and Chief Executive Officer Nominating Committee 8/8 Compensation Committee 5/5	14/14

*1 Shows the attendance record since his appointment at the 59th Regular General Shareholders' Meeting held on June 19, 2018.

*2 The colored frames indicate respective Committees with the upper part showing the name of the Committee to which a director belongs and the lower part showing his/her attendance records.

(1) Board of Directors

• Primary role: Determines the Company's basic management policy and supervises execution of duties by directors and executive officers (also passes a resolution by focusing on specific discussions on the Mid-term Management Plan and fiscal budget in addition to matters to be resolved stipulated by laws and regulations, the Articles of Incorporation and the Board of Directors regulations)

(2) Nominating Committee

• Primary role: Elects candidates for director (elects appropriate candidates, considering all relevant factors including their past performance and personality)

(3) Audit Committee

• Primary role: Performs audit of execution of duties by directors and executive officers and prepares an audit report (performs audit of execution of duties by directors and executive officers from the viewpoint of legal compliance and appropriate performance of duties in cooperation with independent auditors and internal audit department, with an aim of establishing a high-quality corporate governance system to maintain social trust)

(4) Compensation Committee

• Primary role: Determines compensation, etc. of directors and executive officers (determines the compensation level, etc. for each position commensurate with the ability and responsibilities required of the Company's directors and executive officers and the Company's performance, taking into consideration the compensation level of other companies)

Relationship between HTS and outside directors

There are no special interests involved between six outside directors appointed at the HTS 60th Regular General Shareholders' Meeting held June 18th, 2019 and HTS, as stipulated under the Companies Act Clause 74, Section 2-3.

With a view to boosting our corporate governance—and ensuring better transparency and subjectivity—HTS appoints outside directors with subjective opinions, extensive experience in and knowledge of management, and more. Further, to objectively assess the neutrality of outside directors, we have established neutrality criteria for outside directors based on neutrality criteria employed by entities such as the Tokyo Stock Exchange Securities Listing Regulations, proxy advisory firms, and more. Outside directors who are qualified to be independent under the criteria are considered independent officers; specifically, they hold no risk of conflict of interest with general shareholders. (Sayoko Izumoto, Mitsudo Urano, Tetsu Fusayama, and Emiko Magoshi are registered as independent officers in accordance with Tokyo Stock Exchange regulations.) The criteria for independence of outside directors are noted on the HTS Website.

Criteria for Independence of Outside Directors
<http://www.hitachi-transportssystem.com/en/profile/csr/management/governance.html#section1>

Analysis and evaluation of effectiveness of the entire Board of Directors, and the result

(1) Matters to be discussed by the Board of Directors and the structure

The Board of Directors allocate its time for discussion to management strategy (37%), corporate governance (26%) and business operation and other (37%), based on the annual plan. Regarding the long-term perspectives which have been an issue since FY2017, since the executive officers explained the outline in an early stage, the Board of Directors was able to exchange opinions in advance. Based on this, the Mid-term Management Plan up to FY2021 was developed, but the Board still needs to further discuss long-term issues such as investment including M&A and business portfolio review. In order to improve the effectiveness of the Board of Directors, HTS held a brainstorming by independent outside directors only in the training center for the first time in March 2019. The participants recognized the importance of specific initiatives to supervise executive officers (Executive Committee) to whom significant authorities are delegated as well as information sharing by on-site visit, etc. They also confirmed that not only the Nominating Committee but also the Board of Directors should proactively get involved in the development of next senior management members.

(2) Composition of the Board of Directors and effectiveness commensurate with its role

HTS has four independent outside directors (including two female directors) out of total eight directors. The Board of Directors as a whole consists of a wide variety of persons who have high expertise and insights including former CEO of other company, CPA, those with a background in the corporate accounting/finance field, business scholar and lawyer. In FY2018, the Nominating Committee, the Audit Committee and the Compensation Committee held meetings eight times, 16 times and five times, respectively. In FY2017, it was decided that the chairs of the Board of Directors and each Committee should be selected from non-executive outside directors and that in FY2018 the chairs of the Nominating Committee and the Compensation Committee should be selected from independent outside directors, which further increased the neutrality. The self-assessment on the effectiveness by each Committee is as follows.

• **Nominating Committee:** Regarding the appointment and dismissal of CEO, which is one of the important roles of the Board of Directors, we, as the Nominating Committee, conducted discussions on "process of reappointment of President and Chief Executive Officer" three times, and based on the final resolution, we confirmed that there was no objection to the reappointment of the current president for FY2019.

• **Audit Committee:** The executive officers continued to quickly respond to recommendations by the Audit Committee, and we believe the effectiveness is being maintained. Audit in collaboration among three parties (the Audit Committee, the internal audit department and the independent auditor) is functioning effectively in identifying risks and improving audit quality through information sharing, and the effectiveness and efficiency of audit is essentially being maintained. However, although the consolidated financial statements for FY2014 (April 1, 2014 to March 31, 2015) and thereafter were issued an "unqualified opinion" by the independent auditor, because it was found in January 2019 that certain accounting treatments for

M&A did not comply with IFRS, we restated the consolidated financial statements for FY2014 and thereafter at the closing of the quarterly consolidated financial statements for the third quarter ended December 31, 2018. We recommended the executive officers to improve the internal control process for account closing under IFRS and requested the independent auditor to further improve the audit quality management. In FY2019, we will verify the progress of each improvement measure to prevent recurrence of erroneous accounting treatments under IFRS which is increasingly becoming complicated, and continue our efforts to "strengthen audit collaboration among three parties" and to "improve audit quality." In order to verify the effective function of the Board of Directors which is the core of the governance of 84 domestic and overseas group companies, the Audit Committee verified through its own audit as well as regular reporting of audit activities from statutory auditors of group companies and audit reports from the Internal Auditing Office, and continued to convey requests for each corrective measure to executive officers. We also conducted an "evaluation of the statutory auditor system of the HTS Group companies" based on the statutory auditor reports in FY2018, and used the evaluation results to demand the executive officers to take necessary corrective measures to improve the activity level of the statutory auditors. As a result, it was decided that the statutory auditor system in subsidiaries will be strengthened in FY2019 by increasing the number of full-time statutory auditors. As for the sustainable increase of corporate value required by the Corporate Governance Code, a business assessment scheme requested by the Audit Committee using ROIC*1 as KPI*2 based on WACC*3 is incorporated into the budget process, and the management focusing on capital efficiency is becoming to take root.

• **Compensation Committee:** In deciding compensation of executive officers, we introduced multifaceted evaluation by increasing benchmarks to be considered, and we confirmed that we will need to discuss the fix/variable ratio in the total compensation and stock-based compensation. We will work on specific measures to improve the quality of our meeting including time of the meeting.

(3) Holding, planning and actual operation of the Board of Directors

In FY2018, the Board of Directors held 14 meetings. The frequency based on the general rule to hold the meeting on a monthly basis is appropriate, and the annual plan reflecting opinions of directors is also well-balanced. As for actual operation, the advance briefing on certain agendas is sometimes only handouts provided immediately before a meeting, and therefore we requested the secretariat to provide more detailed advance briefing. At the Board of Directors meeting, directors exchange their opinions from various angles freely and vigorously.

*1 ROIC: Return on Invested Capital
*2 KPI: Key Performance Indicator
*3 WACC: Weighted Average Cost of Capital

Executive Committee

- Deliberates on important issues related to business implementation
- Comprised entirely of executive officers or individuals appointed by the company president
- Executive Committee meeting held once a month in principle (additional sessions held as necessary)
- Total of 18 executive officers (as of April 1, 2019)

Compensation Committee's Policy and Process for Determining the Amount of Compensation, etc. of Directors and Executive Officers

(1) Decision-making on policy

In accordance with the Companies Act as pertains to a company with a Nominating Committee, etc. System, the Compensation Committee determines compensation levels for individual directors and executive officers.

(2) Basic policy

The Compensation Committee deliberates and determines compensation level, etc. for each position commensurate with the ability and responsibilities required of HTS officers and the Company's performance, taking into consideration the compensation level of other companies.

(3) Director compensation, etc.

Director compensation levels are comprised of a combination of a monthly salary and an end-of-term bonus (full-time directors only). The monthly salary reflects executive-level performance and whether or not the individual is full or part-time. The end-of-term bonus is determined as the base amount predetermined at approximately 10% of the individual's annual income based on the monthly salary with an adjustment reflecting the Company's performance, subject to the Compensation Committee's deliberation. Directors who also serve as executive officers do not receive additional compensation as directors.

For compensation, etc. for FY2018, the Compensation Committee deliberated and determined compensation, etc. for each director on June 19, 2018 and the end-of-term bonus for each director on May 21, 2019 in accordance with the policy for determining compensation, etc. for directors, etc. established by the Compensation Committee on December 26, 2017.

(4) Executive officer compensation, etc.

Executive officer compensation levels are comprised of a combination of a monthly salary and a performance-linked compensation, and determined by reflecting executive's performance review in a base amount commensurate with his/her position. Performance-linked compensation is determined as the base amount set at roughly 30% to 40% of annual income with an adjustment reflecting the performance evaluation with reference to year-on-year comparison of revenues and adjusted operating income* and the results of the business operation under his/her responsibility, subject to the Compensation Committee's deliberation. We clarified our responsibility toward improvement of shareholder value by setting adjusted operating income having strong correlation with market capitalization as one of the determinant factors.

For compensation, etc. for FY2018, the Compensation Committee deliberated and determined compensation, etc. for each executive officer on March 30, 2018 and performance-linked compensation for each executive officer on May 21, 2019 in accordance with the policy for determining compensation, etc. for executive officers established by the Compensation Committee on December 26, 2017.

* FY2018 (results) Revenues: ¥708,831 million (1% increase YoY)
Adjusted operating income: ¥31,192 million (5% increase YoY)
FY2018 (plan) Revenues: ¥710,000 million (1% increase YoY)
Adjusted operating income: ¥31,000 million (4% increase YoY)

Internal Controls

Based on the relevant laws and ordinances, we have established an Audit Committee to supervise the work of our directors and executive officers, while our Board of Directors implements comprehensive systems related to internal controls.

The HTS Group has set up an Internal Controls Committee, through which internal controls related to financial reporting are documented and also assessed for effectiveness throughout the HTS Group. By adhering to internal control reporting systems on financial reporting as stipulated in the Financial Instruments and Exchange Act, our financial reporting earns the optimal trust level.

Complying with the Corporate Governance Code

HTS is compliant with all principles established in the Corporate Governance Code as of the end of FY2018 except for "Principle 1.4 Cross-shareholdings," whose assessment result is "Explain." The reason why we do not implement this principle and the current status of our cross-shareholdings are as follows.

[Principle 1.4: Cross-shareholdings]
(Policies regarding cross-shareholdings)
HTS does not hold cross-shareholdings in principle, unless it is for a medium-to-long-term sustainable growth of the Company and improvement of corporate value.

Under such policy, of 26 issues we hold, we sold all shares of 14 issues in March 2016, one issue in October 2016 and one issue in June 2017, and we purchased one issue in March 2019, resulting in a total of 11 issues of shareholding as of March 31, 2019. As of March 31, 2019, the amount of cross-shareholdings accounted for less than 1% of total assets, which is insignificant on the balance sheet. In addition, the Board of Directors evaluates every year whether to continue holding those shares from the viewpoint of the criteria for investment assessment (ROE, dividend payout ratio and impairment risk, etc. of individual issue) and the criteria for business assessment (revenues from direct transactions with HTS, credit information by a third party agency and compliance, etc.). Going forward, we will make decisions based on more clear comparison with capital cost. (Exercise of voting rights)
HTS exercises its voting rights from the perspective of its medium-to-long-term sustainable growth and improvement of corporate value.

"Corporate Governance Guidelines" are available on our website.

<http://www.hitachi-transportssystem.com/en/profile/csr/management/governance.html#section7>

Initiatives to Enhance Compliance Base

In order to ensure management in compliance with laws and regulations, the HTS Group has put in place a system to clarify compliance functions and set a compliance basic policy to be observed by all officers and employees, to ensure thorough compliance with laws and regulations, company rules, and corporate ethics.

We have also established "HTS Group Code of Conduct" defining how all officers and employees should act in their daily operations as it is vital for us not only to comply with laws but also to act in accordance with corporate ethics in order to meet trust and expectations of the society. Furthermore, we ensure thorough compliance to foster a corporate culture that values corporate ethics and compliance by actively providing compliance trainings and awareness projects, including e-learning, company-wide group seminars and compliance meetings.

HTS Group compliance reference card

Since 2016, we have been distributing the HTS Group compliance reference card to all officers and employees of the HTS Group to promote awareness of "HTS Group Code of Conduct." It contains a summary of the code of conduct, flowcharts to be used as a reference in difficult situations regarding compliance, and other things that will help officers and employees to take appropriate actions.

In 2018, the contents of the card were carefully selected and revised to be simpler, and easier to read and understand. The card is translated into 20 languages and distributed to all of overseas officers and employees.

List of Compliance Pledges

1. I observe laws and regulations for workplace safety, health, working conditions, company regulations, etc.
2. I do not engage in harassment.
3. I do not engage in actions that cause harm to personal character such as slander, privacy infringement, etc.
4. I observe the various rules related to information security, and I do not engage in illegal acquisition of confidential or personal information, nor in leaking information outside of the company.
5. I do not engage in actions that could be suspected of bribery and corruption by maintaining prudent relationships with customers and transaction partners.
6. I do not engage in illegal actions that impede fair and free competition including cartels and bid-rigging.
7. I observe export/import related laws and regulations, and the HTS Environmental Policy.

Hitachi Transport System Group Compliance Reference Card

The HTS Group is in pursuit of great social value. We will take actions based on the HTS Group Code of Conduct (established in 2016), and build a corporate culture that does not tolerate any violations regardless of circumstances. The HTS Group strives for increasing trust and confidence of society.

January 2019
Hitachi Transport System, Ltd.
President and CEO Yasuo Nakatani

Compliance Checklist

1. Do you observe laws and regulations?
2. Do you observe the HTS Group Code of Conduct?
3. Do you observe the HTS Group Code of Conduct?
4. Do you observe the HTS Group Code of Conduct?
5. Do you observe the HTS Group Code of Conduct?

How to report

How to report by intranet: There is a page on the Intranet Compliance page for directly making reports.

How to report by e-mail: Send an e-mail to the following address with "[Compliance] In-company Reporting System" in the title. E-mail address: [redacted]



Internal whistle-blowing system

The HTS Group has a point of contact for internal whistle-blowing system and also "HTS Group In-company Compliance Reporting System" that allows direct reporting to an external lawyer. The system helps prevent illegal actions and/or inappropriate actions in the Group and detect them early on. The system is designed to rectify any problems.

We conduct an investigation on the reported content and implement improvement measures where necessary. Also, the investigation results and details of the improvement measures are communicated to the whistleblower.

In-company Compliance Reporting System

Purpose of the system
The purpose of this system is to ensure management in compliance with laws and regulations, and to strive to prevent the occurrence and expansion of violations of laws and regulations.

What content can be reported?

- ◆ Violations of laws, etc.
- ◆ Violations of company regulations
- ◆ Violations of the HTS Group Code of Conduct and the HB Way

Who can report?
All people working in the Hitachi Transport System Group, (including officers, employees, partner workers and temporary workers)

How are reporters protected?

- ◆ Information which enables to identify reporters will not be disclosed without prior consent.
- ◆ Reporters will not be treated unfairly due to making a report.

Hitachi Transport System, Ltd. or group companies will respond according to the content of reports.

Intranet, e-mail and sealed letters
Contact point within the company: [redacted]

How to report by intranet: There is a page on the Intranet Compliance page for directly making reports.

How to report by e-mail: Send an e-mail to the following address with "[Compliance] In-company Reporting System" in the title. E-mail address: [redacted]

Please use the above address or e-mail address if you have any inquiries about the system.
Personal information on reports will be handled in accordance with the Hitachi Transport System Privacy Policy (<http://www.hitachi-transportssystem.com/en/privacy>). Please report once you have understood and agree with the Policy.

Reports are accepted not only in Japanese, but also in other languages.

To further improve internal awareness of "HTS Group In-company Compliance Reporting System", posters for dissemination were prepared in 20 languages and posted in each office. We updated its content in May 2018 to ensure that employees are well informed about the system.

"HTS Group Code of Conduct" is posted on our website (Japanese version only).
<http://www.hitachi-transportssystem.com/jp/profile/policy/pdf/koudoukiban.pdf>

Risk Management

Initiatives to Strengthen BCP System

The HTS Group has devised BCPs in preparation for natural disasters, mainly on scenarios of large-scale earthquakes, floods, tsunami, and infectious disease, spanning information-gathering and dissemination systems as well as emergency contact networks.

In Japan, we have BCPs mainly assuming large-scale natural disasters that threaten our business continuity. As an initiative to enhance the effectiveness of the BCPs, in FY2018, a disaster prevention headquarter training (desktop simulation) in Kansai area was conducted in February 2019, which was postponed from the first half due to damages caused by Typhoon No. 21. In the first half of FY2017, based on the lessons learned from the Kumamoto Earthquakes, we replenished the stockpile for disaster to cover any shortfall across the Group and established six backup warehouses to be used as alternative sites if disaster occurs around the country.

In overseas, the HTS Group sends BCP Caravan from Japan to our major sites in North America, Europe, China, and other parts of Asia to establish and develop risk management system. In addition, we gather information on developments such as large-scale-disasters, terrorism, etc., from information sources such as the Foreign Ministry as well as major communications companies, to alert our staff stationed or traveling overseas of imminent dangers. At the same time we have instituted emergency contact systems based on the information from our overseas locations.



Overseas BCP Caravan in Indonesia



Training session in Kansai area

Information Security

Boosting Information Security Initiatives

In initiatives to boost information security initiatives, the HTS Group as a whole works to maintain and bolster security levels to protect both business information and personal information provided to us by customers.

In FY2018, following the amendment of “JIS Q 15001 Personal Information Protection Management Systems – Requirements,” we revised our internal rules and confirmed the management and operation status of personal information.

We are also striving to further strengthen governance across the HTS Group and working on e-learning education and simulation trainings for targeted threat emails for all employees, responses to GDPR*1 in EU and personal information protection in Japan and overseas.

Acquisition and Maintenance of Third-party Certification

HTS has obtained and maintained third party certification, specifically the Privacy Mark*2 and ISMS*3 (ISO/IEC 27001) (Information Security Management System), to give our stakeholders a sense of security and peace of mind with regard to protection of personal information and information security.

Third party certifications



*1 GDPR (General Data Protection Regulation):

A regulation established by EU to protect personal data and privacy, which imposes severe restrictions on the handling of personal data (processing and transfer) by companies and organizations.

*2 Privacy mark:

The JIPDEC grants the Privacy Mark to businesses that meet a specified standard on appropriate handling of personal information.

*3 ISMS (ISO/IEC 27001):

International standard of information security management system. The certification is granted based on the assessment of the initiatives for information security implemented by an organization.