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.

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

Message from the President

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 provides services to support companies in building their optimal supply chains. We contribute to building an important social and industrial base by not only transporting, storing and installing products but also coordinating corporate logistics from the beginning to the end. Recently, with a view to a new era of Society 5.0, we focus on creating solutions beyond the conventional logistics domain and aim at an innovation of a sustainable supply chain.

The Group has started the Mid-term Management Plan for the period from FY2016 to FY2018, under which we strive to create new values by invigorating collaborative innovation with our customers and business partners and also to improve our corporate value by enhancing our “Earning capability” and “Growing power” as well as “Sustainable capability.”

Amid a breakthrough in technologies including “IoT (Internet of Things),” “AI (Artificial Intelligence),” “Robotics” and diversification of services, methods and values in the society such as “Fintech” and “Sharing Economy”, in FY2017, the second year of the Mid-term Management Plan, we promoted various measures to achieve new innovations by expanding collaborative areas across businesses and industries, with “enhancement of logistics as a function” as our core target. Also, with SG Holdings Group, our capital and business alliance partner, we promoted various collaborative activities from a broader perspective and in wider range of fields and implemented measures to make effective use of each other’s resources including night-time use of vehicles and opening satellite locations in logistics centers.

As for the business environment surrounding the Group in FY2018, while the global economy continues to be on a growth trend, attention must be paid to concerns over a shift to protectionism/block economics and geopolitical risks, etc. Also, in Japan, especially in the logistics industry, the business environment is becoming severe due to intensifying competitions across industries caused by labor shortage and expansion of EC market. Under these circumstances, the Group has positioned FY2018 as the period to prepare and get ready for the next Mid-term Management Plan, and started the year with a new business concept of “LOGISTEED” which reflects the Group’s determination to lead the business to a new domain beyond Smart Logistics. Under the open innovation through various partnerships with different industries and research institutions, we will work on establishing digital platform and optimizing SCM, operating platform center for EC, and building Smart Logistics center directly connected to a factory, with an aim to evolve into a SCM partner from a logistics partner. In addition, we intend to fulfill our social responsibilities as a carrier by promoting the development of vehicle solution systems for driving management aiming at realization of zero-accident society through joint development with industry-academia-government collaboration. The Group will further promote collaborative innovation and collaboration in logistics and related domains and strive to provide innovation responding to social issues and needs and to create values.

In order to respond to social issues and needs and become a preferred company for all of stakeholders, we believe it is important that we fulfill our responsibilities toward social demands and expectations including those related to environment and proactively work on solutions. Therefore, in FY2017, the Group identified material issues to understand social/environmental issues and formulated “CSR objectives” where the Group should address with priority. Through the initiatives in “CSR objectives,” we aim to contribute to achieving “Sustainable Development Goals (SDGs)” which is the universal goals for the international community to be attained by 2030. Also, under our management priority measures of “Behavior based on corporate ethics,” we will promote initiatives focusing on corporate social responsibilities in ENG (Environment, Social and Governance) fields, strive to improve management transparency and efficiency, and carry out business activities by thoroughly pursuing safety and considering environmental issues. Furthermore, we will strive to enhance the Group’s organization power by promoting diversity and system standardization toward continued working-style reform, with the aim of enhancing our ability to respond to changes in management environment and improve productivity and pursuing creation of corporate value.

The Group will exceed the conventional domain of logistics, bring innovation to the future of business and people’s lifestyles, and aim to become the most preferred solutions provider.

Yasuo Nakatani, President and CEO

We will exceed the conventional domain of logistics, bring innovation to the future of business and people's lifestyles, and aim to become the most preferred solutions provider.
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.

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
- Various research equipment transport

Other services (logistics related businesses)
- Plant-related transport
- Machinery and equipment transport
- Railway-related equipment transport
- Precision instruments transport
- Various research equipment transport

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

Other services (logistics related businesses)
- Travel agency business
- Information system development business
- Sale and maintenance of automobiles business

Number of Companies*1/Locations*2
Domestic: 26 companies / 333 sites Overseas: 82 companies / 398 sites

Area of Logistics Center*2
Domestic: 4,991,100 m² Overseas: 2,311,970 m²

Total Personnel*3
Domestic: 29,669 employees Overseas: 18,115 employees

Human Resources
47,784
Domestic: 29,669 employees Overseas: 18,115 employees

Number of vehicles (including leased vehicles)
Total: 16,479
Truck*: 1,374
Trailer: 4,896
Forklift: 5,784
Other*: 2,063

*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

Financial Highlights: The Track Record of 10 Years

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

[As of March 31, 2018]

<table>
<thead>
<tr>
<th>Financial Highlights: The Track Record of 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>revenues</td>
</tr>
<tr>
<td>millions of yen</td>
</tr>
<tr>
<td>FY2015 2017 2016</td>
</tr>
<tr>
<td>millions of yen</td>
</tr>
<tr>
<td>FY2016 and also presented “Adjusted operating income” for FY2015.</td>
</tr>
<tr>
<td>*4 Based on tangible and intangible assets accepted.</td>
</tr>
</tbody>
</table>
Review of Operations

---Business Overview by Segment & FY2017 Topics---

### Domestic logistics business (FY2017)

- **Revenues (Y-o-Y)**: $+1%$
- **Segment profit (Y-o-Y)**: $±0%$

Revenues of domestic logistics business increased by 1% year-on-year to ¥417,835 million due to full-scale operations of new projects launched in the previous fiscal year (retail products and foods, etc.) and the effects of collaborative innovation with business partners.

Segment profit remained flat year-on-year and was ¥21,748 million mainly due to upfront investments for the next generation/advanced technologies and working method transformation despite revenues increase and the effects of productivity enhancements.

### Global logistics business (FY2017)

- **Revenues (Y-o-Y)**: $+12%$
- **Segment profit (Y-o-Y)**: $+10%$

Revenues of global logistics business increased by 12% year-on-year to ¥260,285 million due to the recovery in handling volume in forwarding business especially in overseas, full-scale operations of new projects launched in the previous fiscal year (automobile and apparel-related), and positive impact of foreign exchange rates.

Segment profit increased by 10% year-on-year to ¥6,280 million due to the effect of revenues increase.

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#### FY2017 Topics

- **Introduction of AGV**
  - May 2017: Introduced AGV at Tsuchiura Phase II DC in Ibaraki Prefecture
  - *AGV: Automated Guided Vehicle    *DC: Distribution Center
- **Collaboration for auto-tracking transport robot**
  - Sep. 2017: Concluded a collaboration agreement for operation of auto-tracking transport robot in logistics warehouses
- **Started land transportation service in Southeast Asia**
  - May 2017: Nisshin Transportation started land transportation service in Mekong region (Myanmar – Thailand – China)
- **Introduced a multi-axle trailer**
  - Nov. 2017: Newly introduced a multi-axle trailer
- **Opened Kansai II Medical DC**
  - Feb. 2018: Opened Kansai II Medical DC in Hyogo Prefecture
  - *Kansai II Medical DC*
- **Business alliance (basic agreement)**
  - Mar. 2018: Concluded a basic agreement on business alliance to realize new innovation through “Finance, Commerce, Logistics, and Information” with Hitachi Capital
  - *Hosted by Japan Association for Logistics and Transport    *Hosted by Japan Packaging Institute
- **Cooperated with a verification experiment using electronic tags**
  - Feb. 2018: Cooperated with a verification experiment of information sharing system for supply chains using electronic tags (conducted by the Ministry of Economy, Trade and Industry)
- **Commendations/Recognition from outside the Company, etc.**
  - Jun. 2017: Received “Logistics Environmental Impact Mitigation Technology Development Award” of “The 18th Logistics Environment Awards”**1**
  - Aug. 2017: Received “Appropriate Packaging Award” of “Japan Packaging Contest 2017”**2**
  - Sep. 2017: Employers of the Group won the 1st prize (The Minister of Health, Labour and Welfare Award) and 2nd prize of “The 32nd National Forklift Driving Contest”**3**
  - Nov. 2017: Received the Award for Excellent Business Entities (new market category) of “2017 Excellent Business Entities: Working on Modal Shift”**4**

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#### Branding
- Apr. 2017: Developed Brand Promise
- Aug. 2017: Published Brand advertisement
- Mar. 2018: Renewed company brochure

#### Headquarters relocation
- Aug. 2017: Relocated headquarters to Konosu, Chuo-ku, Tokyo

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*Hosted by Japan Association for Logistics and Transport    *Hosted by Japan Packaging Institute
*Hosted by the Land Transportation Safety and Health Association.
**Special Feature 1 Mid-term Management Plan/Priority Measures in FY2018**

**Mid-term Management Plan – Value Creation 2018 –**

**Future Vision:**
**Global Supply Chain Solutions Provider**

**Sales Strategy**

Evolving into a SCM partner from a logistics partner

- Establish digital platform and optimize SCM
- Smart logistics center directly connected to a factory
- Logistics domain
- Supply chain domain

**Domestic Business (Strategic Bases Development)**

**Industry-based platform**

- Sports & Shoes Platform Town
- Domestic Business (Strategic Bases Development)

**Overseas Business**

Survive in each region with unique business model

**Europe**
- Expand intermodal business from Turkey (Develop to Northern Europe and Central Asia)

**North America**
- Expand transportation network (Canada – U.S. – Mexico)
- Start operation of next-generation center (Non-Auto field)

**Asia**
- Expand cross-border logistics within the region (Thailand – Laos – Vietnam)
- Expand cold chain (Start operation of new chilled warehouse)

**China**
- Expand inland business (Shanghai, Chongqing, Chengdu)
- Belt and Road (Intercontinental railway transport)

**The Hitachi Transport System Group will exceed the domain of Smart Logistics and start our new business concept “LOGISTEED”**

- Which reflects the Group’s commitment toward our brand slogan “Taking on the Future.”

**ологистед**

- Logistics + Exceed, Proceed, Succeed & Speed

**“LOGISTEED”**

- A concept representing our determination to lead businesses to new domain beyond the conventional logistics.

- Bringing your business into the future, SMART LOGISTICS

- Taking on the Future, Hitachi Transport System
Collaborative Innovation Strategy (Collaboration with SG Holdings) — Generate collaborative innovation projects in various regions nationwide

Promote collaboration in cross-selling projects

Expand solution business

- Sales approach to 5G Holdings’ customers (5GSMC support of information equipment, etc.

Mid-term Management Plan – Value Creation 2018 –

HTS

Kansai University of Welfare Sciences

RIKEN

Kyushu area

Warehouse operation through collaboration with SG Holdings Group (electromachinery/vehicle)

Kanto area

- In-plant delivery service in Hitachi Group’s factories

- Open a satellite location of SG Holdings Group within our center

- Cross-selling (5G, apparel, distribution, retail)

- Relocation of complex facility in Tokyo

- Undertaking Internet Plus initiative

- “Front-end general operations” by VANTAGE vehicles

Kobe area

- Partnership logistics through collaboration with SG Holdings Group (electromachinery/vehicle)

Chiba area

- Relocation of IT and Space Management

Collaborative Innovation Strategy (joint development through industry-academia-government collaboration) — Develop vehicle solution system for safe driving

Roles in joint development

HTS

- Gather driving information in truck operation, conduct brake measurement and area acclimation

- Put the accident risk assessment prediction method developed by the joint development cooperative unit and current system into service

Nissha Capital & Line Corporation

- Take the accident risk assessment prediction method and research method on driver behavior

RIKEN

Kanto Group

- Relocation of Driver Science

Impact on drivers, examine objective assessment method

Kanagawa, Ltd.

- Analysis driving informations and brake measurement using AI, develop accident risk assessment technology based on brake science

Future development

- Objectives to improve area accident and injury rates

- Establish an advanced driving management system (including education system)

- Prioritize total package including vehicle testing/leasing services which ensure vehicle management function (collaborate with Nissha Capital: New innovation through “Finance, Commerce, Logistics, and Information”)

Future vision

- Reduce rate and increase the number of monthly Smart HCS

- Complement to measuring functions through predictive analysis

- Implement the system as standard equipment through collaborative innovation with truck manufacturers

Expand ecosystem into a lifeline to support lifestyle

Please refer to ‘Special Feature 2’ (Pages 15-16) for the detail of smart safety driving management system.

Mid-term Management Plan/Priority Measures in FY2018

Environment

Comply with environmental laws

Enhance environmental management

Reduce environmental load

(Use of double-trailer trucks, etc.)

Corporate governance

Ensure to bear in mind the notion of “Basics and Ethics” (Enhance compliance and governance)

Choose with local communities

Enhance safety and quality (safety caravan in domestic and overseas, etc.)

Continue to Work on Working-style Reform

Diversity & inclusion

■ Create working environment enabling diversified human resources to demonstrate their abilities

■ Promote active participation by female workers

■ Improve treatment of elderly employees

■ Utilize diversified human resources (Promote work-at-home system/work at satellite office)

Standardize systems (improve workers’ treatment, etc.)

■ Standardize systems including operation at group companies and on-site level (Wage system, working system, etc.)

■ Enhance business operation capabilities through a unified training system within the Group (Review training for on-site workers and offer training for necessary knowledge)

Initiatives toward ESG Management

Education for all employees

■ Enhance business operation capabilities through a unified training system within the Group (Review training for on-site workers and offer training for necessary knowledge)

■ “Secure, retain and foster human resources” and “improve productivity,” continue to work on working-style reform reflecting revisions of laws and regulations

Greenhouse gases (Qatar, Egypt)

For the details of the Mid-term Management Plan and priority measures in FY2018, please refer to “Management Plan” on our website.

### Interview

**Seiki Sato**

**General Manager, Structural Reform Project Team**
**General Manager, Collaborative Innovation Project Team**
**General Manager, Corporate Strategy Office**
**Vice President and Executive Officer,**
**Capital Auto Lease Corporation, RIKEN**

"Smart safety driving management system" enables us to utilize "on-site capability" and "big data," which the Group accumulated as a 3PL leading company, for solutions specialized in the Group’s CSR objectives, creating new values with a number of stakeholders and contributing to achieving SDGs. Also, as these initiatives have potential not only to manage driving of trucks, but also to provide safety and security in wide range of situations, the Group aims to become a "platform provider" of safety and security, challenges new fields, and bring new future to business and people’s lifestyle.

**Vice President and Executive Officer,**
**General Manager, Corporate Strategy Office**
**General Manager, Collaborative Innovation Project Team**
**General Manager, Structural Reform Project Team**

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**Special Feature 2  Aim at Realization of “Zero-Accident Society”**

In April 2018, the HTS Group started the joint development for “the development of accident risk assessment/prediction method based on fatigue science in the logistics truck driving management.” Through the open innovation such as industry-academia-government collaboration, we aim to realize “zero-accident society” by developing “smart safety driving management system” utilizing IoT and AI.

**Reduce truck accident risk**

"Prevent accidents and protect people" is one of the social issues that should be addressed by all industries including logistics. While the Group’s domestic vehicle accident rate is lower than the national average, the Group has focused on driver’s fatigue level and conducted its own analysis of correlation between biological information/driving records, etc. and “Hiyari-Hatto (near-accident)/accidents since 2016, to further reduce the rate (zero-accident)." In order to further expand those initiatives, we plan to adopt insights from external specialists of “fatigue science” and “accident risk assessment/prediction” and utilize AI data analysis, in order to develop “smart safety driving management system” which contributes to safety driving with higher accuracy and put it into practical use and then develop it into a platform. We work on the joint development with Hitachi Capital Auto Lease Corporation, RIKEN,” Kansai University of Welfare Sciences, and Hitachi, Ltd. 1 2

**Issue a real-time “warning” with higher accuracy**

Previously, the measurement of drivers’ fatigue was based on the measurement at the call before driving and drivers’ self-reported condition, etc. The joint development is developing the technology which uses AI to detect the driver’s fatigue level and issues a real-time warning about potential risks of serious accident with high accuracy to both the driver and the driving manager by measuring and accumulating real-time biological information, including autonomic nerve, of the driver and comprehensively assessing such information as well as driving behavior information. As this system is highly unique, we are applying for a patent for the business.

**Accelerate the development toward early practical application and commercialization**

Currently, we are working on the development of an original IoT device to enhance the accuracy of measuring drivers’ biological information while driving through industry-academia collaboration with multiple research institutions and companies. Also, based on the premise of inviting a number of participants into “smart safety driving management system” as “IoT hub,” we ensure to pursue the compatibility of the system with not only measurement devices for biological information and driving behaviors but also other companies’ systems and Cloud. The joint development is accelerating its research with an aim to start practical application and commercialization in FY2018 with a plan for the first half of FY2018 to focus on enhancing measurement accuracy of biological information while driving and accumulating driving behavioral data such as recorded information of “Hiyari-Hatto (near-accident)” and a plan for the second half of FY2018 to refine the data analysis by AI.

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**As a “Platform for safety and security”**

We will invite a number of stakeholders to participate in the “smart safety driving management system” so as to accumulate more data, refine AI and reduce costs as we aim to expand the ecosystem as a “platform for safety and security” into a lirne to support lifestyle. As a step to increase users, we will first introduce the system to trucks owned by the Group’s domestic companies, and then to trucks of our partner transport companies and Hitachi Capital Group’s vehicles for lease. In addition to the logistics industry, we also plan to introduce the system to the bus/taxi industry by offering as a total solution package including vehicle leasing, insurance, maintenance, and joint procurement function through collaboration with Hitachi Capital Group. We present our desire to protect drivers to society through the joint development of “smart safety driving management system” and we will expand it to overseas market to reduce accident risk in the global supply chain in the medium-to-long term.

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**Share value with various stakeholders as “IoT hub”**

We work on a collaborative development and share value with various stakeholders as “IoT hub,” aiming at realizing the “zero-accident society” by developing “smart safety driving management system.”

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**Structure of smart safety driving management system**

<table>
<thead>
<tr>
<th>Office</th>
<th>Cloud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales officer’s smartphone</td>
<td>Digital tachograph</td>
</tr>
<tr>
<td>Driver’s smartphone</td>
<td>Truck</td>
</tr>
<tr>
<td>Business use</td>
<td>Reckless driving signal</td>
</tr>
</tbody>
</table>

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**Objective fatigue assessment**

Kansai University of Welfare Sciences

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**Clarify mechanism and study methodology**

RIKEN

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**Fatigue Science**

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**Identify various items related to accident risk**

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**Evaluate skills” Enhance motivation**

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**Vision**

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**Objective**

Reduce truck accident risk

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**“Prevent accidents and protect people” is one of the social issues that should be addressed by all industries including logistics.**

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**Through the open innovation such as industry-academia-government collaboration, we aim to realize “zero-accident society” by developing “smart safety driving management system” utilizing IoT and AI.**

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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.

HTS Group’s Stakeholders

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

HTS Group Value Creation

The HTS Group, in its Mid-term Management Plan “Value Creation 2018”, promoted initiatives for “integration of CSR and management” in order to strengthen initiatives to solve issues and create “values” through “collaborative innovation.” Through these initiatives, we aim to carry out effective CSR activities that provide solutions to social issues and become the most preferred solutions provider for all of our stakeholders.

HTS Group and “Sustainable Development Goals”

Sustainable Development Goals (SDGs)

SDGs were unanimously adopted by 193 UN member nations in September 2015 as the universal goals for the international community to be attained by 2030. 17 goals consisting of 169 targets focus on three elements of economy, society and environment. Its major characteristic is its universality as both developing and developed countries are subjected to the agenda, with the slogan of “leave no one behind.” Amid such a situation, companies are facing increasing expectations from the society to contribute to SDGs, and therefore working on SDGs will lead to creation of common value for the company and stakeholders.

HTS Group’s Contribution to SDGs

The HTS Group is fully aware of the importance of achieving the SDGs, the universal goals for the international community. Among 17 goals of SDGs, the following eight goals are especially relevant to our CSR objectives* developed in FY2017. We will therefore working on SDGs and become the most preferred solutions provider for all of our stakeholders.

Recognition of Social Responsibility: Identification of Material Issues

We identified 15 material issues as CSR issues that are important to the HTS Group at present and in future in order to accurately recognize social and environmental issues and expectations. We will recognize these material issues identified as our social responsibility, and strive to promote CSR and integrate CSR and management.

Identification process

- Step 1: Understood issues
  With reference to global common standards including Global Reporting Initiative (GRI) guideline, ISO26000, UN Global Compact, SDGs and priority issues in transportation sector by ESG rating agencies, we created a list of 73 items of relevant environmental, social and economic issues.

- Step 2: Prioritized issues
  We evaluated “impact on society” and “impact on our business” of the 73 issues on the list on a scale of one to five through workshops with external experts and mapped them in a matrix. Then, we categorized items with high impact into 15 proposed material issues.

- Step 3: Validated and identified
  After those 15 proposed material issues were assessed and examined for adequacy by CSR Promotion Committee members and the management, taking into consideration opinions of external experts, they were identified as the Group’s material issues with an approval of the Executive Committee.

15 material issues of the HTS Group

- Social
  Safe and healthy work environment (occupational safety and health)/ Social and environmental responsibility in supply chain (socially responsible procurement)/ New technologies (creating/utilizing innovations and cutting-edge technologies)/ Diversity and employee development/ Job creation (promoting employment in the local community)/ Dialogue with employees (labour management relations, collective bargaining) / Respect for human rights (addressing global human rights issues)/ Quality and safety (service quality and safety)/ Environmentally and socially responsible logistics services

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

- Governance
  Compliance/governance/BCP* (including climate change adaptation)/Information disclosure (operational transparency)

*CPC: 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.

Categorized issues with high importance into 15 items

Page 18

Review and Improve

Review and Improve CSR activities through proactive communication and stakeholder engagement

Act

Identify relevant issues, establish priorities for addressing issues, and act on them

Recognize

Properly recognize social and environmental issues and expectation

Page 19-20

Review and Improvement of CSR Activities

Corporate Activities

4 CSR Objectives based on material issues

TOPICS – Toward Integration of CSR and Management

Under our Corporate Philosophy, the HTS Group strives to promote integration of CSR and management through communication with our various stakeholders, with the aim of realizing a sustainable society. To this end, we identified material issues, developed CSR focused sectors and clarified the source of our competitiveness (core competence) in FY2017. Based on these, we confirmed once again the “HTS Group Basic CSR Policy” as follows.

Going forward, we will work on integrating CSR and management under this basic policy. As part of this cycle, we will also promote active disclosure of ESG (Environment, Social and Governance) information and contribute to achievement of SDGs in cooperation with our various stakeholders.

HTS Group Basic CSR Policy

HTS Group Value Creation

Global Supply Chain Solutions Provider

Future Vision

Mid-term Management Plan

Value Creation 2018

Toward integration of CSR and management

Recognition of Social Responsibility

15 Material issues

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HTS Group Basic CSR Policy

HTS Group Value Creation

Global Supply Chain Solutions Provider

Future Vision

Mid-term Management Plan

Value Creation 2018

Toward integration of CSR and management

Recognition of Social Responsibility

15 Material issues

Review and Improve

CSR activities through proactive communication and stakeholder engagement

Act

Identify relevant issues, establish priorities for addressing issues, and act on them

Recognize

Properly recognize social and environmental issues and expectation

Review and Improvement of CSR Activities

Corporate Activities

4 CSR Objectives based on material issues

TOPICS – Toward Integration of CSR and Management

Under our Corporate Philosophy, the HTS Group strives to promote integration of CSR and management through communication with our various stakeholders, with the aim of realizing a sustainable society. To this end, we identified material issues, developed CSR focused sectors and clarified the source of our competitiveness (core competence) in FY2017. Based on these, we confirmed once again the “HTS Group Basic CSR Policy” as follows.

Going forward, we will work on integrating CSR and management under this basic policy. As part of this cycle, we will also promote active disclosure of ESG (Environment, Social and Governance) information and contribute to achievement of SDGs in cooperation with our various stakeholders.

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Corporate Activities: Development of CSR Objectives

In promoting integration of CSR and management, we developed four CSR objectives to be addressed preferentially based on the material issues identified and from the perspective of CSV* (Creating shared value).

In FY 2018, we will establish and examine specific subject of activities and Key Performance Indicators (KPIs) in order to build a foundation for a PDCA cycle.

* CSV (Creating shared value) refers to practices that balance activities to create economic benefits with solutions to social issues, or management strategies to achieve them

HTS Group CSR Objectives

The HTS Group is committed to supporting supply chains, which are the foundation of society and industry, through our logistics and related businesses. Working to meet the wants and needs of people today, we will move forward to take the lead in enabling supply chains to solve various social and environmental problems with an eye to creating a sustainable society.

We will focus on four objectives to drive innovation forward in supply chains with an eye to creating a sustainable society

Core Competencies

We believe that strengthening our core competencies is crucial to implementing initiatives that will enable us to realize our four CSR objectives. Our three core competencies, advanced technologies, personnel/organization/global network, and open innovation, are all interwoven with one another: Enhancing each core competency will create the synergy that will enable us to reach out four CSR objectives.

Open innovation

We will actively work on cross-industrial and cross-sectoral cooperation. We will always take the initiative in developing new technologies through open innovation.

Personnel/organization/global network

We will create new value through collaboration with a wide variety of people and organizations based on trust. As a group, we recognize social issues and share a long-term view from a broad perspective.

Advanced technologies

Using advanced technologies allow us to improve efficiency by automation and labor saving, enhance occupational safety, promote diversity in the workplace, ensure high quality and resilience, consider environment and advance into new fields.

Objectives

Objective-1: Pursue Next-generation Industries and Lifestyles
Objective-2: Ensure Excellent Quality and Resilience
Objective-3: Enhance Occupational Safety and Productivity
Objective-4: Realize Low-carbon Business Processes

Review and Improvement of CSR Activities: Information Disclosure and Communication

We will review and improve CSR activities through disclosure of ESG information and dialogues with stakeholders based on CSR objectives. By repeating a cycle of basic policy for CSR promotion, we will promote effective CSR activities toward a resolution of social issues and facilitate integration of CSR and management.

President and Chief Executive Officer

Executive Committee

Chair of CSR Promotion Committee (Executive, General Manager of CSR Promotion Office)

Closely related SDGs

4 Realize Low-carbon Business Processes

While we steadily proceed with initiatives to enhance efficiency of energy and resources, we will also work on decarbonizing* from the long-term perspective.

* Defined as “the capacity of a people or things to recover quickly from difficult conditions such as shock and injury, or the ability to return to its original form after being bent, stretched or compressed. Roadmap to resilience is one of the key themes of CSR. Decarbonization requires one step further than “low carbonization” focusing on reduction of emissions.

Closely related SDGs

4 Realize Low-carbon Business Processes

Closely related SDGs

1 Pursue Next-generation Industries and Lifestyles

With the power of logistics, we will develop businesses to support the realization of the next-generation sustainable industries and social infrastructure in various areas across the globe.

Closely related SDGs

Objective-3: Enhance Occupational Safety and Productivity

Closely related SDGs

2 Enhance Occupational Safety and Productivity

We will work on realizing further occupational safety and enhancing productivity in logistics sites across the globe.

Closely related SDGs

1 Pursue Next-generation Industries and Lifestyles

Closely related SDGs

3 Ensure Excellent Quality and Resilience

We will pursue quality of the next-generation logistics that meets the social expectation and resilience against disaster and climate change.

Closely related SDGs

* The chart on the left shows the CSR objectives and core competencies as well as the relationship between each objective and SDGs that are most closely related themes.

Executive Committee

Secretary


<CSR Promotion Structure>

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

Safety is our number one priority

- Bringing Safety and Peace of Mind to Our Customers
- Adoption of Safety Technology
- Safety Caravan Activity
- Boosting Safety and Quality Assurance Training and System
- Boosting Safety Techniques and Safety Awareness

Bringing Safety and Peace of Mind to Our Customers

Policy on Safety and Quality Initiatives

Slogan
Safety Management by Walking Around Stop and Remove Unsafe Conditions

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 partner companies work as an integrated unit to ensure safety in transport, assigning priority to the subject of safety awareness.

Transport Safety Management

Dashboard Camera

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.

HTS Group Safety Day

In addition to all trucks it owns, the HTS Group has also installed dashboard cameras in forklifts (approximately 900 as of March 31, 2018) so as to be used for daily activities to secure safety including confirmation with finger pointing and calling during operation.

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.

Bolstering On-Site Operations (Presentation Meeting of Smart Logistics)

We are working on further bolstering of on-site operations of the entire HTS Group by having each site make a presentation on their efforts for “improvement of on-site operations” to share and expand the best practice of operational safety of the Group. In FY2017, Hitachi Transport System Vantec (Thailand), Ltd., made a presentation as a representative of overseas group companies on its effort to build safe working environment based on the Thai culture and laws and regulations.

Dashboard cameras for trucks

Forklift equipped with dashboard camera

(As of March 31, 2018)

* 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.

Message from President Nakatani

Message from General Manager of Labor Safety Management Office

Adoption of Safety Technology

Dashboard Camera

In addition to all trucks it owns, the HTS Group has also installed dashboard cameras in forklifts (approximately 900 as of March 31, 2018) so as to be used for daily activities to secure safety including confirmation with finger pointing and calling during operation.

Dashboard camera for trucks
Safety Caravan Activity

- Global Expansion of Safety Management
  We send Safety Caravans to overseas group companies to enhance safety/quality and safety technologies and ensure safety management on a global basis.

- Preventive Maintenance for Heavy Cargo Engineering
  We distribute “Safety technology handbook for heavy cargo engineering” to all employees engaged in inbound operations and installation of precision equipment such as medical and scientific equipment as well as transport of heavy cargo including power generating plants, railway cars and industrial machinery. Employees use this handbook to ensure preventive maintenance such as selection of equipment and strength calculation at the site.

- Safety Training (Practical Training and Experiential Sessions)
  At the HTS Group, we envision a full range of scenarios in workplaces and implement appropriate training sessions based on these, covering both practical training and experiential sessions.

- Internal Forklift Competitions at Overseas Locations
  From FY2013, the HTS Group overseas locations have held forklift competition for local employees. Following China and Thailand, the competition was held in Indonesia in FY2017. These events boost the globalization of HTS’s culture of corporate safety in general as well as to impart safety/quality and safety technologies.

- 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 FY2017 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.

Interview

At the safety supervisor training, I learned “attitude, knowledge and skill” as “a person who builds working environment where all members of the HTS Group can work with a sense of security.” From now on, I will keep in mind that I need to be “a person who identifies with the on-site operation and makes it a safe workplace” be committed to safety activities, and share the spirit to clarify risks with an awareness of safety at workplace and constantly work on improvement with my colleagues. I will also continue making efforts to become a missionary to enhance safety/quality and safety technologies and to pass down safety from the past into the future in the HTS Group.

Takashi Waki
Labor Safety, Corporate Quality Promotion & Environment Policy Dept., Hitachi Transport System West Japan Co., Ltd.

Number of Safety Supervisor
82 persons
(Total from FY2006 to FY2017)
Environmental Management

Putting an End to Global Warming/Saving Energy

- Restrain CO₂ emissions with LED lighting equipment
  
  The HTS Group is working on CO₂ reduction by adopting low-power consumption LED lighting facilities in logistics centers, etc. every year. In FY2017, we installed LED lighting thoroughly at the following new logistics centers, etc. and were able to suppress CO₂ emissions by a total of 1,300 tons annually compared with the case using fluorescent light.

1) Adoption in new logistics centers

- **Japan**
  - Metropolitan Region Chemical Center (Launched February 2017, total floor space=29,300 m²)
  - Kansai II Medical DC (Launched February 2018, total floor space=44,500 m²)
- **Overseas**
  - Pomona DC, U.S. (Launched February 2017, total floor space=18,400 m²)

2) Renewal of lighting facilities in the existing distribution centers

- Kakegawa DC (Renewed September 2017)
- Chukyo DC Phase I (Renewed December 2017)
- Nishi-Osaka DC (Renewed December 2017)
- Shizuoka-Higashi DC (Renewed February 2018)
- Takasaki DC (Renewed March 2018)

3) Relocation of the head office building (August 2017)

We relocated our head office to a building located in Kyobashi, Chuo-ku, Tokyo, equipped with the latest air conditioning system and LED lighting equipment.

We will continue to work on full installation of LED lighting equipment in new buildings and replacement of fluorescent lights and mercury lamps (approximately 150,000) in the existing domestic facilities to LED lighting equipment gradually.

Observance of the Law

We are engaged in various initiatives to ensure compliance with the environmental laws and regulations.

- **Japan**: Use of the Management System

  We utilize the following management system to ensure compliance:
  - 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.)

- **Japan**: Continuing training for waste management personnel

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

- **Overseas**: Holding overseas compliance meeting

  In an annual compliance meeting targeting responsible persons such as presidents of overseas subsidiaries, we deliberate the status of environmental management and issues to ensure thorough compliance in overseas subsidiaries.
Target
27 28

• Scope 3: Indirect emissions by supply chain other than Scope 1 and 2 (total of 15 categories including transportation
• Scope 2: Indirect emissions from the use of energy supplied by other companies (e.g. CO2 released by a third party power
• Scope 1: Direct emissions from in-house energy (fuel, etc.) use (e.g. CO2 released by company vehicles)

Following the conclusion of Paris Agreement*, etc., we are working to upgrade the certification level from “Eco Stage II” to “Eco Stage III” which is equivalent to ISO14001. In addition, as of the end of March 2018, we have earned “Green Management Certification” at 53 of our truck transport sites and seven of our warehouses. We will continue to take advantage of these certification systems to reduce environmental load.

Environmental communication initiatives include cleanup projects in areas surrounding our offices and facilities, and turning off lights as well as ongoing education to employees.

Posting education articles in the company magazine General knowledge of environment, initiatives of the Company and group companies and various topics are posted in the monthly company magazine to raise an awareness of employees and their families about environment and to encourage them to actively participate in environmental initiatives.

Calculation of CO2 Emissions in the Entire Supply Chain
Following the conclusion of Paris Agreement*, etc., business operators are now required to work on reduction of CO2 emissions by not only the operator itself but also its entire supply chain. Accordingly, we calculated “Scope 3”(*) in FY2017 in addition to “Scope 1” and “Scope 2” disclosed in FY2016 (see chart on the right). We will promote global warming prevention measures by reducing CO2 emissions throughout the entire supply chain.

For more information on the categories, please visit our website: http://www.hitachi-transportsystem.com/en/profile/csr/environment/plan.html

Global Warming Prevention Initiatives
• Reduction of CO2 emissions
To reduce CO2 emissions, the HTS Group makes various efforts including replacing lights for buildings to LED lighting and installing solar panels on the roof. We will keep working on CO2 reduction.

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

Promoting Green Logistics

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 (FY2017: 10,620 employees). In addition, e-learning for code of conduct contains programs about environment to disseminate the importance of environment as business ethics to employees.

Emissions throughout the supply chain Breakdown of Scope 3

Calculation results of emissions throughout the supply chain (FY2016)

<table>
<thead>
<tr>
<th>Category</th>
<th>Scope 1</th>
<th>Scope 2</th>
<th>Scope 3</th>
<th>Other categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category 1</td>
<td>70.2%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category 2</td>
<td>2.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category 11</td>
<td>7.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other categories</td>
<td>7.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scope 2</td>
<td>12.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scope 3</td>
<td>6.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

Promotion of Modal Shift to Vessel for Transportation of Recycled Resources Waste
The HTS Group promotes modal shift to large-volume and efficient marine transport for recycled resources such as shredder dust with growing needs. Specifically, we transport it from Kanto area to Hokkaido and Kyushu using special 40-ft containers developed by HTS. This special containers are designed with openable roof so as to be able to discharge the contents all at once, realizing efficient handling and transportation.

This approach was evaluated as pioneer technological development to reduce environmental load in the logistics field and received the 18th Logistics Environment Awards “Logistics Environmental Impact Mitigation Technology Development Award” sponsored by Japan Association for Logistics and Transport in June 2017.

Comparison of modal shift from truck to vessel

<table>
<thead>
<tr>
<th>Year</th>
<th>Truck transport</th>
<th>RORO ship transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>141.3</td>
<td>124.3</td>
</tr>
<tr>
<td>2013</td>
<td>140.7</td>
<td>125.3</td>
</tr>
<tr>
<td>2014</td>
<td>141.4</td>
<td>124.4</td>
</tr>
<tr>
<td>2015</td>
<td>139.9</td>
<td>123.9</td>
</tr>
<tr>
<td>2016</td>
<td>136.3</td>
<td>123.6</td>
</tr>
<tr>
<td>2017</td>
<td>133.1</td>
<td>123.3</td>
</tr>
</tbody>
</table>

Note Total of Scope 1 and 2

*Paris Agreement Framework for international initiatives to deal with climate change starting in 2020 which was agreed at the 21st Conference of Parties to the United Nations Framework Convention on Climate Change (Paris COP21) held in Paris in December 2015.

* The term ‘learning’ refers to a method of learning using the Internet.

Eco-friendly vehicle ownership ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>95%</td>
<td>96%</td>
</tr>
<tr>
<td>2016</td>
<td>96%</td>
<td>97%</td>
</tr>
<tr>
<td>2017</td>
<td>98%</td>
<td>99%</td>
</tr>
<tr>
<td>2018</td>
<td>99%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: HTS Group eco-friendly vehicle ownership ratio

Eco-friendly vehicles

Electro car

Roll on roll off ship*
A type of vessel featuring an opening at the bow, stern, or side by which trailers can drive onto the vessel via a ramp.

● Post new long-term regulation:
Regulations enacted by the Ministry of Land, Infrastructure, Transport and Tourism of Japan in 2008 to further reduce NOx (nitrogen oxide) and PM (particulate matter) released from new trucks, buses and cars.

● Roll on roll off ship:
A type of vessel featuring an opening at the bow, stern, or side by which trailers can drive onto the vessel via a ramp.

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</table>
The crux of our communications: taking the perspective of each individual

Working Together

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

HTS Group Procurement Policy

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

• 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.

• 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

<table>
<thead>
<tr>
<th>General CSR activities</th>
<th>CSR Activities for The Environment</th>
<th>CSR Activities for Corporate Ethics</th>
<th>CSR Activities for Production</th>
<th>CSR Activities for Information Security</th>
<th>CSR Activities for Occupational Health and Safety</th>
<th>CSR Activities for Human Rights and Labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Vigorous promotion of CSR activities, and (2) Contribution to society and community.</td>
<td>(1) Management of hazardous chemicals in products, (2) Management of hazardous chemicals used in manufacturing. (1) Prohibition of abuse of a superior bargaining position,</td>
<td>(1) Prohibition of corruption, bribes, etc., (2) Prohibition of abuse of a superior bargaining position,</td>
<td>(1) Ensuring product safety, and (2) Establishing and applying a quality assurance system.</td>
<td>(1) Defense against threats on the computer network, (2) Prevention of leakage of personal information, and</td>
<td>(1) Applying safety measures for equipment and instruments, (2) Safe activities in the workplace,</td>
<td>(1) Prohibition of forced labor, (2) Prohibition of inhuman treatment,</td>
</tr>
<tr>
<td></td>
<td>(3) Establishing and applying an environmental management system, (4) Minimization of environmental pollution (water, soil, air), (5) Obtaining permission for environmental/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.</td>
<td>(3) Prohibition of offering or accepting inappropriate profit and advantage, (4) Prohibition of impedance to free competition, (5) Using appropriate report procedures, (6) Prompt detection of mistakes, wrongdoings and injustice.</td>
<td></td>
<td></td>
<td>(1) Protecting health, hygiene and safety in the workplace, (2) Preventing and minimizing injuries and illnesses, (3) Providing appropriate workplace hygiene and health, and (4) Employers health management.</td>
<td>(3) Prohibition of child labor, (4) Prohibiting discrimination, (5) Protecting living and working conditions, and (6) Protecting right to freedom of association.</td>
</tr>
</tbody>
</table>

* 3R: Reduce, Reuse, and Recycle
— Working together with our customers —

Heavy cargo transportation supported by technical capabilities accumulated over the years and planning skill focusing on details - Transportation of gas turbines for Tungshiao GTCC* Power Plant in Taiwan -

In anticipation of significant increase in electric power demand with the economic growth in Taiwan, it was decided to build a new power plant (Tungshiao Power Plant) in Miaoli County, located approximately 150 km southwest of Taipei, Mitsubishi Hitachi Power Systems, Ltd. supplied its cutting-edge gas turbine to the new plant, playing a large role in the project.

HTS, making all-out efforts with the entire group, sought a safe and optimal solution for the transportation of a set of gas turbine, the order which our customer Mitsubishi Hitachi Power Systems received, to the plant. In planning the transportation, we faced quite a few challenges including features of the products and strict transportation requirements by Taiwan, but after repeated trial and error and examinations with our customer and with close coordination with all parties involved, we were able to put together a transportation plan with special attention to details and successfully delivered the product as planned.

With our engineering capability accumulated over the years and persistence as a heavy cargo transporter, we will continue to offer optimum and safe transportation services that satisfy our customers.

* GTCC: Gas turbine combined cycle

Logistics support for customers advancing overseas - Operation of distribution center for an apparel company -

In line with our customer’s business expansion in the West Coast in the U. S., we opened a distribution center “Pomona DC” to handle apparel products in California in February 2017. We integrated operation of our customer’s two group companies in this new center and realized flexible and efficient operation.

In September 2017, we added EC service function to a distribution center for retail stores in Sydney, Australia. Integrating the storage for inventories for retail stores and EC has contributed to shorter working lead time and lower transportation costs. We will continue our efforts to offer safe and high-quality logistics services to customers advancing overseas.

Use of artificial intelligence technology

We use artificial intelligence technology and conduct research and development of supporting systems in various fields to improve work efficiency and strengthen collaboration with customers.

• Demand forecast
  We use warehouse data as well as external data including weather conditions to forecast shipment volume and necessary man-hour with high accuracy. Currently, we are conducting on-site tests in conjunction with an inventory management tool (chart on the right (1)) and a manpower planning tool.

• Image inspection/tally
  We develop a technology that recognizes goods without a barcode (chart on the right (2)) and volume (chart on the right (3)) by using image recognition.

• Calculation of optimum inventory and automated ordering
  We cooperate with customers to optimize the entire supply chain.

Please refer to the movie for details of smart logistics technology:

Putting new technology and labor-saving technology verified at “R&D Center” into practical use on site

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

New Technologies and Labor-saving Technologies

• Practical use of “Racrew” on site
  We are accelerating practical use of “Racrew” on site. We introduced 30 units in a medical distribution center in May 2017 and additional 50 units in an apparel distribution center in March 2018 (75 units in total), releasing workers from walking and saving labor in picking operation. We will keep on introducing “Racrew.”

• Depalletizing robot
  We developed a robot that identifies boxes randomly stacked on a pallet with the “Masterless system*2” and move them to a conveyor with the “Teaching-less system*2”. We are now conducting its field test in a distribution center for retail stores.

• Utilization of RFID
  For efficient inbound and outbound inspection and inventory count, we test accuracy of reading in actual logistics sites and verify operations. We also participate in demonstration experiment of “Information sharing system for supply chain using electronic tag,” a project outsourced by New Energy and Industrial Technology Development Organization (NEDO).

• Automated forklift-type AGV
  We are testing actual operation of both the daytime operation to convey inbound goods in the mixed environment with manned forklifts aiming at labor saving, and the night-time operation to collect empty boxes in the unattended environment aiming at streamlining warehouse management, in distribution centers respectively.

Please refer to the movie for details of new technologies and labor saving technologies.

Please refer to the movie for details of new technologies and labor saving technologies.

(1) Inventory management tool with volume forecast function
(2) Inspection system using character recognition
(3) Inspection/tally system using volume information

Please refer to the movie for details of new technologies and labor saving technologies.
HTS Group Diversity

The Diversity Promotion Center was established in 2012. In order to respond to labor shortages due to Japan’s aging population combined with a declining birth rate and the globalisation of the market, the HTS Group will enhance its collective strengths encouraging active participation of diverse human resources including female employees, persons with disabilities, foreign nationals and seniors, and creating a pleasant work place.

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. HTS was also recognized again, as in FY2010, by the Ministry of Health, Labour and Welfare as a company that supports child-rearing, with the logo that appears right. In addition, HTS was selected as “Semi-Nadeshiko Brand” in selection of “Nadeshiko Brands” by METI and the Tokyo Stock Exchange in FY2016.

Promotion of Working-style Reform

The “Employee Relations and HR Policy/Programs Group” was established in FY2016 to promote changes in awareness of employees and managers. We are also working on measures to correct long working hours and introduce flexible working methods. As part of such measures, we introduced a “work-at-home system” in FY2016, and expanded its target to those in management position for reasons other than childcare or nursing care in FY2017. We also introduced “satellite working system” on a trial basis using external offices or other convenient offices, with the aim of making it a permanent system for employees in management position and those caring for children or family members.

Boosting Understanding of Diversity

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

Support for Balancing Work and Childrearing

Active participation of female workers is essential for a global company to promote diversity and we believe it is critical to create an environment where female workers can balance their work and childrearing. HTS puts in place systems whereby employees can take maternity leave, childcare leave or short working hour system for a longer period than that specified by law to ensure that female workers can work with peace of mind after marriage and childbirth.

In FY2017, we also introduced systems to provide certain allowances including “additional child allowance” and “support fund for balancing childrearing and work” in an effort to create an environment which makes it easy for employees working while raising their children to demonstrate their ability.

Please visit our website for more information on promotion of diversity.

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

Interview with female manager using the work-at-home system

Manager, Director’s Office, Hitachi Transport System, Ltd.
Aya Kimura

Currently, I’m using the work-at-home system as a measure to balance work and care of my four-year-old child. Using the system makes me conscious of effective time management more than ever as well as “selection and scheduling of tasks” for work at office and home” and “output of myself”. So, I feel this is really the first step of “Working-style Reform.”

While I am very pleased that many female workers continue working after having children in HTS, I often hear that they have difficulties managing time. Actually, I used to be one of them, but now I can feel that using this system is producing good results for both business and in private life and I am very grateful.

I will value cooperation with relevant parties so that more employees can use these support systems effectively in the future.

Employment of young employees in the overseas training program

HTS Group Diversity

The HTS Group implements a variety of initiatives on hiring persons with disabilities, including taking on personnel for practical training from special needs schools and cooperating with the support office of universities. We also prepare the work environment by setting up labor-saving equipment especially geared toward persons with disabilities and creating barrier-free environment. We will continue to hire persons with disabilities as well as to take 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 Managerial Personnel Training, which serves to train the next generation of managers, and our 3PL (Third Party Logistics) Professional Course, which works with backbone employees on 3PL projects. These personnel development programs are implemented to continuously solidify our business base.

SPL Professional Course

We determine training themes and curriculum considering business needs to provide the best training. In particular, “SPL Professional Course” offers knowledge of securing safety that is critical for site operation and knowledge of new technologies to selected employees of the HTS Group. In addition, employees with abundant experiences, as in house lecturers, pass down their knowledge and technique to strengthen sales and on-site operations. The programs focus on learning readiness for practical situations through discussions among participants about topics based on the actual cases.

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■ Percentages of persons with disabilities hired

<table>
<thead>
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<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>Rate</td>
<td>1.97%</td>
<td>2.09%</td>
<td>2.30%</td>
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■ Ratio of female employees in new graduates hired

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<td>31.1%</td>
<td>34.1%</td>
<td>36.1%</td>
<td>27.4%</td>
<td>0%</td>
<td>1/4</td>
<td>1/2</td>
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■ Ratios of female employees in new graduates hired in HTS Group

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<td>1/4</td>
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</table>
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.

## Initiative through Traffic and Road Safety Class

### The HTS Traffic and Road Safety Class

In May 2017, HTS held its annual Futsal Tournament at the futsal field located next to the distribution center at Noda City, Chiba Prefecture since FY2006.

### Track and Field Class

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

### Sports Initiatives

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

### Activities of overseas group companies

- **Thailand: HTS Group joint CSR activities**
  - We planted saplings and released young carp in the river near the dam in Kabin Buri District, Prachinburi Province for the conservation of the environment and ecosystems.
  - HTS Transport System Vantec (Thailand), Ltd.
  - Eternity Grand Logistics Public Co., Ltd.
  - VANTEC AMATA LOGISTICS (THAILAND) CO., LTD.

### Overview of the HTS Group Magokoro (Sincere Heart) Fund

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

### FY2017 Initiatives

#### Traffic and Road Safety

- **Gifts:** HTS donated 6,000 sets of reflector to boys in Osaka Ward Office and others
- **Gifts:** HTS donated 900 LED light key chains to Okayama Prefectural Government

#### Regional Social Action/Social Welfare

- **Gifts:** We donated 40-wheelchairs to 13 municipalities around the country and a welfare vehicle to each of the welfare facilities in Koto Ward, Tokyo and Hitachi City, Shizuoka
- **Financial support:** Sponsoring a Scholarship from the Japan Institute for Horse Riding Association

#### Environmental Conservation

- **Financial support:** National Land Afforestation Promotion Organization (Kaken Fund) (public corporation)
- **Financial support:** Organization for Industrial, Spiritual and Cultural Advancement (JICA) (Kodama no Mori Program) (public interest incorporated foundation)
- **Financial support:** National Land Afforestation Promotion Organization (Green Fund) (public interest incorporated foundation)

- **Afforestation support:** Putting up a signboard in a school we support (“Kodomo-no-Mori” Program/Sri Lanka)
- **Afforestation support:** Additional one hectare of land (“HTS Magokoro Fund” format) afforested in the Khorchin Mongol region desert, in collaboration with HTS Afforestation Network

- **Support:** National Land Afforestation Promotion Organization (Kaken Fund) (public corporation)
- **Conversion:** HTS donated 900 LED light key chains to Okayama Prefectural Government
- **Support:** HTS donated 6,200 sets of reflectors to bicycles in Osaka Ward Office and others

**U.S.: Activities through internal volunteer organization**

- Employees continue activities of donating foodstuffs and toys to local communities in various areas.
  - J.M. Boyle & Co.

**Turkey: Hosting logistics contest**

In cooperation with Logistics Association, we hold the “Logistics Case Study Competition” targeting university and professional school students. This event has been held since 2003 in order to get the attention of students to the logistics industry, and approximately 1,000 students participated in FY2017.

- Mars Logistics Group Inc.
- James J. Boyle & Co.
- J.P. Holding Company, Inc.
- VANTEC AMATA LOGISTICS (THAILAND) CO., LTD.
- Hitachi Transport System Vantec (Thailand), Ltd.

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**Cooperation in SCRACAC Science Day**

The HTS Group cooperates in “Hitachi Celebrates Science Day,” an event with the purpose of getting local children who need economic support interested in science and mathematics through science and mathematics. Approximately 1,000 children from eight elementary schools participated.

- Vantec Hitachi Transport System (USA), Inc.
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— Working together with our shareholders and investors —

In order to ensure sustainable growth and boost corporate value over the medium-to-long term, we recognize the importance of fair and highly transparent information disclosure in a timely and appropriate manner as well as active dialog with our shareholders and investors. To this end, we have in place an IR system to facilitate 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.

**Information Disclosure**

HTS discloses information pertaining to operations, finances, and publications including our summary of financial results, presentation materials of financial results, annual securities reports, notice of convocation of the annual general meeting of shareholders, business reports, and annual reports. From FY2017, we started to disclose small-scale meeting materials as explanatory material of financial results summary. We have also set up an IR Information section on our Website to disclose investment information to our shareholders and investors, among others. HTS discloses information pertaining to operations, finances, and publications including our summary of financial results, presentation materials of financial results, annual securities reports, notice of convocation of the annual general meeting of shareholders, business reports, and annual reports. From FY2017, we started to disclose small-scale meeting materials as explanatory material of financial results summary. We have also set up an IR Information section on our Website to disclose investment information to our shareholders and investors, among others. To facilitate smooth exercise of voting rights, HTS offers electromagnetic means which allows shareholders to exercise their rights using PCs and smartphones, uses the electronic voting platform for institutional investors, and post English translation of the notice of convocation and voting results of the annual general meeting of shareholders on our website.

**Basic Shareholder Return Policy**

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

<table>
<thead>
<tr>
<th>Dividends</th>
<th>Interim</th>
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<td>FY2015</td>
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**Dividends (Dividend per share)**

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. We worked on further enhancement of communication by holding conferences in Japan for foreign investors and increasing participation in IR seminars for individual investors in FY2017.

**FY2017 Initiatives**

- Results briefings (twice)
- Top executive meeting (once)
- Small-scale meetings (twice)
- Telephone conferences (twice)
- Overseas road shows (twice)
- Conferences in Japan (three times)
- R&D Center tour (once)
- IR seminars for individual investors (twice)
- Individual meetings, etc.

**FY2017 R schedule (results)**

<table>
<thead>
<tr>
<th>IR activities</th>
<th>1st quarter</th>
<th>2nd quarter</th>
<th>3rd quarter</th>
<th>4th quarter</th>
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**DY2016 Initiatives**

- Results briefing (October 26, 2016) * Hosted by the Securities Analysts Association of Japan
- IR seminar for individual investors (March 16, 2018) * Hosted by the Securities Analysts Association of Japan
- The first results briefing since the relocation of head office to Chuo-ku (Kyobashi), Tokyo

**FY2017 IR schedule (results)**

<table>
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<tr>
<th>IR activities</th>
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Corporate Governance

Status of 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 crisis 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 executives. 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

Relationship between HTS and outside directors

There are no special interests involved between six outside directors appointed at the HTS 59th Regular General Shareholders' Meeting held June 19th, 2018 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

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 resolved at the Board of Directors meeting. 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.

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 corporate integrity 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 corporate culture that values corporate ethics and compliance by actively providing compliance trainings and awareness projects, including e-learning, company-wide group seminars and compliance meetings.

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

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

In Japan, our BCPs are mainly concerned with large earthquakes and pandemic influenza scenarios. As an initiative to improve the effectiveness of BCP in FY2017, a disaster prevention headquarter training (desktop simulation) was conducted at each headquarters and group company. (September: Kyushu, March: Tokyo metropolitan area)

In the first half of FY2017, based on the lessons learned from the Kumamoto Earthquakes, we replenished the stockpile for disaster to cover any shortfall across the Group and established six backup warehouses to be used as alternative sites if disaster occurs around the country.

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

Acquisition and maintenance of third-party certification

HTS has obtained and maintained third party certification, specifically the Privacy Mark™ and ISMS™ (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.

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 FY2017, following the enactment of the Amended Act on the Protection of Personal Information, we revised the company rules and operation manuals. In addition, we are working on strengthening group-wide governance and provide various trainings every year, including group training for new employees, e-learning for all employees and simulation trainings as a countermeasure against targeted threat emails.

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

### Financial Statements

#### Consolidated Statement of Financial Position

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

#### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>As of March 31, 2018</th>
<th>As of March 31, 2017</th>
<th>As of March 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥ 63,497</td>
<td>¥ 57,483</td>
<td>¥ 597,675</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>¥ 135,987</td>
<td>¥ 125,600</td>
<td>¥ 1,279,998</td>
</tr>
<tr>
<td>Inventories</td>
<td>¥ 1,711</td>
<td>¥ 1,466</td>
<td>¥ 16,105</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>¥ 7,868</td>
<td>¥ 7,086</td>
<td>¥ 74,059</td>
</tr>
<tr>
<td>Other current assets</td>
<td>¥ 1,089</td>
<td>¥ 1,237</td>
<td>¥ 104,377</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>¥ 220,152</td>
<td>¥ 204,662</td>
<td>¥ 2,072,214</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>¥ 75,349</td>
<td>¥ 71,518</td>
<td>¥ 709,234</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>¥ 175,015</td>
<td>¥ 177,520</td>
<td>¥ 1,647,355</td>
</tr>
<tr>
<td>Goodwill</td>
<td>¥ 27,869</td>
<td>¥ 28,067</td>
<td>¥ 262,321</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>¥ 31,833</td>
<td>¥ 34,766</td>
<td>¥ 299,633</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>¥ 8,466</td>
<td>¥ 8,193</td>
<td>¥ 79,688</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>¥ 18,320</td>
<td>¥ 16,858</td>
<td>¥ 172,440</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>¥ 7,899</td>
<td>¥ 8,140</td>
<td>¥ 74,351</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>¥ 344,751</td>
<td>¥ 349,062</td>
<td>¥ 3,245,021</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>¥ 564,903</td>
<td>¥ 549,924</td>
<td>¥ 5,317,235</td>
</tr>
</tbody>
</table>
### Consolidated Statement of Profit or Loss

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

**For the years ended March 31, 2018 and 2017**

<table>
<thead>
<tr>
<th>Item</th>
<th>2018 (Millions of yen)</th>
<th>2017 (Millions of yen)</th>
<th>2018 (Thousands of U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>700,391</td>
<td>665,377</td>
<td>$6,592,536</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>(620,011)</td>
<td>(590,126)</td>
<td>(5,833,947)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>80,380</td>
<td>75,251</td>
<td>756,589</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(50,577)</td>
<td>(45,785)</td>
<td>(476,064)</td>
</tr>
<tr>
<td><strong>Adjusted operating income</strong></td>
<td>29,803</td>
<td>29,466</td>
<td>280,525</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td>3,461</td>
<td>3,118</td>
<td>32,577</td>
</tr>
<tr>
<td><strong>Other expenses</strong></td>
<td>(3,998)</td>
<td>(4,377)</td>
<td>(37,632)</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>29,266</td>
<td>28,207</td>
<td>275,471</td>
</tr>
<tr>
<td><strong>Financial income</strong></td>
<td>88</td>
<td>103</td>
<td>828</td>
</tr>
<tr>
<td><strong>Financial expenses</strong></td>
<td>(1,818)</td>
<td>(496)</td>
<td>(17,112)</td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td>5,557</td>
<td>3,741</td>
<td>52,306</td>
</tr>
<tr>
<td><strong>EBIT (Earnings before interest and taxes)</strong></td>
<td>33,093</td>
<td>31,555</td>
<td>311,493</td>
</tr>
<tr>
<td><strong>Interest income</strong></td>
<td>1,031</td>
<td>762</td>
<td>9,704</td>
</tr>
<tr>
<td><strong>Interest expenses</strong></td>
<td>(1,862)</td>
<td>(1,932)</td>
<td>(17,526)</td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td>32,262</td>
<td>30,385</td>
<td>303,671</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td>(10,154)</td>
<td>(10,466)</td>
<td>(95,576)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>22,108</td>
<td>19,919</td>
<td>$208,095</td>
</tr>
</tbody>
</table>

**Net income attributable to:**

- Stockholders of the parent company: 20,916 (18,703) 196,875
- Non-controlling interests: 1,192 (1,031) 11,220

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

- **Basic**: ¥187.50 (¥167.66) $1.76
- **Diluted**: – – –

---

### Consolidated Statement of Comprehensive Income

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

**For the years ended March 31, 2018 and 2017**

<table>
<thead>
<tr>
<th>Item</th>
<th>2018 (Millions of yen)</th>
<th>2017 (Millions of yen)</th>
<th>2018 (Thousands of U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income</strong></td>
<td>22,108</td>
<td>19,919</td>
<td>$208,095</td>
</tr>
<tr>
<td><strong>Other comprehensive income (OCI)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net changes in financial assets measured at fair value through OCI</td>
<td>457</td>
<td>(171)</td>
<td>4,302</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>(60)</td>
<td>374</td>
<td>(565)</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>123</td>
<td>(18)</td>
<td>1,158</td>
</tr>
<tr>
<td><strong>Total items not to be reclassified into net income</strong></td>
<td>520</td>
<td>185</td>
<td>4,895</td>
</tr>
<tr>
<td><strong>Items that can be reclassified into net income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>1,798</td>
<td>(2,653)</td>
<td>16,924</td>
</tr>
<tr>
<td>Net changes in cash flow hedges</td>
<td>–</td>
<td>36</td>
<td>–</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>5</td>
<td>(58)</td>
<td>47</td>
</tr>
<tr>
<td><strong>Total items that can be reclassified into net income</strong></td>
<td>1,803</td>
<td>(2,673)</td>
<td>16,971</td>
</tr>
<tr>
<td><strong>Other comprehensive income (OCI)</strong></td>
<td>2,323</td>
<td>(2,490)</td>
<td>21,866</td>
</tr>
<tr>
<td><strong>Comprehensive income</strong></td>
<td>24,431</td>
<td>17,429</td>
<td>$229,960</td>
</tr>
<tr>
<td><strong>Comprehensive income attributable to</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stockholders of the parent company</td>
<td>22,486</td>
<td>16,846</td>
<td>211,653</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>1,945</td>
<td>583</td>
<td>18,308</td>
</tr>
</tbody>
</table>
### Consolidated Statement of Changes in Equity

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

For the year ended March 31, 2018

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
<th>$1,191,637</th>
<th>$916,229</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at beginning of year</strong></td>
<td>Y 16,803</td>
<td>Y 2,782</td>
<td>Y 176,842</td>
<td>(301)</td>
</tr>
<tr>
<td><strong>Changes in equity</strong></td>
<td></td>
<td></td>
<td></td>
<td>193,468</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td></td>
<td></td>
<td></td>
<td>2,024,567</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td></td>
<td></td>
<td></td>
<td>956</td>
</tr>
<tr>
<td>Transactions with non-controlling interests</td>
<td>(4,863)</td>
<td>(94)</td>
<td>(4,927)</td>
<td>(2,666)</td>
</tr>
<tr>
<td>Dividends</td>
<td>(1,904)</td>
<td>(131)</td>
<td>(3,064)</td>
<td>(4,035)</td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td>10</td>
<td>1</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Acquisition and sales of treasury stock</td>
<td></td>
<td></td>
<td></td>
<td>11,192</td>
</tr>
<tr>
<td><strong>Total changes in equity</strong></td>
<td>(4,863)</td>
<td>17,022</td>
<td>1,496</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Balance at end of year</strong></td>
<td>Y 16,803</td>
<td>Y 3,409</td>
<td>Y 193,844</td>
<td>(181)</td>
</tr>
</tbody>
</table>

For the year ended March 31, 2017

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2018</th>
<th>$340,486</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at beginning of year</strong></td>
<td>Y 16,803</td>
<td>Y 9,630</td>
<td>Y 161,708</td>
</tr>
<tr>
<td><strong>Changes in equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td></td>
<td></td>
<td>2,917</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td></td>
<td></td>
<td>1,748</td>
</tr>
<tr>
<td>Transactions with non-controlling interests</td>
<td>(1,358)</td>
<td>(131)</td>
<td>(1,348)</td>
</tr>
<tr>
<td>Dividends</td>
<td>(3,569)</td>
<td>(96)</td>
<td>(3,665)</td>
</tr>
<tr>
<td>Acquisition and sales of treasury stock</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total changes in equity</strong></td>
<td>(1,358)</td>
<td>15,134</td>
<td>13,847</td>
</tr>
<tr>
<td><strong>Balance at end of year</strong></td>
<td>Y 16,803</td>
<td>Y 8,272</td>
<td>Y 176,842</td>
</tr>
</tbody>
</table>

For the year ended March 31, 2018

<table>
<thead>
<tr>
<th>Description</th>
<th>Thousands of U.S. dollars</th>
<th>2018</th>
<th>2017</th>
<th>$58,151</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at beginning of year</strong></td>
<td>$ 158,161</td>
<td>$ 77,861</td>
<td>$1,664,552</td>
<td>2,833</td>
</tr>
<tr>
<td><strong>Changes in equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td></td>
<td></td>
<td>$1,694</td>
<td></td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td></td>
<td></td>
<td>$986,047</td>
<td></td>
</tr>
<tr>
<td>Transactions with non-controlling interests</td>
<td>(45,774)</td>
<td>(902)</td>
<td>(46,376)</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>(36,747)</td>
<td>(1,233)</td>
<td>(36,747)</td>
<td></td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td>94</td>
<td>(54)</td>
<td>(94)</td>
<td></td>
</tr>
<tr>
<td>Acquisition and sales of treasury stock</td>
<td></td>
<td></td>
<td>(9)</td>
<td></td>
</tr>
<tr>
<td><strong>Total changes in equity</strong></td>
<td>(45,774)</td>
<td>160,222</td>
<td>14,081</td>
<td></td>
</tr>
<tr>
<td><strong>Balance at end of year</strong></td>
<td>$ 158,161</td>
<td>$ 32,088</td>
<td>$1,244,774</td>
<td>11,248</td>
</tr>
</tbody>
</table>

### Consolidated Statement of Cash Flows

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

For the years ended March 31, 2018 and 2017

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
<th>$208,095</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Adairments to reconcile net income to net cash provided by operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td></td>
<td></td>
<td>$179,123</td>
</tr>
<tr>
<td>Impairment losses</td>
<td></td>
<td></td>
<td>11,803</td>
</tr>
<tr>
<td>Reversal of impairment losses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td></td>
<td></td>
<td>(52,306)</td>
</tr>
<tr>
<td>Income taxes</td>
<td></td>
<td></td>
<td>95,576</td>
</tr>
<tr>
<td>Increase (decrease) in retirement and severance benefits</td>
<td></td>
<td></td>
<td>8,123</td>
</tr>
<tr>
<td>Interest and dividends income</td>
<td></td>
<td></td>
<td>10,514</td>
</tr>
<tr>
<td>Interest expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Gains) losses on sale of property, plant and equipment</td>
<td></td>
<td></td>
<td>(26,167)</td>
</tr>
<tr>
<td>Increase (decrease) in trade receivables</td>
<td></td>
<td></td>
<td>(90,992)</td>
</tr>
<tr>
<td>Increase (decrease) in inventories</td>
<td></td>
<td></td>
<td>(2,137)</td>
</tr>
<tr>
<td>Increase (decrease) in trade payables</td>
<td></td>
<td></td>
<td>25,772</td>
</tr>
<tr>
<td>Increase (decrease) in other assets and other liabilities</td>
<td></td>
<td></td>
<td>(24,435)</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>8,998</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td></td>
<td></td>
<td>2,917</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property, plant and equipment and intangible assets</td>
<td></td>
<td></td>
<td>(114,806)</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment and intangible assets</td>
<td></td>
<td></td>
<td>51,628</td>
</tr>
<tr>
<td>Proceeds from withdrawal of deposits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of investments accounted for using the equity method</td>
<td></td>
<td></td>
<td>(66,443)</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>526</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td></td>
<td></td>
<td>(58,151)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
<th>$597,675</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in short-term debt, net</td>
<td></td>
<td></td>
<td>17,263</td>
</tr>
<tr>
<td>Proceeds from long-term debt</td>
<td></td>
<td></td>
<td>124,511</td>
</tr>
<tr>
<td>Repayments of long-term debt</td>
<td></td>
<td></td>
<td>(14,138)</td>
</tr>
<tr>
<td>Repayments of lease obligations</td>
<td></td>
<td></td>
<td>(45,642)</td>
</tr>
<tr>
<td>Purchase of shares of consolidated subsidiaries from non-controlling interests</td>
<td></td>
<td></td>
<td>(70,444)</td>
</tr>
<tr>
<td>Dividends paid to stockholders of the parent company</td>
<td></td>
<td></td>
<td>(36,747)</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td></td>
<td></td>
<td>(1,017)</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>(4,066)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td></td>
<td></td>
<td>(154,791)</td>
</tr>
<tr>
<td><strong>Effect of exchange rate changes on cash and cash equivalents</strong></td>
<td></td>
<td></td>
<td>6,771</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents</strong></td>
<td></td>
<td></td>
<td>56,908</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at beginning of year</strong></td>
<td></td>
<td></td>
<td>$541,267</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td></td>
<td></td>
<td>$597,675</td>
</tr>
</tbody>
</table>

Hitachi Transport System, Ltd. - Annual Report 2018
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

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

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**Stock Information**

**Number of shares outstanding:** 111,776,714 shares
**Number of shares per unit:** 100 shares

<table>
<thead>
<tr>
<th>Number of shares held (thousands)</th>
<th>Percentage of shares held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hitachi, Ltd. 33,471</td>
<td>30.01%</td>
</tr>
<tr>
<td>SG Holdings Co., Ltd. 32,349</td>
<td>29.00%</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account) 5,871</td>
<td>5.26%</td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account) 3,145</td>
<td>2.82%</td>
</tr>
<tr>
<td>National Mutual Insurance Federation of Agricultural Cooperatives 2,893</td>
<td>2.59%</td>
</tr>
<tr>
<td>JP MORGAN CHASE BANK 3850684 1,883</td>
<td>1.69%</td>
</tr>
<tr>
<td>Hitachi Transport System, Ltd 1,388</td>
<td>1.24%</td>
</tr>
<tr>
<td>EMPLOYEES' SHAREHOLDERS ASSOCIATION 1,223</td>
<td>1.09%</td>
</tr>
<tr>
<td>FUKUYAMA TRANSPORTING CO., LTD. 1,038</td>
<td>0.93%</td>
</tr>
<tr>
<td>JP MORGAN CHASE BANK 385166 983</td>
<td>0.88%</td>
</tr>
</tbody>
</table>

Note: The percentage of shares held is calculated based on the number of shares excluding treasury stock (226,948 shares).

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

- **Share Price (Yen) Volume (Millions)**
  - Share Price
  - Volume

- **Number of shareholders:** Numbers inside parentheses are number of shareholders.

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**Main Subsidiaries & Associates**

**Domestic**
- Hitachi Transport System East Japan Co., Ltd.
- Hitachi Transport System South Kanto Co., Ltd.
- Hitachi Transport System Chubu Kanto Co., Ltd.
- Hitachi Transport System Kanto Co., Ltd.
- Hitachi Transport System Kyushu Co., Ltd.
- Hitachi Transport Direx Co., Ltd.
- Hitachi Collaborate Transport System Co., Ltd.
- Hitachi Finehex Transport System Co., Ltd.
- VANTEC CORPORATION
- VANTEC ITS FORWARDING, LTD.
- Nishin 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 Vantec (Thailand) Ltd.
- Eternity Grand Logistics Public Company Limited
- PT Berdini Matarahi Logistik
- Hitachi Transport System (Vietnam) Co., Ltd.
- NISSIN (MYANMAR) CO., LTD.
- Fijyac Logistics Pvt. Ltd.
- Hitachi Transport System (China), Ltd.
- Nishin 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.

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**Network Extending to 29 Countries and Regions**

**Domestic:**
- Hitachi Transport System East Japan Co., Ltd.
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- Hitachi Transport System (Korea), Ltd.
- Hitachi Transport System (Australia) Pty. Ltd.

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**Notation:**
- *1 China, Hong Kong, Taiwan, Korea
- *2 Including Oceania area
- *3 Including Mexico
- *4 Number of companies includes SAGAWA EXPRESS CO., LTD.
- *5 Number of sites excludes SAGAWA EXPRESS CO., LTD.
Annual Report 2018
Hitachi Transport System

Taking on the Future

Hitachi Transport System, Ltd.
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