Toward New Dimensions

LOGISTEED

Annual Report 2019

Hitachi Transport System, Ltd.
2-9-2, Kyobashi, Chuo-ku, Tokyo, Japan  Tel: +81-3-6263-2800

FY2018 Edition (issued in September 2019)
Management Philosophy & Brand

Corporate Philosophy
The Hitachi Transport System Group delivers high-quality services that will help make the world a better place for people and nature for generations to come.

Corporate Vision
The Most Preferred Global Supply Chain Solutions Provider

Guiding Principles
Compliance
We value “Basics and Ethics”.
Customer Focus
We deliver value to our customers.
Innovation and Excellence
We strive for service excellence through collaborative innovation.
Diversity and Inclusion
We leverage inclusive diversity for holistic growth.
Sustainability
We think and act responsibly as a global citizen.

Brand Promise
Taking on the Future
In a world of constant change, we are committed to pioneering new trails, always looking ahead and energizing our society.

We build true trust with our customers, working tenaciously and charting a collaborative future.

We create and deliver innovative solutions, embracing cutting-edge technologies.

And we keep moving forward as one team, fostering mutual respect and releasing individual potential.

Going beyond the conventional domain of logistics, we will bring innovation to the future of business and people’s lifestyles.

Editorial policy
The purpose of this Report is to convey the objectives of Hitachi Transport System, Ltd. Group activities in a clear and concise manner to our stakeholders. For detailed financial data, readers are directed to the “Financial Section” on Annual Reports page of Investor Relations page of our website. (http://www.hitachi-transportsystem.com/en/profile/annual/)

Reporting period
The fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019 in general). However, recent activities are also reported in this report. “FY” refers to a financial period ended or ending on March 31.

Companies covered in this report
This annual report covers Hitachi Transport System and the HTS Group (94 consolidated subsidiaries and 20 associates accounted for using the equity method) in principal.

Forward-looking statements
This annual report contains forward-looking statements that reflect Hitachi Transport System, Ltd. and its Group companies’ forecast, targets, plans, and strategies. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, and various other factors that may cause Hitachi Transport System and its Group companies’ actual results, performance, achievements, or financial position to be materially different from any future results, performance, achievements, or financial position expressed or implied by these forward-looking statements.

Toward New Dimensions LOGISTEED

[LOGISTEED]: A word that combines LOGISTICS with Exceed, Proceed, Succeed, and Speed. It represents our determination to lead businesses to a new domain beyond the conventional logistics.

Details are available at the Company’s website:

The HTS Group’s tools for information disclosure

Financial information

Non-financial information

Corporate Data

About Us (website)

Hitachi Transport System, Ltd. Annual Report 2019
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Corporate Philosophy
Corporate Vision
Guiding Principles
Brand Promise
Management
Under the concept of “LOGISTEED,” we will strengthen the logistics domain, continue evolving in response to changes and aim at further growth and solving social issues.

First and foremost, I’d like to extend my deepest appreciation to everyone connected to the HTS Group for your ongoing support.

Under the corporate philosophy, the HTS Group aims to become the most preferred solutions provider for all of our stakeholders, including customers, shareholders and employees, in the sophisticated, diversified and wide-ranging global supply chain, and strives to achieve sustainable growth by solving issues and creating “values” through various “collaborative innovation.”

As for the environment surrounding the Group in FY2019, the first year of the new Mid-term Management Plan “Value Creation 2018,” under our business concept “LOGISTEED*1,” we have promoted various measures to create new innovations beyond the conventional logistics domain by expanding collaborative areas across businesses and industries, with enhancement of logistics as a function as our core target. As part of our efforts to strengthen logistics domain, we entered into a capital and business alliance agreement with AIT Corporation with the aim of providing services through more sophisticated cooperation between forwarding and 3PL, and promoted collaborative innovation with SG Holdings Group to expand cross-selling (business enhancement through logistics and delivery business) and asset sharing. We also entered into a business-alliance agreement with Uhiro Corporation with an aim to invigorate collaborative innovation with our partners through access to the cutting-edge technologies such as “AI (Artificial Intelligences)” and “IoT (Internet of Things)” beyond the conventional logistics domain.

As the supply chain structure is changing significantly due to technological advancement and social changes, including “IoT,” “AI,” “Robotics,” “FinTech*2,” “Sharing Economy*3” and digitization, the Group, in the new Mid-term Management Plan “LOGISTEED 2021” starting in FY2019, promotes digitalization of the Group and its collaborative partners, and build open platform, in order to realize supply chain based on and originating from our logistics domain.

In order to meet expectations of all of our stakeholders, including customers and employees, and remain to be a preferred company, we believe it is important to have a viewpoint to fulfill our responsibilities for visible environmental and social issues around the globe and meet expectations and demands. Under the management priority measures of “fake actions in consideration of environment, society and governance as well as corporate ethics,” the Group promotes initiatives focusing on corporate social responsibilities, strives to improve management transparency and efficiency, and carry out business activities by thoroughly pursuing safety and considering environmental issues. During the previous Mid-term Management Plan, we formulated “CSR objectives” to be addressed with priority and strived to disseminate them within and outside the Group. In FY2019, we will further enhance the effectiveness of “CSR objectives” initiatives and contribute to the achievement of “SDGs (Sustainable Development Goals)*6” by deepening our awareness of its compatibility with our business.

The Group will change and evolve under the concept of “LOGISTEED” and aim to become the most preferred solutions provider.

We look forward to your continued support.

Yasuo Nakatani, President and CEO

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*1 LOGISTEED: Please see page 2 for details. *2 FinTech: A coined word combining “Finance” and “Technology” and referring to financial services utilizing IT. *3 Sharing Economy: Social framework whereby products, services and places are used by sharing or exchanging with other people. *4 EC: Electronic Commerce *5 SSCV (Smart & Safety Connected Vehicle): Please see page 14 for details. *6 EC platform: Please see pages 13 and 36 for details. *7 Promotion of “personal ownership” activities (VC21)*7: Please refer to “Value Change & Creation 2021” on our website.

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In FY2018, the final year of the Mid-term Management Plan "Value Creation 2018," under our business concept "LOGISTEED"*, we have promoted various measures to create new innovations beyond the conventional logistics domain by expanding collaborative areas across businesses and industries, with enhancement of logistics as a function as our core target. As part of our efforts to strengthen logistics domain, we entered into a capital and business alliance agreement with AIT Corporation with the aim of providing services through more sophisticated cooperation between forwarding and 3PL, and promoted collaborative innovation with SG Holdings Group to expand cross-selling (business enhancement through logistics and delivery business) and asset sharing. We also entered into a business alliance agreement with Ihiiru Corporation with an aim to invigorate collaborative innovation with our partners through access to the cutting-edge technologies such as "AI (Artificial Intelligence)" and "IoT (Internet of Things)" beyond the conventional logistics domain.

As the supply chain structure is changing significantly due to technological advancement and social changes, including "IoT," "AI," "Robotics," "Fintech," "Sharing Economy**" and digitization, the Group in the new Mid-term Management Plan "LOGISTEED 2021" starting in FY2019, promotes digitalization of the Group and its collaborative partners, and build open platform, in order to realize supply chain based on and originating from our logistics domain.

Under the concept of “LOGISTEED,” we will strengthen the logistics domain, continue evolving in response to changes and aim at further growth and solving social issues.

As for the environment surrounding the Group in FY2019, the first year of the new Mid-term Management Plan, while the global economy continues to be on a moderate growth trend, attention must be paid to the impacts of protectionism and trade friction as well as geopolitical risks and the impact of natural disasters, etc. In Japan, especially in the logistics industry, the business environment is becoming severe due to intensifying competitions across industries caused by labor shortage and expansion of EC* market. Under such circumstances, the Group intends to strengthen its core logistics function and carry out collaborative innovation strategies leading to further expansion of the domains through collaboration with various partners. In addition, we will promote our initiatives to design a supply chain based on and originating from our logistics domain by accelerating development and on-site implementation of new Smart Logistics technology and pursuing commercialization and enhancement of "SSCV (Smart & Safety Connected Vehicle)*" and "EC platform". We believe solid operation is essential to ensure these initiatives are implemented without delay. Therefore, we will promote “personal ownership” activity at full scale through company-wide bottom-up initiatives (VC21)* and work on productivity improvement and enhancement of operation capabilities toward the next generation. The Group will change and evolve by strengthening its logistics domain as well as further promoting collaborative innovation in its related domains, with an aim to provide innovation responding to social challenges and customer needs and create values.

In order to meet expectations of all of our stakeholders, including customers and employees, and remain to be a preferred company, we believe it is important to have a viewpoint to fulfill our responsibilities for visible environmental and social issues around the globe and meet expectations and demands. Under the management priority measures of "fake actions in consideration of environment, society and governance as well as corporate ethics," the Group promotes initiatives focusing on corporate social responsibilities, strives to improve management transparency and efficiency, and carry out business activities by thoroughly pursuing safety and considering environmental issues. During the previous Mid-term Management Plan, we formulated “CSR objectives” to be addressed with priority and strived to disseminate them within and outside the Group. In FY2019, we will further enhance the effectiveness of "CSR objectives" initiatives and contribute to the achievement of "SDGs (Sustainable Development Goals)" by deepening our awareness of its compatibility with our business.

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Hitachi Transport System, Ltd. Annual Report 2019


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Our Resources & Value Creation

--- HTS Group Management Resources and Value Creation ---

The HTS Group will improve the corporate value by enhancing our “Earning capability” and “Growing power” as well as “Sustainable capability,” with the use of our management resources accumulated over the last 69 years.

### Resources — Bases for Value Creation —

#### Number of Companies*1/Locations*2

<table>
<thead>
<tr>
<th>Countries</th>
<th>Number of Companies</th>
<th>Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>105</td>
<td>740 sites</td>
</tr>
<tr>
<td>Overseas</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*1 Number of companies includes SAGAWA EXPRESS Group and AIT Group.
*2 Numbers of sites and warehouse floor space include those of SAGAWA EXPRESS Group and AIT Group.

#### Area of Logistics Center*2

<table>
<thead>
<tr>
<th>Locations</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>7.34 Mm²</td>
</tr>
<tr>
<td>Overseas</td>
<td>2.21 Mm²</td>
</tr>
</tbody>
</table>

*Numbers of sites and warehouse floor space include those of SAGAWA EXPRESS Group and AIT Group.

#### Human Resources

<table>
<thead>
<tr>
<th>Employees</th>
<th>Total Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>29,440 workers</td>
</tr>
<tr>
<td>Overseas</td>
<td>16,855 workers</td>
</tr>
</tbody>
</table>

*Number of employees excludes associates accounted for using the equity method.

### Services — Businesses & Solutions —

#### 3PL business

**Value**

We provide the optimal logistics services for each stage of supply chain from material procurement and production to sales, distribution, after-sales service and recycling.

**Menu**

- Procurement logistics services
- Production logistics services
- Distribution logistics services
- Reverse logistics services
- Collaborative logistics services within the same industry

#### Heavy Machinery and Plant Logistics business

**Value**

We provide sequential service including transportation, installation, setting up and import/export procedures for heavy machinery and precision instruments in a safe and reliable manner with our sophisticated technologies and know-how accumulated since our establishment.

**Menu**

- Plant-related transport
- Machinery and equipment transport
- Railway-related equipment transport
- Precision instruments transport
- Various research equipment transport

#### Forwarding business

**Value**

We provide safe and high-quality transportation services seamlessly and efficiently leveraging our global network and expertise.

**Menu**

- International air transport services
- International ocean freight transport services
- International truck transport services
- International railway transport services

#### Automobile parts logistics business

**Value**

VANTEC CORPORATION with a global network and other overseas subsidiaries with experiences in automobile parts logistics provide high quality services efficiently using their strong response capability and abundant know-how.

**Menu**

- Procurement logistics services
- Production logistics services
- Distribution logistics services
- Collaborative logistics services

*Other services (logistics related businesses)*

- Travel agency business
- Information system development business
- Sale and maintenance of automobiles business


Our Resources & Value Creation

--- HTS Group Management Resources and Value Creation ---

The HTS Group will improve the corporate value by enhancing our "Earning capability" and "Growing power" as well as "Sustainable capability," with the use of our management resources accumulated over the last 69 years.

Resources — Bases for Value Creation —

Number of Companies*1/Locations*2

Locations

105 companies 740 sites

<Domestic: 27 companies 125 sites/Overseas: 78 companies 415 sites>

Area of Logistics Center*2

Warehouses

7.34 Mm²

<Domestic: 5.11 Mm²/Overseas: 2.21 Mm²>

Total Personnel*3

Human Resources

46,295

<Domestic: 29,440 employees/Overseas: 16,855 employees>

Number of vehicles (including leased vehicles)

Vehicles

Total: 16,610

*1 Number of companies includes SAGAWA EXPRESS Group and AIT Group.
*2 Number of sites and warehouse floor space excludes those of SAGAWA EXPRESS Group and AIT Group.
*3 Number of employees excludes associates accounted for using the equity method.

Services — Businesses & Solutions —

3PL business

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We provide the optimal logistics services for each stage of supply chain from material procurement and production to sales, distribution, after-sales service and recycling.

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- Procurement logistics services
- Production logistics services
- Distribution logistics services
- Collaborative logistics services

Other services (logistics related businesses)

- Travel agency business
- Information system development business
- Sale and maintenance of automobiles business

As a domestic 3PL market leader*, we provide comprehensive logistics services excellent in safety, quality, and productivity by taking advantage of our extensive network in Japan and overseas as well as abundant experience and know-how as a pioneer.

*Source: "3PL White Paper 2018" in September 2018 issue of monthly magazine LOGI-BIZ.
**Review of Operations**

**Business Overview by Segment & FY2018 Topics**

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**Domestic logistics business (FY2018)**

- **Revenues**
  - (Y-o-Y) +4%
  - Revenues of domestic logistics business increased by 4% year-on-year to ¥4,328 billion due to a steady growth of medical-related and other JPL projects.

- **Segment profit**
  - (Y-o-Y) +2%
  - Segment profit increased by 2% year-on-year to ¥1,500 million due to an increase in revenues and improved productivity despite an increase in work costs and the impact of natural disasters.

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**Global logistics business (FY2018)**

- **Revenues**
  - (Y-o-Y) -2%
  - Revenues of global logistics business decreased by 2% year-on-year to ¥2,558 billion due to an effect of foreign exchange rates and Nishin Transportation Co., Ltd. becoming an associate accounted for using the equity method.

- **Segment profit**
  - (Y-o-Y) +13%
  - Segment profit increased by 13% year-on-year to ¥713 million due to improved profitability of unprofitable projects.

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**FY2018 Topics**

**Collaborative innovation**

- **May 2018:**
  - Started collaboration with Dai Nippon Printing Co., Ltd. and Toshiba Tec Corporation for the next-generation logistics service using electronic tags.

- **Oct. 2018:**
  - Concluded capital and business alliance agreement with AIT Corporation
  - Share exchange between AIT and Nishin Transportation
  - Enhance forwarding business

- **Dec. 2018:**
  - Concluded business alliance agreement with Hitachi Capital Corporation
  - Realize new innovations through “Finance, Commerce, Logistics, and Information”

**Branding**

- **Apr. 2018:**
  - Started new business concept “LOGISTEED”
  - Oct. 2018: Launched special site for the group introduction movie and S5CV
  - Feb. 2019: Launched YouTube official channel
  
  *Storm & Safety Connected Vehicle

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**Group Network — Network Extending to 29 Countries and Regions —**

(Ass of March 31, 2019)

- **Europe**
  - 11 companies
  - 76 sites

- **East Asia**
  - 30 companies
  - 131 sites

- **Japan**
  - 27 companies
  - 325 sites

- **Asia**
  - 26 companies
  - 159 sites

- **North America**
  - 11 companies
  - 49 sites

**Companies:** 105

**Locations:** 740

**Service expansion**

- **May 2018:**
  - Acquired license of bonded logistics center (PLB*) in Indonesia
  - *Pusat Logistik Berikat

- **Oct. 2018:**
  - Opened Nalai Gold Warehouse (Negri Sembilan, Malaysia)

- **Dec. 2018:**
  - Opened Kashiwa Platform Center (Kashiwa City, Chiba Prefecture)

**Commendations/Recognition from outside the Company**

- **Jun. 2018:**
  - The 19th Logistics Environment Awards**: “logistics Environmental Impact Mitigation Technology Development Award”

- **Aug. 2018:**
  - Japan Packaging Contest 2018**: “Large-sized Equipment Packaging Award”

- **Oct. 2018:**
  - The 3rd National Forklift Driving Contest**: General category 2nd prize

- **Oct. 2018:**
  - The 50th National Truck Driver Contest**: 11-ton/Female category 1st prize

- **Oct. 2018:**
  - Acquired “E-robochi (L Star) Certification (Stage 2)” based on the Act on Promotion of Women’s Participation and Advancement in the Workplace by the Japanese Ministry of Health, Labour and Welfare

- **Nov. 2018:**
  - 2018 Excellent Business Entities Working on Modal Shift: Award for Excellent Business Entities** (Effective use category)

---

*1: China, Hong Kong, Taiwan, Korea
*2: Including Oceania area
*3: Including Mexico
*4: Number of companies includes SAGAWA EXPRESS Group and AIT Group
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Review of Operations

Business Overview by Segment & FY2018 Topics

Domestic logistics business (FY2018)

- **Revenues**
  - Revenues of domestic logistics business increased by 4% year-on-year to ¥4,328 million due to a steady growth of medical-related and other JPL projects.

- **Segment profit**
  - Segment profit increased by 13% year-on-year to ¥7,108 million due to improved profitability of unprofitable projects.

Global logistics business (FY2018)

- **Revenues**
  - Revenues of global logistics business decreased by 2% year-on-year to ¥255,828 million due to an effect of foreign exchange rates and Nisshin Transportation Co., Ltd. becoming an associate accounted for using the equity method.

- **Segment profit**
  - Segment profit increased by 2% year-on-year to ¥329 million due to an increase in revenues and improved productivity despite an increase in work costs and the impact of natural disasters.

FY2018 Topics

**Collaborative innovation**

- **May 2018**: Started collaboration with Dai Nippon Printing Co., Ltd. and Toshiba Tec Corporation for the next-generation logistics service using electronic tags.
- **Oct. 2018**: Concluded capital and business alliance agreement with AIT Corporation
  - Share exchange between AIT and Nisshin Transportation Co., Ltd.
  - Concluded capital and business alliance agreement with Hitachi Capital Corporation
  - Concluded business alliance agreement with Uhuru Corporation
- **Dec. 2018**: Started 3D print service in collaboration with DMM.com and SAGAWA EXPRESS CO., LTD.

**Branding**

- **Apr. 2018**: Started new business concept “LOGISTEED”
- **Oct. 2018**: Acquired a license of bonded logistics center (PLB*) in Indonesia
- **Dec. 2018**: Opened Kashiwa Platform Center (Kashiwa City, Chiba Prefecture)

**Service expansion**

- **May 2018**: Acquired a patent for “Image inspection recognition device”，jointly with our group company Hitachi Distribution Software Co., Ltd.
- **Oct. 2018**: Acquired “Eruboshi (L Star) Certification (Stage 2)” based on the Act on Promotion of Women’s Participation and Advancement in the Workplace by the Japanese Ministry of Health, Labour and Welfare
- **Oct. 2018**: Accepted “Sage List Certification (Stage 3)” based on the Act on Promotion of Women’s Participation and Advancement in the Workplace by the Japanese Ministry of Health, Labour and Welfare

Commendations/Recognition from outside the Company

- **Jun. 2018**: The 19th Logistics Environment Awards** - Logistics Environmental Impact Mitigation Technology Development Award**
- **Aug. 2018**: Japan Packaging Contest 2018** - Large-sized Equipment Packaging Award**
- **Sep. 2018**: The 50th National Truck Driver Contest** General category 1st prize
- **Sep. 2018**: Acquired “Sage List Certification (Stage 3)” based on the Act on Promotion of Women’s Participation and Advancement in the Workplace by the Japanese Ministry of Health, Labour and Welfare
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*1 China, Hong Kong, Taiwan, Korea
*2 Including Oceania area
*3 Including Mexico
*4 Number of companies includes SAGAWA EXPRESS Group and AIT Group
*5 Number of sites excludes SAGAWA EXPRESS Group and AIT Group

*1 Hosted by Japan Association for Logistics and Transport
*2 Hosted by Japan Packaging Institute
*3 Hosted by the Land Transportation Safety & Health Association
*4 Hosted by the Japan Trucking Association
*5 Number of sites excludes SAGAWA EXPRESS Group and AIT Group

* Pusat Logistik Berikat (PLB*) in Indonesia

*1 China, Hong Kong, Taiwan, Korea
*2 Including Oceania area
*3 Including Mexico
*4 Number of companies includes SAGAWA EXPRESS Group and AIT Group
*5 Number of sites excludes SAGAWA EXPRESS Group and AIT Group
Special Feature 1 Mid-term Management Plan – LOGISTEED 2021 –

**Numerical Targets**

<table>
<thead>
<tr>
<th></th>
<th>FY2018 (Result)</th>
<th>FY2019 (Plan)</th>
<th>FY2021 (Mid-term Management Plan)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating income</strong></td>
<td>312</td>
<td>315</td>
<td>360</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td>36</td>
<td>34</td>
<td>64</td>
</tr>
<tr>
<td><strong>Adjusted operating income</strong></td>
<td>360</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td>10.7%</td>
<td>10.0%</td>
<td>over 10%</td>
</tr>
<tr>
<td><strong>ROE: 10.7%</strong></td>
<td>7,088</td>
<td>7,000</td>
<td>7,200</td>
</tr>
<tr>
<td><strong>ROE: 10.0%</strong></td>
<td>7,000</td>
<td>7,200</td>
<td>8,000</td>
</tr>
</tbody>
</table>

**Priority Measures**

Change and Evolution toward LOGISTEED

- Build a solid core domain (Smart Logistics)
- Collaborative innovation strategy aiming at further expansion of domains
- Supply chain based on and originating from Logistics
  - Digital transformation × Business
  - Logistics “Gemba” power × Platform
- Succession of hands-on approach
- Environment/Society/Governance

Consolidate four flows through LOGISTEED

Future Vision:

Global Supply Chain Solutions Provider

Integrate four flows for better supply chain
Special Feature1 Mid-term Management Plan – LOGISTEED 2021 –

### Numerical Targets

<table>
<thead>
<tr>
<th>FY2018 (Result)</th>
<th>FY2019 (Plan)</th>
<th>FY2021 (Mid-term Management Plan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global</td>
<td>Domestic</td>
<td></td>
</tr>
<tr>
<td>7,088</td>
<td>7,000</td>
<td>7,400</td>
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<tr>
<td>36</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td>64</td>
<td>66</td>
<td>65</td>
</tr>
</tbody>
</table>

### Priority Measures

**Change and Evolution toward LOGISTEED**

- Build a solid core domain (Smart Logistics)
- Collaborative innovation strategy aiming at further expansion of domains
- Supply chain based on and originating from Logistics
  - Digital transformation × Business
  - Logistics “Gemba” power × Platform
- Succession of hands-on approach
- Environment/Society/Governance

**Consolidate four flows through LOGISTEED**

Future Vision:

**Global Supply Chain Solutions Provider**

Integrate four flows for better supply chain
Special Feature 1: Mid-term Management Plan – LOGISTEED 2021 –

Initiatives to Enhance the Core Domain/Acquire New Growth Opportunities

From Enhancing the Core Domain to Ecosystem

- Integration with growth strategies of strong entities/partners
- Growth with partner groups: (Expansion of Domains)
- Collaborative innovation with core domains of HTS
- Expansion of business domain with strong business model
- Mutual sustainable growth and improvement of corporate value

Build an ecosystem (to new domain)

Design Supply Chain Based on and Originating from the Logistics Domain

Collaborative Innovation Strategy with SG Holdings

Open digital platform (Big data, AI, IoT)

Collaborative Innovation Strategy with AIT

Open digital platform (Big data, AI, IoT)

[Forwarding Business]

- New marketing with AIT’s sales capability × HTS’s network
  (Sea transportation to North America, etc.)
- Promote sharing between AIT and the HTS Group

[3PL Business (Domestic/Overseas)]

- Creation of new customer value
  + Differentiation through new service (EC platform)
Special Feature 1 Mid-term Management Plan – LOGISTEED 2021 –

Initiatives to Enhance the Core Domain/Acquire New Growth Opportunities

From Enhancing the Core Domain to Ecosystem

- Integration with growth strategies of strong entities/partners
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Build an ecosystem (to new domain)

Design Supply Chain Based on and Originating from the Logistics Domain

Collaborative Innovation Strategy with SG Holdings

- Open digital platform (Big data, AI, IoT)
- Shared value creation
- Assurance of resilience

Collaborative Innovation Strategy with AIT

- Open digital platform (Big data, AI, IoT)
- Seamless cooperation between 3PL and forwarding
- Creation of new customer value

Areas with strong presence
- Export from China
- Sharing with AIT

[Forwarding Business]
- New marketing with AIT’s sales capability × HTS’s network
  (Sea transportation to North America, etc.)
- Promote sharing between AIT and the HTS Group

[3PL Business (Domestic/Overseas)]
- Integrated service
- Internal transportation
- Sales logistics
- New partners

Centralization of information × Linkage of transactions and settlement
Warehouse management × Asset management
SCC × Fleet management

Financial Commerce Information Logistics

Supplier Manufacturer Wholesale Retail Consumer

Hitachi Transport System, Ltd. Annual Report 2019
Special Feature | Mid-term Management Plan — LOGISTEED 2021 —

Initiatives to Enhance the Core Domain/Acquire New Growth Opportunities

Resolve Social Issues with Innovation ➔ New Growth Opportunities

- EC platform (Japanese version only): http://www.hitachi-transportsystem.com/jp/swh/
- Resolve Social Issues with Innovation          New Growth Opportunities
- EC business operator
-Government
-Trade (firms)
-Research
-Finance
-Office
-Telecommunication

EC Platform (Evolution of Smart Warehouse)
—— Expand “Logistics ‘Gemba’ power × Platform” through digitalization

- EC platform center (Kasukabe DC) < To be commercialized in FY2019 (scheduled)>
- [Aim of the service]
  - Pay per Use
  - Through automation (Comparison with manual operation: Reduced by 72%)
  - Standardized operation for multiple owners

- [Future plans]
  - Promote expansion to multiple locations (Retail, Facia, and other areas)
  - Enhance functions (insurance, settlement, returns, etc.)

- EC platform (Japanese version only): http://www.hitachi-transportsystem.com/jp/swh/

Platform for Safety and Security SSCV
—— Protect drivers from car accidents by making full use of IoT technology and support small- and medium-sized transport partners

- “SSCV-safety (safety management)” to be commercialized in FY2019.
- Integrate “SSCV-smart (vehicle movement/assignment/administrative management)” and “SSCV-vehicle (vehicle maintenance)” to establish a transportation digital platform

SSCV (Japanese version only): http://www.hitachi-transportsystem.com/jp/sscv/

SSCV-safety Service Lineup

- (1) Call before driving
  - Detect driver’s health problems while driving and take necessary action
  - SSCV uses
    - Vehicle maintenance, insurance company, AI vendor, healthcare industry, Japanese Society of Fatigue Science, etc.

- (2) Warn drivers
  - Main driver detection to avoid collision
  - Before and after driving
    - Vehicle seat, cover type
    - Vehicle seat, cover type

- (3) Notify driving manager
  - Notify manager of accidents
  - While driving
    - Drivers’ bio-information
    - Vehicle behavior

- (4) Call after returning
  - Reduce the timing of the day with problematic driving
  - Reverse logistics

[Graph]
- Sales plan
  - FY2019: CAGR: 42%
  - FY2020
  - FY2021

Details of the Mid-term Management Plan are available at the Company’s website.
Special Feature 1 Mid-term Management Plan – LOGISTEED 2021 –

Initiatives to Enhance the Core Domain/Acquire New Growth Opportunities

Resolve Social Issues with Innovation → New Growth Opportunities

EC Platform (Evolution of Smart Warehouse)

– Expand “Logistics ‘Gemba’ power × Platform” through digitalization

Concept: Sharing of “automated facilities,” “system,” “space,” and “manpower”

- Contribute to expansion of customers’ EC

Ecosystem

Digitalization

Platformer

EC Platform center (Kasukabe DC) < To be commercialized in FY2019 (scheduled)>

[Future plans]
- Promote expansion to multiple locations (Wholesale, carrier, and others)
- Enhance functions [insurance, settlement, returns, etc.]

[Transportation digital platform]

<table>
<thead>
<tr>
<th>SSCV safety Service Lineup</th>
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</thead>
<tbody>
<tr>
<td>(1) Call before driving</td>
</tr>
<tr>
<td>Detect driver health problems before or during a driving</td>
</tr>
</tbody>
</table>

| Sales plan |
| Target: CAGR 4% |

FY2019 FY2020 FY2021

SSCV (Japanese version only): http://www.hitachi-transportsystem.com/jp/sscv/

SSCV users

Service/Business support

Expand user network

Build strong transport entities

New transportation partners (including owner-drivers)

Vehicle maintenance, insurance company, AI vendor, healthcare industry, Japanese Society of Fatigue Science, etc.

[Transportation digital platform]

Vehicle information × Linkage of transaction and settlement

Open digital platform (Big data, AI, IoT)

Centralization of SC information × Linkage of transaction and settlement

Digitalization

[Environment]

SSCV-smart SSCV-safety SSCV-vehicle

Drivers’ bio-information Vehicle behavior Physical condition

Moving Together

Corporate Governance

Environmental Initiatives

Safety Initiatives

Business & Strategy


Details of the Mid-term Management Plan are available at the Company’s website.

National Railways

International Logistics

Carriers

Retail

Wholesale

Manufacturers

Trade firms

IT

Ecosystem

Telecommunication

Receive/Store

Supply chain

Finance

Lease

Research/University

EC business operator

Concept

Office

[Transportation digital platform]

SSCV-smart
SSCV-safety
SSCV-vehicle

SSCV (Japanese version only): http://www.hitachi-transportsystem.com/jp/sscv/

Researched in FY2019

To be released in FY2020

To be released in FY2021 (scheduled)

Vehicle maintenance, insurance company, AI vendor, healthcare industry, Japanese Society of Fatigue Science, etc.

SSCV-smart
SSCV-safety
SSCV-vehicle

SSCV (Japanese version only): http://www.hitachi-transportsystem.com/jp/sscv/

Hitochi Transport System, Ltd. Annual Report 2019

Hitochi Transport System, Ltd. Annual Report 2019
## Highlights

---Financial Highlights: The Track Record of 10 Years---

We will create values to meet all of our stakeholders’ expectations through steady implementation of growth strategy and continuous self-transformation.

(As of March 31, 2019)

### Revenues

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<td>¥331,917</td>
<td>¥368,798</td>
<td>¥533,934</td>
<td>¥547,517</td>
<td>¥624,504</td>
<td>¥677,108</td>
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<td>¥680,354</td>
<td>¥665,377</td>
<td>¥700,391</td>
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### Adjusted operating income

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<tr>
<td>¥246,460</td>
<td>¥256,886</td>
<td>¥368,448</td>
<td>¥375,560</td>
<td>¥388,765</td>
<td>¥394,844</td>
<td>¥397,954</td>
<td>¥405,080</td>
<td>¥411,796</td>
<td>¥417,835</td>
<td>¥432,793</td>
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### Net income attributable to stockholders of the parent company

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<tbody>
<tr>
<td>¥19,272</td>
<td>¥21,815</td>
<td>¥32,568</td>
<td>¥33,073</td>
<td>¥34,253</td>
<td>¥35,810</td>
<td>¥41,683</td>
<td>¥45,713</td>
<td>¥49,261</td>
<td>¥52,967</td>
<td>¥57,265</td>
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### Financial ratios

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<td>0.32</td>
<td>0.31</td>
<td>0.30</td>
<td>0.30</td>
<td>0.31</td>
<td>0.32</td>
<td>0.33</td>
<td>0.33</td>
<td>0.34</td>
<td>0.35</td>
<td>0.36</td>
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### Financial Highlights: The Track Record of 10 Years

**For the year:**

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<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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</thead>
<tbody>
<tr>
<td>Revenues (Service Revenues)</td>
<td>¥331,917</td>
<td>¥368,798</td>
<td>¥553,934</td>
</tr>
<tr>
<td>Domestic logistics</td>
<td>244,460</td>
<td>256,886</td>
<td>386,448</td>
</tr>
<tr>
<td>Global logistics</td>
<td>71,095</td>
<td>93,264</td>
<td>148,610</td>
</tr>
<tr>
<td>Other services (logistics related businesses)</td>
<td>16,362</td>
<td>18,648</td>
<td>18,876</td>
</tr>
<tr>
<td>Operating income</td>
<td>19,133</td>
<td>21,815</td>
<td>29,146</td>
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<tr>
<td>Domestic logistics</td>
<td>12,724</td>
<td>15,940</td>
<td>23,131</td>
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<tr>
<td>Global logistics</td>
<td>1,286</td>
<td>1,477</td>
<td>2,763</td>
</tr>
<tr>
<td>Other services (logistics related businesses)</td>
<td>1,501</td>
<td>2,751</td>
<td>2,246</td>
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<tr>
<td>Elimination or company-wide expenses</td>
<td>(9,196)</td>
<td>(10,103)</td>
<td>(11,024)</td>
</tr>
<tr>
<td>Net income attributable to stockholders of the parent company (Net income)</td>
<td>5,815</td>
<td>6,908</td>
<td>11,156</td>
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<tr>
<td>Equity attributable to stockholders of the parent company (Stockholders' equity)</td>
<td>145,303</td>
<td>147,887</td>
<td>164,640</td>
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<tr>
<td>Share price at year-end</td>
<td>1,317</td>
<td>1,166</td>
<td>1,505</td>
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<tr>
<td>Capital expenditures</td>
<td>¥6,908</td>
<td>¥13,264</td>
<td>¥16,857</td>
</tr>
<tr>
<td>Purchased assets</td>
<td>5,302</td>
<td>7,358</td>
<td>14,664</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4,903</td>
<td>9,072</td>
<td>16,003</td>
</tr>
<tr>
<td>Other data:</td>
<td>12,283</td>
<td>14,700</td>
<td>21,104</td>
</tr>
<tr>
<td>Number of employees</td>
<td>63</td>
<td>70</td>
<td>122</td>
</tr>
</tbody>
</table>

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**Per share data:**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
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<tbody>
<tr>
<td>Total equity /ROE</td>
<td>5.815</td>
<td>6.908</td>
<td>11,156</td>
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**Highlights**

We will create values to meet all of our stakeholders' expectations through steady implementation of growth strategy and continuous self-transformation.
# ESG Data

## Environment

<table>
<thead>
<tr>
<th>Category/Area</th>
<th>KIS</th>
<th>Scope</th>
<th>Formula</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environment Management</strong></td>
<td></td>
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<tr>
<td>Coverage of environmental management system (ISO 14001)</td>
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<td></td>
<td></td>
<td></td>
<td>100% 100%</td>
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<tr>
<td>Percentage of certification acquired</td>
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<tr>
<td>Number of compliance with environmental laws and regulations (environmental complaint)</td>
<td></td>
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<tr>
<td>Attendance rate of environmental training courses</td>
<td></td>
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<tr>
<td><strong>Reduction of Environmental Load by Products and Services</strong></td>
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<tr>
<td>Emission of NOx, SOx and other specific air pollutants</td>
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<tr>
<td>Other (for business related to automobile business)</td>
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<tr>
<td><strong>Greenhouse Gas (GHG)</strong></td>
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<tr>
<td>Reduction target for CO2 emission intensity (mass vehicle fuel efficiency)</td>
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<tr>
<td>Results of reduction in CO2 emission intensity (mass vehicle fuel efficiency)</td>
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<td>(G), reduction by internal VMI (GHG)**</td>
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<td>(C), CO emissions associated with LD light-duty vehicles (-0.1)</td>
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<tr>
<td>Total GHG emissions (Scope 1) (t-CO2)</td>
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<tr>
<td>Total GHG emissions (Scope 1&amp;2) (t-CO2)</td>
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<tr>
<td>Total energy input/consumption (amount used) (GJ)</td>
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<tr>
<td><strong>Emissions of hazardous waste (total volume) (t)</strong></td>
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<td><strong>Total waste emissions (t)</strong></td>
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<td><strong>Other (for enclosed environment)</strong></td>
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<tr>
<td><strong>Area/Chemicals</strong></td>
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<tr>
<td>Emission of NOx, SOx and other specific air pollutants</td>
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<td>Other (for business related to automobile business)</td>
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<tr>
<td><strong>Energy</strong></td>
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<tr>
<td>Target related to energy reduction (electricity consumption per square meter of floor area)**</td>
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<tr>
<td>Results of energy reduction (electricity consumption per square meter of floor area)**</td>
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<tr>
<td>Total energy input/consumption (amount used) (GJ)</td>
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<td><strong>Materials/By-Products</strong></td>
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<tr>
<td>Total waste emissions (t)</td>
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<tr>
<td>Waste not re-used in target (reused copying paper consumed)</td>
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<td>Emissions of hazardous waste (total volume) (t)</td>
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<td><strong>Water</strong></td>
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<td><strong>Green Purchasing</strong></td>
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<td><strong>Social</strong></td>
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<td>Employee Basic Data</td>
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<td>Total</td>
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<tr>
<td>Total personnel** (excluding employees of subsidiaries)</td>
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<td><strong>Occupational Health and Safety</strong></td>
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<td><strong>Intellectual Property</strong></td>
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<td><strong>Corporate Governance</strong></td>
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<td><strong>Key Performance Indicators</strong></td>
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<tr>
<td>Number of regular employees (persons)</td>
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**ESG Data**

### Environmental

#### Coverage of environmental management system (ISO 14001)
- **2018**: Yes (ISO 14001 certified)
- **2017**: Yes (ISO 14001 certified)
- **2016**: Yes (ISO 14001 certified)

#### Number of non-compliance with environmental laws and regulations (environmental compliance)
- **2018**: 0
- **2017**: 0
- **2016**: 0

#### Reduction of Environmental Load by Products and Services
- **2018**: 100%
- **2017**: 100%
- **2016**: 100%

#### Greenehouse Gas (GHG)
- **Emissions of NOx, SOx and other significant air emissions**: 2.30% (Comparison with FY2014: -2.0%)
- **Emissions of NOx, SOx and other significant air emissions**: 2.46% (Comparison with FY2014: -1.9%)
- **Emissions of NOx, SOx and other significant air emissions**: 2.46% (Comparison with FY2014: -1.9%)

#### Energy
- **Total energy consumption (amount used) (GJ)**: 2,417,036
- **CO2 emissions suppressed with LED lighting fixtures (t-CO2)**: 135,690
- **Results of reduction in CO2 emission intensity (increase vehicle fuel efficiency)**: 2.30%

#### Air/Chemicals
- **Emissions of hazardous waste (total volume) (t)**: 340,129
- **Emissions of hazardous waste (total volume) (t)**: 340,129
- **Emissions of hazardous waste (total volume) (t)**: 340,129

#### Waste/Recycling
- **Amount of recycled waste (recycled amount: total) (t)**: 2,462,590
- **Amount of recycled waste (recycled amount: total) (t)**: 2,462,590
- **Amount of recycled waste (recycled amount: total) (t)**: 2,462,590

### Social

#### Job Creation
- **Number of new graduates hired (persons)**: 9
- **Number of new graduates hired (persons)**: 10
- **Number of new graduates hired (persons)**: 10

#### Work Life Balance
- **Number of those who took maternity leave (persons)**: 0
- **Number of those who took maternity leave (persons)**: 0
- **Number of those who took maternity leave (persons)**: 0

#### Occupational Health and Safety
- **Number of those who returned to work after childcare leave (persons)**: 0
- **Number of those who returned to work after childcare leave (persons)**: 0
- **Number of those who returned to work after childcare leave (persons)**: 0

#### Social Contribution
- **Total contribution to social contribution (millions of yen)**: 10,000
- **Total contribution to social contribution (millions of yen)**: 10,000
- **Total contribution to social contribution (millions of yen)**: 10,000

### Governance

#### Corporate Governance
- **Number of directors/female (persons)**: 8
- **Number of directors/female (persons)**: 8
- **Number of directors/female (persons)**: 8

#### Compliance
- **Compliance (not stated)**: 39(1)
- **Compliance (not stated)**: 39(1)
- **Compliance (not stated)**: 39(1)

#### Risk Management
- **Arson which conducted R&D simulation training and number of attendances (persons)**: 100%
- **Arson which conducted R&D simulation training and number of attendances (persons)**: 100%
- **Arson which conducted R&D simulation training and number of attendances (persons)**: 100%

### Financial

#### Employee Basic Data
- **Average number of employees, part-time or temporary employees**: 34,564
- **Average number of employees, part-time or temporary employees**: 34,564
- **Average number of employees, part-time or temporary employees**: 34,564

#### Profitability
- **Profitability**: 100% 100% 100%
- **Profitability**: 100% 100% 100%
- **Profitability**: 100% 100% 100%

### Risk Information

#### Information Security
- **Rate of targeted threat emails for simulation trainings opened (percentage)**: 3.8%
- **Rate of targeted threat emails for simulation trainings opened (percentage)**: 3.8%
- **Rate of targeted threat emails for simulation trainings opened (percentage)**: 3.8%

#### Intellectual Properties
- **Number of employee applications**: 10
- **Number of employee applications**: 11
- **Number of employee applications**: 12

#### Social</no-highlight>
HTS Group CSR Initiatives

At the HTS Group, we are all about treating people and nature with great respect. In this connection, our fundamental policy is to do our part to help create an affluent society through fair business practices, as we boost our value for all of our stakeholders.

### Basic CSR Policy

Under our Corporate Philosophy, the HTS Group strives to promote integration of CSR and management through communication with various stakeholders, with the aim of realizing a sustainable society. In implementing a cycle of the Basic CSR Policy as a guideline, we will proactively disclose ESG (Environment, Social and Governance) information and collaborate with various stakeholders for the achievement of SDGs.

#### HTS Group Basic CSR Policy

- **Basic CSR Policy**

- **HTS Group’s Contribution to SDGs**
  - SDGs (Sustainable Development Goals) are 17 universal goals for the international community to be attained by 2030. The HTS Group is fully aware of the importance of achieving the SDGs. Among 17 goals of SDGs, the following eight goals are especially relevant to our CSR objectives. We will work to do our part in achieving these SDGs as we move into high gear to reach our CSR objectives.

- **HTS Group’s Stakeholders**
  - The HTS Group manages and maintains its business activities through interaction with our various stakeholders, with the aim of realizing a sustainable society. In implementing a cycle of the Basic CSR Policy as a guideline, we will proactively disclose ESG (Environment, Social and Governance) information and collaborate with various stakeholders for the achievement of SDGs.

- **CSR Promotion Structure**
  - In order to promote the group-wide CSR activities, the HTS Group sets up “CSR Promotion Committee,” chaired by Vice President and Executive Officer, General Manager of CSR Promotion Office and holds meetings regularly.

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### Material Issues and CSR Objectives

We identified material issues as CSR issues highly important to the HTS Group and recognized them as our social responsibility that we should fulfill in order to accurately recognize social and environmental issues and expectations. To decide specific activities, we developed four CSR objectives that we should address with priority based on material issues and the viewpoint of CSV (Creating Shared Value), and then set specific activity themes and key performance indicators (KPIs). (Refer to page 20).

- **15 material issues of the HTS Group**

- **Social**
  - Safe and healthy work environment (occupational Health and Safety)/Social and environmental responsibility in supply chain/Responsible procurement (new technologies, recycling, climate change adaptation, etc.)/Quality and safety (social and environmental responsibility)/Social and environmental responsibility in supply chain/Responsible procurement (new technologies, recycling, climate change adaptation, etc.)/Quality and safety (social and environmental responsibility)

- **Environment**
  - Carbon (low carbon)/Stopping pollution/Renewable energy (use of clean energy)

- **Governance**
  - Compliance/governance/ESG (sustainability, operational transparency)

- **Basic CSR Policy**

- **HTS Group’s Contribution to SDGs**

- **SDGs especially relevant to CSR objectives**

- **CSR Objectives of the HTS Group – Initiatives and Key Performance Indicators (KPIs)**

In FY2018, the HTS Group identified key activities for the CSR objectives to be started in FY2019 and relevant KPIs, based on which we will strengthen our initiatives using PDCA cycle.

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**Key activities**

- **Economic Growth and Industry**
  - Promotion of transportation of social infrastructure-related equipment
  - Enhancement of overseas environmental management
  - Development of voluntary environmental activities in each site
  - Promotion of environmental activities in each site

- **Education, Cultural/Industrial, and Productivity**
  - Promotion of diversity of the workplace
  - Promotion of high-quality logistics services

- **Society and Environment**
  - Reduction of electricity consumption in “buildings”
  - Introduction of renewable energy
  - Development of renewable power generation systems

- **Business & Strategy**
  - Improvement of business and management procedures
  - Enhancement of competitiveness
  - Implementation of continuous improvement

---

**Initiatives**

- **Economic Growth and Industry**
  - Execution of transportation of social infrastructure-related equipment

- **Education, Cultural/Industrial, and Productivity**
  - Promotion of diversity of the workplace

- **Society and Environment**
  - Introduction of renewable energy
  - Development of renewable power generation systems
  - Improvement of business and management procedures
  - Enhancement of competitiveness
  - Implementation of continuous improvement

---

**KPIs**

- **Economic Growth and Industry**
  - Number of KPIs for the HTS Group

- **Education, Cultural/Industrial, and Productivity**
  - Number of KPIs for the HTS Group

- **Society and Environment**
  - Number of KPIs for the HTS Group

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**Reference**

- **Page 14**
  - Page 15, 44

- **Page 16**
  - Page 17, 45

- **Page 18**
  - Page 19, 46

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**Website**


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**Note**

- **CSR** = Corporate Social Responsibility
  - **CSV** = Creating Shared Value
  - **SDGs** = Sustainable Development Goals
  - **KPI** = Key Performance Indicator
  - **PDCA** = Plan-Do-Check-Act
  - **EIA** = Environmental Impact Assessment

HTS Group CSR Initiatives

At the HTS Group, we are all about treating people and nature with great respect. In this connection, our fundamental policy is to do our part to create an affluent society through fair business practices, as we boost our value for all of our stakeholders.

**Basic CSR Policy**

Under our Corporate Philosophy, the HTS Group strives to promote integration of CSR and management through communication with our various stakeholders, with the aim of realizing a sustainable society. In implementing a cycle of the Basic CSR Policy as a guideline, we will proactively disclose ESG (Environment, Social, and Governance) information and collaborate with various stakeholders for the aim of achieving SDGs.

**HTS Group Basic CSR Policy**

- **SDGs** (Sustainable Development Goals) are 17 universal goals for the international community to be attained by 2030. The HTS Group is fully aware of the importance of achieving the SDGs. Among 17 goals of SDGs, the following eight goals are especially relevant to our CSR objectives. We will work to do our part in achieving these SDGs as we move into high gear to reach our CSR objectives.

**HTS’s Contribution to SDGs**

SDGs (Sustainable Development Goals) are 17 universal goals for the international community to be attained by 2030. The HTS Group is fully aware of the importance of achieving the SDGs. Among 17 goals of SDGs, the following eight goals are especially relevant to our CSR objectives. We will work to do our part in achieving these SDGs as we move into high gear to reach our CSR objectives.

**Material Issues and CSR Objectives**

We identified material issues as CSR issues highly important to the HTS Group and recognized them as our social responsibility that we should fulfill in order to accurately recognize social and environmental issues and expectations. To decide specific activities, we developed four CSR objectives that we should address with priority based on material issues and the viewpoint of CSV (Creating Shared Value), and then set specific activity themes and key performance indicators (KPIs) (Refer to page 20).

15 material issues of the HTS Group

- **Social**
  - Safe and healthy work environment
  - Occupational Health and Safety
  - Environmental management

- **Customer Relations**
  - Quality and safety
  - Responsiveness
  - Servicepacked in planning

- **Regulatory**
  - Environmental compliance
  - Safety and security
  - Data protection

- **Human Resources**
  - Employment policies
  - Working conditions
  - Development of employees

- **Environmental**
  - Carbon footprint
  - Water consumption
  - Energy consumption

**HS Group Stakeholders**

The HTS Group manages and maintains its business activities through interaction with our broad array of stakeholders including customers, shareholders, local communities, and local administrations.

**CSR Promotion Structure**

In order to promote the group-wide CSR activities, the HTS Group sets up "CSR Promotion Committee," chaired by Vice President and Executive Officer, General Manager of CSR Promotion Office and holds meetings regularly.

**CSR Objectives of the HTS Group – Initiatives and Key Performance Indicators (KPIs)**

In FY2018, the HTS Group identified key activities for the CSR objectives to be started in FY2019 and relevant KPIs, based on which we strengthen our initiatives using PDCA cycle.
Toward integration of sustainability and management

In order for the HTS Group to grow sustainably with a society, what role should we play and what values should we create? What does society expect from us and how should we meet them? In January 2019, we invited three external experts to the head office for a discussion with our executives with an aim to gain an external perspective and reconsider the CSR promotion integrated with management.

External experts we invited

<table>
<thead>
<tr>
<th>Prof. Ken Kusunoki*</th>
<th>Ms. Shizuko Ohmi*</th>
<th>Mr. Peter David Pedersen*</th>
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* Names of organizations and positions are as of the date of the discussion.

Facilitator

Mr. Takehiko Mizukami*

Attendees from the Company

Seiki Sato, Senior Vice President and Executive Officer
Yasushi Hagiwara, Vice President and Executive Officer
Kazuhiro Hatakeyama, Vice President and Executive Officer
Hiromoto Fujitani, Vice President and Executive Officer

Corporate value and social value will have “trade-on” relation in the long run

Sato: The HTS Group is now on the brink of a major transition amid significant environmental changes in the logistics industry. In 2016, we took a new step under the strategic capital and business alliance with SG Holdings Co., Ltd., and we must continue to be a company that values collaborative innovation and collaboration with various customers and business partners toward sustainable development. To this end, we believe it is important to obtain opinions of various stakeholders, and I hope to hear various opinions in today’s discussion.

Ms. Ohmi: Investors are increasingly focusing on corporate sustainability in making investment decisions. Recently, responsible investments considering ESG (Environment, Social and Governance) are expanding globally. Such investment aims at increasing long-term corporate value by encouraging ESG initiatives through active discussions with the investee companies. Under such circumstance, we are extremely interested in your integrated strategy planned in the new Mid-term Management Plan.

Prof. Kusunoki: My area of expertise is companies’ competitive strategies, and the major premise is the fact that “the most important thing for a company is long-term profit.” It means “making profit over a long period” and it may sound contradictory to ESG initiatives, but actually it is not. A company can make profit over a long period because it provides something valuable, which indicates customer satisfaction. A company can protect jobs, give consideration to employees and meet shareholder expectations as long as it makes profit. A company can also make a big contribution to society in the form of tax payment.

Mr. Pedersen: Quite often, corporate profit and value provided to society are considered to be in a “trade-off” relation, but it is important to know that they will have a “trade-on” relation in the long run. If a company makes profit in an appropriate and sustainable manner and has a good impact on society, it will raise its brand value and attract talented human resources and capital. Then, the company can make further growth and get involved in solving material issues in the market and society. Creating such relationship of upward spiral is what we call a sustainability strategy.

Prof. Kusunoki: I agree. A shortcut for a company to make profit is to force employees, customers or suppliers to bear the burden. However, such method will work only for a short time and it will certainly trigger a backlash. In this sense, “trade-off” is merely a short-sighted approach. Instead, I want to emphasize that “A company should improve its earning power and pursue long-term profit to be able to provide values for society.”

How to play an active role in solving social issues

Ms. Ohmi: From investors’ standpoint, I’m concerned that quite a few companies develop a solid three-year management plan but they won’t announce their longer-term vision. In fact, it is very important to have a long-term vision to support strategies. Especially because ESG initiatives cannot be explained with the short-term cost and return, it is difficult to set goals for ESG initiatives without medium-to-long-term vision.

Hatakeyama: The HTS Group is also generally operating under the three-year Mid-term Management Plan, and one of our issues is that we don’t have a sufficiently workable long-term initiatives such as a ten-year plan. However, there are some movements not based on short-term profitability, such as investments in robotics-related research by logistics engineering division in preparation for labor shortage that is expected to become increasingly serious in five or ten years.

Fujitani: Recently, we have been working on work environment improvement in logistics centers nationwide. In specific, we are installing air conditioners in old warehouses, and this may be considered as one of the initiatives not based on the conventional short-term interests. Although installing air conditioners does not directly lead to profit growth, providing comfortable work environment is essential to increase satisfaction of people who work there.

Ms. Ohmi: I think such effort is important, considering securing labor force has been increasingly difficult. A company that cannot retain employees cannot grow sustainably, and employee satisfaction is one of the elements of supporting sustainability. If a company can visualize an increase in engagement of employees, it will increase the chance of securing skilled human resources.
Special Feature 2 Stakeholder Dialogue

Through dialogue with external experts having deep insights about stakeholders and their trend, we hope to help our stakeholders understand our initiatives and also improve corporate value by understanding expectations and evaluation from society and using it for our future activities.

Toward integration of sustainability and management

In order for the HTS Group to grow sustainably with a society, what role should we play and what values should we create? What does society expect from us and how should we meet them? In January 2019, we invited three external experts to the head office for a discussion with our executives with an aim to gain an external perspective and reconsider the CSR promotion integrated with management.

<table>
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<tr>
<th>External experts we invited</th>
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<tr>
<td><strong>Prof. Ken Kusunoki</strong></td>
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<td><strong>Ms. Shizuko Ohmi</strong></td>
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<td><strong>Mr. Peter David Pedersen</strong></td>
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<th>Facilitator</th>
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<td><strong>Mr. Takehiko Mizukami</strong></td>
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<th>Attendees from the Company</th>
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<tr>
<td><strong>Seiki Sato</strong></td>
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<td><strong>Yasushi Hagiwara</strong></td>
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<td><strong>Kazuhiro Hatakeyama</strong></td>
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<td><strong>Hiromoto Fujitani</strong></td>
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* Names of organisations and positions are as of the date of the discussion.

Corporate value and social value will have “trade-on” relation in the long run

**Sato**: The HTS Group is now on the brink of a major transition amid significant environmental changes in the logistics industry. In 2016, we took a new step under the strategic capital and business alliance with SG Holdings Co., Ltd., and we must continue to be a company that values collaborative innovation and collaboration with various customers and business partners toward sustainable development. To this end, we believe it is important to obtain opinions of various stakeholders, and I hope to hear various opinions in today’s discussion.

**Ms. Ohmi**: Investors are increasingly focusing on corporate sustainability in making investment decisions. Recently, responsible investments considering ESG (Environment, Social and Governance) are expanding globally. Such investment aims at increasing long-term corporate value by encouraging ESG initiatives through active discussions with the investee companies. Under such circumstance, we are extremely interested in your integrated strategy planned in the new Mid-term Management Plan.

**Prof. Kusunoki**: My area of expertise is companies’ competitive strategies, and the major premise is the fact that “the most important thing for a company is long-term profit.” It means “making profit over a long period” and it may sound contradictory to ESG initiatives, but actually it is not. A company can make profit over a long period because it provides something valuable, which indicates customer satisfaction. A company can protect jobs, give consideration to employees and meet shareholder expectations as long as it makes profit. A company can also make a big contribution to society in the form of tax payment.

**Mr. Pedersen**: Quite often, corporate profit and value provided to society are considered to be in a “trade-off” relation, but it is important to know that they will have a “trade-on” relation in the long run. If a company makes profit in an appropriate and sustainable manner and has a good impact on society, it will raise its brand value and attract talented human resources and capital. Then, the company can make further growth and get involved in solving material issues in the market and society. Creating such relationship of upward spiral is what we call a sustainability strategy.

**Prof. Kusunoki**: I agree. A shortcut for a company to make profit is to force employees, customers or suppliers to bear the burden. However, such method will work only for a short time and it will certainly trigger a backlash. In this sense, “trade-off” is merely a short-sighted approach. Instead, I want to emphasize that “A company should improve its earning power and pursue long-term profit to be able to provide values for society.”

How to play an active role in solving social issues

**Ms. Ohmi**: From investors’ standpoint, I’m concerned that quite a few companies develop a solid three-year management plan but they won’t announce their longer-term vision. In fact, it is very important to have a long-term vision to support strategies. Especially because ESG initiatives cannot be explained with the short-term cost and return, it is difficult to set goals for ESG initiatives without medium-to-long-term vision.

**Hatakeyama**: The HTS Group is also generally operating under the three-year Mid-term Management Plan, and one of our issues is that we don’t have a sufficiently workable long-term initiatives such as a ten-year plan. However, there are some movements not based on short-term profitability, such as investments in robotics-related research by logistics engineering division in preparation for labor shortage that is expected to become increasingly serious in five or ten years.

**Mr. Mizukami**: The HTS Group is now on the brink of a major transition amid significant environmental changes in the logistics industry. In 2016, we took a new step under the strategic capital and business alliance with SG Holdings Co., Ltd., and we must continue to be a company that values collaborative innovation and collaboration with various customers and business partners toward sustainable development. To this end, we believe it is important to obtain opinions of various stakeholders, and I hope to hear various opinions in today’s discussion.

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Strive to deepen activities based on four CSR objectives

Mr. Pedersen: To incorporate sustainability into a business strategy, there are certain innovation filters to pass. Such filters vary depending on industries, but I believe there are filters unique to the HTS Group in relation to four CSR objectives (refer to page 20) such as “low-carbon” or “resilience.” It is important to clarify such filters first.

Prof. Kusunoki: Among the four CSR objectives, the primary objective in terms of your main business is “Pursue Next-generation Industries and Lifestyles.” If you can further clarify and work on it with clear KPIs, you should be able to have a big impact on society.

Mr. Pedersen: To “Pursue Next-generation Industries and Lifestyles,” you will need to focus on only domestic but also international logistics needs. For example, you cannot ignore potential in the African or emerging markets where population continues to grow remarkably. For another objective of “Realize Low-carbon Business Processes,” measures beyond your operation are required, and therefore you need to figure out how to involve customers as “Global Supply Chain Solutions Provider.” Another important fact is that the international society is already moving from “low-carbon” to “decarbonization.”

Ms. Ohmi: As the HTS Group has been working on green logistics, I believe you can gain a competitive advantage in environmental fields. You can offer customers high added value if you can demonstrate “how much of CO2 emission by a supply chain can be reduced by engaging the HTS Group for logistics services.” In order to show your strengths to investors easily, I want you to make that kind of effort. In addition, as mentioned in “Enhance Occupational Safety and Productivity,” matters related to people are also very important. Automation and labor saving may be measures against labor shortage, but I think using machines wherever possible can also contribute to increasing human value. It may be worth considering to appeal how the Group focuses on human resources including their upskilling as well as productivity improvement.

Raise awareness within the Company and promote sustainability as “personal ownership”

Ms. Ohmi: Under the future vision of “Global Supply Chain Solutions Provider,” the HTS Group has various plans related to robotics, AI, Fintech and Sharing Economy, and already proceeded with some projects through various alliances. I think one of the issues to be addressed in the future is to clearly show those projects with a timeline, define KPIs and announce them along with financial guidelines.

Mr. Pedersen: In order to integrate sustainability with management, you have to obtain deep understanding within the Company. I suggest that you seek honest opinions about what the HTS Group can do under a big picture toward future and share ideas within the Company. If such efforts help raise awareness as a team and continue to improve the quality each year, it is wonderful. I hope that people in various positions within the Company will voluntarily get involved in these efforts and embark on innovation journey.

Sato: The HTS Group is now promoting activities called “VC 21 (Value Change & Creation 21)” aiming at improvement of profitability and organization power in all domestic group companies. Of these activities, we put emphasis on “promotion of personal ownership,” and we are starting to see some results as we continue these efforts. I think we should promote CSR and CSV steadily in relation to these initiatives.

Prof. Kusunoki: In order to share common awareness within the Company, the management may need to take the lead and keep sending a message that “the HTS Group continues to provide values to society under the concept of LOGISTEED.” I believe company-wide initiatives will succeed because of such persistent efforts.

Hatakeyama: I completely agree. If we keep telling them over and over, employees will start thinking “what we should do.” And we hope to improve their motivation from there. Also, all these opinions from you reminded us of the importance of long-term sustainability strategy, so we will keep that in mind. Thank you very much for joining us today.

To challenge new domains beyond logistics

Hatakeyama: Currently, the HTS Group has started a new challenge that goes beyond the conventional logistics field under our business concept of “LOGISTEED.” For further growth of the Group from a long-term perspective, it is essential to acquire functions that we did not have so far through collaboration beyond our existing business domains, including manufacturing, retail, IT and finance. Fujitani: Our view is that a border of logistics will disappear in the future. In fact, we are seeing unprecedented movements such that major retailers having logistics functions entered into the logistics market. As we face such situation, we want to venture into a new realm by keeping logistics as our core domain, instead of simply protecting what we already have.

Mr. Pedersen: I believe such idea is symbolized by your picture toward future and share ideas within the Company.

Prof. Kusunoki: I think you declare “things that you will not do.” For example, “the HTS Group aims at “LOGISTEED” beyond the conventional logistics company. So, we will not do such things as...” Good business knows that it’s not possible to make all customers happy and that it’s important to choose what to do and what not to do. This also means to clarify the areas on which the management resources will be focused, which will foster better understanding of “LOGISTEED” within and outside the Company.

Fujitani: It is very helpful to have a standard of “not to do.” It is not easy to declare such things as we do business with many customers. However, I understand that we have to commit ourselves to promote whatever we need to do with unswerving will.

Ms. Ohmi: I hope the HTS Group will become aware of initiatives from the viewpoint of CSV (Creating Shared Value) beyond CSR. While CSR is the cost that a company should pay as its responsibility, CSV that addresses social issues through business is an investment to generate long-term profit. Companies do not commit to anything unless it makes a profit from it, but if they expect profit, they will invest sufficient resources in it.

Mr. Pedersen: I think the traditional CSR needs to be redefined. There are increasing expectations for companies’ innovative role in solving social issues. While it was all eliminating negative values through compliance and risk management, companies will now have to create positive values aggressively from their main business.

technologies acquired through our experience in various industries and products over the years. One of our strengths is that we can provide systems in any process of a supply chain including warehouse management, transportation and delivery. However, the environment surrounding the logistics industry is rapidly changing, and as new technologies and players come out, it’s becoming difficult to maintain our current advantage toward the future. We want to break such situation and address various issues of a supply chain beyond the conventional logistics to pursue the next big leap. We set a concept of “LOGISTEED” with such hope. During the new Mid-term Management Plan, we will have specific plans through backcasting and carry them out.

Prof. Kusunoki: If you don’t want “LOGISTEED”, to be just a fancy slogan but integrate it into daily behavior, I suggest you declare “things that you will not do.” For example, “the HTS Group aims at “LOGISTEED” beyond the conventional logistics company. So, we will not do such things as...” Good business knows that it’s not possible to make all customers happy and that it’s important to choose what to do and what not to do. This also means to clarify the areas on which the management resources will be focused, which will foster better understanding of “LOGISTEED” within and outside the Company.

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Mr. Pedersen: I think you might want to explain in more detail about the new values represented by “LOGISTEED.” Your new marketing strategy of “Evolve into a SCM+ partner from a logistics partner” is also difficult to understand for outside parties. If you can clarify the strategy with a timeline, by showing, for example, the differences from the existing strategy, what is needed, and where to invest, investors will be able to see your competitiveness.

Sato: The HTS Group is a leading domestic company in 3PL and has “Gemba” power (on-site capability) and

[1] Panis Agreement: Framework for international initiatives to deal with climate change starting in 2020 which will play upon the 21st Conference of Parties to the United Nations Framework Convention on Climate Change (COP21) held in Paris in December 2015.


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Mr. Pedersen: I believe such an idea is symbolized by your future vision of "Global Supply Chain Solutions Provider." The important thing is that the idea of "sustainability" is vital for it. The world is moving against the background of the COP 21 held in Paris in December 2015. From there, all these opinions from you reminded us of the importance of long-term sustainability strategy, so I completely agree. If we keep telling them over and over, employees will start thinking "what we already have: Ms. Ohmi Under the vision of "Global Supply Chain Solutions Provider," the HTS Group has various plans related to robotics, AI, FinTech and Sharing Economy, and already proceeded with some projects through various alliances. I think one of the issues to be addressed in the future is to clearly show those projects with a timeline, under the "LOGISTEED" beyond the conventional logistics company. So, we will not do such things as... Good business knows that it’s not possible to make all customers happy and that it’s important to choose what to do and what not to do. This also means to clarify the areas on which the management resources will be focused, which will foster better understanding of "LOGISTEED" within and outside the Company.

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Bringing Safety and Peace of Mind to Our Customers

- **Transport Safety Management**
  The HTS Group promotes everyday safe driving and ensures safe transportation by establishing a safety management system together with its transport partner companies.

- **Bolstering On-Site Operations (Presentation Meeting of Smart Logistics)**
  We are working on further bolstering of on-site operations of the entire HTS Group by having each site make a presentation on their efforts for "improvement of on-site operations" to share and expand the best practice of operational safety of the Group. In FY2018, as a representative of overseas group companies, VANTEC SUMISO LOGISTICS (WUHAN) CO., LTD. made a presentation about their efforts for safety and quality to increase trusts from customers.

- **HTS Group Morning Meeting of Safety**
  In order to prevent recurrence of tragic accidents, the HTS Group is holding “morning meeting of safety” at all sites in April and October from FY2019.

- **Adoption of Safety Technology**
  - Installing dashboard cameras on forklifts
    In addition to all trucks it owns in Japan, the HTS Group has also installed dashboard cameras in forklifts (approximately 1,900 as of March 31, 2019) to be used for daily activities to secure safety including confirmation with finger pointing and calling during operation. We are also installing dashboard cameras in overseas group companies.
  - Back monitor
    We installed a back monitor in approx. 3,900 vehicles including those of transport partner companies to ensure safety of the surrounding area by double-checking both by sight and monitor.

Safety Slogan

“Safety First”
All employees and partner companies work together to promote safety activities. To achieve that, managers and supervisors must always keep in mind that “safety is the basic practice of our daily operation” and keep improving every day with firm resolve.
Bringing Safety and Peace of Mind to Our Customers

Transport Safety Management*

The HTS Group promotes everyday safe driving and ensures safe transportation by establishing a safety management system together with its transport partner companies.

* Transport Safety Management System (Ministry of Land, Infrastructure, Transport and Tourism)
  The goal of this system is to bolster transport safety by building and constantly improving a safety management system.

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Boosting Safety Knowledge and Driving Skill

Sending Contestants to Non-HTS Forklift and Trucking Competitions

Each year, the HTS Group sends contestants in the National Truck Driver Contest*1 and the National Forklift Driving Contest*2 for the purpose of acquiring specialized knowledge, improving driving skills, and boosting awareness of safety issues.

Again in FY2018, contestants winning out at prefectural-level preliminary contests around the country competed in the national contests and achieved excellent results.

Through these projects, we are working to improve safety awareness not only amongst drivers but all employees, and also to prevent accidents.

50th National Truck Driver Contest

Won the 1st prize in 2 categories of “11-ton” and “female drivers”

The HTS Group sent 14 contestants to this competition, where contestants strive for the highest score in both the academic knowledge and skill competitions (inspection and driving). They achieved magnificient results by winning higher rankings in all categories, including 3rd and 4th in the 4-ton category and 3rd in the Trailer category, in addition to two winners in the 11-ton and female drivers categories.

33rd National Forklift Driving Contest

The HTS Group sent 13 contestants to this competition, where contestants strive for the total score of three categories of academic knowledge, inspection skills and driving technique, and won the 2nd prize.

Safety Training (Practical Training and Experiential Sessions)

At the HTS Group, we envision a full range of scenarios in workplaces and implement appropriate on-site training sessions based on these, covering both practical training and experiential sessions.

Safety Training for New Employees

The HTS Group conducts lectures and practical trainings for new employees to acquire safety knowledge when join the Company.

Practical Training and Instruction for Heavy Cargo Engineering

For safe transportation, installation and setting up of large instruments such as railway cars, power plants and industrial machinery, and precision equipment such as laboratory and medical equipment, it is crucial to make a careful plan and follow through the plan at the site. We closely examine the plan and give on-site instructions to ensure safe operation.

Creating Educational Videos/Trainings

We create educational videos for safe operation and conduct trainings to all employees.

Digital Signage

We installed digital signage at various locations at the logistics site and repeatedly display the description, causes, and measures of accidents using videos to raise the safety awareness of all employees.

Sending Safety Caravans

13 overseas locations (FY2018)

Overseas Safety Activities

Overseas Expansion of Safety Management

In order to promote safety activities in the same way as in Japan and raise awareness of safety management, we send Safety Caravans led by Japanese instructors to overseas and engage in improvement activities together with local staff. We work to improve issues at relevant sites and provide ongoing support regarding safety.

Internal Forklift Competitions at Overseas Locations

From FY2013, the HTS Group overseas locations have held forklift competition for local employees. Japanese supervisors are sent to these events to boost the globalization of HTS’s culture of corporate safety in general as well as to impart safety technologies. These competitions also serve the purpose of helping individuals to be more aware of their own growth trajectory through healthy competition between local employees.

Overseas Safety Caravans (including dispatch of safety supervisors) Sent to 13 sites (FY2018)

Creating Educational Videos/Trainings

We post calendars with easy-to-understand illustrations in workplaces to educate and remind employees.
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From FY2013, the HTS Group overseas locations have held forklift competition for local employees. Japanese supervisors are sent to these events to boost the globalization of HTS’s culture of corporate safety in general as well as to impart safety technologies. These competitions also serve the purpose of helping individuals to be more aware of their own growth trajectory through healthy competition between local employees.

**Creating Educational Videos/Trainings**

We create educational videos for safe operation and conduct trainings to all employees.

**Overseas Safety Caravans (including dispatch of safety supervisors) Sent to 13 sites (FY2018)**

13 overseas locations

**(FY2018)**

**Safety Training (Practical Training and Experiential Sessions)**

At the HTS Group, we envision a full range of scenarios in workplaces and implement appropriate on-site training sessions based on these, covering both practical training and experiential sessions.

**Safety Training for New Employees**

The HTS Group conducts lectures and practical trainings for new employees to acquire safety knowledge when joining the Company.

**Practical Training and Instruction for Heavy Cargo Engineering**

For safe transportation, installation and setting up of large instruments such as railway cars, power plants and industrial machinery, and precision equipment such as laboratory and medical equipment, it is crucial to make a careful plan and follow through at the site. We closely examine the plan and give on-site instructions to ensure safe operation.

**Awareness-raising Activities**

We post calendars with easy-to-understand illustrations in workplaces to educate and remind employees.

**Digital Signage**

We installed digital signage at various locations at the logistics site and repeatedly display the description, causes, and measures of accidents using videos to raise the safety awareness of all employees.
Reduce Environmental Load Generated at Sites

The HTS Group is working to reduce environmental load generated at our sites by actively introducing eco-friendly vehicles and energy-saving devices for the realization of low-carbon business processes.

**Initiatives to Prevent Global Warming at Sites**

- **Energy saving and global warming countermeasures implemented in buildings**
  - The energy consumed by the HTS Groups includes electricity (73.5%) and fuel (26.5%), and we are taking the following measures for energy saving and global warming (see the chart on the right).

**Introduction of LED lighting fixtures**

In FY2018, in Japan, we introduced LED lighting in five sites including Kashiwara Platform Center (Chiba Prefecture) and replaced fluorescent lights in other 18 sites, resulting in reduction of 2,730 tons of CO2 emission. In overseas, we also introduced LED lighting in new sites including Nilai Cold Warehouse in Malaysia (picture on the right). We will replace existing fluorescent/mercury lights with LED lighting in all sites.

- **Energy saving and global warming countermeasures of vehicles**
  - The HTS Group strives to reduce CO2 emission generated by vehicle fuel through such initiatives as the introduction of the advanced eco-friendly vehicles, promotion of eco-friendly driving, and improvement of transportation including modal shift.

**Making the shift to eco-friendly vehicles and encouraging eco-friendly driving**

The HTS Group has promoted a shift to eco-friendly vehicles (highly fuel-efficient, low-pollution vehicles), and achieved the eco-friendly vehicle ownership ratio of 100% at the end of FY2016, except for some special vehicles.

- **We will further promote a shift to advanced eco-friendly vehicles with better environmental performance and encourage eco-friendly driving, etc. with a view to reducing environmental load.**

**Using Double-trailer Trucks to Reduce Environmental Load**

Vantec Central Logistics Corporation, our group company, introduced two sets of 21-meter long double-trailer trucks in February 2019 and plans to start operation between Fuji City, Shizuoka and Nantan City, Kyoto as a “Project to promote CO2 emissions reduction in the transport sector” which is a joint project of the Ministry of Environment and the Ministry of Land, Infrastructure, Transport and Tourism. The company will verify safety, driving management and productivity through actual operation and expand the use of such trucks.

**Providing Logistics Services with Less Environmental Load**

The HTS Group has incorporated energy saving and modal shift into its logistics services to provide optimum solutions to customers and proposes reduction of environmental load in overall supply chain.

**Reduction of Environmental Load by Sharing Facilities**

HTS and SAGAWA EXPRESS CO., LTD. are promoting collaboration using customer bases of both companies. Through opening SAGAWA’s satellite locations in HTS’s logistics centers, we aim to reduce environmental load by reducing the number of delivery trucks and travel distance, and to save labor by streamlining workload in a warehouse. In FY2018, we implemented this collaboration in Kashiwa City, Chiba Prefecture and Oyamazaki, Kyoto Prefecture, and were able to reduce 78.4 tons of CO2 emission a year. Currently, both companies are implementing similar collaborations in other areas.

**Environmental Policy**

1. Reduce environmental load generated at all our places of business
   - Reduce consumption of electricity, gas and LP gas, and recycle waste, etc.
2. Provide logistics/services with less environmental load
   - Contribute to customers through CO2 emission reduction and resource recycling
3. Improve Eco-Mind level and enhance Eco-Management system
   - Increase global environmental awareness. Observe environmental laws/ordinances and company regulations.
4. Promote symbiosis with nature and environmental communications
   - Preserve biodiversity and ecosystem. Maintain environmental collaboration with customers and local communities.

**Environmental Load Breakdown**

<table>
<thead>
<tr>
<th>Type</th>
<th>FY2018 Consumption (kℓ)</th>
<th>FY2018 CO2 Emission (tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil</td>
<td>13,909</td>
<td>2,730</td>
</tr>
<tr>
<td>Gas oil</td>
<td>1,037</td>
<td>205</td>
</tr>
<tr>
<td>Gasoline</td>
<td>13,084</td>
<td>2,193</td>
</tr>
<tr>
<td>Other</td>
<td>1,896</td>
<td>383</td>
</tr>
<tr>
<td>Electricity</td>
<td>46,672</td>
<td>63,341</td>
</tr>
</tbody>
</table>

**Eco-friendly vehicle ownership ratio**

![Eco-friendly vehicle ownership ratio chart]

**Note 1:** Includes vehicles owned by the HTS Group and its group companies.

**Note 2:** Excludes vehicles used by subsidiaries (excluding fleet vehicles)

**HTS Group eco-friendly vehicle ownership ratio**

![HTS Group eco-friendly vehicle ownership ratio chart]

**Note 1:** Excludes special vehicles.

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Expanding Recyclables Transport

The HTS Group provides logistics services for recycled materials such as waste plastics segregated from wastes. We are expanding this service by increasing new-type containers developed by HTS (patented) to more than 100 and by developing new routes. While sea contamination by waste plastics has become a big issue, we contribute to solving environmental issues by providing logistics services with less environmental load to the recycling industry.

Promotion of Overseas Intermodal

The HTS Group has introduced special containers to promote modal shift overseas and reduce CO2 emission globally. Our Turkish group company Mars Logistics Group Inc. is focusing on unique cross-border transportation, which includes sea transportation from Turkish sites such as Istanbul to Italy, rail transportation from Italy to Luxembourg, and truck transportation from Luxembourg to major cities in EU.

We also provide other environment-friendly logistics services. For details, please visit our website: http://www.hitachi-transportsystem.com/en/solution/reverse/

Boosting of Environmental Awareness and Environmental Management Level

The HTS Group utilizes management systems to understand and monitor actual data and conducts research on important environmental laws and regulations in overseas for the purpose of managing environmental load and legal compliance. In FY2019, we will start reviewing the management systems with the aim of improving the management level, raising employees' awareness and reducing environmental load.

Japan: Use of the Management System

Management systems currently in use
- Industrial waste management system (251 sites)
- Manifest management (Waste Management and Public Cleansing Act)
- Environmental load research system (285 sites)
- Usage of energy including electricity and fuel (Act on Rationalizing Energy Use, etc.)
- Vehicle management system (544 sites)
- Usage of vehicle fuel, travel distance, registration information (Act on Rationalizing Energy Use, Automobile NOx/PtA Act, etc.)

Calculation and Disclosure of Greenhouse Gas Emissions in the Entire Supply Chain

We have calculated “Scope 3” in addition to “Scope 1” and “Scope 2” since FY2017 (see chart on the right). We will promote global warming preventive measures by reducing CO2 emissions throughout the entire supply chain.

Coexisting with Nature and Boosting Communication on the Environment

The HTS Group strives to promote voluntary eco-friendly activities by each employee through ongoing education and various researches aiming at development of logistics.

Boosting of the Management Level through Continuing Training and Conferences

- Continuing training for waste management personnel
- Recycling rate (FY2018: 99%)
- Holding environmental promotion conference in Japan and overseas
- Japan: Environmental promotion conference (biannual)/overseas: Environment officers meeting (biannual)

Promotion of Voluntary Operation Improvement at Sites

- Reducing power consumption by improving operation of facilities
- Conduct annual inspection of facilities and equipment according to a checklist at each site (FY2018 conducted at 141 domestic sites)
- Raising environmental awareness by establishing eco-oriented themes
- Establish eco-oriented themes related to daily activities voluntarily at each site (FY2018 established at 192 domestic sites)

Environmental Disclosure

- Participation in Environmental Reporting Platform Development Pilot Project by the Ministry of the Environment

As part of the ESG management initiatives, we attended the environmental information registration support program organized by the Ministry of the Environment and registered in a simplified format in FY2018.
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- **Scope 1: Direct emissions from in-house energy (fuel, etc.) use (e.g. CO2 released by company vehicles)**
- **Scope 2: Indirect emissions from the use of energy supplied by other companies (e.g. CO2 released by a third party power plant due to electricity use in the company’s facility)**
- **Scope 3: Indirect emissions by supply chain other than Scope 1 and 2 (total of 15 categories including transportation outsourcing and business trip of employees)**

#### Calculation results of emissions throughout the supply chain (FY2017)

- **HTS Group CO2 emissions (Thousand tons)**
  - 2013: 129
  - 2014: 139
  - 2015: 138
  - 2016: 132
  - 2017: 129
  - 2018: 133

- **Note:** Total of Scope 1 and 2

#### Waste recycling rate

- **99% (FY2018)**

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#### Third-party Certification Initiatives

The HTS Group seeks third-party certification in Green Management. Our Green Logistics Promotion Department has acquired the “Eco Stage” certification. In FY2017, we have upgraded the certification level to “Eco Stage II” which is equivalent to ISO14001. In addition, as of the end of March 2019, we have earned “Green Management Certification” at 40 of our truck transport sites and eight of our warehouses. Building on these initiatives, we are committed to ongoing reduction of environmental load.

#### Environmental Awareness

- Environmental e-learning
  - Every year, e-learning* to learn on computer is provided mainly for domestic employees, in order to facilitate employees’ understanding of global warming, resources recycling and ecosystem integrity (attainment rate: 99% in FY2018).
  - In addition, e-learning for course of conduct contains programs about environment to disseminate the importance of environment as business ethics to employees.

- Continuing training for eco-friendly driving
  - Each site appoints an eco-driving promotion manager and strives to reduce CO2 emission by improving fuel efficiency through eco-friendly driving. By FY2018, we completed eco-friendly driving training for the total of 1,944 drivers, consisting of 204 eco-friendly driving promotion managers and 1,740 employee drivers.

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The HTS Group developed the HTS Group Procurement Policy and is promoting procurement CSR in order to ensure fair procurement transactions in the supply chain and to strengthen partnership with our suppliers. In addition, we provide continuing procurement compliance education to employees including e-learning to ensure fair procurement activities.

**HTS Group Procurement Policy**

- **Partnership Policy**
  At Hitachi Transport System we fully realize the value of developing trusting relationships with our valued suppliers.

- **Our Open-door Policy**
  Regardless of whether a supplier is a domestic or overseas company, we do our utmost to insure free competition.

- **Selection of Suppliers Policy**
  We evaluate and select suppliers based upon criteria such as quality, price, lead time, quality of management, technical standards, and abilities.

- **Our Policy for Sharing Information and Maintaining Confidentiality**
  We are willing to offer necessary information to suppliers. At the same time, we realize that supplier’s offers supply us with confidential or sensitive information. We always endeavor to maintain and keep such information strictly confidential.

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**Promotion of Procurement CSR**

- **What HTS Gr. Ask Our Valued Suppliers to Promote**

  - Provision of e-learning, etc. on a regular basis to those engaging in procurement with procurement authority in domestic and overseas group companies (Domestic: 21 companies, overseas: 38 companies)

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**Procurement Compliance Education**

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Working Together
The crux of our communications: taking the perspective of each individual

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Promotion of Procurement CSR

What HTS Gr. Ask Our Valued Suppliers to Promote

- General CSR activities
  (1) Vigorous promotion of CSR activities, and
  (2) Contribution to society and community

- CSR Activities for The Environment
  (1) Management of hazardous chemicals in products,
  (2) Management of hazardous chemicals used in manufacturing,
  (3) Establishing and applying an environmental management system,
  (4) Minimization of environmental pollution (water, soil, air),
  (5) Obtaining permission for environmental administration approval,
  (6) Resource and energy saving by reusing, reducing and recycling (3R)*,
  (7) Reduction of greenhouse gas emissions,
  (8) Waste reduction, and
  (9) Disclosure of environmental preservation activities.

- CSR Activities for Corporate Ethics
  (1) Prohibition of corruption, bribe, etc.,
  (2) Prohibition of abuse of a superior bargaining position,
  (3) Prohibition of offering or accepting inappropriate profit and advantage,
  (4) Prohibition of impediment to free competition,
  (5) Provision of accurate information on products and services,
  (6) Using appropriate export procedures,
  (7) Disclosure of appropriate company information, and
  (8) Prompt detection of malfeasance, wrongdoings and injustice.

- CSR Activities for Production
  (1) Ensuring product safety, and
  (2) Establishing and applying a quality assurance system.

- CSR Activities for Information Security
  (1) Defense against threats on the computer network,
  (2) Prevention of leakage of personal information, and
  (3) Prevention of leakage of confidential information of customers and third-party.

- CSR Activities for Occupational Health and Safety
  (1) Applying safety measures for equipment and instruments,
  (2) Safe activities in the workplace,
  (3) Hygiene in the workplace,
  (4) Applying appropriate measures for occupational injuries and illness,
  (5) Emergency responses,
  (6) Health and safety of facilities, and
  (7) Health and safety of facilities, and
  (8) Employee health management.

- CSR Activities for Human Rights and Labor
  (1) Prohibition of forced labor,
  (2) Prohibition of child labor,
  (3) Paying appropriate wages,
  (4) Respecting rights to freedom of association.

- CSR Activities for Provision of e-learning, etc. on a regular basis to those engaging in procurement with procurement authority in domestic and overseas group companies (Domestic: 21 companies, overseas: 38 companies)
— Working together with our customers —

Support for Customers Embarking on Logistics Reform

- Operation of logistics center for EC of health foods and cosmetics -

In August 2018, HTS opened a logistics center for EC of health foods and cosmetics in Musashimurayama City, Tokyo. While we used to have only one logistics center in western Japan, we newly opened a site in eastern Japan for B2C business to realize the logistics reform of our customers. With products stored in Kanto, we were able to shorten delivery lead-time for customers located in Chubu region and to the north, and contribute to reduction of shipping costs. We will next work on optimization of the customers’ overall supply chain, including promoting BtoB business with two sites and streamlining production logistics from manufacturing plants.

Meticulous Plan, That Required Checking Dimensions Down to the Millimeter, Results in Success

- Transportation of gas turbine generator to Zeran Combined-Cycle Power Plant in Poland -

Mitsubishi Hitachi Power Systems, Ltd. received the contract to supply power generating equipment to the site of Zeran Combined-Cycle Power Plant (Owner: PGNiG Termik SA, Poland) located in the suburbs of Warsaw, Poland. HTS undertook the transportation for the major part of the cargo, including the heaviest unit among the equipment supplied—gas turbine generator. It was transported by rail from Gdynia port in Poland directly to the power plant premises. Over the numerous surveys and checks, the various physical restrictions (such as bridges, lines over the railroad, station building, etc.) were taken into deep consideration when creating the safest possible transportation plan. Due to the severe limitations of some of the obstacles, extreme attention had to be paid to every detail of the generator: not only the overall dimensions, but the location and dimensions of protruding parts, down to the millimeter— even the tiniest bolts, had to be taken into account. Maintaining this detail-oriented approach, the transportation over the whole route of 560 kilometer was successfully completed within 10 days.

As a solutions provider, HTS Group continues to deliver best services and values that meet customer demands at all times.

Implementing New Technology and Labor-saving Technology Verified at “R&D Center” into Practical Use on Logistics Site

The HTS Group puts new Smart Logistics technology, which was verified at the “R&D Center” opened in July 2016, into practical use on site to promote automation and labor saving and accelerate realization of the next-generation logistics center.

- Accelerating On-site Implementation of New Technologies and Labor-saving Technologies -

1. Rotary piece sorters

Sorted pieces for shipment in trays are temporarily stored in a rotary piece sorter, and these trays are automatically dispatched at an appropriate timing in necessary order. The sorters went into operation in May and November 2018 and are used in three sites.

2. Automated forklift-type AGV

AGV is used in the daytime and nighttime, and in the nighttime, it is interfaced with movable racks to store and relocate goods received in the entire warehouse. As of March 31, 2019, two AGVs are in operation.

3. High-density storage system

The system receives/dispatches goods automatically in addition to its high density storage capacity. It went into operation at the logistics center in Kashiwa City, Chiba Prefecture, in November 2018.

Support EC Business Expansion with Sharing and Pay-per-use Service – EC Platform –

- Establish a pay-per-use platform center where multiple customers share assets (automation/labor-saving equipment), systems (information systems), spaces (storage/workspace) and manpower (administrators/workers) in a logistics center.

- Aim at minimization of manual process man-hours by developing additional labor-saving systems including labor-saving equipment such as AGV picking system and automatic packing machine, product inspection using image recognition technology and auto-cushioning material filling.

Details of EC platform are available on our website (Japanese version only).

http://www.hitachi-transportsystem.com/ja/sw/​

Challenge to New Domains

- Utilize Artificial Intelligence and Develop Supply Chain Solutions -

The HTS Group is working on establishing volume forecasting technology using AI and developing new solutions utilizing forecasting technology in order to improve operational efficiency and become a global supply chain solutions provider.

1. Volume (demand) forecast

We aim at improving operational efficiency by linking high-accuracy volume forecast using AI with manpower planning tool.

2. Inventory control

We aim at contributing to supply-chain optimization with the calculation of standard inventory and development of order plans suitable for the customer’s supply chain.

3. Development of data scientists

We strive to foster data scientists having high data analysis skill within the company.

Please refer to the movie for details of new smart logistics technology.

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Please refer to the movie for details of new smart logistics technology.
— Working together with our employees —

**HTS Group Diversity**

For the HTS Group, diversity means that employees of different gender, nationality, generation, skill, and career, having various attributes, individuality and values can fully demonstrate their potential and create new ideas and businesses using their diversified ways of thinking. In 2012, we established the Diversity Promotion Center with the aim of creating a pleasant workplace where various human resources of the entire Group can play an active role.

- **Recognition from Outside the Company**
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- **Promotion of Working-style Reform**
  We manage work hours by managing PC logs and encourage employees and the managers to change their mindset as “I have no problem with working outside regular work hours” and “I can talk to my boss easily,” “I think my workplace has become cheerful” and “I got the hang of my work.”

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Currently, we are promoting activities to develop human resources who utilize Logistics OPEX in each site to further spread it within the Company.

*Posted on YouTube: Logistics OPEX (Japanese version only) [https://www.youtube.com/watch?v=28oaq1B4AXo](https://www.youtube.com/watch?v=28oaq1B4AXo)*

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**Training Upcoming Generations of Employees**

The HTS Group has established the HTS Group College as an educational system for all of our employees, designed to draw out the strengths of each individual through practical and specialized training courses. In addition to training by rank, on-site operations, and manager-level training, we also institute general training for all employees to enhance their basic skills and encourage communication. Furthermore, we have developed training systems including our Managerial Personnel Training, which serves to train the next generation of managers, and our 3PL (Third Party Logistics) Professional Course, which works with backbone employees on 3PL projects. These personnel development programs are implemented to continuously sustain our business base.

- **3PL Professional Course**
  We determine training themes and curriculum considering business needs to provide the best training.

- **Overseas Training Program**
  Overseas training program has been in place since 1989 with the aim of providing young employees with opportunities to gain overseas experience and of fostering global human resources. For the HTS Group, whose corporate vision is to become “the most preferred global supply chain solutions provider,” it is critical to foster human resources with global thinking and high expertise who can contribute to our business across different cultures and values. Trainees who have completed one-year training are required to report in English on issues they faced regarding the theme they addressed, the improvement recommendations implemented and the result, proposals to the Company based on their local experience, and their future action plan. Trainees also exchange their opinions each other. The number of countries and regions to which employees were sent under the overseas training program in the last five years reached approx. 20.

**Human Rights Education**

As the process of globalization continues, it has become critically important to deepen understanding of the concepts of co-existence and co-prosperity—that is, to develop a mutual appreciation of a range of values and different cultures. At the HTS Group, we create opportunities for our employees to acquire accurate understanding of human rights, including providing training in accordance with employee rank, at meetings and workshops. By acquiring correct knowledge of human rights, we work to boost individual awareness of human rights.

**Ratio of female employees in new graduates hired**

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>37.9</td>
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(47.8% in non-consolidated basis)

**Destination of young employees in the overseas training program**

<table>
<thead>
<tr>
<th>Region</th>
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</tr>
<tr>
<td>2018</td>
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For the HTS Group, diversity means that employees of different gender, nationality, generation, skill, and career, having various attributes, individuality and values can fully demonstrate their potential and create new ideas and businesses using their diversified ways of thinking. In 2012, we established the Diversity Promotion Center with the aim of creating a pleasant workplace where various human resources of the entire Group can play an active role.

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Promotion of Working-style Reform

We manage work hours by managing PC logs and encourage employees and the managers to change their mindset as part of our active initiatives to address long working hours and encourage employees to take annual paid leave. In addition, we install the wireless LAN system in staff lounges and improved powder room interior to create a comfortable and employee-friendly working environment.

Creating a Workplace Where Employees Can Work in Good Health with a Sense of Security

It is of utmost importance for companies that employees can always work in good health with a sense of security. In order to improve mental and physical health of all employees of the entire Group, the HTS Group will provide employees with health education and consultation for maintenance and improvement of their health, and promote health support in cooperation with industrial health staffs such as industrial physicians.

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Currently, we are promoting activities to develop human resources who utilize Logistics OPEX in each site to further spread it within the Company.

Boosting Understanding of Diversity

With an aim of “respecting differences between individuals and allowing all to reach their potential in the workplace,” we incorporate factors that may promote better understanding of employees about diversity in training by rank and strive to raise awareness of the entire Group.

Support for Balancing Work and Childrearing/Nursing Care

The HTS Group believes that it is essential to establish a workplace where employees can maintain a work-life balance even when they face a serious life event. We have a system to provide assistance for a work-life balance of employees that goes beyond the legal requirements to ensure that they can continue to work with a sense of security while raising their children or caring for their family members.

By facilitating employees’ understanding through provision of necessary information, we will strive to develop an environment and work climate that allows diversified work styles.

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We are installing a ventilating and air conditioning system in logistics centers and sales offices across the country. In addition, we install the wireless LAN system in staff lounges and improved powder room interior to create a comfortable and employee-friendly working environment.

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3PL Professional Course

We determine training themes and curriculum considering business needs to provide the best training. “3PL Professional Course” offers knowledge of new technologies as well as tips for sales, key points of each process and analytical methods by seasoned in-house lecturers. The course aims at teaching knowledge readily applicable to practical situations by conducting group discussions among participants using knowledge and analytical methods learned.

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Together with local communities

The HTS Group operates according to the basic principle of “Objectives of Social Contribution Activities” developed in FY2018.

Objectives of Social Contribution Activities

- Our corporate philosophy is to deliver high-quality services that will help make the world a better place for people and nature for generations to come. To achieve this goal, we are committed to providing logistics infrastructure and services that are essential for the improvement of industries and people’s lifestyles, through our businesses.

- The HTS Group is working on social contribution activities in the same way we conduct our business to establish the foundation of an affluent, sustainable society.


Initiative through Traffic and Road Safety Class

The HTS Group has offered traffic and road safety classes to prevent our children—who are our future—from getting involved in road accidents and teach them the importance of life.

- Activity of a group company in Turkey

In May 2018, Mars Logistics Group Inc., our Turkish group company, held a traffic and road safety class. In the class, we used the rear deck of the truck as a classroom, prepared creative learning tools such as quizzes using a tablet terminal and a worksheet on which children can put stickers on so that children can develop a better understanding about road signs while having fun.

Internships and “Experience the Workplace” Programs

HTS offers internships and “Experience the Workplace” Programs in Japan and overseas to give young students a deep understanding of the logistics industry.

Human Resource Development through Events

- U.S.: Cooperation in SCRCAC* Science Day

The HTS Group cooperates in “Hitachi Celebrates Science Day,” an event with the purpose of getting local children who need economic support interested in science and mathematics.

- Vantec Hitachi Transport System (USA), Inc.
- James J. Boyle & Co.

* SCRCAC, Southern California Regional Community Action Committee

A social contribution committee consisting of Hitachi Group companies in North America. The HTS Group participates as a logistics partner.

- Turkey: Hosting logistics contest

In cooperation with Logistics Association, we hold the “Logistics Case Study Competition” targeting university and professional school students. This event has been held since 2003 in order to get the attention of students to the logistics industry, and approximately 1,000 students participated in FY2018.

- Mars Logistics Group Inc.

Initiatives for Environmental Protection

We participate in tree-planting projects for the environmental protection.

- Fylyc Logistics Pvt. Ltd. (India)
- VANTEC LOGISTICS MEXICO S.A. DE C.V.
- VANTEC AMATA LOGISTICS (THAILAND) CO., LTD.

Overview of the HTS Group Magokoro (Sincere Heart) Fund

As part of its social contribution activities, the HTS Group established a social action program called the “Magokoro” (Sincere Heart) program, where our group’s employees and officers make contributions to fields related to our business in 2008. Through a system where funds donated by employees are matched by the Company, employees and the Company engage in activities together.

FY2018 Initiatives

- Traffic and Road Safety

- Gifts: 8,000 sets of reflector for bicycle to Noda City Office, Chiba Prefecture and others
- 711 eco-friendly bags with a reflector to the Traffic Policy Council of Ships Prefecture
- Financial support: Traffic Accident Orphans Association (public interest incorporated foundation)

- Regional Social Action/Social Welfare

- Gifts: 55 wheelchairs to 18 municipalities around the country
- A welfare vehicle to each of the Council of Social Welfare in Kakegawa City, Shizuoka Prefecture and “SELP Ujina,” an association of people with disabilities in Hiroshima Prefecture
- Financial support: JAPAN PARAG ICE HOKEY ASSOCIATION (general incorporated association)

- Environmental Protection

- Financial support: National and International Promotion Organization (Sincere Heart) Fund
- Financial support: Organization for Industrial, Spiritual and Cultural Advancement (DECA) “Kotadom-no-Mori” Program (public interest incorporated foundation)

- Social Welfare Activities by Employees

- Activities through internal volunteer organization

Employees conduct activities of donating foodstuffs and toys to local communities.

- Vantec HTS Transport System (USA), Inc.
- James J. Boyle & Co. (U.K)
- VANTEC EUROPE LIMITED (U.K.)

- Czech: Activities through an employee charity fund

In our Czech group company, we donate to those who need economic assistance regularly through the charity fund established by volunteer employees. The company continues support activities with employees by contributing twice the amount of employee donation.

- ESA s.r.o.

Sports Initiatives

HTS contributes to regional vitalization and cooperates with sound development of young people through sports.

- HTS Futsal Tournament

HTS has held its annual Futsal Tournament at the futsal field located next to the logistics center at Noda City, Chiba Prefecture since FY2006.

- Track and Field Class

The HTS Track and Field Club, our symbol sport, is based in Matsudo City, Chiba Prefecture and cooperates with track and field class hosted by the Matsudo City Education Committee.

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Children in schools where we support in Mongolia (DECA “Kotadom-no-Mori” Program)

- Additional one lecture of land (“HTS Magokoro Forest”) Qianfeng (total of 10 hectares), in collaboration with MPI Afforestation Network

- HTS “Magokoro Fund” Forest (the Khorgosh-Mongol region desert, China)
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- Financial support: Traffic Accident Orphans Association (public interest incorporated foundation)

- Regional Social Action/Social Welfare
  - Gifts: 3,600 children’s bikes to 18 municipalities around the country

- Environmental Protection
  - Financial support: National Land Afforestation Promotion Organization (Green Fund) (public corporation)
  - Financial support: Organization for Industrial, Spiritual and Cultural Advancement (JAPAN PARA ICE HOCKEY ASSOCIATION) (general incorporated association)

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HTS compiles an IR report detailing information disclosure criteria and methodology, dialog with our shareholders and investors, etc., which is posted on our company’s Website.

IR policy

Information Disclosure
HTS discloses information pertaining to operations, finances, and publications including our summary of financial results, presentation materials of financial results, annual securities reports, notice of convocation of the annual general meeting of shareholders, business reports, and annual reports.

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Investor Relations
http://www.hitachi-transportsystem.com/en/is/

Dividends

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</table>

 FY2018 Initiatives

- Results briefings (twice)
- Top executive meeting (once)
- Small-scale meetings (three times)
- Telephone conferences (twice)
- Overseas road shows (twice)
- Conferences in Japan (twice)
- Logistics center tour (once)
- IR seminars for individual investors (twice)
- Individual meetings (including ESG investment interview), etc.

[Reference] FY2018 IR schedule (results)

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<td>Small-scale meetings</td>
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<td>Annual securities reports/Quarterly report</td>
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<td>Conference in Japan</td>
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<td>IR seminars for individual investors</td>
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<td>Individual meetings</td>
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<tr>
<td>Tour</td>
<td>Logistics center tour (once)</td>
<td>with a view to giving them an experience of new technologies</td>
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</tbody>
</table>

■ Holding General Shareholders’ Meeting

To encourage attendance of as many shareholders as possible, in principle we avoid the dates when most other Japanese companies hold their meetings.

In order to facilitate smooth exercise of voting rights, HTS offers electromagnetic means which allows shareholders to exercise their rights using PCs and smartphones, uses the electronic voting platform for institutional investors, and posts English translation of the notice of convocation and voting results of the annual general meeting of shareholders on our website.

■ Basic Shareholder Return Policy

Our basic policy of dividends is to seek to maintain stable distribution linked to business performance, while considering medium-to-long-term business expansion and securing internal reserves to strengthen corporate structure.

■ Communication with Shareholders and Investors

HTS communicates with our shareholders and investors through a variety of means, including briefings for securities analysts and institutional investors, telephone conferences, small-scale meetings, overseas road shows, individual meetings, and more.

In FY2018, HTS increased its participation in small-scale meetings organized by brokerage houses, and also offered a logistics center tour for institutional investors, with a view to giving them an experience of new technologies.
Board of Directors and Executive Officers

### Outside Directors

**Koji Tanaka**
- Director, Hitachi, Ltd.
- Chairman of the Board
- Nominating Committee Chairman
- Independent Officer

**Sayoko Izumoto**
- Outside Director, Hitachi, Ltd.
- Outside Director, Hitachi Transport System, Ltd.

**Tetsu Fusayama**
- Outside Director, Hitachi, Ltd.
- Outside Director, Hitachi Transport System, Ltd.

**Mitsudo Urano**
- Outside Director, Hitachi, Ltd.
- Outside Director, Hitachi Transport System, Ltd.
- Independent Officer

**Takashi Jungi**
- Director, Hitachi, Ltd.
- Outside Director, Hitachi Transport System, Ltd.

**Emiko Magoshi**
- Outside Director, Hitachi, Ltd.
- Independent Officer

**Hiroshi Maruta**
- Outside Director, Hitachi, Ltd.
- Independent Officer

**Yasuo Nakatani**
- Outside Director, Hitachi, Ltd.
- Independent Officer

### Outside Directors (As of June 18, 2019)

**Koji Tanaka**
- Director, Hitachi, Ltd.
- Chairman of the Board
- Nominating Committee Chairman
- Independent Officer

**Sayoko Izumoto**
- Outside Director, Hitachi, Ltd.
- Outside Director, Hitachi Transport System, Ltd.

**Tetsu Fusayama**
- Outside Director, Hitachi, Ltd.
- Outside Director, Hitachi Transport System, Ltd.

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- Outside Director, Hitachi, Ltd.
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- Independent Officer

**Takashi Jungi**
- Director, Hitachi, Ltd.
- Outside Director, Hitachi Transport System, Ltd.

**Emiko Magoshi**
- Outside Director, Hitachi, Ltd.
- Independent Officer

**Hiroshi Maruta**
- Outside Director, Hitachi, Ltd.
- Independent Officer

**Yasuo Nakatani**
- Outside Director, Hitachi, Ltd.
- Independent Officer

### Directors (As of June 18, 2019)

**Takashi Jungi**
- Director, Hitachi, Ltd.
- Outside Director, Hitachi Transport System, Ltd.

**Emiko Magoshi**
- Outside Director, Hitachi, Ltd.
- Independent Officer

**Hiroshi Maruta**
- Outside Director, Hitachi, Ltd.
- Independent Officer

**Yasuo Nakatani**
- Outside Director, Hitachi, Ltd.
- Independent Officer
Board of Directors and Executive Officers

Outside Directors (As of June 18, 2019)

Koji Tanaka
- 2013: Senior Manager, Power Electric Machine Design Division, Hitachi, Ltd.
- 2016: Senior Manager, Corporate Strategy Planning Office, Hitachi, Ltd.
- 2017: Deputy General Manager, Hitachi Works, Executive Vice President of Power Systems Group, Hitachi, Ltd.
- 2018: General Manager, Hitachi Works, Power Systems Group, Hitachi, Ltd.

Sayoko Izumoto
- 2006: Outside Director, Hitachi Transport System, Ltd. (currently in office)

Mitsudo Urano
- 2014: Nominating Committee Chairman
- Outside Director

Kojisoku Izumoto
- 1999: Partner, Tatsunaka K K (currently known as KKR & Co., Ltd.)
- 2001: Council Member, The Institute of Certified Public Accountants of Japan
- 2006: Established solution to certified public accountant (currently in office)
- 2016: Established solution to certified public accountant (currently in office)
- 2016: President, Hitachi Transport System (America), Ltd.

Emiko Magoshi
- 1996: Executive Director, Hitachi, Ltd.
- 1999: Outside Director, Hitachi Transport System, Ltd. (currently in office)

Tetsu Fusayama
- 2009: President, Hitachi Transport System, Ltd. (currently in office)

Hiroshi Maruta
- 1999: Deputy General Manager, Finance Division, Hitachi, Ltd.
- 2005: Senior Manager of Finance Division, Hitachi, Ltd.
- 2016: Director, Hitachi Transport System, Ltd. (currently in office)

Outside Directors

Koji Tanaka
- Chair of the Board

Sayoko Izumoto
- Outside Director
- Compensation Committee Member

Emiko Magoshi
- Outside Director
- Independent Director

Tetsu Fusayama
- Independent Director
- Compensation Committee Member

Hiroshi Maruta
- Director

Sayoko Izumoto
- 1999: Partner, Tatsunaka K K (currently known as KKR & Co., Ltd.)
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Emiko Magoshi
- 1996: Executive Director, Hitachi, Ltd.
- 1999: Outside Director, Hitachi Transport System, Ltd. (currently in office)

Tetsu Fusayama
- 2009: President, Hitachi Transport System, Ltd. (currently in office)

Hiroshi Maruta
- 1999: Deputy General Manager, Finance Division, Hitachi, Ltd.
- 2005: Senior Manager of Finance Division, Hitachi, Ltd.
- 2016: Director, Hitachi Transport System, Ltd. (currently in office)

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- 2013: Senior Manager, Power Electric Machine Design Division, Hitachi, Ltd.
- 2016: Senior Manager, Corporate Strategy Planning Office, Hitachi, Ltd.
- 2018: Deputy General Manager, Hitachi Works, Executive Vice President of Power Systems Group, Hitachi, Ltd.
- 2018: General Manager, Hitachi Works, Power Systems Group, Hitachi, Ltd.

Emiko Magoshi
- 1996: Outside Director
- Independent Director

Tetsu Fusayama
- Outside Director
- Independent Director

Hiroshi Maruta
- 1999: Deputy General Manager, Finance Division, Hitachi, Ltd.
- 2005: Senior Manager of Finance Division, Hitachi, Ltd.
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- 2013: Senior Manager, Power Electric Machine Design Division, Hitachi, Ltd.
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Tetsu Fusayama
- 2009: President, Hitachi Transport System, Ltd. (currently in office)

Hiroshi Maruta
- 1999: Deputy General Manager, Finance Division, Hitachi, Ltd.
- 2005: Senior Manager of Finance Division, Hitachi, Ltd.
- 2016: Director, Hitachi Transport System, Ltd. (currently in office)
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 compliance 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 greatly 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

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

The Current Corporate Governance System and Internal Control System

Profile of Board of Directors and Executive Officers are available at the Company’s website.
Board of Directors and Executive Officers

**Executive Officers** (As of June 1, 2019)

**Hitachi Transport System, Ltd.**

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**Kunio Iida**
Senior Vice President and Executive Officer
Executive Officer
Hitachi Transport System, Ltd.

**Ichiro Iino**
Executive Officer
Hitachi Transport System, Ltd.

**Yasuhiro Hagihara**
Executive Officer
Hitachi Transport System, Ltd.

**Kazuhiro Hatakeyama**
Executive Officer
Hitachi Transport System, Ltd.

**Hiromoto Fujitani**
Executive Officer
Hitachi Transport System, Ltd.

**Yuichi Kuroume**
Executive Officer
Hitachi Transport System, Ltd.

**Kazuhisa Sakaguchi**
Executive Officer
Hitachi Transport System, Ltd.

**Kiyoshi Nagao**
Executive Officer
Hitachi Transport System, Ltd.

**Hitoshi Honda**
Executive Officer
Hitachi Transport System, Ltd.

**Hiroaki Takagi**
Executive Officer
Hitachi Transport System, Ltd.

**Riichiro Hirano**
Executive Officer
Hitachi Transport System, Ltd.

**Tetsuji Mimura**
Executive Officer
Hitachi Transport System, Ltd.

**Shunsuke Yonekura**
Executive Officer
Hitachi Transport System, Ltd.

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**Profile of Board of Directors and Executive Officers are available at the Company’s website.**

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**Corporate Governance**

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**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 compliance 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.

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**Measures to Enhance Corporate Governance Implemented in the Past**

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**The Current Corporate Governance System and Internal Control System**

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**General Shareholders‘ Meeting**

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**Board of Directors**

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**Corporate Governance Environmental Initiatives Safety Initiatives**

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**Hitachi Transport System, Ltd. Annual Report 2019**

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**Hitachi Transport System, Ltd. Annual Report 2019**
### 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 restructurings and strategic investments.

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

#### Board of Directors

<table>
<thead>
<tr>
<th>Name</th>
<th>Registration</th>
<th>Current positions and Assignments in the Company*</th>
<th>Attendance</th>
<th>Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sayoko Iizomo</td>
<td>2017</td>
<td>Outside Director</td>
<td>14/14</td>
<td></td>
</tr>
<tr>
<td>Mitsuhiro Urano</td>
<td>2014</td>
<td>Outside Director</td>
<td>14/14</td>
<td></td>
</tr>
<tr>
<td>Koji Tanaka</td>
<td>2018</td>
<td>Chairman of the Board, Outside Director</td>
<td>12/12*1</td>
<td></td>
</tr>
<tr>
<td>Tetsu Fusayama</td>
<td>2016</td>
<td>Outside Director</td>
<td>14/14</td>
<td></td>
</tr>
<tr>
<td>Emiko Magoshi</td>
<td>2015</td>
<td>Outside Director</td>
<td>14/14</td>
<td></td>
</tr>
<tr>
<td>Takashi Jingui</td>
<td>2016</td>
<td>Representative Executive Officer</td>
<td>14/14</td>
<td></td>
</tr>
<tr>
<td>Yasuo Nakatani</td>
<td>2013</td>
<td>Representative Executive Officer</td>
<td>14/14</td>
<td></td>
</tr>
</tbody>
</table>

*1 Shows the attendance record since his appointment at the 16th General Shareholders’ Meeting held on June 16, 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.

#### Relationship between HTS and outside directors

There are no special interests involved between six outside directors appointed at the HTS 60th General Shareholders’ Meeting held on 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, public accounting 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.

### Compensation Committee

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

The Board of Directors allocate some time to discuss management strategy (37%), corporate governance (26%) and business operation and other (33%), 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 FY2023 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 briefing 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 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 into 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 in total, and five times, respectively. In FY2017, it was decided that the chains of the Board of Directors and each Committee should be selected from non-executive outside directors and that in FY2018 the chains 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 an “evaluation of the appointment and dismissal of CEO” 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 decided to carefully 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 audits is essentially being maintained. However, although the consolidated financial statements for FY2016 (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 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.

- **Compensation Committee**: In FY2018, we 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 handled immediately before a meeting and we therefore requested the secretariat to provide more detailed advance briefing. In FY2019, the Board of Directors meeting, directors exchange their opinions from various angles freely and vigorously.

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

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 restructurings and strategic investments.

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

- **Board of Directors**
  - **Primary role**: Determines the Company’s basic management policy and supervises execution of duties by directors and executive officers (determining the board 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 and rules of Incorporation and the Board of Directors regulations)

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

- **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 Board of Directors to maintain social trust)

- **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)

- **Execution Committee**
  - **Primary role**: Deliberates on important issues related to business implementation, coordination and reorganization of departments and also approved by the company president
  - **Executive Committee meeting held once in a month (additional sessions held as necessary)**
  - **Total of 18 executive officers (as of April 1, 2019)
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

<table>
<thead>
<tr>
<th>Name</th>
<th>Registration</th>
<th>Current positions and Assignments in the Company*2</th>
<th>Number of attendances for the Board of Directors</th>
<th>Number of attendances for the Executive Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sayoko Iizumoto</td>
<td>2017</td>
<td>Outside Director</td>
<td>14/14</td>
<td>5/5</td>
</tr>
<tr>
<td>Mitsuhiro Urano</td>
<td>2014</td>
<td>Outside Director</td>
<td>14/14</td>
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</tr>
<tr>
<td>Koji Tanaka</td>
<td>2018</td>
<td>Chairman of the Board, Outside Director</td>
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<td>2016</td>
<td>Outside Director</td>
<td>14/14</td>
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<td>Emiko Magoshi</td>
<td>2015</td>
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<td>2016</td>
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<tr>
<td>Takashi Jingui</td>
<td>2016</td>
<td>Representative Executive Officer Executive Vice President and Executive Officer</td>
<td>14/14</td>
<td></td>
</tr>
<tr>
<td>Yasuho Nakatani</td>
<td>2016</td>
<td>Representative Executive Officer President and Chief Executive Officer</td>
<td>14/14</td>
<td></td>
</tr>
</tbody>
</table>

*1 Shows the attendance record since his appointment at the 15th Regular General Shareholders’ Meeting held on June 19, 2018.
*2 The colored boxes indicate respective Committee with the upper part showing the name of the Committee to which a director belongs and the lower part showing his/her attendance record.

#### (1) Board of Directors

- **Primary role:** Determines the Company’s basic management policy and supervises execution of duties by directors and executive officers (hereinafter referred to as “the Board of Directors” in this report) 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:** Performed audits 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 management 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 on 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 SecuritiesListing Regulations (and various professional 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 Iizumoto, Mitsuhiro 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.

#### 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 perspective 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 breakdown meeting 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, 16/16 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 a survey 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 director reported to the Audit Committee on the results of the audit of the consolidated financial statements for the fiscal year ended 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 quality of 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 confirm four officers to “strengthen audit collaboration among the 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 HTS and overseas group companies, the Audit Committee verified through its own audits 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 audit system of the HTS Group companies” based on the statutory audit report 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 audit 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 of a business with a perception scheme required by the Audit Committee using ROA as ROIC by WACC is incorporated into the board process, and the management focusing on capital efficiency is becoming take over.

- **Compensation Committee:** In deciding compensation of executive officers, we introduced multifaceted evaluation by increasing benchmarks to be confirmed, and we will need to discuss the fair/value 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. As for actual meetings, directors exchange their opinions from various angles freely and vigorously.

#### Executive Committee

- **Debates on important issues related to business implementation**
- **Compliance with laws and regulations**
- **Independence of outside directors**
- **Executive Committee meeting held once a month in principle (additional sessions when 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 for each executive officer on May 21, 2019 in accordance with the policy for determining compensation level, 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 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 officer’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 the 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.

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 determined and also assesses its 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 cross-shareholdings 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 reflected on the balance sheet. In addition, the Board of Directors evaluates the amount of cross-shareholdings accounted for less than 1% of total assets, which is reflected on the balance sheet. In addition, the Board of Directors evaluates the adequacy of cross-shareholdings and determines whether they are appropriate.

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 comply 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 all 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.

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 whistle-blower.
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., the Compensation Committee determines compensation levels for individual directors and executive officers.

(2) Basic policy
The Compensation Committee deliberates and determines compensation levels 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 31, 2019 in accordance with the policy for determining compensation, etc. for directors 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 operation under his/her responsibility, taking into consideration the compensation level of other companies.

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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.

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Compliance Checklist

<table>
<thead>
<tr>
<th>Item</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. I observe laws and regulations for workplace</td>
<td>YES</td>
</tr>
<tr>
<td>2. I do not engage in harassment.</td>
<td>YES</td>
</tr>
<tr>
<td>3. I do not receive or accept any prohibited gifts, money,</td>
<td>YES</td>
</tr>
<tr>
<td>etc. for business purposes.</td>
<td>YES</td>
</tr>
<tr>
<td>4. I do not engage in illegal actions that impede business operations</td>
<td>YES</td>
</tr>
<tr>
<td>5. I do not conspire with another person in violation of laws</td>
<td>YES</td>
</tr>
<tr>
<td>6. I do not engage in illegal and improper acts</td>
<td>YES</td>
</tr>
<tr>
<td>7. I observe export/import related laws</td>
<td>YES</td>
</tr>
</tbody>
</table>

“HTS Group Code of Conduct” is posted on our website

Hitachi Transport System, Ltd.
Annual Report 2019

Hitachi Transport System, Ltd.
Annual Report 2019
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 headquarters 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.

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

  
<table>
<thead>
<tr>
<th>Privacy mark</th>
<th>ISMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 group companies</td>
<td>36 departments and locations</td>
</tr>
<tr>
<td>HTS Group including the Company</td>
<td>As of March 2019</td>
</tr>
</tbody>
</table>
  
  
  *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.
Risk Management

Initiatives to Strengthen BCP System

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Information Security

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For details, please see the Financial Section on our website.
Consolidated Statement of Financial Position
Hitachi Transport System, Ltd. and subsidiaries

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As of March 31, 2019</td>
<td>As of March 31, 2018</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
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<td>¥ 63,497</td>
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<tr>
<td>Trade receivables</td>
<td>–</td>
<td>135,987</td>
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<tr>
<td>Trade receivables and contract assets</td>
<td>¥ 132,544</td>
<td>–</td>
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<tr>
<td>Inventories</td>
<td>¥ 1,145</td>
<td>¥ 1,711</td>
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<tr>
<td>Other financial assets</td>
<td>¥ 4,597</td>
<td>¥ 7,868</td>
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<tr>
<td>Other current assets</td>
<td>¥ 11,965</td>
<td>¥ 11,089</td>
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<tr>
<td>Total current assets</td>
<td>¥ 258,663</td>
<td>¥ 220,152</td>
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<tr>
<td>Non-current assets</td>
<td></td>
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<tr>
<td>Investments accounted for using the equity method</td>
<td>¥ 84,009</td>
<td>¥ 75,349</td>
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<tr>
<td>Property, plant and equipment</td>
<td>¥ 182,400</td>
<td>¥ 175,015</td>
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<tr>
<td>Goodwill</td>
<td>¥ 26,212</td>
<td>¥ 27,869</td>
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<tr>
<td>Intangible assets</td>
<td>¥ 28,556</td>
<td>¥ 31,833</td>
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<tr>
<td>Deferred tax assets</td>
<td>¥ 8,083</td>
<td>¥ 8,466</td>
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<tr>
<td>Other financial assets</td>
<td>¥ 18,241</td>
<td>¥ 18,320</td>
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<td>Other non-current assets</td>
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<td>Total non-current assets</td>
<td>¥ 353,872</td>
<td>¥ 344,751</td>
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<tr>
<td>Total assets</td>
<td>¥ 612,535</td>
<td>¥ 564,903</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities</td>
<td>As of March 31, 2019</td>
<td>As of March 31, 2018</td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
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<tr>
<td>Trade payables</td>
<td>¥ 54,253</td>
<td>¥ 55,078</td>
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<tr>
<td>Short-term debt</td>
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<td>¥ 6,782</td>
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<tr>
<td>Current portion of long-term debt</td>
<td>¥ 24,886</td>
<td>¥ 29,049</td>
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<td>Total current liabilities</td>
<td>¥ 122,494</td>
<td>¥ 147,792</td>
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<tr>
<td>Non-current liabilities</td>
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<tr>
<td>Long-term debt</td>
<td>¥ 208,820</td>
<td>¥ 23,721</td>
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<tr>
<td>Deferred tax liabilities</td>
<td>¥ 22,958</td>
<td>¥ 23,721</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
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<tr>
<td>Total non-current liabilities</td>
<td>¥ 261,092</td>
<td>¥ 208,820</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>¥ 383,586</td>
<td>¥ 356,612</td>
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<table>
<thead>
<tr>
<th>Equity</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Equity attributable to stockholders of the parent company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>¥ 16,803</td>
<td>¥ 16,803</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>¥ 206,245</td>
<td>¥ 186,373</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>(520)</td>
<td>1,333</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(182)</td>
<td>(181)</td>
</tr>
<tr>
<td>Total equity attributable to stockholders of the parent company</td>
<td>¥ 222,346</td>
<td>¥ 204,328</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>¥ 6,603</td>
<td>¥ 3,963</td>
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<tr>
<td>Total equity</td>
<td>¥ 228,949</td>
<td>¥ 208,291</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>¥ 612,535</td>
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</tbody>
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<thead>
<tr>
<th>ASSETS</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As of March 31, 2019</td>
<td>As of March 31, 2018</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥ 108,412</td>
<td>¥ 63,497</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>–</td>
<td>135,987</td>
</tr>
<tr>
<td>Trade receivables and contract assets</td>
<td>132,544</td>
<td>–</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,145</td>
<td>1,171</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>4,597</td>
<td>7,868</td>
</tr>
<tr>
<td>Other current assets</td>
<td>11,965</td>
<td>11,089</td>
</tr>
<tr>
<td>Total current assets</td>
<td>258,663</td>
<td>220,152</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>84,009</td>
<td>75,349</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>182,400</td>
<td>175,015</td>
</tr>
<tr>
<td>Goodwill</td>
<td>26,212</td>
<td>27,869</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>28,556</td>
<td>31,833</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>8,083</td>
<td>8,466</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>18,241</td>
<td>18,320</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>6,371</td>
<td>7,899</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>353,872</td>
<td>344,751</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥ 612,535</td>
<td>¥ 564,903</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As of March 31, 2019</td>
<td>As of March 31, 2018</td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>¥ 54,253</td>
<td>¥ 55,078</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>5,850</td>
<td>10,747</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>5,662</td>
<td>15,307</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>3,362</td>
<td>6,782</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>24,886</td>
<td>29,049</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>28,481</td>
<td>30,629</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>122,494</td>
<td>147,792</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>191,198</td>
<td>138,244</td>
</tr>
<tr>
<td>Retirement and severance benefits</td>
<td>32,083</td>
<td>32,077</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>10,712</td>
<td>10,897</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>22,958</td>
<td>23,721</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>4,141</td>
<td>3,881</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>261,092</td>
<td>208,820</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>¥ 383,586</td>
<td>¥ 356,612</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity</th>
<th>千万日元</th>
<th>美元</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity attributable to stockholders of the parent company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>¥ 16,803</td>
<td>¥ 16,803</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>206,245</td>
<td>186,373</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>(520)</td>
<td>1,333</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(182)</td>
<td>(181)</td>
</tr>
<tr>
<td>Total equity attributable to stockholders of the parent company</td>
<td>222,346</td>
<td>204,328</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>6,603</td>
<td>3,963</td>
</tr>
<tr>
<td>Total equity</td>
<td>228,949</td>
<td>208,291</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>¥ 612,535</td>
<td>¥ 564,903</td>
</tr>
</tbody>
</table>
## Consolidated Statement of Profit or Loss

Hitachi Transport System, Ltd. and subsidiaries

For the years ended March 31, 2019 and 2018

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>708,831</td>
<td>6,386,440</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(626,456)</td>
<td>(5,644,274)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>82,375</td>
<td>742,166</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(51,181)</td>
<td>(461,132)</td>
</tr>
<tr>
<td>Adjusted operating income</td>
<td>31,192</td>
<td>281,034</td>
</tr>
<tr>
<td>Other income</td>
<td>3,850</td>
<td>34,688</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(4,689)</td>
<td>(42,247)</td>
</tr>
<tr>
<td>Operating income</td>
<td>30,353</td>
<td>273,475</td>
</tr>
<tr>
<td>Financial income</td>
<td>450</td>
<td>4,054</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(1,042)</td>
<td>(9,388)</td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td>6,419</td>
<td>57,834</td>
</tr>
<tr>
<td>EBIT (Earnings before interest and taxes)</td>
<td>36,180</td>
<td>325,975</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,075</td>
<td>9,668</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>(2,009)</td>
<td>(18,101)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>35,246</td>
<td>317,560</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(11,233)</td>
<td>(101,207)</td>
</tr>
<tr>
<td>Net income</td>
<td>24,013</td>
<td>216,353</td>
</tr>
</tbody>
</table>

Net income attributable to:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockholders of the parent company</td>
<td>22,786</td>
<td>205,298</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>1,227</td>
<td>11,055</td>
</tr>
</tbody>
</table>

Earnings per share attributable to stockholders of the parent company

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>¥ 204.27</td>
<td>¥ 187.50</td>
<td>$ 1.84</td>
</tr>
<tr>
<td>Diluted</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

## Consolidated Statement of Comprehensive Income

Hitachi Transport System, Ltd. and subsidiaries

For the years ended March 31, 2019 and 2018

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>24,013</td>
<td>216,353</td>
</tr>
</tbody>
</table>

Other comprehensive income (OCI)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net changes in financial assets measured at fair value through OCI</td>
<td>(300)</td>
<td>457</td>
<td>(2,793)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>(191)</td>
<td>(60)</td>
<td>(1,721)</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>(14)</td>
<td>123</td>
<td>(126)</td>
</tr>
<tr>
<td>Total items not to be reclassified into net income</td>
<td>(505)</td>
<td>520</td>
<td>(4,550)</td>
</tr>
</tbody>
</table>

Items that can be reclassified into net income

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency translation adjustments</td>
<td>(1,121)</td>
<td>1,798</td>
<td>(10,100)</td>
</tr>
<tr>
<td>Net changes in cash flow hedges</td>
<td>(2)</td>
<td>–</td>
<td>(14)</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>(108)</td>
<td>5</td>
<td>(973)</td>
</tr>
<tr>
<td>Total items that can be reclassified into net income</td>
<td>(1,231)</td>
<td>1,803</td>
<td>(11,091)</td>
</tr>
</tbody>
</table>

Other comprehensive income (OCI)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockholders of the parent company</td>
<td>21,178</td>
<td>22,486</td>
<td>190,810</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>1,099</td>
<td>1,945</td>
<td>9,902</td>
</tr>
</tbody>
</table>

Comprehensive income

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22,777</td>
<td>24,431</td>
</tr>
</tbody>
</table>

Comprehensive income attributable to:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
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<td>22,486</td>
<td>190,810</td>
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<td>1,945</td>
<td>9,902</td>
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</table>
## Consolidated Statement of Profit or Loss
Hitachi Transport System, Ltd. and subsidiaries

For the years ended March 31, 2019 and 2018

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<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>$ 708,831</td>
<td>$ 6,386,440</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>(626,458)</td>
<td>(5,644,274)</td>
</tr>
<tr>
<td> Gross profit</td>
<td>82,373</td>
<td>742,166</td>
</tr>
<tr>
<td> Selling, general and administrative expenses</td>
<td>(51,181)</td>
<td>(461,132)</td>
</tr>
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<td>Adjusted operating income</td>
<td>31,192</td>
<td>281,034</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td>3,850</td>
<td>34,688</td>
</tr>
<tr>
<td><strong>Other expenses</strong></td>
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<td>(42,247)</td>
</tr>
<tr>
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<td>273,475</td>
</tr>
<tr>
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<tr>
<td><strong>Interest income</strong></td>
<td>1,075</td>
<td>9,886</td>
</tr>
<tr>
<td><strong>Interest expenses</strong></td>
<td>(2,009)</td>
<td>(18,101)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>35,246</td>
<td>317,560</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td>(11,233)</td>
<td>(101,207)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$ 24,013</td>
<td>$ 216,353</td>
</tr>
</tbody>
</table>

**Net income attributable to:**

| Stockholders of the parent company | 22,786 | 205,298 |
| Non-controlling interests         | 1,227  | 11,055  |

**Earnings per share attributable to stockholders of the parent company**

<table>
<thead>
<tr>
<th>Basic</th>
<th>Millions of yen</th>
<th>U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>204.27</td>
<td>1.84</td>
</tr>
<tr>
<td>2018</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Diluted</th>
<th>Millions of yen</th>
<th>U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

## Consolidated Statement of Comprehensive Income
Hitachi Transport System, Ltd. and subsidiaries

For the years ended March 31, 2019 and 2018

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income</strong></td>
<td>24,013</td>
<td>216,353</td>
</tr>
<tr>
<td><strong>Other comprehensive income (OCI)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td> Net changes in financial assets measured at fair value through OCI</td>
<td>(300)</td>
<td>457 (2,703)</td>
</tr>
<tr>
<td> Remeasurements of defined benefit plans</td>
<td>(191)</td>
<td>(60) (1,721)</td>
</tr>
<tr>
<td> Share of OCI of investments accounted for using the equity method</td>
<td>(14)</td>
<td>123 (126)</td>
</tr>
<tr>
<td>Total items not to be reclassified into net income</td>
<td>(505)</td>
<td>520 (4,550)</td>
</tr>
<tr>
<td><strong>Items not to be reclassified into net income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td> Foreign currency translation adjustments</td>
<td>(1,121)</td>
<td>1,798 (10,109)</td>
</tr>
<tr>
<td> Net changes in cash flow hedges</td>
<td>(2)</td>
<td>– (18)</td>
</tr>
<tr>
<td> Share of OCI of investments accounted for using the equity method</td>
<td>(108)</td>
<td>5 (973)</td>
</tr>
<tr>
<td>Total items that can be reclassified into net income</td>
<td>(1,231)</td>
<td>1,803 (11,091)</td>
</tr>
<tr>
<td><strong>Other comprehensive income (OCI)</strong></td>
<td>(1,736)</td>
<td>2,323  (15,641)</td>
</tr>
</tbody>
</table>

**Comprehensive income**

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>22,277</td>
</tr>
</tbody>
</table>

**Comprehensive income attributable to:**

| Stockholders of the parent company | 21,178 | 190,810 |
| Non-controlling interests         | 1,099  | 9,902  |

**Earnings per share attributable to stockholders of the parent company**

<table>
<thead>
<tr>
<th>Basic</th>
<th>Millions of yen</th>
<th>U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>204.27</td>
<td>1.84</td>
</tr>
<tr>
<td>2018</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Diluted</th>
<th>Millions of yen</th>
<th>U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

---

Hitachi Transport System, Ltd. Annual Report 2019

55

Hitachi Transport System, Ltd.  Annual Report 2019

56
### Consolidated Statement of Changes in Equity

**Hitachi Transport System, Ltd. and subsidiaries**

#### For the year ended March 31, 2019

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at beginning of year</strong></td>
<td>¥ 16,803</td>
<td>¥ 186,373</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>¥ 1,333</td>
<td>¥ 1,806</td>
</tr>
<tr>
<td><strong>Changes in liabilities for written put options</strong></td>
<td>(37,184)</td>
<td>(38,724)</td>
</tr>
<tr>
<td><strong>Transactions with non-controlling interests</strong></td>
<td>(37,184)</td>
<td>(38,724)</td>
</tr>
<tr>
<td><strong>Dividends</strong></td>
<td>(1,279)</td>
<td>(1,608)</td>
</tr>
<tr>
<td><strong>Transfer to retained earnings</strong></td>
<td>(1,036)</td>
<td>(205,298)</td>
</tr>
<tr>
<td><strong>Total changes in equity</strong></td>
<td>¥ 3,963</td>
<td>¥ 208,291</td>
</tr>
<tr>
<td><strong>Restated balance</strong></td>
<td>¥ 16,803</td>
<td>¥ 186,373</td>
</tr>
</tbody>
</table>

**Equity attributable to stockholders of the parent company**

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Retained earnings</th>
<th>Accumulated other comprehensive income</th>
<th>Treasury stock at cost</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ 16,803</td>
<td>¥ 186,373</td>
<td>¥ 1,333</td>
<td>¥ 204,328</td>
<td>¥ 208,291</td>
</tr>
</tbody>
</table>

**For the year ended March 31, 2018**

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at beginning of year</strong></td>
<td>¥ 16,803</td>
<td>¥ 186,373</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>¥ 1,333</td>
<td>¥ 1,806</td>
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<td>(1,036)</td>
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</tr>
<tr>
<td><strong>Total changes in equity</strong></td>
<td>¥ 3,963</td>
<td>¥ 208,291</td>
</tr>
<tr>
<td><strong>Restated balance</strong></td>
<td>¥ 16,803</td>
<td>¥ 186,373</td>
</tr>
</tbody>
</table>

**Equity attributable to stockholders of the parent company**

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Retained earnings</th>
<th>Accumulated other comprehensive income</th>
<th>Treasury stock at cost</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ 16,803</td>
<td>¥ 186,373</td>
<td>¥ 1,333</td>
<td>¥ 204,328</td>
<td>¥ 208,291</td>
</tr>
</tbody>
</table>

#### For the year ended March 31, 2019

<table>
<thead>
<tr>
<th>Thousands of U.S. dollars</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at beginning of year</strong></td>
<td>$ 151,392</td>
<td>$ 1,679,413</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>(1,631)</td>
<td>(1,841,184)</td>
</tr>
<tr>
<td><strong>Changes in liabilities for written put options</strong></td>
<td>(37,184)</td>
<td>(38,724)</td>
</tr>
<tr>
<td><strong>Transactions with non-controlling interests</strong></td>
<td>(37,184)</td>
<td>(38,724)</td>
</tr>
<tr>
<td><strong>Dividends</strong></td>
<td>(1,541)</td>
<td>(1,736)</td>
</tr>
<tr>
<td><strong>Transfer to retained earnings</strong></td>
<td>(99)</td>
<td>(2,291)</td>
</tr>
<tr>
<td><strong>Acquisition and sales of treasury stock</strong></td>
<td>(91)</td>
<td>(1,570)</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td>(91)</td>
<td>(1,570)</td>
</tr>
<tr>
<td><strong>Total changes in equity</strong></td>
<td>$ 35,706</td>
<td>$ 1,876,890</td>
</tr>
<tr>
<td><strong>Restated balance</strong></td>
<td>$ 151,392</td>
<td>$ 1,679,413</td>
</tr>
</tbody>
</table>

**Equity attributable to stockholders of the parent company**

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Retained earnings</th>
<th>Accumulated other comprehensive income</th>
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<tbody>
<tr>
<td>$ 151,392</td>
<td>$ 1,679,413</td>
<td>$ 12,010</td>
<td>$ 1,841,184</td>
<td>$ 1,876,890</td>
</tr>
</tbody>
</table>

**For the year ended March 31, 2018**

<table>
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<tr>
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<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
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</tbody>
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For the year ended March 31, 2019

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at beginning of year</strong></td>
<td>¥ 16,803</td>
<td>¥ 186,373</td>
</tr>
<tr>
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<td>¥ 1,333</td>
<td>¥ 1,806</td>
</tr>
<tr>
<td><strong>Changes in liabilities for written put options</strong></td>
<td>(37,184)</td>
<td>(38,724)</td>
</tr>
<tr>
<td><strong>Transactions with non-controlling interests</strong></td>
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</tr>
<tr>
<td><strong>Dividends</strong></td>
<td>(1,279)</td>
<td>(1,608)</td>
</tr>
<tr>
<td><strong>Transfer to retained earnings</strong></td>
<td>(1,036)</td>
<td>(205,298)</td>
</tr>
<tr>
<td><strong>Total changes in equity</strong></td>
<td>¥ 3,963</td>
<td>¥ 208,291</td>
</tr>
<tr>
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For the year ended March 31, 2018

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>2018</th>
<th>2017</th>
</tr>
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<tbody>
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</table>

**Equity attributable to stockholders of the parent company**

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Retained earnings</th>
<th>Accumulated other comprehensive income</th>
<th>Treasury stock at cost</th>
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<tr>
<td>¥ 16,803</td>
<td>¥ 186,373</td>
<td>¥ 1,333</td>
<td>¥ 204,328</td>
<td>¥ 208,291</td>
</tr>
</tbody>
</table>
## Consolidated Statement of Changes in Equity

**Hitachi Transport System, Ltd. and subsidiaries**

**For the year ended March 31, 2019**

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Common stock</td>
<td>Retained earnings</td>
<td>Accumulated comprehensive income</td>
<td>Treasury stock, at cost</td>
<td>Non-controlling interests</td>
<td>Total equity</td>
</tr>
<tr>
<td><strong>Balance at beginning of year</strong></td>
<td>¥ 16,803</td>
<td>¥ 186,373</td>
<td>¥ 1,333</td>
<td>(¥ 181)</td>
<td>¥ 204,328</td>
<td>¥ 3,963</td>
</tr>
<tr>
<td><strong>Cumulative effects of changes in accounting policies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Restated balance</strong></td>
<td>¥ 16,803</td>
<td>¥ 186,398</td>
<td>¥ 1,333</td>
<td>(¥ 181)</td>
<td>¥ 204,335</td>
<td>¥ 3,963</td>
</tr>
<tr>
<td><strong>Changes in equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>–</td>
<td>22,786</td>
<td>–</td>
<td>22,786</td>
<td>1,227</td>
<td>24,013</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>–</td>
<td>–</td>
<td>(¥ 1,608)</td>
<td>–</td>
<td>¥ 1,210</td>
<td>¥ 1,716</td>
</tr>
<tr>
<td>Transactions with non-controlling interests</td>
<td>–</td>
<td>115</td>
<td>(¥ 4)</td>
<td>111</td>
<td>2,130</td>
<td>2,241</td>
</tr>
<tr>
<td>Dividends</td>
<td>–</td>
<td>(4,127)</td>
<td>–</td>
<td>(4,127)</td>
<td>(171)</td>
<td>(4,298)</td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td>–</td>
<td>99</td>
<td>(¥ 99)</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Acquisition and sales of treasury stock</td>
<td>–</td>
<td>–</td>
<td>(¥ 1)</td>
<td>(¥ 1)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Changes in liabilities for written put options over non-controlling interests</td>
<td>–</td>
<td>974</td>
<td>(¥ 1,626)</td>
<td>832</td>
<td>(418)</td>
<td>414</td>
</tr>
<tr>
<td><strong>Total changes in equity</strong></td>
<td>–</td>
<td>19,847</td>
<td>(¥ 1,853)</td>
<td>(¥ 1,725)</td>
<td>(1,064)</td>
<td>2,690</td>
</tr>
<tr>
<td><strong>Balance at end of year</strong></td>
<td>¥ 16,803</td>
<td>¥ 206,245</td>
<td>¥ 7,180</td>
<td>(¥ 182)</td>
<td>¥ 222,346</td>
<td>¥ 6,603</td>
</tr>
</tbody>
</table>

**For the year ended March 31, 2018**

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Common stock</td>
<td>Retained earnings</td>
<td>Accumulated comprehensive income</td>
<td>Treasury stock, at cost</td>
<td>Non-controlling interests</td>
</tr>
<tr>
<td><strong>Balance at beginning of year</strong></td>
<td>¥ 16,803</td>
<td>¥ 171,633</td>
<td>¥ (774)</td>
<td>(¥ 180)</td>
<td>¥ 187,482</td>
</tr>
<tr>
<td><strong>Changes in equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>–</td>
<td>20,916</td>
<td>–</td>
<td>20,916</td>
<td>1,192</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>–</td>
<td>–</td>
<td>1,570</td>
<td>1,570</td>
<td>753</td>
</tr>
<tr>
<td>Transactions with non-controlling interests</td>
<td>–</td>
<td>9</td>
<td>–</td>
<td>9</td>
<td>(122)</td>
</tr>
<tr>
<td>Dividends</td>
<td>–</td>
<td>(3,904)</td>
<td>–</td>
<td>(3,904)</td>
<td>(131)</td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td>–</td>
<td>10</td>
<td>(¥ 10)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Acquisition and sales of treasury stock</td>
<td>–</td>
<td>–</td>
<td>(¥ 1)</td>
<td>(¥ 1)</td>
<td>–</td>
</tr>
<tr>
<td>Changes in liabilities for written put options over non-controlling interests</td>
<td>–</td>
<td>(2,291)</td>
<td>347</td>
<td>(¥ 1,746)</td>
<td>(1,166)</td>
</tr>
<tr>
<td><strong>Total changes in equity</strong></td>
<td>–</td>
<td>14,740</td>
<td>2,107</td>
<td>(¥ 1)</td>
<td>16,846</td>
</tr>
<tr>
<td><strong>Balance at end of year</strong></td>
<td>¥ 16,803</td>
<td>¥ 186,373</td>
<td>¥ 1,333</td>
<td>(¥ 181)</td>
<td>¥ 204,328</td>
</tr>
</tbody>
</table>
### Consolidated Statement of Cash Flows

**Hitachi Transport System, Ltd. and subsidiaries**

For the years ended March 31, 2019 and 2018

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>¥ 24,013</td>
<td>$ 216,353</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>19,059</td>
<td>171,718</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>2,045</td>
<td>18,425</td>
</tr>
<tr>
<td>Gain on business reorganization</td>
<td>(3,134)</td>
<td>(28,237)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>11,233</td>
<td>101,207</td>
</tr>
<tr>
<td>Increase (decrease) in retirement and severance benefits</td>
<td>225</td>
<td>2,027</td>
</tr>
<tr>
<td>Interest and dividends income</td>
<td>(1,482)</td>
<td>(13,353)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>2,009</td>
<td>18,101</td>
</tr>
<tr>
<td>Gain (loss) on sale of property, plant and equipment</td>
<td>(44)</td>
<td>(396)</td>
</tr>
<tr>
<td>(Increase) decrease in trade receivables and contract assets</td>
<td>449</td>
<td>4,045</td>
</tr>
<tr>
<td>(Increase) decrease in inventories</td>
<td>389</td>
<td>3,505</td>
</tr>
<tr>
<td>Increase (decrease) in trade payables</td>
<td>816</td>
<td>7,352</td>
</tr>
<tr>
<td>Increase (decrease) in other assets and other liabilities</td>
<td>1,286</td>
<td>11,587</td>
</tr>
<tr>
<td>Other</td>
<td>17</td>
<td>153</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>47,890</td>
<td>431,480</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>3,937</td>
<td>35,472</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(1,912)</td>
<td>(17,227)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(12,103)</td>
<td>(109,046)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>37,812</strong></td>
<td><strong>340,679</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property, plant and equipment and intangible assets</td>
<td>(14,948)</td>
<td>(134,679)</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment and intangible assets</td>
<td>1,491</td>
<td>13,434</td>
</tr>
<tr>
<td>Collection of short-term loan receivable</td>
<td>3,900</td>
<td>35,138</td>
</tr>
<tr>
<td>Decrease due to a loss of control of subsidiaries</td>
<td>(4,466)</td>
<td>(40,238)</td>
</tr>
<tr>
<td>Other</td>
<td>131</td>
<td>1,180</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(13,892)</td>
<td>(125,164)</td>
</tr>
</tbody>
</table>

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<th>Millions of yen</th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in short-term debt, net</td>
<td>(4,775)</td>
<td>(43,022)</td>
</tr>
<tr>
<td>Proceeds from long-term debt</td>
<td>49,749</td>
<td>486,230</td>
</tr>
<tr>
<td>Repayments of long-term debt</td>
<td>(11,490)</td>
<td>(103,523)</td>
</tr>
<tr>
<td>Repayments of lease obligations</td>
<td>(4,964)</td>
<td>(44,725)</td>
</tr>
<tr>
<td>Proceeds from sale of shares of consolidated subsidiaries</td>
<td>2,528</td>
<td>22,777</td>
</tr>
<tr>
<td>Purchase of shares of consolidated subsidiaries from non-controlling interests</td>
<td>(4,963)</td>
<td>(44,716)</td>
</tr>
<tr>
<td>Dividends paid to stockholders of the parent company</td>
<td>(6,127)</td>
<td>(37,194)</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td>(151)</td>
<td>(1,360)</td>
</tr>
<tr>
<td>Other</td>
<td>(703)</td>
<td>(6,334)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td>21,104</td>
<td>190,143</td>
</tr>
</tbody>
</table>

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<tr>
<th></th>
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<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>1109</td>
<td>7,713</td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td><strong>44,915</strong></td>
<td><strong>404,676</strong></td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>63,497</td>
<td>572,097</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td><strong>108,412</strong></td>
<td><strong>976,773</strong></td>
</tr>
</tbody>
</table>
### Corporate Data (As of March 31, 2019)

#### Corporate Data

**Corporate name:** Hitachi Transport System, Ltd.

**Head office:** 2-9-2, Kyobashi, Chuo-ku, Tokyo, Japan

**Founded:** February 1950 (Established: August 1959)

**Paid-in capital:** ¥16,802 million

#### Main businesses:
- 3PL Business [integrated logistics services for corporate customers]
- Logistics System Building, Information Control, Inventory Control, Orders Control, Processing for Distribution, Logistics Center Operation, Factory Logistics, Transportation, Customs Clearance, International Nonstop Delivery through Land/Ocean/Air Transportation
- Transportation, Installation and Setting of General Cargo, Heavy Machinery, and Artworks
- Factory and Office Moving
- Warehousing and Trunk Room Services
- Collection and Transportation of Industrial Waste
- Logistics Consulting, etc.

#### Stock Information

<table>
<thead>
<tr>
<th>Number of shares outstanding</th>
<th>111,776,714 shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares per unit 100 shares</td>
<td>70</td>
</tr>
</tbody>
</table>

**Composition of shareholders**

- Financial institutions, securities companies 21,190,157 shares (17)
- Other corporations 43,471,153 shares (36)
- Individuals and others 38,945,153 shares (34)
- Foreign shareholders 39,639,153 shares (17)

#### Major shareholders (top 10)

<table>
<thead>
<tr>
<th>Name of shareholder</th>
<th>Number of shares held (thousands)</th>
<th>Percentage of sharehold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hitachi, Ltd.</td>
<td>33,471</td>
<td>30.01 %</td>
</tr>
<tr>
<td>SG Holdings Co., Ltd.</td>
<td>32,349</td>
<td>29.00 %</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account)</td>
<td>30,190</td>
<td>26.35 %</td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>28,237</td>
<td>24.62 %</td>
</tr>
<tr>
<td>National Mutual Insurance Federation of Agricultural Cooperatives</td>
<td>2,373</td>
<td>2.04 %</td>
</tr>
<tr>
<td>JP MORGAN CHASE BANK 380684</td>
<td>1,739</td>
<td>1.50 %</td>
</tr>
<tr>
<td>Hitachi Transport System, Ltd. Employees’ Shareholding Association</td>
<td>1,349</td>
<td>1.18 %</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account)</td>
<td>1,313</td>
<td>1.18 %</td>
</tr>
<tr>
<td>GOLDMAN SACHS INTERNATIONAL</td>
<td>1,266</td>
<td>1.14 %</td>
</tr>
<tr>
<td>FUKUYAMA TRANSPORTING CO., LTD.</td>
<td>1,088</td>
<td>0.93 %</td>
</tr>
</tbody>
</table>

#### Changes in share price (as of the end of the month) and volume

![Graph showing changes in share price and volume](image)

**Note:** The percentage of shares held is calculated based on the number of shares excluding treasury stock (237,965 shares).

---

### Consolidated Statement of Cash Flows

**Hitachi Transport System, Ltd. and subsidiaries**

**Consolidated Statement of Cash Flows**

For the years ended March 31, 2019 and 2018

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>¥ 24,013</td>
<td>$ 216,353</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>¥ 19,059</td>
<td>¥ 171,718</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>¥ 2,045</td>
<td>¥ 14,425</td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td>¥ (6,419)</td>
<td>¥ (57,834)</td>
</tr>
<tr>
<td>Gain on business reorganization</td>
<td>¥ (3,134)</td>
<td>¥ (28,237)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>¥ 11,233</td>
<td>¥ 101,207</td>
</tr>
<tr>
<td>Increase (decrease) in provision for impairment of receivables</td>
<td>¥ 225</td>
<td>¥ 2,027</td>
</tr>
<tr>
<td>Interest and dividends income</td>
<td>¥ (1,482)</td>
<td>¥ (13,353)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>¥ 2,009</td>
<td>¥ 18,101</td>
</tr>
<tr>
<td>(Gain) losses on sale of property, plant and equipment</td>
<td>¥ (44)</td>
<td>¥ (396)</td>
</tr>
<tr>
<td>Increase (decrease) in trade receivables and contract assets</td>
<td>¥ 449</td>
<td>¥ 4,045</td>
</tr>
<tr>
<td>(Increase) decrease in inventories</td>
<td>¥ 389</td>
<td>¥ 3,505</td>
</tr>
<tr>
<td>Increase (decrease) in trade payables</td>
<td>¥ 816</td>
<td>¥ 7,352</td>
</tr>
<tr>
<td>Increase (decrease) in other assets and other liabilities</td>
<td>¥ (1,286)</td>
<td>¥ (11,587)</td>
</tr>
<tr>
<td>Other</td>
<td>¥ 17</td>
<td>¥ 153</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>¥ 47,890</td>
<td>¥ 431,480</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>¥ 3,937</td>
<td>¥ 35,472</td>
</tr>
<tr>
<td>Interest paid</td>
<td>¥ (1,192)</td>
<td>¥ (11,277)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>¥ (12,103)</td>
<td>¥ (109,046)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>¥ 37,812</td>
<td>¥ 340,679</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property, plant and equipment and intangible assets</td>
<td>¥ (14,948)</td>
<td>¥ (134,679)</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment and intangible assets</td>
<td>¥ 1,491</td>
<td>¥ 13,434</td>
</tr>
<tr>
<td>Collection of short-term loan receivable</td>
<td>¥ 3,900</td>
<td>¥ 35,138</td>
</tr>
<tr>
<td>Decrease due to a loss of control of subsidiaries</td>
<td>¥ (4,466)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>¥ 131</td>
<td>¥ 1,180</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>¥ (13,892)</td>
<td>¥ (125,164)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in short-term debt, net</td>
<td>¥ (4,775)</td>
<td>¥ (43,022)</td>
</tr>
<tr>
<td>Proceeds from long-term debt</td>
<td>¥ 49,749</td>
<td>¥ 446,230</td>
</tr>
<tr>
<td>Repayments of long-term debt</td>
<td>¥ (11,490)</td>
<td>¥ (103,523)</td>
</tr>
<tr>
<td>Repayments of lease obligations</td>
<td>¥ (4,964)</td>
<td>¥ (44,725)</td>
</tr>
<tr>
<td>Proceeds from sale of shares of consolidated subsidiaries to non-controlling interests</td>
<td>¥ 2,528</td>
<td>¥ 22,777</td>
</tr>
<tr>
<td>Purchase of shares of consolidated subsidiaries from non-controlling interests</td>
<td>¥ (4,963)</td>
<td></td>
</tr>
<tr>
<td>Dividends paid to stockholders of the parent company</td>
<td>¥ (6,127)</td>
<td></td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td>¥ (513)</td>
<td>¥ (1,360)</td>
</tr>
<tr>
<td>Other</td>
<td>¥ (703)</td>
<td>¥ (6,334)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td>¥ 21,104</td>
<td>¥ 190,143</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>¥ (150)</td>
<td></td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>¥ 44,915</td>
<td>¥ 404,679</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>¥ 108,412</td>
<td>¥ 63,497</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>¥ 153,327</td>
<td>¥ 508,090</td>
</tr>
</tbody>
</table>
Hitachi Transport System, Ltd.

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Toward New Dimensions
LOGISTEED
Annual Report 2019

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