



# ANNUAL REPORT 2017

# 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.

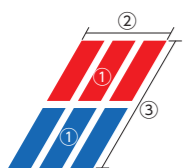
We build true trust with our customers, working tenaciously and charting a collaborative future.

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.

### Stripe Mark



- ① Red represents "vitality" and blue represents "steadiness."
- ② Horizontal three stripes represent "global business" including land, sea and air transportation, and "total logistics system" including transportation, storage and information.
- ③ Upper and lower parts represent "partnership" between our customers/suppliers and the HTS Group.

The Stripe Mark is the symbol of our business strategy. In March 2017, we created and distributed stripe mark badge to further enhance a sense of unity among all HTS Group employees.



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### 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-transportssystem.com/en/ir/library/annual/>)

### Reporting period

The fiscal year ended March 31, 2017 (April 1, 2016 – March 31, 2017 in general)  
However, recent activities are also reported in this report. "FY" refers to a financial period ended or ending on March 31.

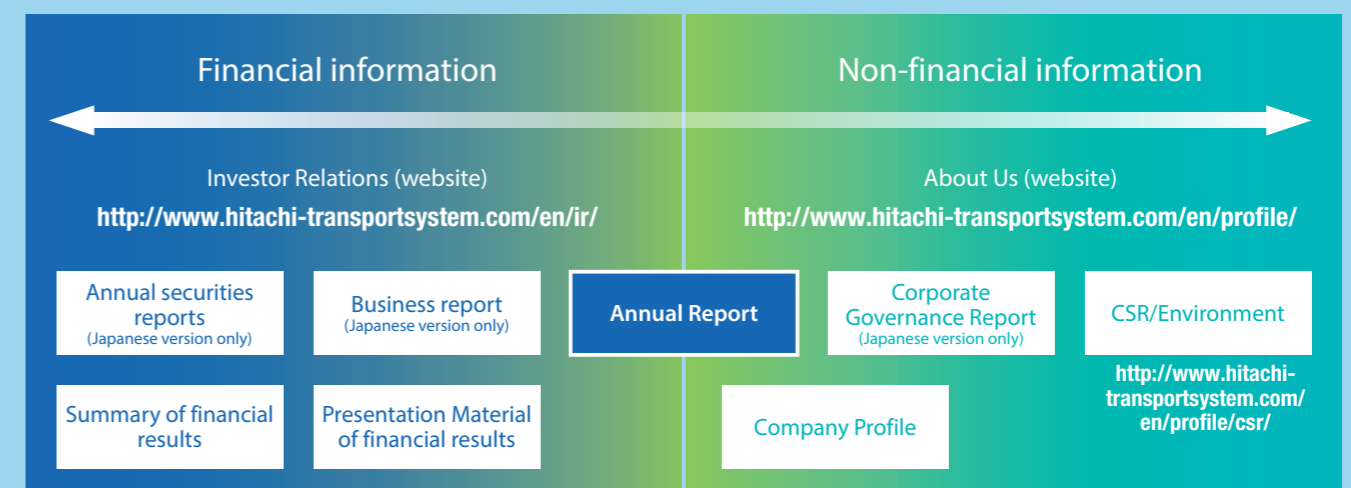
### Companies covered in this report

This annual report covers Hitachi Transport System and the HTS Group (102 consolidated subsidiaries and 10 associates accounted for by the equity method) in principle.

### 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.

### The HTS Group's tools for information disclosure



# Top Message

—Message from the President—

## To solve issues and create “values” through “collaborative innovation”

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

The HTS Group connects its three core businesses, “3PL,” “Heavy Machinery and Plant Logistics,” and “Forwarding” organically by utilizing IT and LT<sup>\*1</sup>, and provides services to support companies in building their optimal supply chains. Many people may have few opportunities to see our services directly, but the Group contributes to a sustainable supply chain as one of the important functions in social infrastructure.

The Group started the Mid-term Management Plan for the period from FY2016 to FY2018. Under the Mid-term Management Plan, based on the basic strategy for our core businesses to “Drive thorough enhancement of 3PL business and increase market share,” “Enhance forwarding business” and “Enhance Heavy Machinery and Plant Logistics,” we strive to create “values” by invigorating “collaborative innovation” with our customers and business partners and also to improve the Group’s corporate value by enhancing our “Earning capability” and “Growing power” as well as “Sustainable capability.”

In FY2016, the first year of the Mid-term Management Plan, we thoroughly enhanced our “Earning capability” and “Growing power.” In order to improve our productivity and profitability, we implemented various measures such as opening “R&D Center,” a dedicated research and development facility for logistics innovation. We also promoted “Collaborative innovation” through joint use of distribution centers with SG Holdings Group, our capital

Under the corporate philosophy “to deliver high-quality services that will help make the world a better place for people and nature for generations to come,” the Hitachi Transport System Group aims to become the most preferred solution 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.”

and business alliance partner, and launch of cross-border trucking transport service in Southeast Asia and China-Japan integrated shipping service “Smart Import” for apparel. In addition, we reviewed our “Corporate Philosophy,” “Corporate Vision” and “Guiding Principles” and implemented initiatives to organize and clarify their positioning and meaning and instill those philosophies among officers and employees, with an aim to enhance human resource/organization power and foster a growth-oriented corporate culture.

The business environment surrounding the Group in FY2017 has becoming increasingly severe due to factors such as concerns over protectionism/block economies in the global economy, and cost increase resulting from actualization of labor shortage in the logistics industry, coupled with expansion of EC<sup>\*2</sup> market in the Japanese economy. Also, technological breakthroughs such as “IoT (Internet of Things),” “AI (Artificial Intelligence)” and “Robotics,” and diversification of services, methods and values in the society such as “FinTech” and “Sharing Economy” are progressing. Under these circumstances, the Group will promote measures to realize a new business model such as development of LLP<sup>\*3</sup> business, establishment of a platform center for EC and enhancement of forwarding service functions through “Collaborative innovation” with open innovation. Furthermore, we will accelerate new technology development and verification in “R&D Center” and its implementation in labor-saving logistics centers, in order to improve productivity and profitability continuously. While aiming at “Enhancement of logistics as a function” as a core target, the Group will strive to provide solutions meeting social issues and needs and create values by

ensuring to carry out measures to realize new innovation through expansion of collaborative innovation across business and industry.

In order to solve issues and create “values” through “collaborative innovation” and to be a preferred company for all of stakeholders, it is crucial that we accurately understand social demands and expectations including those related to environment and fulfill our responsibilities. The Group continuously emphasizes “the importance of Corporate Social Responsibility (CSR)” while incorporating needs of society and the times into our management priority measures, bases corporate behavior on “Basics and Ethics,” strives to improve management transparency and efficiency, and conducts business activities by thoroughly pursuing safety and considering environmental issues. In addition, we promote working method transformation and diversity and work on creating a corporate culture that allows diversified human resources to demonstrate their own strengths, with an aim to demonstrate collective strengths of the Group and strengthen its capability to respond to changes in management environment. We will continue focusing on CSR that supports the Group’s sustainable growth and promote effective CSR activities.

The Group will aim to create values to meet the expectations from all stakeholders and become the most preferred solution provider by further expanding collaborative innovation and achieving new innovation.

We look forward to your continued support.

\*1 LT: Logistics Technology \*2 EC: Electronic Commerce \*3 LLP: Lead Logistics Provider. LLP is a logistics business style offering services such as developing plans in addition to 3PL.

Yasuo Nakatani, President and CEO



# Our Value Creation

—Value Creation of the Hitachi Transport System Group—

The HTS Group improve the corporate value by enhancing our “earning capability” and “growing power” as well as “sustainable capability.”

## Services —Businesses & Solutions—

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.



### 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



### 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



### 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



### 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



## Resources —Bases for Value Creation—

Number of Companies<sup>\*1</sup>/Locations<sup>\*2</sup>

### Locations



**113** companies **770** sites

<Domestic: 25 companies 363 sites/Overseas: 88 companies 407 sites>

Area of Distribution Center<sup>\*2</sup>

### Warehouses



**7.19** Mm<sup>2</sup>

<Domestic: 4.97 Mm<sup>2</sup>/Overseas: 2.22 Mm<sup>2</sup>>

Total Personnel<sup>\*3</sup>

### Human Resources



**47,939**

<Domestic: 29,513 employees/Overseas: 18,426 employees>

Number of vehicles (including leased vehicles)

### Vehicles



**15,989**

Truck<sup>\*4</sup>: 3,836 Forklift: 5,768  
Trailer: 4,565 Other<sup>\*5</sup>: 1,820

\*1 Number of companies includes SAGAWA EXPRESS CO., LTD. \*2 Numbers of sites and warehouse floor space exclude those of SAGAWA EXPRESS CO., LTD.

\*3 Number of employees excludes associates accounted for by the equity method. \*4 Including tractors and vans \*5 Including buses and passenger cars, etc.

# Highlights

—The track record of 10 years—

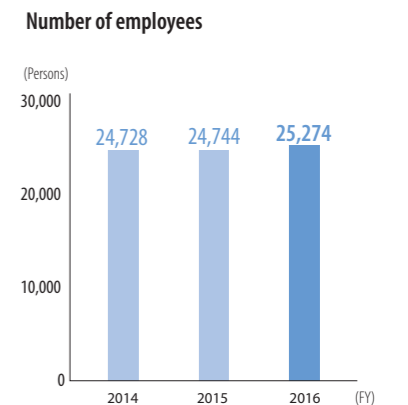
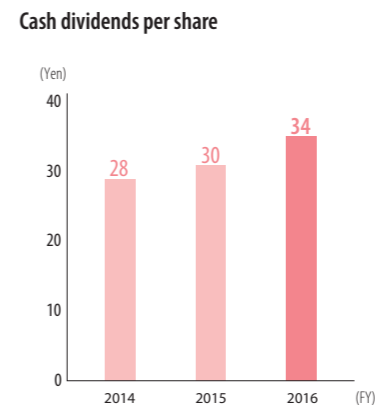
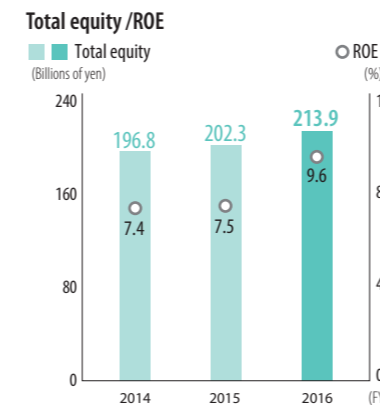
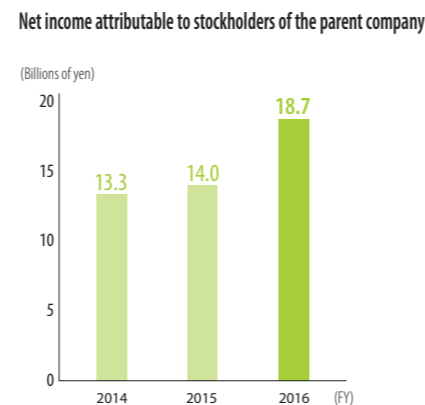
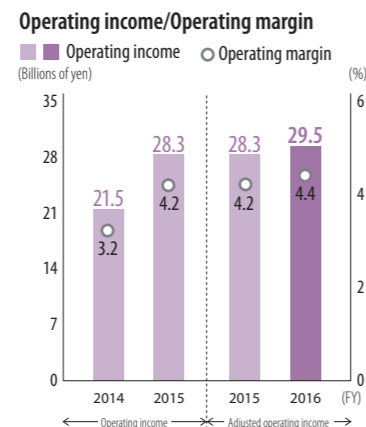
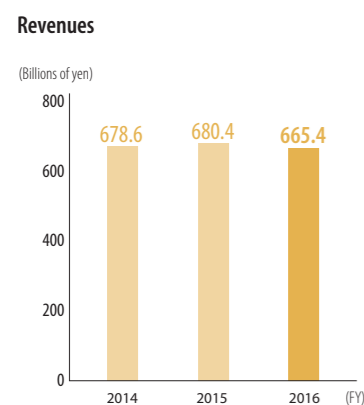
**We will create values to meet all of our stakeholders' expectations through steady implementation of growth strategy and continuous self-transformation.**

(As of March 31, 2017)

(FY)	J-GAAP								IFRS			
	2007	2008	2009	2010	2011	2012	2013	2014	2014	2015	2016	2016
Millions of yen												
Thousands of U.S. dollars <sup>1</sup>												
<b>For the year:</b>												
Revenues (Service Revenues) <sup>2</sup>	¥338,217	¥352,800	¥331,917	¥368,798	¥553,934	¥547,517	¥624,504	¥677,108	¥678,573	¥680,354	¥665,377	\$5,930,805
Domestic logistics	243,946	243,646	244,460	256,886	386,448	375,560	388,765	397,844	397,954	405,080	411,796	3,670,523
Global logistics	76,311	90,885	71,095	93,264	148,610	152,485	215,193	258,354	258,231	253,144	231,727	2,065,487
Other services (logistics related businesses)	17,960	18,269	16,362	18,648	18,876	19,472	20,546	20,910	22,388	22,130	21,854	194,795
Operating income <sup>6</sup>	14,002	14,171	12,724	15,940	23,131	19,535	20,992	21,198	21,465	28,320	29,466	262,644
Domestic logistics	19,056	19,392	19,133	21,815	29,146	27,452	28,523	26,082	14,071	20,333	21,830	194,581
Global logistics	1,270	1,013	1,286	1,477	2,763	1,123	2,910	5,897	4,848	5,652	5,693	50,744
Other services (logistics related businesses)	1,222	1,712	1,501	2,751	2,246	2,619	2,743	2,883	2,546	2,335	1,943	17,319
Elimination or company-wide expenses <sup>3</sup>	(7,546)	(7,946)	(9,196)	(10,103)	(11,024)	(11,659)	(13,184)	(13,664)	—	—	—	—
Net income attributable to stockholders of the parent company (Net income) <sup>2</sup>	7,747	7,000	5,815	6,806	12,563	11,156	5,433	10,932	13,250	14,011	18,703	166,708
<b>At year-end:</b>												
Total assets	¥222,805	¥226,504	¥231,188	¥246,558	¥365,013	¥374,206	¥427,733	¥450,048	¥459,386	¥464,399	¥549,924	¥4,901,720
Total equity (Net assets) <sup>2</sup>	139,952	143,327	148,471	151,066	164,640	174,904	181,401	188,935	196,755	202,292	213,919	1,906,756
Equity attributable to stockholders of the parent company (Stockholders' equity)	137,987	141,523	145,303	147,887	156,622	169,327	168,683	176,714	184,830	189,507	201,436	1,795,490
<b>Per share data (Yen and U.S. dollars<sup>1</sup>):</b>												
Net income attributable to stockholders of the parent company (Net income) <sup>2</sup>	¥69.45	¥62.75	¥52.13	¥61.01	¥112.62	¥100.01	¥48.70	¥98.00	¥118.78	¥125.60	¥167.66	\$1.49
Equity attributable to stockholders of the parent company (Net assets) <sup>2</sup>	1,236.96	1,268.67	1,302.56	1,325.72	1,404.03	1,517.93	1,512.16	1,584.16	1,656.91	1,698.85	1,805.79	16.10
Cash dividends	18.00	20.00	20.00	22.00	24.00	25.00	26.00	28.00	28.00	30.00	34.00	0.30
<b>Capital expenditures</b>												
Capital expenditures <sup>4</sup>	¥12,109	¥18,835	¥6,908	¥13,264	¥16,857	¥17,854	¥27,948	¥26,528	¥26,528	¥33,755	¥21,961	\$195,748
Purchased assets <sup>5</sup>	12,636	18,835	5,302	7,358	14,664	15,187	21,622	13,601	13,601	22,340	15,670	139,674
Depreciation and amortization	8,280	9,195	9,403	9,672	14,003	14,958	16,579	18,403	18,715	19,125	18,741	167,047
<b>Financial ratios</b>												
Operating margin (%) <sup>6</sup>	4.1	4.0	3.8	4.3	4.2	3.6	3.4	3.1	3.2	4.2	4.4	4.4
ROE (%)	5.7	5.0	4.1	4.6	8.3	6.8	3.2	6.3	7.4	7.5	9.6	9.6
<b>Other data:</b>												
Number of employees <sup>7</sup>	9,960	10,416	12,283	14,700	21,104	22,793	24,425	24,728	24,728	24,744	25,274	25,274
Total floor space of warehouse (Thousand square meters) <sup>8</sup>	2,620	3,070	3,230	3,710	5,160	5,640	6,370	6,910	6,910	7,090	7,190	7,190
Domestic	2,080	2,460	2,600	3,010	3,940	4,260	4,610	5,000	5,000	4,960	4,970	4,970
Overseas	540	610	630	700	1,220	1,380	1,760	1,910	1,910	2,130	2,220	2,220

<sup>1</sup> U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥112.19=U.S.\$1, the prevailing exchange rate as of March 31, 2017. <sup>2</sup> Terms in parentheses are used for J-GAAP. <sup>3</sup> From the FY2015 (IFRS), the Group altered to allocate company-wide expenses to each business segment. The segment information of the FY2014 (IFRS) had also reflected the alteration above.

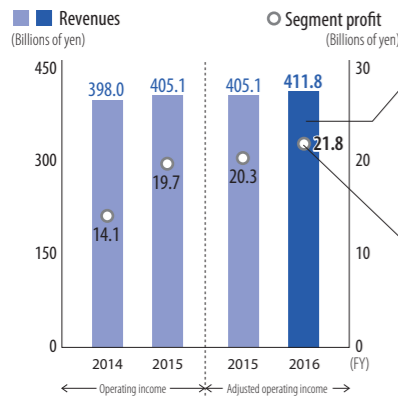
<sup>4</sup> Based on tangible and intangible assets accepted. <sup>5</sup> Based on non-current assets recorded. <sup>6</sup> In order to present business status more appropriately, starting FY2016, the HTS Group started to use "Adjusted operating income" as a major indicator, which is calculated as "Revenues - [Cost of sales] - [Selling, general and administrative expenses]." As a result, "Adjusted operating income" for FY2015 is presented in the table above, and both "Adjusted operating income" and "Operating income" are presented in the graph below and in pages 9-10. <sup>7</sup> Only full-time employees (excluding senior employees, part-time or temporary employees). <sup>8</sup> Excluding SAGAWA EXPRESS CO., LTD.



# Review of Operations

—Business Overview by Segment & FY2016 Topics—

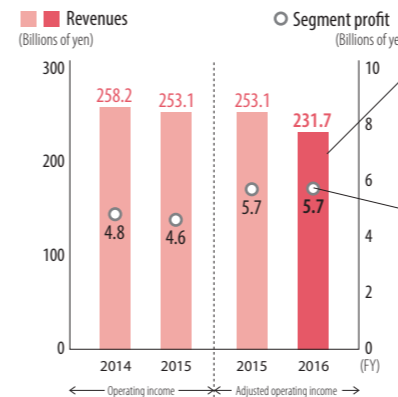
## Domestic logistics business (FY2016)



**Revenues** +2%  
Revenues of domestic logistics business increased by 2% year-on-year to ¥411,796 million due to commencement of new retail products and food service-related operations and full-scale operations of new project launched in the previous fiscal year despite a decrease in the handling volume caused by changes in customers' external environment.

**Segment profit** +7%  
Segment profit increased by 7% year-on-year to ¥21,830 million due to the effect of revenues increase and improvement in operating efficiency and productivity.

## Global logistics business (FY2016)



**Revenues** -8%  
Revenues of global logistics business decreased by 8% year-on-year to ¥231,727 million due to an appreciation of yen despite a revenues increase from operation of new projects in commodities, automobile, and apparel-related.

**Segment profit** +1%  
Segment profit increased by 1% year-on-year to ¥5,693 million due mainly to steady growth of intermodal business in Europe and the effect of overall business structural reform, despite a negative impact of foreign exchange rates.

## FY2016 Topics



**Cikarang DC**  
West Java, Indonesia  
Operations started Apr. 2016  
Daily commodities related



**Mito Platform Center**  
Hitachinaka City, Ibaraki Prefecture  
Operations started May 2016  
Electrical machinery and equipment, etc.



**Chiba-chuo DC**  
Chiba City, Chiba Prefecture  
Operations started Jul. 2016  
Food service related



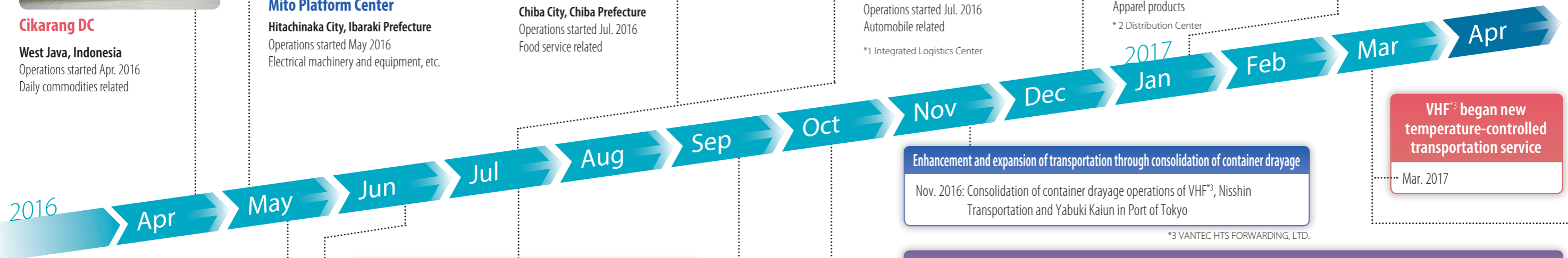
**Canton ILC** \*1  
Mississippi, U.S.  
Operations started Jul. 2016  
Automobile related



**Pomona DC** \*2  
California, U.S.  
Operations started Dec. 2016  
Apparel products



**Tsuchiura Phase II DC**  
Kasumigaura City, Ibaraki Prefecture  
Operations started Jan. 2017  
Medical related



**Strategic Capital and Business Alliance with SG Holdings and SAGAWA EXPRESS**  
May 2016  
• SAGAWA EXPRESS became our equity-method affiliate  
• HTS became an equity-method affiliate of Hitachi and SG Holdings

**Renewal of the corporate website**  
Jun. 2016 (Japanese and English)

**Opened a Location for Research and Development (R&D Center)**  
Jul. 2016  
• Tokyo  
• Dedicated R&D facility  
\* Using a part of the floor inside an existing distribution center

**The 3rd, 4th and 5th issue of unsecured bonds**  
Sep. 2016: Total issue amount ¥30 billion

**Enhancement and expansion of transportation through consolidation of container drayage**  
Nov. 2016: Consolidation of container drayage operations of VHF<sup>3</sup>, Nisshin Transportation and Yabuki Kaiun in Port of Tokyo  
\*3 VANTEC HTS FORWARDING, LTD.

**Collaborative Innovation Project with SG Holdings Group**  
Oct. 2016: Launched cross-border trucking transport service in Southeast Asia  
Oct. 2016: Launched China–Japan integrated shipping service “Smart Import” for apparel  
Mar. 2017: Joint use of Shonan DC was certified as an integrated and efficient plan under the “Revised Act on Advancement of Integration and Streamlining of Distribution Business”

**Commendations and others**  
Sep. 2016: National Forklift Driving Contest (3rd prize in General category)  
Oct. 2016: National Truck Driver Contest (Prime Minister's Prize, etc.)  
Mar. 2017: Selected as a “Semi-Nadeshiko Brand” company  
Mar. 2017: The President of Turkey subsidiary earned award of merit from Luxembourg  
Mar. 2017: Opened a branch of an Indian subsidiary in UAE

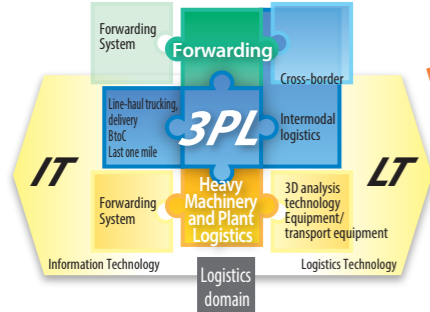
# Special Feature 1 Mid-term Management Plan/Priority Measures in FY2017

Mid-term Management Plan –Value Creation 2018–

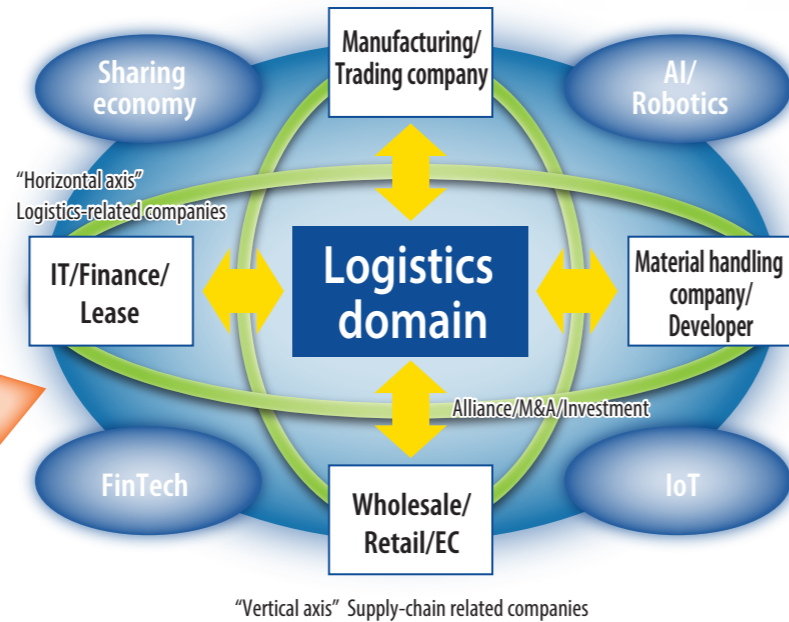
**Aim to expand innovative collaboration across business/industry to achieve new innovation, with "logistics as function" as a core**

**FY2018 Mid-term Management Plan**  
 Revenues: ¥800 billion  
 Adjusted operating income: ¥34 billion  
 EBIT<sup>\*1</sup>: ¥40 billion  
 ROE: 10.8%

**Present: Logistics company**



## Future Vision: Global Supply Chain Solutions Provider



\*1 EBIT (Earnings Before Interest and Taxes) = [Income before income taxes] - [Interest income] + [Interest expenses]

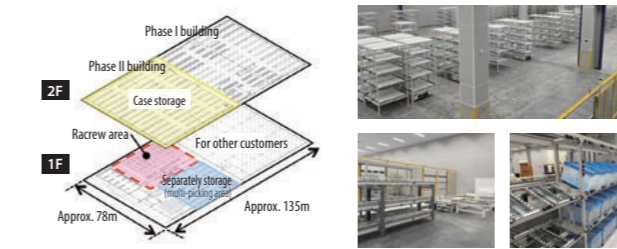
## Domestic Business Strategy (Next Generation Labor Saving Center)

Establish labor-saving distribution center by implementing new technologies

### Tsuchiura Phase II DC



Full operation started on April 2017



Achieve integrated labor-saving operations by automating conveyance operations before and after Racrew<sup>\*2</sup> processes

\*2 "Racrew" is a registered trademark of Hitachi, Ltd. in Japan.

### Kansai II Medical DC



Operation to be started on February 2018



Introduce automated forklifts linked to rotary piece sorters and movable racks

## Sales Strategy

Develop new business model

### LLP strategy

**"Offer high-level LLP with consulting capability (brain) and business power (physical) (visualize horizontal business collaboration)"**

[Logistic planning: Hypothesis verification, overhead view]

[Logistic operation: Business operation, new technologies]

[KPI: Visualize data, objective assessment] [Continue cost improvement: Eternal PDCA, establish overall SCM]

### Platform center for EC

[Share man-hour/labor-saving facilities] [Standardized WMS for EC]

[Establish EC site] [Back office]

[Collaborative innovation with SG Holdings (smart delivery)]

### Global business (forwarding business connecting to new business model)

**"Expand service menu as a solutions provider"**

[Transportation (Freight Forwarding)] [SCM Finance] [Trading] [Smart Import]

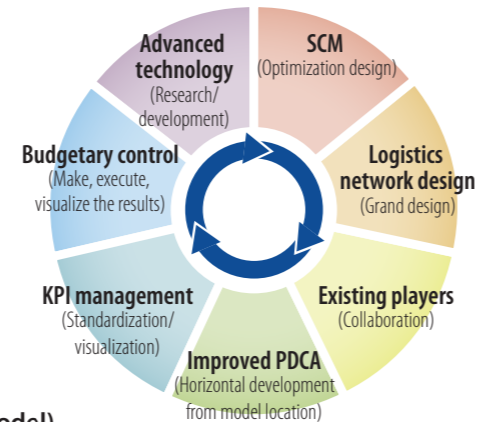
<Response to diversified supply chain>

(Pursue volume ⇒ Pursue opportunities for collaborative innovation/connecting)

<Forwarding system as SCM solution>

(Brush up system and connect with 3PL system)

## LLP standardized model connecting 7 pillars with a system



## Overseas Business Strategy

Toward sustainable growth within the region

### Europe

- Expand automobile business (automobile parts/agricultural machinery)
- Enhance Bridge Turkey Project (transportation between Europe and Central Asia)
- Reorganize/strengthen locations in Benelux countries (including M&A)

### North America

- Enhance truck transport capability/network (including M&A)
- Improve operating efficiency and productivity/profitability (Canton ILC/ Pomona DC)
- Expand Mexico business mainly in automobile related logistics

### Asia

- Expand CBT business<sup>\*3</sup> (innovative collaboration with SG Holdings, etc.)
- Deal with GST<sup>\*4</sup> in India (strengthen/improve locations/network)
- Expand business in Middle East

\*3 Cross-border truck business \*4 Goods and Services Tax in India

### China

- Expand master loader business from China
- Advance into inland area
- Strengthen/expand information equipment solution business

"Belt and Road" Initiative of Hitachi Transport System

## Special Feature 1 Mid-term Management Plan

Mid-term Management Plan –Value Creation 2018 –

### Heavy Machinery and Plant Logistics Strategy

Enhance own resources and deepen collaborative innovation

#### Partnership

##### Expand location network in Middle East area

- Project management using existing area network + Flyjac (Dubai office)
- Focus on projects within the region



#### Strategic investment

##### Domestic: Advance into new field through asset investment (Multi-axle trailer, etc.)

- Overseas: Capital alliance/M&A (Deepen collaborative innovation with heavy-lift cargo transport company)

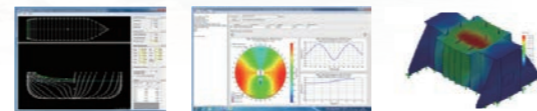


#### Plant 3PL

- Railway business model in the U.K.
- SCM Finance (Collaborative solutions with finance/commercial companies)
- Recycle resource logistics and reverse 3PL business

#### Engineering

- Technology investment for super heavy-lift transportation (Ship response analysis/intensity calculation analysis/3D analysis, etc.)



### Smart Logistics

Enhance proposal-based sales and maintenance service sales to new customers using new technologies

- Offering value to new customers
- Active proposal to existing customers

Pursue safety, quality, productivity

- Projection (utilize AI)
- Efficiency
- Strengthen issue solution capability
- Safety driving management

“R&D Center” (accelerate verification of new technology)

FY2017: New verification (Establish operation/basic technology required to implement in locations)

- Automatic inspection system: Improve image inspection accuracy
- Automatic packing: Automate process of inputting goods
- Piece picking robot: Develop general technology for picking pieces



Automated forklift



“Smart Logistics Configurator” (logistics network simulation)



“R&D Center”

For details of Smart Logistics, please refer to “Special Feature 2” (Pages 15-16) and “Working together with our customers” (Page 30).

### Collaborative Innovation Project with SG Holdings

Promote collaborative innovation and collaboration to realize seamless comprehensive logistics service

New approach to strengthen BtoB 3PL

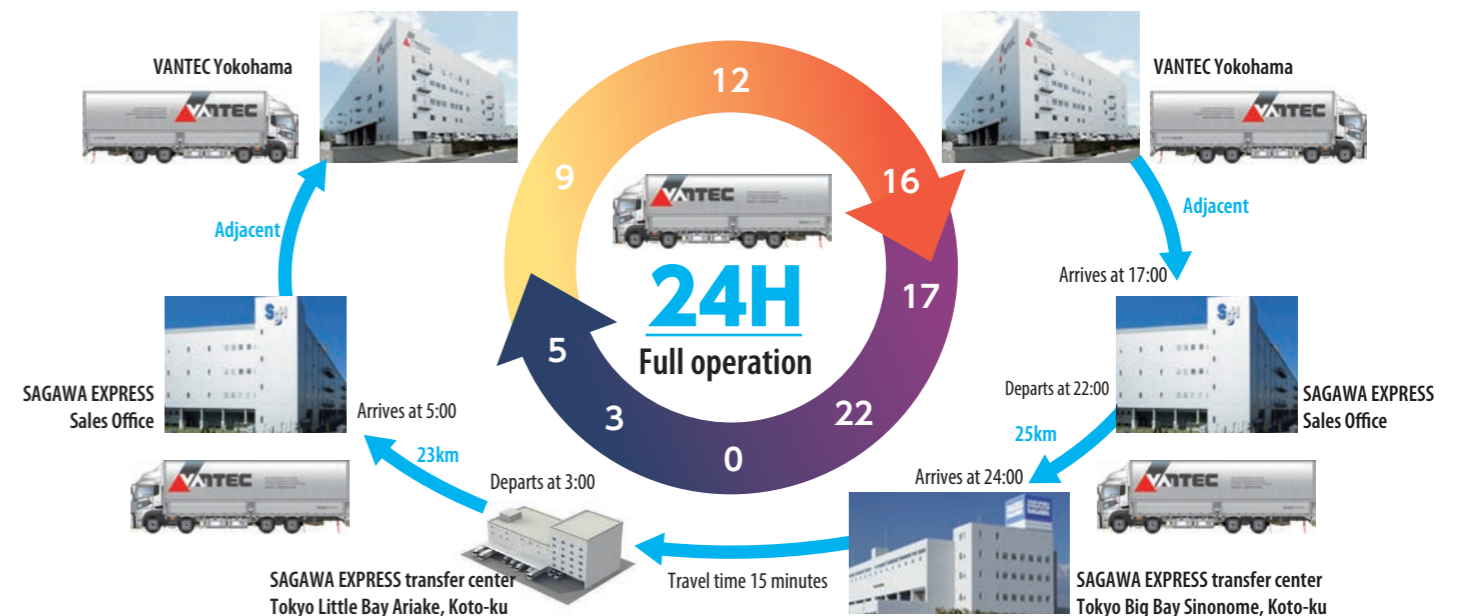
Build new complementary relationship

Horizontal expansion of success case

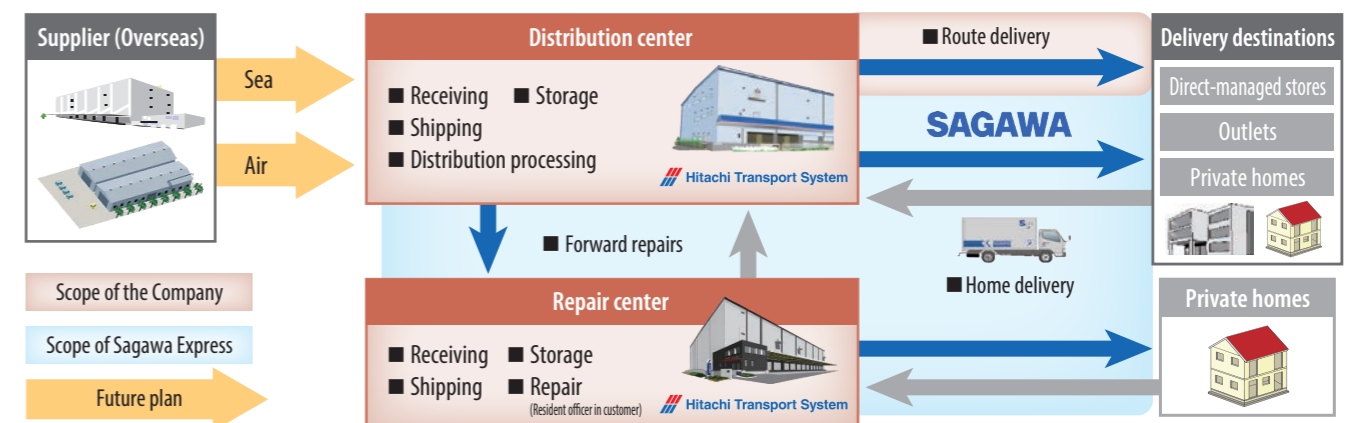
**FY2017 Targets Revenues: ¥15 billion Operating income: ¥1 billion (Operating margin: 6.7%)**

[Example 1] Undertook line-haul trucking of SAGAWA EXPRESS using VANTEC vehicles

- Night-time use of trucks held by VANTEC (line-haul trucking of SAGAWA EXPRESS) ⇒ Maximize utilization rate



[Example 2] Cross-selling to retail customers, providing integrated solution



#### Proposed cross-selling projects (extract)

Industry	Proposal	Industry	Proposal
Automobile parts	Logistics optimization	Food	Logistics optimization
Distribution/retail	EC center operation		Dedicated center operation
	New center operation	Building materials/ housing equipment	Logistics optimization

For the details of the Mid-term Management Plan and priority measures in FY2017, please refer to “Management Plan” on our website. <http://www.hitachi-transportssystem.com/en/ir/corporate/vision/>



# Special Feature 2 Smart Logistics

—Address social issues with site-originated open innovation—

## Increasing needs for automation/labor-saving is a driving force of technology development

The HTS Group has promoted full-scale research and development of Smart Logistics new technology since 2013. As labor shortage in the entire industrial sector, especially in the logistics industry, is becoming pronounced, development of automation/labor-saving technology to improve productivity is an imminent issue also in the logistics site of the Group. Also, we hope to offer high value-added services to customers with cutting-edge technologies such as IoT, AI and Robotics. This is the background and driving force behind development of Smart Logistics new technologies in the Group.

## Our strength is site-originated development

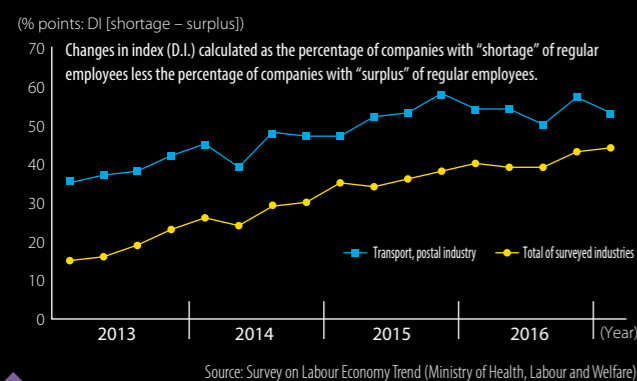
Our motto for technology development is to match logistics site with the cutting-edge technologies with hope to meet our customers' true logistics needs. With a view to introduce IoT technology and AI, we promote the best use of on-site logistics data gathered in various sites in addition to our experiences and know-how accumulated in the logistics sites over the years. For example, "Optimization module," which is a software created from enormous volume of broad range of data stored at the Group's distribution centers, has contributed greatly to improve operation efficiency at warehouses. Also, "R&D Center," our development site, is not located in a research and development building but inside a distribution center so as to be able to verify practical applications under the same environment as the actual logistics sites and accelerate its implementation.

Please refer to "Working together with our customers" (Page 30) for more details.

## Establish competitive advantage through open innovation with collaborative innovation

We have engaged in a series of technology development through open innovation under partnership with our business partners including Hitachi Group. As a result, we have a wide range of solutions lineup for both hardware and software including a new picking system using Hitachi's compact, low-height automated vehicle "Racrew" and optimization support tool such as "Smart Logistics Configurator" (logistics network simulation). Using those new tools enables us to offer flexible solutions to various issues of each project and customer and provide higher quality services, which leads us to establish new competitive advantages.

## Significant labor shortage in the logistics industry (transport, postal industry)



Picking robot (under development)

## History of Smart Logistics development

FY	Initiatives
2016	Established "R&D Center," Accelerate "Reduction of start-up risks," "New technology development and practical use verification" and "On-site implementation."
2015	Started operation of new picking system (25 "Racrews") and implementation of glove style scanner and tablet at logistics centers for apparel products.
2014	Implemented "Smart Warehouse" and "Smart Logistics Cockpit" in logistics centers for cosmetics products.
2013	Placed Technology Office under the direct control of headquarters and newly established Smart Logistics promoting project.

## Introduction of sorting support wearable device



Spectacle-type wearable device



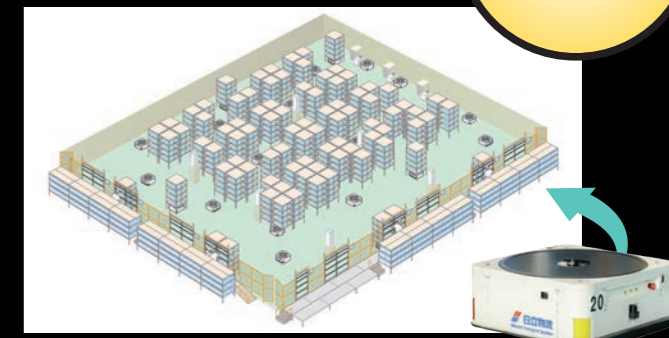
Glove-style scanner



\*1 In comparison with the previous operation (with handy terminal)

Productivity  
**12% up**\*1

## Introduction of a new picking system with automated guided vehicles



\*2 In comparison with the previous operation in Racrew area of 400 tsubo (1,320m<sup>2</sup>), 10 work stations, 99 storage shelves (max 4,750 frontage) and 32 sorting shelves (max 240 frontage).

Operation productivity  
**2.5 to 3.0 times**\*2

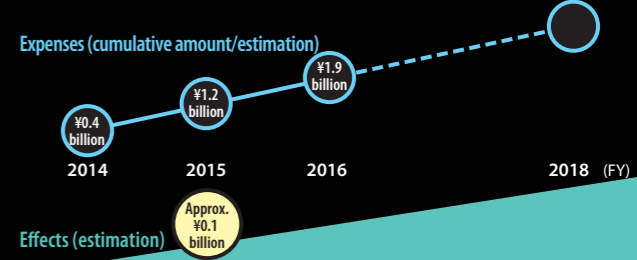
## Create good cycle to develop market through further collaborative innovation

Various players including Japanese and overseas venture companies in different industries engage in the development of next generation logistics technology. As the market is still in an early stage, stimulation and collaborative innovation among various companies in different industries are believed to be the fastest route for the market development. And if it results in spread of highly practical and cost-effective technology, we can also expect a good cycle leading to further market expansion. To be a part of such development, the HTS Group will accelerate site-originated technology development and open innovation through collaborative innovation.

## Utilize new technology and enhance proposal-based sales and maintenance service sales

R&D investment in Smart Logistics set out in the Mid-term Management Plan "Value Creation 2018" is making progress as planned. As it reached a stage where quantitative effects can be clearly verified, sales team and development team will continue to cooperate together and work on enhancement of proposal-based sales and maintenance service sales in FY2017, the second year of the Mid-term Management Plan. Specifically, we will make proposal focusing on "automation" and "labor-saving" from the initial approach to new customers, and also introduce labor-saving tools installable in the existing logistics sites and differentiation strategy to existing customers.

## R&D expenses and effects



Improve efficiency and contribute to new business development

# Interview

Executive Officer,  
General Manager, Logistics Solution Business Development  
Headquarters, Business Management Headquarters  
Deputy General Manager, Project Management Office  
**Hiromoto Fujitani**

Under the Mid-term Management Plan "Value Creation 2018," we will enhance our capability to provide solutions throughout the supply chains of customers by accelerating on-site implementation of new Smart Logistics technology and expanding the area of collaborative innovation beyond the logistics. As the first step, we are currently working on a joint development of management method based on volume projection utilizing AI and enhancement of consulting capability using "Smart Logistics Configurator" (logistics network simulation). Also, standardizing operations with new Smart Logistics technology can help working method transformation through reduced working hours, and IoT-equipped trucks and driving data analysis can further ensure employees' safety. Therefore, we are confident that "Smart Logistics" realized by collaborative innovation will offer new values to all of our stakeholders.



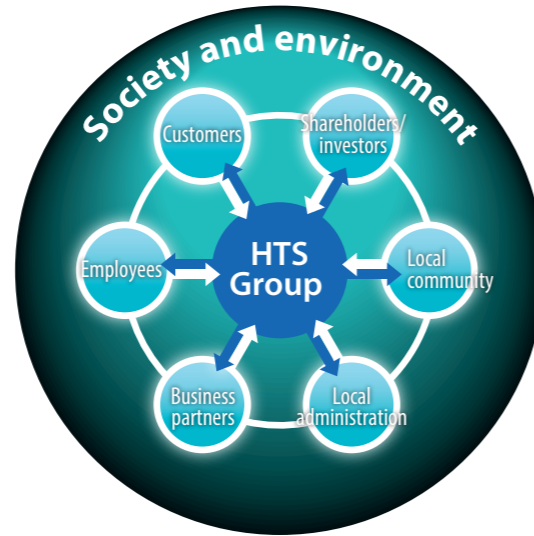
Business & Strategy  
Safety Initiatives  
Environmental Initiatives  
Working Together  
Corporate Governance, etc.

## 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. As a logistics partner of the Hitachi Group, we carry out our corporate activities in accordance with the framework of the Hitachi CSR Statement and Mission Statement.

### HTS Group's Stakeholders

The HTS Group manages and maintains its business activities through communications with our broad array of stakeholders.



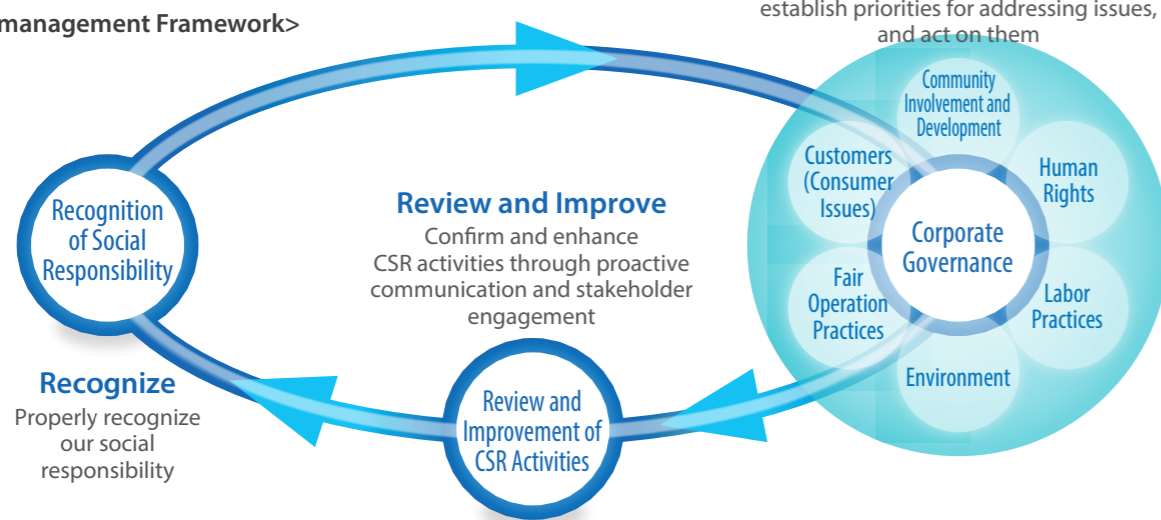
### Our CSR Implementation Policy

#### <Hitachi Group CSR Statement and Mission>

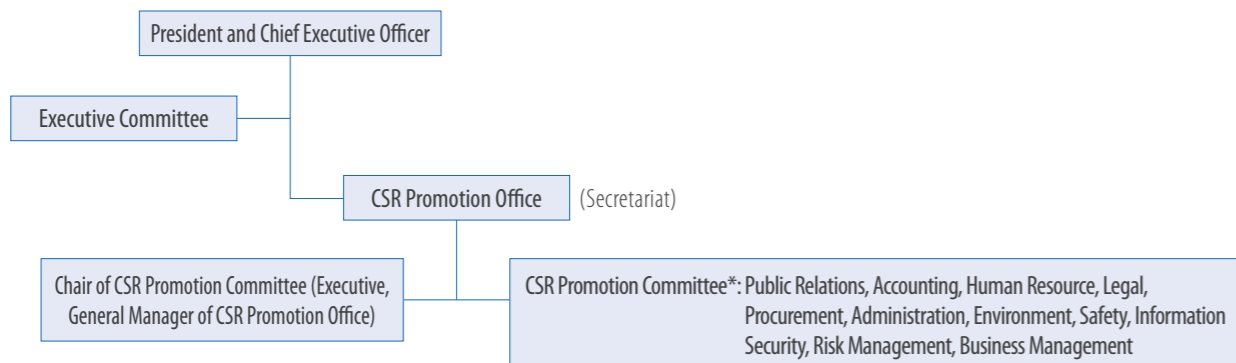
We strive to realize a sustainable society by properly understanding global social and environmental expectations through communication with our various stakeholders and integrating those expectations into our management:

- CSR and environmental initiatives that contribute to solving social issues
- Governance that realizes sustainable management
- Communication that fosters mutual understanding with stakeholders

#### <CSR management Framework>



#### <CSR Promotion Structure>

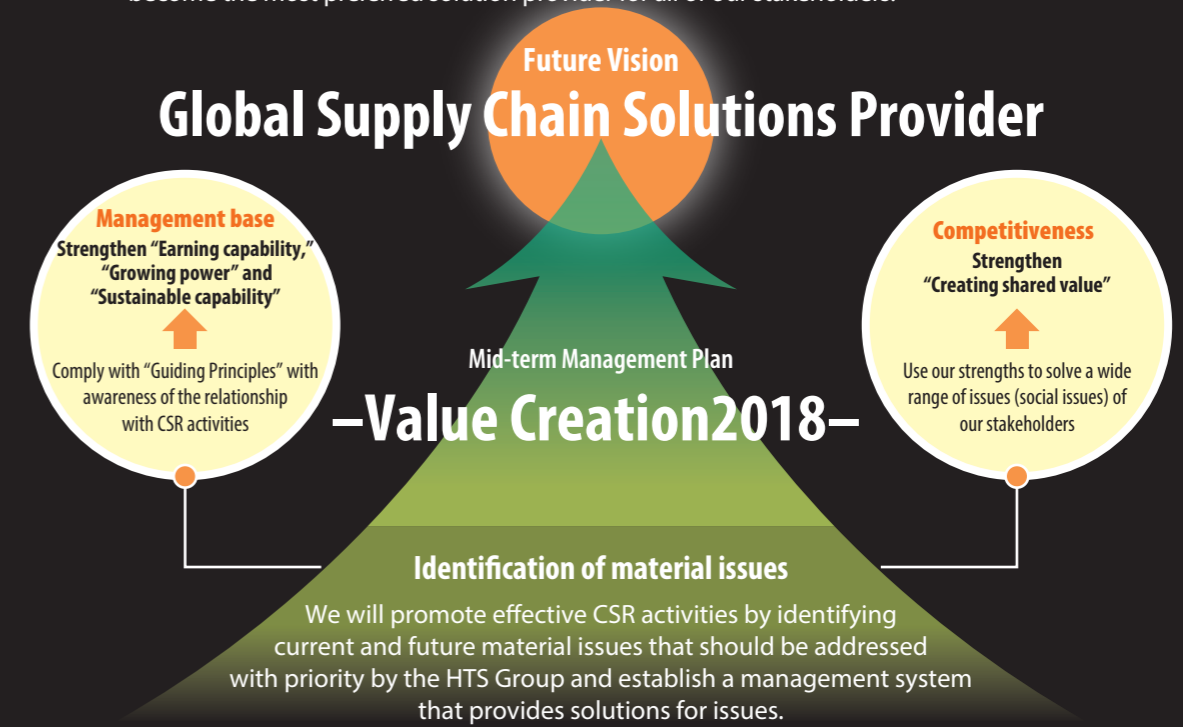


\* In FY2017, Corporate Strategy Division and Global Business Planning Division joined.

# TOPICS

## Identifying material issues of the HTS Group

The HTS Group embarked on an effort to identify material issues for the purpose of strengthening initiatives to solve issues and create "values" through "collaborative innovation." By identifying material issues taking into account the importance in our business, the society's demands and expectations and changes in business environment, we aim to carry out effective CSR activities that provide solutions to social issues and to become the most preferred solution provider for all of our stakeholders.



### Process to identify material issues (in progress)

- Step 1: Understood issues**  
With reference to global common standards including Global Reporting Initiative (GRI) guideline, ISO26000, UN Global Compact and SDGs, we created a list of relevant environmental, social and economic issues.
- Step 2: Prioritized issues**  
We assessed and prioritized issues on the list from the perspective of "social interests, demands and concerns" and "impact on our business" through workshops with external experts.
- Step 3: Validate and identify**  
CSR Promotion Committee members and the management will assess and verify adequacy with reference to opinions of external experts, and identify material issues before the end of FY2017.



Review at CSR Promotion Committee

# Safety

Safety is our number one priority



## Bringing safety and peace of mind to our customers

### Policy on Safety and Quality Initiatives

Slogan  
**Safety Management by Walking Around**

Our goals are to create a corporate culture of safety, to act based on the concept that safety comes before all else, and to work not only for a safe, accident-free environment, but also to create a culture of corporate safety where managers and supervisors take the lead in safety management by walking around our on-site facilities.

### Transport Safety Management\*

The HTS Group and our affiliates work as an integrated unit to ensure safety in transport, assigning priority to the subject of safety awareness.

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

Transport Safety Management  
<http://www.hitachi-transportssystem.com/en/profile/csr/safety/#section3>

### HTS Group Safety Day

In order to prevent recurrence of tragic accidents, we have named July 1 the HTS Group Safety Day. On this day, in morning meetings at all sites, our employees pledge to keep operations safe.



### Holding Morning Safety Pledge

"Morning safety pledge" is held three times a year, in which the top management personally sends message to raise safety awareness of employees.



Message from President Nakatani

Message from General Manager of Labor Safety Management Office

### Improving On-Site Operations (Presentation Meeting of Smart Logistics)

We are working on further improvement 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 safety management across the Group. In FY2016, Hitachi Transport System (China), Ltd., as a representative of overseas group companies, made a presentation on its effort to build safe working environment based on Chinese culture and laws and regulations.



Presentation by Hitachi Transport System (China)

Presentation by each site

## Safety Caravan Activity

### Reminder at Workplace/5S3T\* Activities

Risk assessment is an important methodology at potentially hazardous workplace. By making the rounds of workplaces, we nip dangers in the bud and ensure preventive maintenance of accidents.



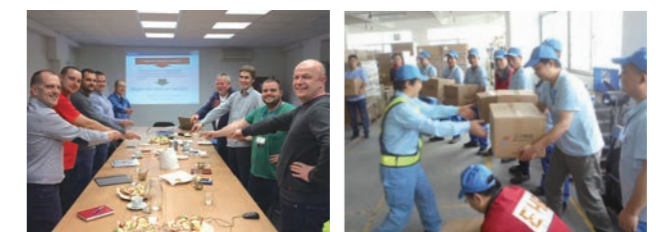
Warning utilizing motion sensors, etc.

No-entry signs

\*5S3T  
5S: Seiri (Sort), Seiton (Set in Order), Seiso (Shine), Seiketsu (Standardize), Shitsuke (Sustain)  
3T: Teii (Target location), Teihin (Target item), Teiryō (Target quantity)

### Global Expansion of Safety Management

We send Safety Caravans to overseas HTS Group to enhance safety/quality and safety technologies and ensure safety management on a global basis.



Training for managers (Czech)

Guidance for cargo handling (Hong Kong)

## Adoption of Safety Technology

### Mobileye

The HTS Group has adopted the Mobileye\* collision prevention system for our existing fleet of trucks and trailers. Installed on 500 trucks and trailers in FY2015 and another 200 in FY2016 (700 in total).



\* This system incorporates a high-performance image processing semiconductor developed by Mobileye N.V.

### Safety Cockpit

We strive to prevent on-the-job accidents by visualizing unsafe activities using images (Safety Cockpit).

Specifically, cameras are set up in distribution centers in an area with high risk of accident occurring to automatically detect any entry to restricted area using image-recognition technology of Hitachi Industry & Control Solutions, Ltd. We use it to caution against unsafe activities that may lead to injury, and also analyze video images of unsafe activities for future measures.

## Boosting safety and quality assurance training and system

### Safety Supervisor Training

As an initiative to improve on-site operations, safety measures include identifying potentially dangerous spots, implementing improvements to any problems, safety training on operations, and more. Additionally, starting with group training, we have conducted training sessions continuously since 2006 to educate safety supervisors in accurate implementation of techniques such as driving, inspection, and more.

In FY2016, we trained four employees working to be vehicle supervisors and five working to be on-site supervisors, for a total of nine. Since 2006, we have trained 78 employees in this way.

### Blue LED

In order to warn that a forklift backing up is approaching, a brighter blue LED backup light\* was introduced in both domestic and overseas sites in addition to the current backup light.

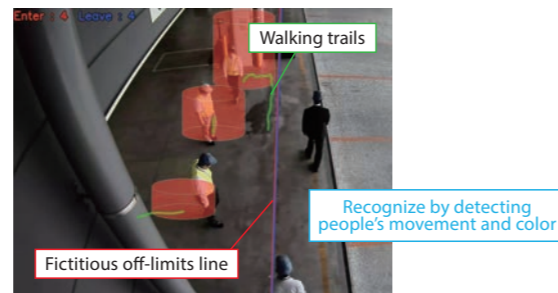
\* Commercially available blue LED that is use for light, not a device exclusively for forklift



Blue LED



Introduction in an overseas site (Indonesia)



Give warning against entry into high-floor platform by detecting people's movement



Safety training for forklifts

## Interview

Shimizu Service Office, Shizuoka Division, Hitachi Transport System Central Japan Co., Ltd.  
**Kazuhiisa Saito**



This training taught me how, as supervisor, to prepare materials that simply explain about cautions and how to use them in trainings. Currently, I'm in charge of warning to nip dangers in the bud in Shimizu Service Office. I will continue my efforts as safety supervisor to give guidance not only in Shimizu Service Office but also in other sites.

Management Controls Department, Labor Safety & Corporate Quality Assurance Promotion Office, Hitachi Collabonext Transport System Co., Ltd.  
**Masayuki Hashimoto**



I learned creation of corporate culture of safety and a basis of safety projects through this training. I sometimes get confused and concerned when I'm working on-site, but I work every day remembering what I've learned at the training. Keeping in mind the importance of right decision and flexible response, I will continue to make efforts to create a safe and comfortable work environment.

## Boosting Safety Techniques and Safety Awareness

### Safety Training (practical training and experiential sessions)

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



Practical training for safety cutter



Blind spot experience for forklifts

### Heavy Cargo Engineering Training at Technical Skill Center

To ensure safe and successful transport, as well as inbound operations and installation of heavy cargo including railway cars, power generating plants, industrial machinery, etc., and of precision equipment such as scientific and medical equipment—we need to boost both our technology and technique. To make this happen, we re-create scenarios at “technical skill center” dedicated facilities approximating actual situations, providing regular training and education tailored to the skill levels and experience of the workers involved.



Training at a technical skill center

### 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/quality and 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.



HTS (China) forklift competition winners



HTS (China) forklift competition

\*1 National Forklift Driving Contest: An event organized by the Land Transportation Safety and Health Association, this contest is designed to achieve even better safety and to effectively prevent on-the-job accidents.

### Sending Contestants to Non-HTS Forklift and Trucking Competitions

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

In FY2016 as well, contestants winning out at prefectural-level preliminary contests around the country competed in the national contests.

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

#### 31st National Forklift Driving Contest

14 employees from the HTS Group companies entered this competition in which contestants compete in the total scores of three categories: academic knowledge, inspection skills, and driving technique, and one of our employees successfully won the 3rd place.



Inspection competition



3rd place winner

#### 48th National Truck Driver Contest

### Won the Prime Minister's Prize

The HTS Group sent 12 contestants to this competition, where contestants strive for the highest score in both the academic knowledge and skill competitions (inspection and driving).

HTS dominated the top four places of the 4-ton category, and won the Prime Minister's Prize.

HTS also won the 2nd place in the trailer category, and our overall results were truly remarkable this year.



Skill competition



Prime Minister Abe awarded a trophy

\*2 National Truck Driver Contest: An event organized by the Japan Trucking Association, in which contestants compete for the title of Number One Truck Driver in Japan.

# Environment

Doing all we can for the future of the planet and humanity



## Environmental Management

### Putting an End to Global Warming/Saving Energy

#### ● Cutting CO<sub>2</sub> emissions with LED lighting equipment

The HTS Group is working on CO<sub>2</sub> reduction by introducing low-power LED consumption lighting facilities in distribution centers, etc. every year.

In FY2016, we installed the equipment fully at the following new distribution centers, etc. cutting CO<sub>2</sub> by a total of 227 tons annually.

- Cikarang Distribution Center (Completed April 2016, floor space=40,000 m<sup>2</sup>)
- Mito Platform Center (Completed May 2016, floor space=20,150 m<sup>2</sup>)
- Rebuilding of Kure Office (Completed November 2016, floor space=1,890 m<sup>2</sup>)
- Tsuchiura Phase II Distribution Center (Completed December 2016, floor space=11,200 m<sup>2</sup>)

All new facilities will be equipped with LED lighting and approximately 160,000 fluorescent lights and mercury lamps currently used in existing domestic facilities will be gradually replaced with LED lights.



Cikarang Distribution Center



Mito Platform Center

### Observance of the Law

We work to the following activities to comply with the relevant environmental laws and ordinances.

#### ● Use of the Management System

We use the management system to collect daily operation data so that both sites and the upper organizations such as the environmental department in Head Office can monitor the management status and ensure compliance with laws.

#### The management system and relevant laws and ordinances

- Industrial waste management system: Manifest management (Waste Management and Public Cleansing Act)
- Environmental load research system: Usage of energy including electricity and fuel (Act on Rationalizing Energy Use, etc.)
- Vehicle management system: Usage of vehicle fuel, travel distance, registration information (Act on Rationalizing Energy Use, Automobile NOx/PM Act, etc.)

#### ● Continuing training for waste management personnel

Trainings covering laws and regulations and administrative practice are held for all personnel in charge of waste management in sites to maintain and enhance the management level.

### Raising environmental awareness

#### ● Environmental e-Learning

Every year, e-learning\* to learn on computer with images and sound is provided mainly for domestic employees, in order to facilitate employees' understanding of global warming, resources recycling and ecosystem integrity.

\*The term "e-learning" refers to a method of learning using the Internet.

### Third-Party Certification Initiatives

The HTS Group seeks third-party certification in Green Management. Our Headquarter Green Logistics Promotion Department has acquired the "Eco Stage I" certification. In addition, as of the end of March 2017, we have earned "Green Management Certification" at 54 of our truck transport sites and nine of our warehouses. Building on these initiatives, we are committed to ongoing reduction of environmental load.



Eco Stage I Certification



Green Management Certification

### Promoting Green Purchasing

We try to promote Green Purchasing when purchasing office supplies by choosing stationery made from recycled materials, recycled paper, etc.

In FY2016, 88% of office supplies were purchased under Green Purchasing.

Our Environmental Action Plan and other activities are posted on our website.

<http://www.hitachi-transportssystem.com/en/profile/csr/environment/>

## Boosting Communication on the Environment

Environmental communication initiatives include cleanup projects in areas surrounding our offices and facilities, and turning off lights.

### Light-Down

In FY2016, 16 domestic centers of the HTS Group participated in the Light-Down Campaign advocated by the Ministry of the Environment on June 21 (the summer solstice) and July 7 (the Star Festival). We will continue to appeal the importance of considering global warming issues through similar activities.



Light-Down

## Moving forward with Green Logistics

### Global Warming Prevention Initiatives

#### Reduction of CO<sub>2</sub> emissions

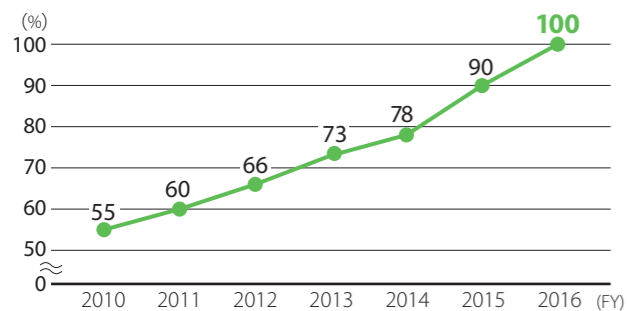
To reduce CO<sub>2</sub> emissions, the HTS Group makes various efforts including installment of solar panels on the building roof and use of LED illumination. We will keep working on CO<sub>2</sub> reduction.

#### Making the shift to eco-friendly vehicles and eco-friendly driving

The HTS Group had promoted a shift to eco-friendly cars (highly fuel-efficient, low-pollution vehicles), and achieved the eco-friendly car ownership ratio of 100% at the end of FY2016, except for some special vehicles. We will further promote a shift to eco-friendly cars with better environmental performance and encourage eco-friendly driving, etc. with a view to reducing environmental load.

#### HTS Group eco-friendly car ownership ratio

(Japan only, as of March 31, 2017)



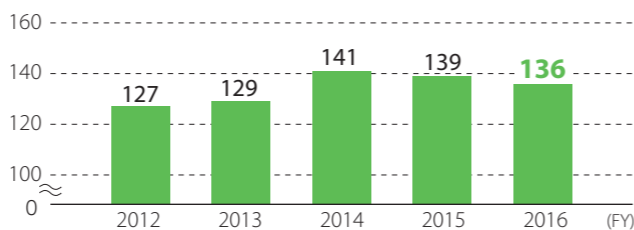
Note 1: Totals shown are personal and business vehicles combined (excludes special vehicles)  
 Note 2: Eco-friendly vehicles are as follows: hybrid, natural gas, electric, and LPG vehicles, as well as highly fuel-efficient vehicles certified by the government (vehicles meeting a specified standard), low emissions vehicles, and biofuel vehicles.

#### Development of reuse packaging specifications

In "Japan Packaging Contest 2016" hosted by Japan Packaging Institute and held annually, our development of "Reuse packaging for long and thin products" won the Logistics Award. The award-winning packaging specifications featured high design reusable packaging for long and thin sensitive products that satisfies both necessary functions and customers' needs (reduction of waste).

#### CO<sub>2</sub> emissions of the HTS Group

(Thousand tons)



Adding eco-cars to the fleet (Japan)

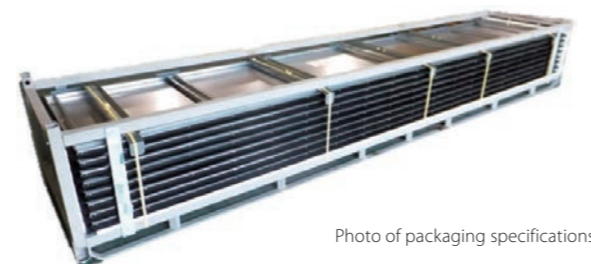
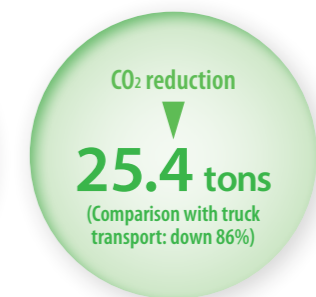
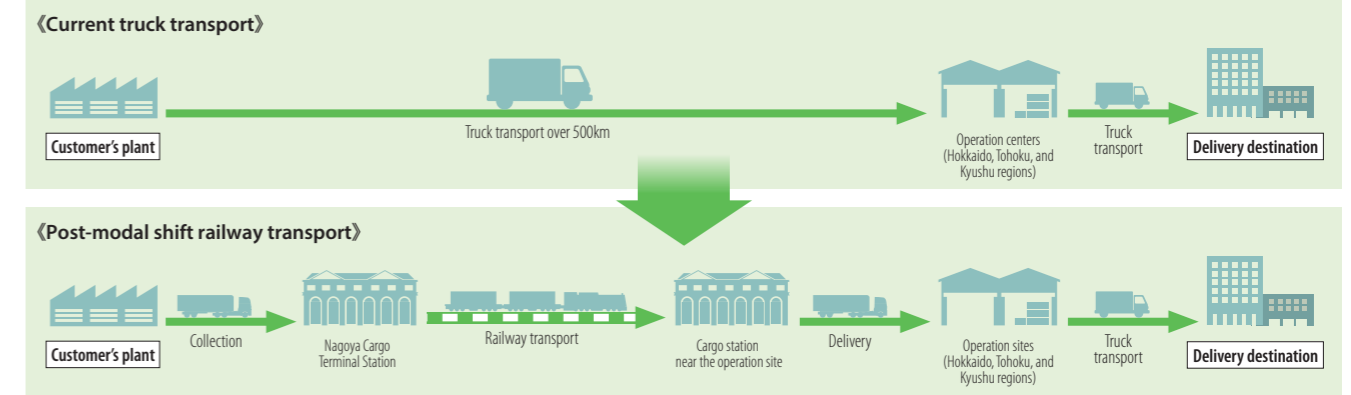


Photo of packaging specifications

## Modal Shift to Railway of Precision Instrument (Automated Teller Machine)

Following a precision instruments manufacturer in Chiba Prefecture who successfully accomplished a modal shift last fiscal year, we have instituted a modal shift to railway for a precision instruments manufacturer in Aichi Prefecture since October 2016. The covered area is to the locations across the country designated by HTS.

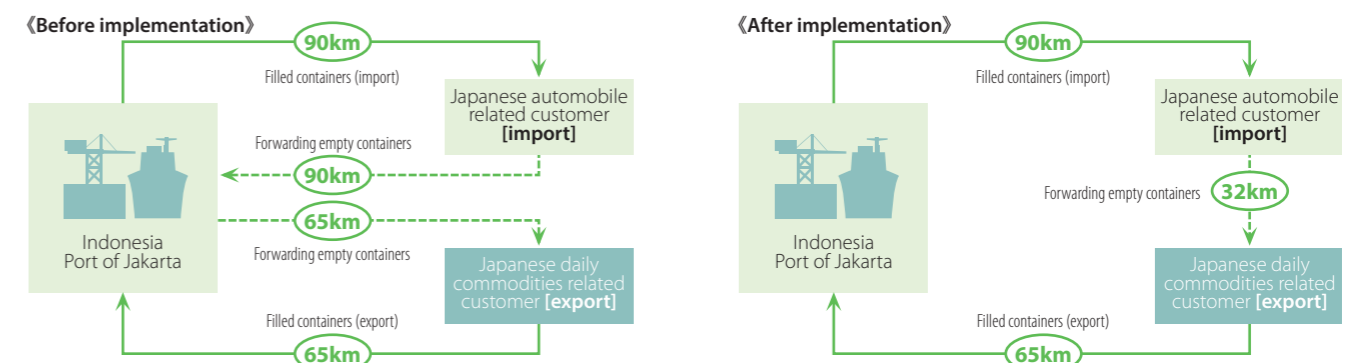
The modal shift to railway was the first attempt for this customer and there were concerns over damages on products due to vibration in loading/unloading and during transportation. After vibration tests in our Technical Center and test transports of real products by railway for approximately eight months from February 2016, we initiated railway transport in October. Currently, most of the transport from Aichi Prefecture to operation centers in Hokkaido, Tohoku and Kyushu regions, which is over 500km in distance, has been shifted to railway. This initiative has contributed to securing transport modes by coping with the driver shortage and CO<sub>2</sub> reduction. We will expand such initiative into other precision instruments manufacturers.



## Round-trip Use between Two Companies in Indonesia

The HTS Group has implemented round-trip use\* of containers in overseas as well as in Japan. In January 2017, we initiated a round-trip use between a Japanese daily commodities related company and an automobile related company. Round-trip uses of containers between two companies in overseas have difficulties in process conditions including selection of shipping companies and import-export timing difference. However, this initiative successfully reduced CO<sub>2</sub> emissions by 40%. The HTS Group actively works to implement round-trip uses of containers both in Japan and overseas to reduce CO<sub>2</sub> emissions.

\* Round-trip use: A transport method where export cargo owners employ empty containers previously used by import cargo owners, virtually eliminating the transport of empty containers.



# Working Together

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





## — Working together with our suppliers —






### 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.

### 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 environment/administrative 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.

\* 3R: Reduce, Reuse, and Recycle
- 
**CSR Activities for Corporate Ethics**
  - (1) Prohibition of corruption, bribes, 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 mistakes, 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-parties.
- 
**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 illnesses,
  - (5) Emergency responses,
  - (6) Consideration to physically demanding work,
  - (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 inhuman treatment,
  - (3) Prohibition of child labor,
  - (4) Prohibition of discrimination,
  - (5) Paying appropriate wages,
  - (6) Regulating working hours, and
  - (7) Respecting rights to freedom of association.

— Working together with our customers —

Transport of railway cars which orchestrates and expands global network

— Transport of monorail cars of Sentosa Express in Singapore —



Sentosa Island, a resort island located in the south of Singapore. Hitachi's straddle-beam monorail plays a key role in the access connecting the island with an area of approximately 6.4 km<sup>2</sup> and the main island. In the project to deliver the seventh train of Sentosa Express (two cars), an order received by Hitachi, Ltd., our customer, the HTS Group mobilized all available resources to successfully accomplish the transport. Although we had to work within limited hours at night as cars were delivered during the operating period, we managed to complete the delivery as planned with careful work planning and close cooperation among relevant parties. We will continue to provide our customers with best suited transport services using our global network and engineering power.

Building a nationwide chilled network

— Opened a distribution center for a leading restaurant chain —

In July 2016, a distribution center (Chiba-chuo DC) started operations in Chiba City, Chiba Prefecture.

This distribution center provides one-stop services to delivery destinations in Kanto and Koushinetsu regions in response to the customer's business expansion.

It has facilities to manage three temperature zones (normal, chilled and frozen) to accommodate a wide variety of customer's food products and also has a bonded warehouse\* within the center to accommodate imported products.

Also, it has storage facilities using the high ceiling of the warehouse effectively and many loading docks, making it a large-scale distribution center enabling flexible and efficient operation.

We will achieve further sophistication of warehouse operation and distribution system to strengthen logistics functions of our customers, with a view to offering services unique to the HTS Group.

We are committed to satisfy various needs of our customers as a business partner capable of realizing total optimization of global supply chain as well as management and operation of distribution centers.



■ Outline of Chiba-chuo DC

Site area:	Approx. 24,000 m <sup>2</sup>
Total floor area:	Approx. 26,000 m <sup>2</sup>
Loading docks:	52 docks

\* Bonded warehouse  
A place approved by chief customs inspector for storing foreign goods.

Verify expanded application of new technology in a new "R&D Center"

— Automation and labor saving —

The HTS Group works on development of Smart Logistics (new technology) and on-site implementation. In July 2016, we opened "R&D Center" in Tokyo to accelerate this initiative. In "R&D Center," we conduct verification on practical use of various automated and streamlined facilities in order to realize labor saving in the existing warehouses and create next-generation centers.

■ Automated & streamlined facilities

• "Racrew" and picking robot ①②

We use storage shelf conveyance with "Racrew" new picking system which utilizes AGV\*, and picking robots which pick up products from storage shelf and put it into shipping cases, to achieve automated picking.

• Depalletizing robot ③

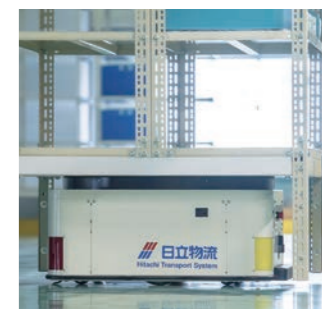
We use depalletizing robots to move mixed cases loaded on a pallet to a conveyor to promote automation of physically straining cargo operations.

• Automated forklift and auto-tracking AGV ④⑤

We use automated forklifts which automatically create an electronic map and auto-tracking AGVs which run following a person or a forklift, to achieve labor saving in conveyance. Automated forklifts can be used for unmanned operation under an unforgiving environment such as cold storage warehouse.



"R&D Center" (Fourth floor in existing distribution center)



① "Racrew"



② Picking robot



③ Depalletizing robot



④ Automated forklift



⑤ Auto-tracking AGV

\* AGV: Automated Guided Vehicle

"Smart Logistics Configurator" (logistics network simulation)

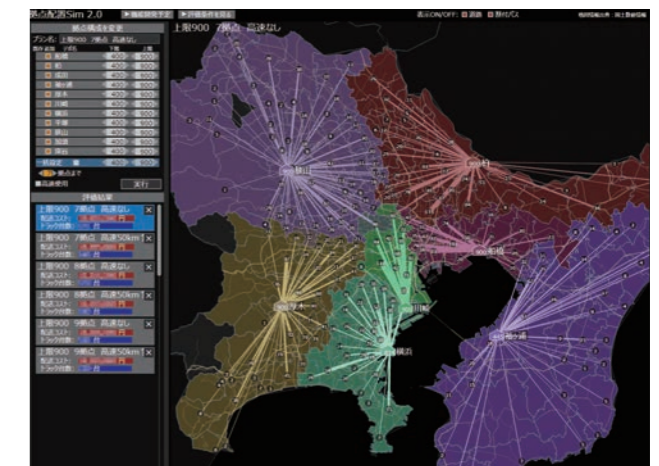
HTS jointly developed with Hitachi, Ltd. a simulator that can optimize site arrangement and delivery plan simultaneously.

Most of general simulators calculate based on the sum of distance from an operation center to delivery destination and transportation weight.

"Smart Logistics Configurator" (logistics network simulation) uses actual shipping data to optimize delivery plans and use the result to determine the best site.

Moreover, we include storage and labor cost in each region in consideration factors, enabling simulation based on the total cost. Accordingly, we can propose the best plan from vast amounts of options of warehouse locations and delivery plans in a short time and in a quantitative way.

We are committed to develop and utilize various simulation tools and offer better proposal to our customers.



"Smart Logistics Configurator" (logistics network simulation)  
(this tool is under development and currently in verification process)



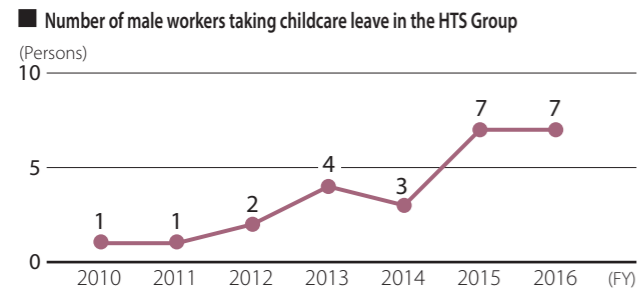
—Working together with our employees—

Diversity & inclusion

The Diversity Promotion Center was created in 2012. In order to respond to such factors as labor shortages due to Japan's aging population combined with a declining birth rate as well as the globalization of the market, the HTS Group makes an all-out effort to create an environment where diversified human resources including women, persons with disabilities, foreign nationals and seniors can best demonstrate their abilities.

Recognition from Outside the Company

In acknowledgement of the Center's various initiatives and achievements, HTS was chosen by the Ministry of Economy, Trade and Industry (METI) as one of the nation's "Diversity Management Selection 100" in March 2015, and also as "Semi-Nadeshiko Brand," a new category established in "Nadeshiko Brands," by METI and the Tokyo Stock Exchange in March 2017. HTS was also recognized again in FY2015, as in FY2010, by the Ministry of Health, Labour and Welfare as a company that supports child-rearing, with the logo that appears right.

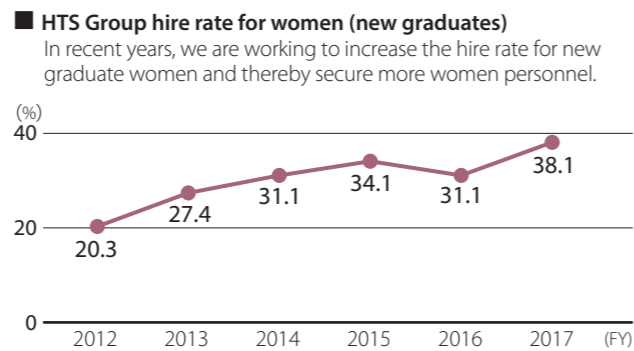


Promotion of Working Method Transformation

The "Employee Relations and HR Policy/Programs Group" was created in FY2016 to promote changes in awareness of employees and managers. We believe that "Working Method Transformation" is critical for further active participation of female workers, and, based on discussion about correction of long working hours and flexible working method, introduced a "work-at-home system" in FY2016 as part of the initiative.

Boosting Understanding of Diversity

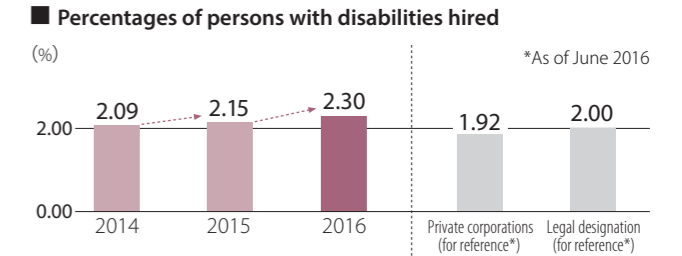
From FY2015, the HTS Group has been holding a lecture series by external professionals for executives and managers to boost familiarity with the subject of diversity as well as facilitate organizational initiatives in this regard.



Please visit our website for more information on promotion of diversity. <http://www.hitachi-transportssystem.com/en/profile/csr/stakeholder/diversity.html>

Encouraging Employment of Persons with Disabilities

Working with various types of special needs schools, including taking on personnel for practical training and different types of joint interviews, the HTS Group implements a variety of initiatives on hiring persons with disabilities on an ongoing basis. We also prepare the work environment by setting up labor-saving equipment especially geared toward persons with disabilities. We will continue to hire persons with disabilities as well as to tailor the work environment to these individuals.



Training upcoming generations of employees

The HTS Group has established the HTS 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 impart them with the HTS Group philosophy. In addition, we have developed training systems for select employees including our Future Managers' Course, which serves to train the next generation of managers, and our 3PL Professional Course, which works with backbone employees on 3PL projects. These personnel development programs are implemented to continuously solidify our business base.

Training in Japan for our Overseas Staff

HTS selects employees from our numerous overseas subsidiary locations to train in Japan. To ensure optimal training content, subject matter and curriculum are tailored to the specific business needs of the given location. Especially, our Management Development Program, a joint training with Japanese managers, consists mainly of sessions to help attendees from various countries and regions understand deeply the basic philosophy of the HTS Group and become a leader of their respective office in promoting and disseminating the philosophy. In our curriculum which plays a part in deepening network and promoting collaboration for the purpose of boosting global business, attendees share and discuss issues each region and local office faces, with the aim of finding solutions and putting them into practice.



Overseas Training Program

For the HTS Group, whose corporate vision is to become "the most preferred global supply chain solution 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. To this end, overseas training program has been in place since 1989 with a view to providing opportunities of overseas business activities and cross-cultural experiences for young employees. The program has expanded to many destinations around the world, to a total of 19 countries and regions over the past five years.



Managerial Personnel Training

From FY2015, we have shifted focus to training a new generation of managers in our Managerial Personnel Training program. This six-month program is attended by managers selected based on a special assessment. Attendees learn the various frameworks forming the foundation of managerial strategy development, financial analysis methodology, etc. The trainees then address managerial issues currently faced by the HTS Group through discussions with executives and surveys, hypotheses, verification, and group work. Following the training, the attendees then provided recommendations "as managers" to executives including the President.

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, and by way of e-learning. By acquiring correct knowledge of human rights, we work to boost individual awareness of human rights.

Interview

Voice of our employee using the work-at-home system  
Corporate System Management & Integration Dept., Hitachi Transport System, Ltd.  
**Mai Nakaura**



I use the system about once a week. Because now I get to spend some time with my child in the morning and evening even just for a little while, my child seems less stressed and doesn't get sick as often as before, so I don't have to worry much about missing work anymore. At home, I work using PC just like in the office, and I can concentrate more and get my work such as preparing materials done faster because it's quieter. I am so grateful to the Company for letting me choose flexible working method such as working short hours or at home and also to my colleagues for all their support.

Voice of our employee taking childcare leave  
Human Resources Department, Hitachi Transport System, Ltd.  
**Yukihiro Motohashi**



I took childcare leave when my second daughter was born. I was worried about so many things such as handover of my work and response from my colleagues, etc. before taking the leave. But I was able to do it thanks to their understanding. Taking care of my children day and night made me understand a little bit how fun and also difficult to raise a child. In the future, I hope that we will have a working environment where male workers can use the system more proactively and maintain good balance between work and family more easily.

—Together with local communities—

The HTS Group corporate philosophy is all about treating people and nature with respect. To this end we take an active stance on appropriate and proactive communication with various aspects of society to facilitate a win-win scenario of all-around growth.

**Cooperation in railway cars transport tour – Kudamatsu City, Yamaguchi Prefecture –**

In Kudamatsu City, Yamaguchi Prefecture, a field tour visiting Kasado Works of Hitachi, Ltd. to see transport of railway cars to be shipped to the U.K. was held. This tour was hosted by Kudamatsu City which has been deeply involved with the railway industry with a view to showing local residents that they can be proud to show “Kudamatsu City, where railway cars are created” to the world. The HTS Group cooperated in the tour with the part of land transportation. We will continue to help make the world a better place through communication with local communities.

● **Railway cars shipping vessel tour**

In August 2016, HTS cooperated in a tour for parents and children to see a railway cars shipping vessel in Second Dock of Tokuyama-Kudamatsu Port.



Shipment to a large shipping vessel



Inside the vessel

● **“Tour project” for express railway cars transported by road**

In March 2017, HTS cooperated in a tour project in which ground transport from Kasado Works of Hitachi, Ltd. to Tokuyama-Kudamatsu Port was carried out during daytime. Because such transport is usually carried out late at night when traffic volume is low and daytime ground transport is quite rare, approximately 30,000 people gathered by the roadside to see it.



Ground transport by an HTS's trailer



■ **Sports Initiatives**

HTS engages in initiatives through sports with an aim to cooperate with sound development of young people and contribute to regional vitalization.

● **HTS Futsal Championship**

HTS has held its annual Futsal Championship at the futsal field located next to the distribution center at Noda City, Chiba Prefecture since FY2006. In FY2016, a total of six teams with 60 elementary school students attended the event and showed exciting games.



Held in March 2017

● **Track and Field Class**

As our symbol sport, track and field holds special significance for HTS. The HTS Track and Field Club cooperates with track and field class hosted by the Matsudo City Education Committee. In FY2016, 104 students from elementary schools in Matsudo City attended the event and our players and coaches taught them according to grades.



■ **For Development of Next Generation**

HTS promotes initiatives for development of young people who will bear the future.

● **The HTS Road Safety Classroom**

To prevent our children—who are our future—from getting involved in road accidents and teach them the importance of life, we have offered the “HTS Road Safety Classroom” in the training facilities in Matsudo City, Chiba Prefecture since FY2007



**Schools participated in FY2016**

<b>June</b>	2nd year students, Kai-no-hana Elementary School, Matsudo City
<b>November</b>	2nd year students, Negiuchi Elementary School, Matsudo City

● **Internships and “Experience the Workplace” Programs**

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

**Companies offering internships in FY2016**

Hitachi Transport System, Ltd./Hitachi Transport System East Japan Co., Ltd./Hitachi Transport System Kanto Co., Ltd./Hitachi Transport System Metropolitan Co., Ltd./Hitachi Transport System South Kanto Co., Ltd./Hitachi Transport System Central Japan Co., Ltd./Hitachi Transport System West Japan Co., Ltd./Hitachi Transport Direx Co., Ltd./Hitachi Collabonext Transport System Co., Ltd./Hitachi Auto Service Co., Ltd./VANTEC WORLD TRANSPORT (NETHERLANDS) B.V.

■ **Activities of overseas group companies**

● **Activities through internal volunteer organization**

(U.S.: James J. Boyle & Co./J.P. Holding Company, Inc.)

Employees continue activities of donating foodstuffs and toys to local communities in various areas.



Donation of Christmas presents (James J. Boyle & Co.)

● **Cooperation in SCRCAC\* Science Day**

(U.S.: VANTEC HITACHI TRANSPORT SYSTEM (USA), INC./ James J. Boyle & Co.)

The HTS Group cooperates in “Hitachi Celebrates Science Day,” an event with the purpose of getting children who need regional economic support interested in science and mathematics through anatomy and observation with microscope. At the sixth event in FY2016, more than 100 children attended the event and enjoyed learning.

● **Red Campaign Activity**

(U.S.: Carter Express Inc.)

As a part of initiatives named “Red Campaign,” employees conducted blood drives and offered meals at homeless shelters.



Provision of dishes to homeless shelters

● **Hosting logistics contest**

(Turkey: Mars Logistics Group Inc.)

A logistics contest for university students is held every year and teams achieving excellent results in teamwork and project management capability are awarded.



Held in October 2016

\* 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.

■ **Overview of the HTS Group Magokoro (Sincere Heart) Fund**

HTS Group domestic companies participate in a social action program called the “Magokoro” (Sincere Heart) program, where our employees and executives can make charitable donations as they wish. Since 2008, the program contributes to traffic safety, environmental preservation, and social action.

Designed to foster and support generosity amongst our employees, the program employs a matching component where funds donated by employees are matched by the company.

**FY2016 Initiatives**

<Traffic and Road Safety>

• Gifts: HTS donated 112 picture-card sets used for storytelling sessions on road safety to Association of Private Kindergartens of Kumamoto Prefecture  
We donated road safety signboard to Kasugai City, Aichi Prefecture

• Financial support: Traffic Orphans Association (a public interest incorporated foundation)

<Regional Social Action/Social Welfare>

• Gifts: We presented 87 wheelchairs to 19 municipalities around the country  
• Financial support: We contributed relief donation to Kumamoto City, Mashiki Town and Minamiaso Village, which were heavily damaged by Kumamoto Earthquakes.  
Japan Ice Sledge Hockey Association

<Environmental Conservation>

• Afforestation support: One hectare of land (“HTS Magokoro Fund” forest) afforested in the Khorchin Mongol region desert, in collaboration with afforestation networks



“HTS Magokoro Fund” forest in the Khorchin Mongol region desert, China

• Financial support: National Land Afforestation Promotion Organization (“Green Fund” for the Great East Japan Earthquake and Kumamoto Earthquakes Recovery Assistance) (public corporation)  
Organization for Industrial, Spiritual and Cultural Advancement (OISCA) (“Kodomo-no-Mori”) (public interest incorporated foundation)

**Member companies of the HTS Group Magokoro (Sincere Heart) Fund**

Hitachi Transport System, Ltd./Hitachi Transport System East Japan Co., Ltd./Hitachi Transport System Kanto Co., Ltd./Hitachi Transport System Metropolitan Co., Ltd./Hitachi Transport System South Kanto Co., Ltd./Hitachi Transport System Central Japan Co., Ltd./Hitachi Transport System West Japan Co., Ltd./Hitachi Transport System Kyushu Co., Ltd./Hitachi Collabonext Transport System Co., Ltd./VANTEC HTS FORWARDING, LTD./Nisshin Transportation Co., Ltd./Hitachi Distribution Software Co., Ltd./Hitachi Auto Service Co., Ltd./Hitachi Travel Bureau, Ltd.

—Working together with our shareholders and investors —

In order to boost corporate value over the middle and long term and ensure sustainable growth, we believe in the importance of disclosing information in a fair and transparent manner as appropriate and at appropriate times, and also of active dialog with our shareholders and investors. To this end, we have in place an IR system of proper communication with both our shareholders and investors.

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  
<http://www.hitachi-transportssystem.com/en/ir/policy/>

**Information Disclosure**

HTS discloses information of information pertaining to operations and finances, in such publications as our summary of financial results, presentation material of financial results, annual securities reports, notice of convocation of the annual general meeting of shareholders and business reports, as well as annual reports.

We have also set up an IR Information section on our Website to disclose investment information to our shareholders quickly and accurately with a view to facilitating investment decisions.

 Investor Relations  
<http://www.hitachi-transportssystem.com/en/ir/>

**Disclosed Information**

- Summary of financial results
- Presentation Material of financial results and summary (includes Q & A)
- Annual securities reports
- Notice of convocation of the annual general meeting of shareholders
- Business reports
- Annual Report
- Stock/Stock price Information



Company website: Investor Relations page



<Earnings summary information>



<Various publications>

**Holding General Shareholders' Meeting**

To encourage attendance by as many shareholders as possible, in principle we avoid the dates when general shareholders' meetings are typically held.

In order to facilitate smooth exercise of voting rights, HTS offers electromagnetic means which allows shareholders to exercise their rights using PCs and smartphones, and also uses the electronic voting platform for institutional investors.

**Basic Shareholder Return Policy**

HTS takes a medium and long term view for business development, using retained earnings to strengthen our corporate structure, while at the same time continuing to pay a stable dividend, and return profits to shareholders when they arise as our basic policy on profit distribution.

Dividends	(Dividend per share)		
	Interim	Year-end	Annual
FY2016	¥17	¥17	¥34
FY2015	¥15	¥15	¥30
FY2014	¥14	¥14	¥28

**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 addition to the above, we worked on further enhancement of communication by participating in IR seminars and opening new page for individual investors in our website in FY2016.

**FY2016 Initiatives**

- Results briefings (twice)
- Top executive meeting (once)
- Small-scale meetings (twice)
- Telephone conferences (twice)
- Overseas road shows (twice)
- Conference in Japan (once)
- Distribution center tour (once)
- IR seminar for individual investors (once)
- Individual meetings, etc.



IR seminar for individual investors (Hosted by the Securities Analysts Association of Japan)



Results briefing

**FY2016 IR schedule (results)**

IR activities	FY2016											
	1st quarter			2nd quarter			3rd quarter			4th quarter		
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Account settlements		●		●			●			●		
Results briefings		●					●					
Telephone conferences				●						●		
Small-scale meetings	Quiet period			Quiet period	●	●	Quiet period			Quiet period	●	
Annual securities report/Quarterly report			●		●		●			●		
For foreign investors	Conference in Japan						Quiet period			Quiet period		●
	Overseas road shows					●	Europe				●	Asia
IR seminar for individual investors												●
Individual meetings		↔			↔			↔			↔	
Tour							●					●

## Corporate Governance

At the HTS group, we consider corporate governance to be key to realizing even greater financial health and transparency, as well as ensuring that our business is carried out with compliancy and in accordance with correct corporate ethics. By extension, the crux of corporate governance lies in boosting corporate value and sustainable development.

Rooted in our corporate philosophy, we have adopted a corporate governance structure capable of responding deftly to changes in the business environment as well as boosting operational transparency and efficiency—namely a company with a Nominating Committee, etc. System. This means that we have effectively separated our corporate management and our business implementation—a setup that largely transfers business decision-making rights from our board of directors to our executive officers. The result is rapid decision-making and implementation on initiatives such as restructuring and strategic investment. In addition, because we believe that considering the subjective opinions of outside directors facilitates both monitoring of the Board of Directors and transparency of management, we have also established three committees overseeing nomination, auditing, and compensation respectively.

In accordance with the Corporate Governance Code established by the Tokyo Stock Exchange, Inc. in 2015 (“the Code”), we at HTS have devised our own Corporate Governance Guidelines. These are noted on our corporate Website. We are compliant with all principles mentioned in the Code, as detailed in our Corporate Governance Report.

 Corporate Governance Guidelines  
<http://www.hitachi-transportssystem.com/en/profile/csr/pdf/c.g.guidelines.pdf>

### Board of Directors

- Determines issues relating to management policy, executive officer duties, supervision, etc.
- Oversees performance of directors and executive officers
- Board of Directors meeting held monthly in principle (additional sessions held as necessary)
- Three committees have been established consisting of a majority of outside directors.
  - (1) Nominating Committee: Determines director candidates
  - (2) Audit Committee: Performs audits of directors and executive officers’ business implementation
  - (3) Compensation Committee: Determines compensation levels of directors and executive officers


### Executive Committee

- Deliberates on important issues related to business implementation
- Comprised entirely of executives or individuals appointed by the company president
- Executive Committee meeting held twice a month in principle (additional sessions held as necessary)

## Relationship between HTS and outside directors

Amongst six outside directors appointed at the HTS 58th Regular General Shareholders’ Meeting held June 23th, 2017 were Shinjiro Iwata and Hiroshi Maruta, currently and originally of Hitachi, Ltd. respectively. Business volume between HTS and Hitachi, Ltd. amounts to ¥8.524 billion (consolidated fiscal year transport and outsourcing). There are no special interests involved between these six outside directors and HTS, as stipulated under the Companies Act Clause 74, Section 2-3.

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

 The independence standards for outside directors  
<http://www.hitachi-transportssystem.com/en/profile/csr/management/governance.html>

## Policy on determining Director and Executive Officer Compensation

- 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.
- Fundamental policy  
 In light of compensation criteria of other companies, HTS has in place compensation criteria in line with the level of responsibility required of HTS executives.
- Director compensation  
 Director compensation levels are comprised of a combination of a monthly salary and an end-of-term bonus. The monthly salary reflects executive-level performance, and whether or not the individual is full or part-time. The end-of-term bonus, meanwhile, stands at approximately 10% of the individual’s annual income based on the monthly salary. Depending on company performance, however it may be less than this amount at certain times.  
 Directors who also serve as executive officers do not receive additional compensation as directors.
- Executive officer compensation  
 Executive officer compensation levels are comprised of a combination of a monthly salary and an end-of-term bonus. The monthly salary is determined in consideration of a base amount fixed in accordance with position. Performance-based compensation is set at the level of roughly 30% to 40% of annual income. A portion of executive officer income is therefore determined in accordance with performance and category of work overseen.

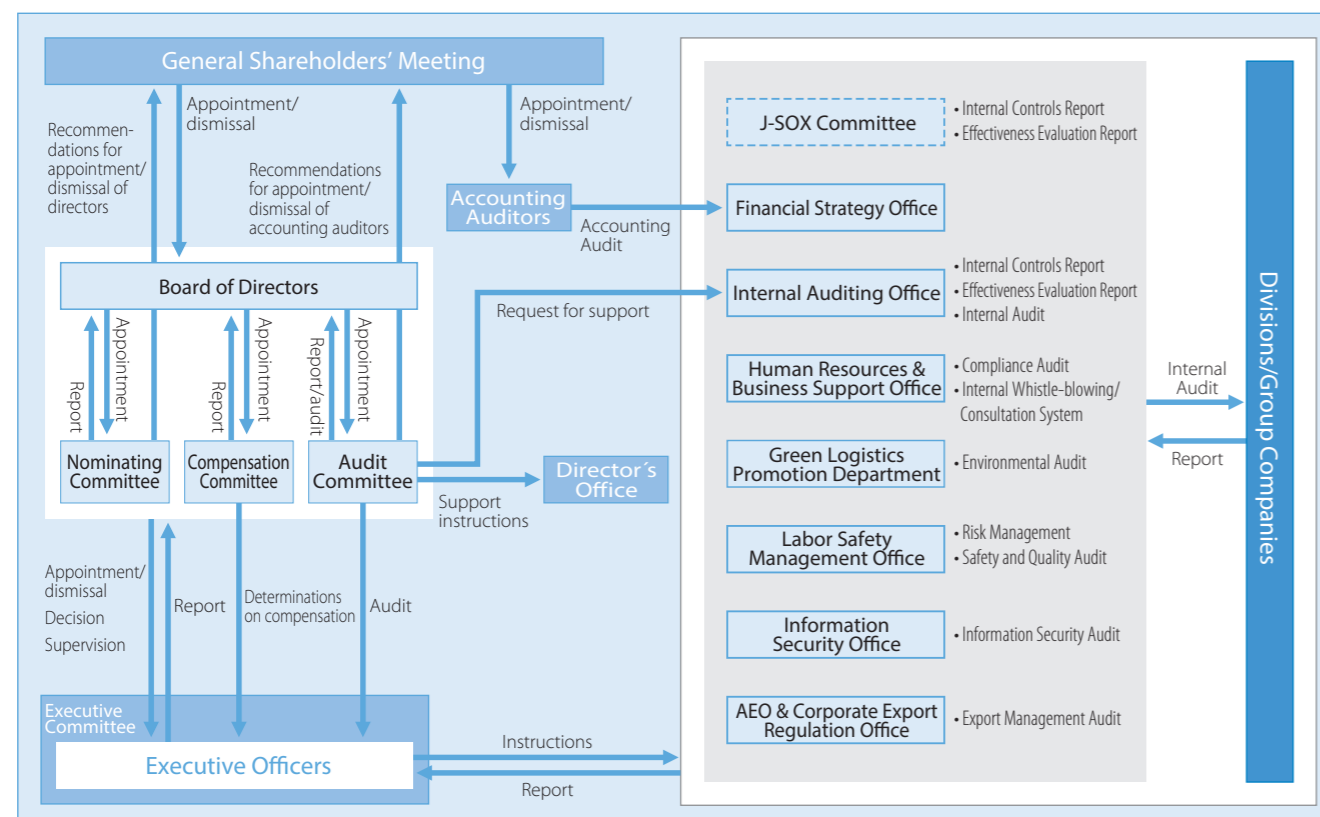
## Bolstering the Foundations of CSR Initiatives

### Compliance

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 executives 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 executives 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 high-level corporate culture of ethics by taking a proactive approach on group-wide compliance trainings and awareness projects, including e-learning and other trainings targeting all of our employees.

### Internal whistle-blowing system

To help prevent illegal actions and/or inappropriate actions in the Group, we have established an internal whistle-blowing system. The system is designed to detect any problems early on, and to rectify them.



### Internal Controls

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

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

## Risk management

The HTS Group has devised BCPs<sup>\*1</sup> 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, our BCPs are mainly concerned with large earthquakes and pandemic influenza scenarios.

As an initiative to improve effectiveness of BCP, in FY2016, Headquarters worked with Nishinippon Area Management Headquarters to implement a desktop business continuity simulation assuming that Headquarters ceased to function due to a large earthquake with epicenter in the metropolitan region.

"Disaster Response Card" was reviewed three years after it was first distributed in 2012, and the fully renewed second edition with updated contents and enhanced durability was distributed to all employees in domestic HTS Group companies in April 2016.

Overseas, the HTS Group has drawn up BCPs for our locations in North America, Europe, China, and other parts of Asia focusing on pandemic influenza. 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 eminent dangers. At the same time we have instituted emergency contact systems based at our overseas locations.



Disaster Response Card



Training session in Tokyo



Training session in Osaka

## 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 FY2016, following the enactment of the Social Security and Tax Number Act, HTS revised its internal bylaws to confirm the management and operation status of social security and tax numbers and strengthen information control.

HTS also encourages its group companies to obtain the Privacy Mark<sup>\*2</sup> for enhancement of governance of the HTS Group as a whole.

## Acquisition and maintenance of third-party certification

HTS has obtained and maintained third party certification, specifically the Privacy Mark and ISO27001<sup>\*3</sup> (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.

Our Privacy Mark certification was renewed for the fifth time in May 2017 and eight domestic group companies newly obtained the certification.



### Third party certifications (Including those expected in FY2017)











<sup>\*1</sup> BCP: Business Continuity Plan  
A plan designed to ensure that core functions are not interrupted (or are rapidly reinstated) in the event of major disaster scenarios.

<sup>\*2</sup> Privacy mark:  
The JIPDEC grants the Privacy Mark to businesses that meet a specified standard on appropriate handling of personal information.

<sup>\*3</sup> ISO27001:  
Certification given by the International Organization for Standardization (ISO) to entities meeting specified criteria on information security management systems.

## Board of Directors and Executive Officers (As of June 23, 2017)

### Board of Directors

 <b>Sayoko Izumoto</b> Outside Director	 <b>Shinjiro Iwata</b> Outside Director	 <b>Mitsudo Urano</b> Outside Director	 <b>Tetsu Fusayama</b> Outside Director
 <b>Emiko Magoshi</b> Outside Director	 <b>Hiroshi Maruta</b> Outside Director	 <b>Takashi Jinguji</b> Board Director	 <b>Yasuo Nakatani</b> Board Director

### Executive Officers

 <b>Yasuo Nakatani</b> <sup>(*)</sup> Representative Executive Officer President and Chief Executive Officer	 <b>Kunio Iida</b> Senior Vice President and Executive Officer	 <b>Takashi Jinguji</b> <sup>(*)</sup> Senior Vice President and Executive Officer	 <b>Ichiro Iino</b> Vice President and Executive Officer
 <b>Seiki Sato</b> Vice President and Executive Officer	 <b>Kazuhiisa Hatakeyama</b> Vice President and Executive Officer	 <b>Nobukazu Hayashi</b> Vice President and Executive Officer	 <b>Hidetoshi Maekawa</b> Vice President and Executive Officer
<b>Katsutoshi Kashimura</b> Executive Officer	<b>Fumio Komamura</b> Executive Officer	<b>Hiroaki Takagi</b> Executive Officer	<b>Kazuhiro Nishikawa</b> Executive Officer
<b>Toshimi Tokieda</b> Executive Officer	<b>Kiyoshi Nagao</b> Executive Officer		
<b>Yasushi Hagiwara</b> Executive Officer	<b>Hiromoto Fujitani</b> Executive Officer		

<sup>\*</sup> Concurrently serve as Board Director (Listed in Japanese alphabetical order by title.)

## Financial Statements

### Consolidated Statement of Financial Position

Hitachi Transport System, Ltd. and subsidiaries

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2017	As of March 31, 2016	As of March 31, 2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents .....	¥ 57,483	¥ 45,146	\$ 512,372
Trade receivables .....	125,600	118,908	1,119,529
Inventories .....	1,466	1,114	13,067
Other financial assets .....	7,086	10,352	63,161
Other current assets .....	13,227	9,330	117,898
<b>Total current assets</b> .....	<b>204,862</b>	<b>184,850</b>	<b>1,826,027</b>
<b>Non-current assets</b>			
Investments accounted for using the equity method .....	71,518	1,179	637,472
Property, plant and equipment .....	177,520	177,153	1,582,316
Goodwill .....	28,067	29,542	250,174
Intangible assets .....	34,766	39,038	309,885
Deferred tax assets .....	8,193	7,900	73,028
Other financial assets .....	16,858	16,504	150,263
Other non-current assets .....	8,140	8,233	72,555
<b>Total non-current assets</b> .....	<b>345,062</b>	<b>279,549</b>	<b>3,075,693</b>
<b>Total assets</b>	<b>¥ 549,924</b>	<b>¥ 464,399</b>	<b>\$ 4,901,720</b>

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2017	As of March 31, 2016	As of March 31, 2017
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables .....	¥ 51,786	¥ 48,892	\$ 461,592
Short-term debt .....	8,557	12,110	76,272
Current portion of long-term debt .....	5,644	36,025	50,308
Income tax payable .....	7,253	6,512	64,649
Other financial liabilities .....	23,628	24,688	210,607
Other current liabilities .....	31,347	27,203	279,410
<b>Total current liabilities</b> .....	<b>128,215</b>	<b>155,430</b>	<b>1,142,838</b>
<b>Non-current liabilities</b>			
Long-term debt .....	149,914	49,666	1,336,251
Retirement and severance benefits .....	31,187	31,254	277,984
Deferred tax liabilities .....	11,481	12,542	102,335
Other financial liabilities .....	12,636	11,132	112,630
Other non-current liabilities .....	2,572	2,083	22,925
<b>Total non-current liabilities</b> .....	<b>207,790</b>	<b>106,677</b>	<b>1,852,126</b>
<b>Total liabilities</b>	<b>¥ 336,005</b>	<b>¥ 262,107</b>	<b>\$ 2,994,964</b>
<b>Equity</b>			
<b>Equity attributable to stockholders of the parent company</b>			
Common stock .....	¥ 16,803	¥ 16,803	\$ 149,773
Capital surplus .....	8,272	9,630	73,732
Retained earnings .....	176,842	161,708	1,576,272
Accumulated other comprehensive income .....	(301)	1,546	(2,683)
Treasury stock, at cost .....	(180)	(180)	(1,604)
<b>Total equity attributable to stockholders of the parent company</b> .....	<b>201,436</b>	<b>189,507</b>	<b>1,795,490</b>
<b>Non-controlling interests</b>	<b>12,483</b>	<b>12,785</b>	<b>111,267</b>
<b>Total equity</b>	<b>213,919</b>	<b>202,292</b>	<b>1,906,756</b>
<b>Total liabilities and equity</b>	<b>¥ 549,924</b>	<b>¥ 464,399</b>	<b>\$ 4,901,720</b>

## Consolidated Statement of Profit or Loss

Hitachi Transport System, Ltd. and subsidiaries

For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
<b>Revenues</b> .....	¥ 665,377	¥ 680,354	\$ 5,930,805
<b>Cost of sales</b> .....	(590,126)	(608,408)	(5,260,059)
Gross profit .....	75,251	71,946	670,746
<b>Selling, general and administrative expenses</b> .....	(45,785)	(43,626)	(408,102)
Adjusted operating income .....	29,466	28,320	262,644
<b>Other income</b> .....	3,118	5,215	27,792
<b>Other expenses</b> .....	(4,377)	(5,201)	(39,014)
Operating income .....	28,207	28,334	251,422
<b>Financial income</b> .....	103	89	918
<b>Financial expenses</b> .....	(496)	(937)	(4,421)
<b>Share of profits of investments accounted for using the equity method</b> .....	3,741	299	33,345
EBIT (Earnings before interest and taxes) .....	31,555	27,785	281,264
<b>Interest income</b> .....	762	736	6,792
<b>Interest expenses</b> .....	(1,932)	(1,611)	(17,221)
Income before income taxes .....	30,385	26,910	270,835
<b>Income taxes</b> .....	(10,466)	(11,408)	(93,288)
Net income .....	¥ 19,919	¥ 15,502	\$ 177,547
<b>Net income attributable to:</b>			
Stockholders of the parent company .....	18,703	14,011	166,708
Non-controlling interests .....	1,216	1,491	10,839

	Yen		U.S. dollars
	2017	2016	2017
Earnings per share attributable to stockholders of the parent company			
Basic .....	¥ 167.66	¥ 125.60	\$ 1.49
Diluted .....	-	-	-

## Consolidated Statement of Comprehensive Income

Hitachi Transport System, Ltd. and subsidiaries

For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net income .....	¥ 19,919	¥ 15,502	\$ 177,547
Other comprehensive income (OCI)			
Items not to be reclassified into net income			
Net changes in financial assets measured at fair value through OCI .....	(171)	190	(1,524)
Remeasurements of defined benefit plans .....	374	(1,520)	3,334
Share of OCI of investments accounted for using the equity method .....	(18)	2	(160)
Total items not to be reclassified into net income .....	185	(1,328)	1,649
Items that can be reclassified into net income			
Foreign currency translation adjustments .....	(2,653)	(5,326)	(23,647)
Net changes in cash flow hedges .....	36	43	321
Share of OCI of investments accounted for using the equity method .....	(58)	(63)	(517)
Total items that can be reclassified into net income .....	(2,675)	(5,346)	(23,843)
Other comprehensive income (OCI) .....	(2,490)	(6,674)	(22,194)
Comprehensive income .....	¥ 17,429	¥ 8,828	\$ 155,353
Comprehensive income attributable to:			
Stockholders of the parent company .....	16,846	8,192	150,156
Non-controlling interests .....	583	636	5,197

## Consolidated Statement of Changes in Equity

Hitachi Transport System, Ltd. and subsidiaries

For the year ended March 31, 2017

	Millions of yen							
	2017							
	Equity attributable to stockholders of the parent company						Non-controlling interests	Total equity
Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total equity attributable to stockholders of the parent company			
<b>Balance at beginning of year</b>	¥ 16,803	¥ 9,630	¥ 161,708	¥ 1,546	¥ (180)	¥ 189,507	¥ 12,785	¥ 202,292
Changes in equity								
Net income	-	-	18,703	-	-	18,703	1,216	19,919
Other comprehensive income	-	-	-	(1,857)	-	(1,857)	(633)	(2,490)
Transactions with non-controlling interests	-	(1,358)	-	10	-	(1,348)	(789)	(2,137)
Dividends	-	-	(3,569)	-	-	(3,569)	(96)	(3,665)
Acquisition and sales of treasury stock	-	-	-	-	(0)	(0)	-	(0)
Total changes in equity	-	(1,358)	15,134	(1,847)	(0)	11,929	(302)	11,627
<b>Balance at end of year</b>	¥ 16,803	¥ 8,272	¥ 176,842	¥ (301)	¥ (180)	¥ 201,436	¥ 12,483	¥ 213,919

For the year ended March 31, 2016

	Millions of yen							
	2016							
	Equity attributable to stockholders of the parent company						Non-controlling interests	Total equity
Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total equity attributable to stockholders of the parent company			
<b>Balance at beginning of year</b>	¥ 16,803	¥ 9,855	¥ 150,927	¥ 7,424	¥ (179)	¥ 184,830	¥ 11,925	¥ 196,755
Changes in equity								
Net income	-	-	14,011	-	-	14,011	1,491	15,502
Other comprehensive income	-	-	-	(5,819)	-	(5,819)	(855)	(6,674)
Transactions with non-controlling interests	-	(225)	-	(54)	-	(279)	294	15
Dividends	-	-	(3,235)	-	-	(3,235)	(70)	(3,305)
Transfer to retained earnings	-	-	5	(5)	-	-	-	-
Acquisition and sales of treasury stock	-	-	-	-	(1)	(1)	-	(1)
Total changes in equity	-	(225)	10,781	(5,878)	(1)	4,677	860	5,537
<b>Balance at end of year</b>	¥ 16,803	¥ 9,630	¥ 161,708	¥ 1,546	¥ (180)	¥ 189,507	¥ 12,785	¥ 202,292

For the year ended March 31, 2017

	Thousands of U.S. dollars							
	2017							
	Equity attributable to stockholders of the parent company						Non-controlling interests	Total equity
Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total equity attributable to stockholders of the parent company			
<b>Balance at beginning of year</b>	\$ 149,773	\$ 85,837	\$ 1,441,376	\$ 13,780	\$ (1,604)	\$ 1,689,161	\$ 113,958	\$ 1,803,120
Changes in equity								
Net income	-	-	166,708	-	-	166,708	10,839	177,547
Other comprehensive income	-	-	-	(16,552)	-	(16,552)	(5,642)	(22,194)
Transactions with non-controlling interests	-	(12,104)	-	89	-	(12,015)	(7,033)	(19,048)
Dividends	-	-	(31,812)	-	-	(31,812)	(856)	(32,668)
Acquisition and sales of treasury stock	-	-	-	-	(0)	(0)	-	(0)
Total changes in equity	-	(12,104)	134,896	(16,463)	(0)	106,329	(2,692)	103,637
<b>Balance at end of year</b>	\$ 149,773	\$ 73,732	\$ 1,576,272	\$ (2,683)	\$ (1,604)	\$ 1,795,490	\$ 111,267	\$ 1,906,756

## Consolidated Statement of Cash Flows

Hitachi Transport System, Ltd. and subsidiaries

For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	
	<b>Cash flows from operating activities:</b>		
Net income	¥ 19,919	¥ 15,502	\$ 177,547
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	18,741	19,125	167,047
Impairment losses	2,190	2,117	19,520
Reversal of impairment losses	(461)	-	(4,109)
Share of profits of investments accounted for using the equity method	(3,741)	(299)	(33,345)
Income taxes	10,466	11,408	93,288
Increase (decrease) in retirement and severance benefits	(43)	1,793	(383)
Interest and dividends income	(849)	(817)	(7,568)
Interest expenses	1,932	1,611	17,221
(Gains) losses on sale of property, plant and equipment	(2,151)	(3,965)	(19,173)
(Increase) decrease in trade receivables	(7,942)	6,152	(70,791)
(Increase) decrease in inventories	(356)	(174)	(3,173)
Increase (decrease) in trade payables	3,620	(5,688)	32,267
Increase (decrease) in other assets and other liabilities	(1,840)	1,713	(16,401)
Other	1,377	(1,022)	12,274
Subtotal	40,862	47,456	364,221
Interest and dividends received	1,081	1,004	9,635
Interest paid	(1,890)	(1,610)	(16,846)
Refund of settlement paid	-	587	-
Income taxes paid	(13,681)	(8,617)	(121,945)
<b>Net cash provided by operating activities</b>	<b>26,372</b>	<b>38,820</b>	<b>235,066</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment and intangible assets	(12,517)	(17,614)	(111,570)
Proceeds from sale of property, plant and equipment and intangible assets	6,248	11,244	55,691
Placement of deposit	-	(3,500)	-
Proceeds from withdrawal of deposit	3,500	-	31,197
Purchase of investments accounted for using the equity method	(66,843)	-	(595,802)
Other	608	(503)	5,419
<b>Net cash used in investing activities</b>	<b>(69,004)</b>	<b>(10,373)</b>	<b>(615,064)</b>
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term debt, net	(3,002)	1,462	(26,758)
Proceeds from long-term debt	124,511	11,039	1,109,823
Repayments of long-term debt	(55,325)	(21,371)	(493,137)
Repayments of lease obligations	(4,672)	(4,128)	(41,644)
Purchase of shares of consolidated subsidiaries from non-controlling interests	(2,137)	(57)	(19,048)
Dividends paid to stockholders of the parent company	(3,569)	(3,235)	(31,812)
Dividends paid to non-controlling interests	(88)	(61)	(784)
Other	(126)	(361)	(1,123)
<b>Net cash Provided by (used in) financing activities</b>	<b>55,592</b>	<b>(16,712)</b>	<b>495,517</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(623)</b>	<b>(1,133)</b>	<b>(5,553)</b>
<b>Net increase in cash and cash equivalents</b>	<b>12,337</b>	<b>10,602</b>	<b>109,965</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>45,146</b>	<b>34,544</b>	<b>402,407</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 57,483</b>	<b>¥ 45,146</b>	<b>\$ 512,372</b>



# Corporate Data/Group Network

## 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, Distribution Center Operation, Factory Logistics, Transportation, Customs Clearance, International Nonstop Delivery through Land/Ocean/Air Transportation)
- Transportation, Installation and Setting of General Cargo, Heavy Machineries, and Artworks
- Factory and Office Moving
- Warehousing and Trunk Room Services
- Collection and Transportation of Industrial Waste
- Logistics Consulting, etc.

## Stock Information (As of March 31, 2017)

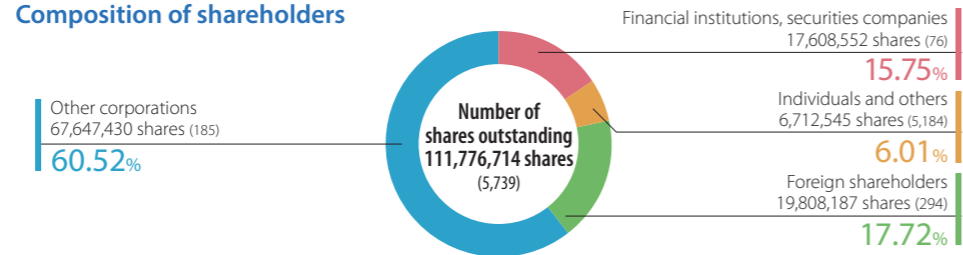
### Number of shares outstanding

111,776,714 shares

### Number of shares per unit

100 shares

### Composition of shareholders



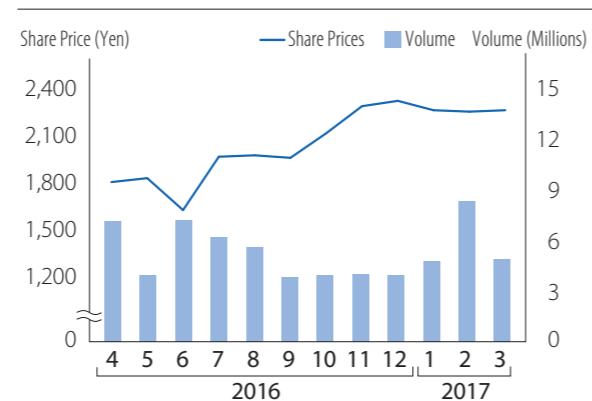
\* Numbers inside parentheses are number of shareholders.

### Major shareholders (top 10)

Name of shareholder	Number of shares held (thousands)	Percentage of shares held
Hitachi, Ltd.	33,471	30.01 %
SG Holdings Co., Ltd.	32,349	29.00
Japan Trustee Services Bank, Ltd. (Trust Account)	5,326	4.77
National Mutual Insurance Federation of Agricultural Cooperatives	2,793	2.50
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,668	2.39
JP MORGAN CHASE BANK 380684	1,903	1.71
Hitachi Transport System, Ltd. Employees' Shareholding Association	1,426	1.28
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,292	1.16
GOVERNMENT OF NORWAY	1,088	0.98
FUKUYAMA TRANSPORTING CO., LTD.	1,038	0.93

Note: The percentage of shares held is calculated based on the number of shares excluding treasury stock (226,728 shares).

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



## Main Subsidiaries & Affiliates (As of June 23, 2017)

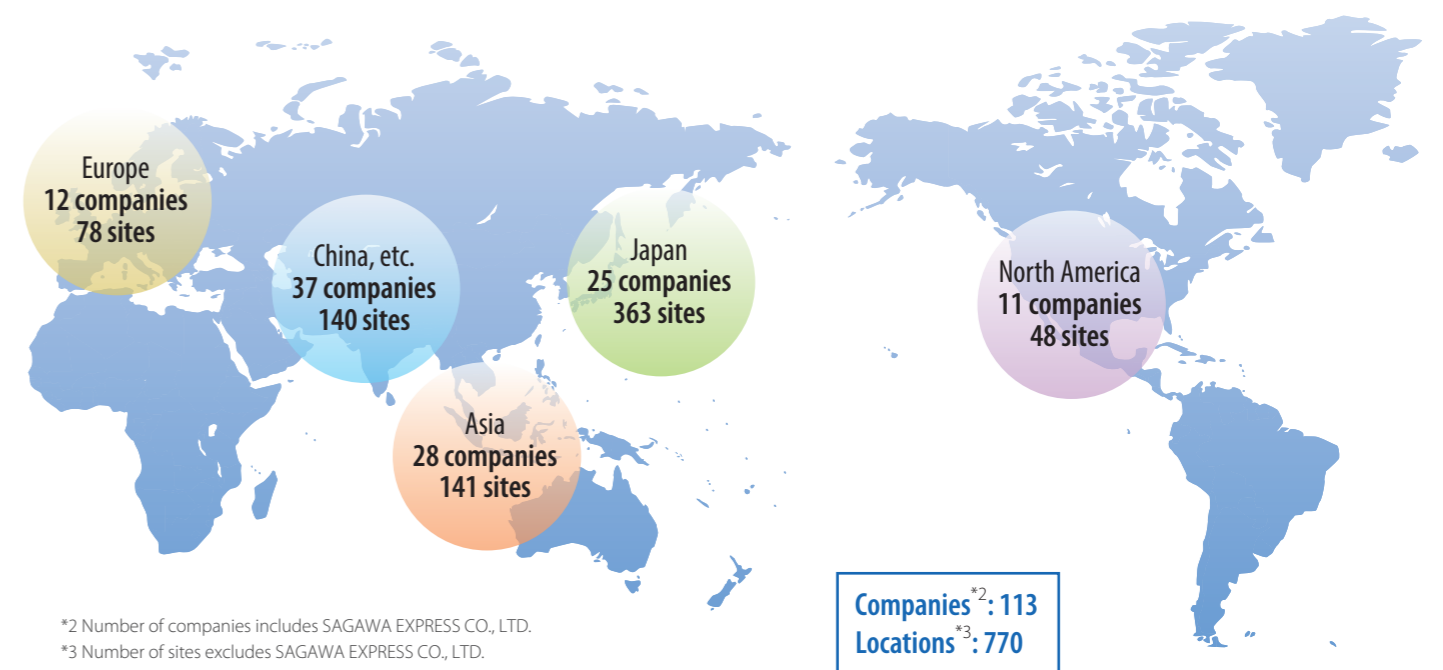
### Domestic

- Hitachi Transport System East Japan Co., Ltd.
- Hitachi Transport System Kanto Co., Ltd.
- Hitachi Transport System Metropolitan Co., Ltd.
- Hitachi Transport System South Kanto Co., Ltd.
- Hitachi Transport System Central Japan Co., Ltd.
- Hitachi Transport System West Japan Co., Ltd.
- Hitachi Transport System Kyushu Co., Ltd.
- Hitachi Transport Direx Co., Ltd.
- Hitachi Collabonext Transport System Co., Ltd.
- Hitachi Finenext Transport System Co., Ltd.
- VANTEC CORPORATION
- VANTEC HTS FORWARDING, LTD.
- Nisshin Transportation Co., Ltd.
- Project Cargo Japan, Inc.
- Hitachi Distribution Software Co., Ltd.
- Hitachi Auto Service Co., Ltd.
- Hitachi Travel Bureau, Ltd.

### Overseas

- VANTEC HITACHI TRANSPORT SYSTEM (USA), INC.
- J.P. Holding Company, Inc.
- James J. Boyle & Co.
- Hitachi Sistema de Transporte Mexico, S. A. de C.V.
- Hitachi Transport System (Europe) B.V.
- ESA s.r.o.
- Mars Logistics Group Inc.
- VANTEC HTS Logistics (RUS), LLC
- Hitachi Transport System (Asia) Pte. Ltd.
- Hitachi Transport System (M) Sdn. Bhd.
- Hitachi Transport System Vantec (Thailand), Ltd.
- Eternity Grand Logistics Public Company Limited
- PT Berdiri Matahari Logistik
- Hitachi Transport System (Vietnam) Co., Ltd.
- NISSHIN (MYANMAR) CO., LTD.
- Flyjac Logistics Pvt. Ltd.
- Hitachi Transport System (China), Ltd.
- Nisshin International Trading Co., Ltd.
- Vantec Hitachi Transport System (Hong Kong) Ltd.
- Vantec Hitachi Transport System (Taiwan) LTD.
- Hitachi Transport System (Korea), Ltd.
- Hitachi Transport System (Australia) Pty. Ltd.

## Network extending to 29 countries and regions (As of March 31, 2017)



\*2 Number of companies includes SAGAWA EXPRESS CO., LTD.

\*3 Number of sites excludes SAGAWA EXPRESS CO., LTD.

 **Hitachi Transport System, Ltd.**

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<http://www.hitachi-transportssystem.com/en/>