

Toward New Dimensions  
**LOGISTEED**

**Integrated Report 2020**

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## Editorial policy

The HTS Group has published the Integrated Report from FY2020 in lieu of the conventional Annual Reports. This report introduces the Group's initiatives toward sustainable increase of corporate value to our stakeholders through the explanation of our value creation process and business model. This report has been compiled with reference to "the International Integrated Reporting Framework" published by the International Integrated Reporting Council (IIRC) and "Guidance for Collaborative Value Creation" published by the Ministry of Economy, Trade and Industry.

## Reporting period

The fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020 in general)

However, recent activities are also reported in this report. "FY" refers to a financial period ended or ending on March 31.

## Companies covered in this report

This integrated report covers Hitachi Transport System and the HTS Group (81 consolidated subsidiaries and 21 associates accounted for using the equity method) in principle.

## Forward-looking statements

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

Toward New Dimensions

# LOGISTEED

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

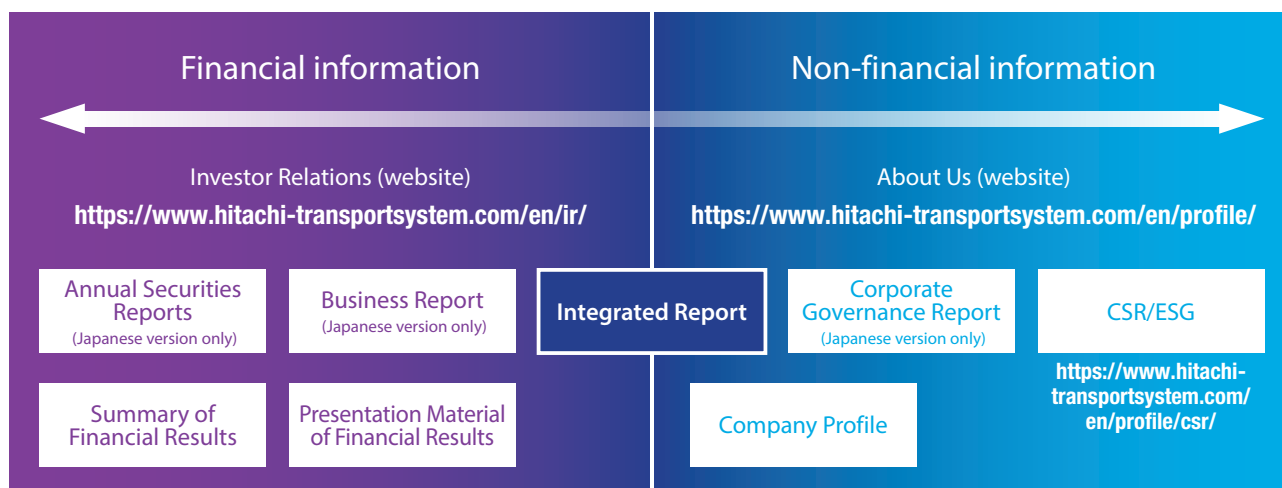
Details are available at the Company's website.



Hitachi Transport System aims for "LOGISTEED"

<https://www.hitachi-transportssystem.com/en/profile/logisteed/>

## The HTS Group's tools for information disclosure



# Management Philosophy & Brand

Under the corporate philosophy “to deliver high-quality services that will help make the world a better place for people and nature for generations to come,” the corporate vision of the Hitachi Transport System Group is to become the most preferred global supply chain solutions provider for all of our stakeholders, including customers, shareholders, and employees, in the sophisticated, diversified and wide-ranging global supply chain, and strives to achieve sustainable growth by solving issues and creating “values” through various “collaborative innovation.” In addition, we have organized the role and future direction of the Group as “HB Way” with an aim to embody our Corporate Philosophy and Corporate Vision.

## HB Way

Shows the role and the "way" to move forward of the HTS Group and consists of “Corporate Philosophy,” “Corporate Vision,” “Guiding Principles,” and “Success Drivers.”

### 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

Principles for actions to be followed by all employees of the HTS Group to embody our Corporate Philosophy and Corporate Vision.

#### 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.

### Success Drivers

“Gemba” Power, multiplied by Visualization

3 Key Goal Indicators Safety, Quality, and Productivity

3 Disciplines

Attention to Detail, Uncovering Problems, and Strong Sense of Speed

3 Attributes

Customer Centricity, Teamwork, and Can Do Spirit

### 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.

# At a Glance

Capitalizing on our global network and abundant experiences, the HTS Group meets customers' various logistics needs with our one-stop services of Smart Logistics consisting of 3PL business, Heavy Machinery and Plant Logistics business, and Freight Forwarding business, and aims to become the most preferred global supply chain solutions provider.

## Resources — Bases for Value Creation —

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

### Locations

**103** companies **761** sites

<Domestic: 28 companies 325 sites/Overseas: 75 companies 436 sites>



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

### Human Resources

**45,328**

<Domestic: 28,950 employees/Overseas: 16,378 employees>

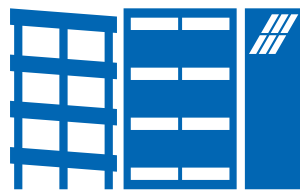


Area of Logistics Center\*<sup>2</sup>

### Warehouses

**7.41** Mm<sup>2</sup>

<Domestic: 5.09 Mm<sup>2</sup>/Overseas: 2.32 Mm<sup>2</sup>>



Number of Vehicles (Including Leased Vehicles)

### Vehicles

**Total: 16,792**

Truck\*<sup>4</sup>: 3,923  
Trailer: 5,452

Forklift: 5,841  
Other\*<sup>5</sup>: 1,576



\*1 Number of companies includes associates accounted for using the equity method.

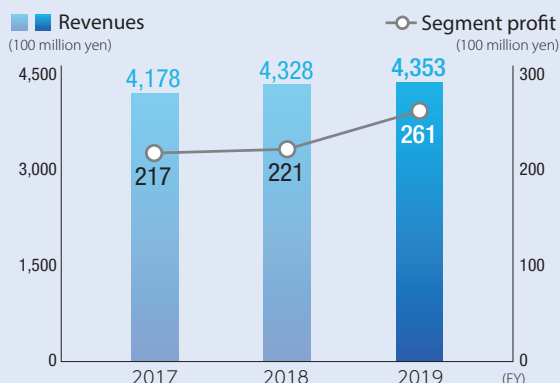
\*2 Number of locations and floor space of logistics centers excludes those of SAGAWA EXPRESS Group, AIT Group, and HTB-BCD Travel Group.

\*3 Number of employees excludes associates accounted for using the equity method.

\*4 Including tractors and vans \*5 Including buses and passenger cars, etc.

## FY2019 Business Overview by Segment

### Domestic logistics business (FY2019)



\* Effective April 1, 2019, the Group adopted IFRS 16 "Leases."

↑ (YoY) **+1%**

#### ● Revenues

Revenues of domestic logistics business increased by 1% year-on-year to ¥435,311 million due to contribution of new projects despite a decrease in handling volume in automobile-related business.

↑ (YoY) **+18%**

#### ● Segment profit

Segment profit increased by 18% year-on-year to ¥26,063 million due to an increase in revenues and improved productivity, and the adoption of IFRS 16 "Leases."

As a domestic 3PL (third party logistics)\*<sup>1</sup> market leader\*<sup>2</sup>, 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.

\*1 A service that comprehensively undertakes logistics operation at various stages of customers' supply chains from material procurement and production to sales, distribution, and after-sales service.

\*2 Source: "3PL White Paper 2019" in September 2019 issue of monthly magazine LOGI-BIZ

## Services — Businesses & Solutions —

### 3PL business

Segment: Domestic logistics/  
Global logistics

## Value

We provide the optimal logistics services in supply chain. In automobile parts logistics, we meet the logistics-related needs of the automobile industry.



### Heavy Machinery and Plant Logistics business

Segment: Domestic logistics/  
Global logistics

## Value

We provide transportation, installation, and setting-up services, etc. for heavy machinery and precision instruments.



### Freight Forwarding business

Segment: Global logistics

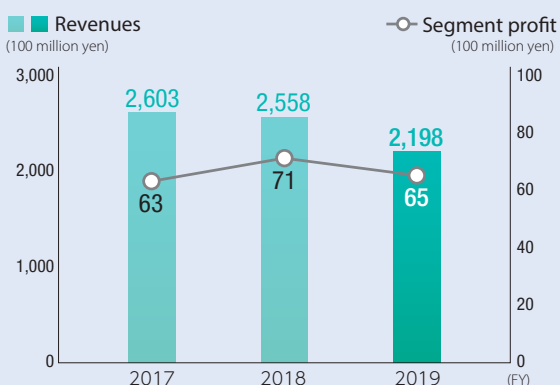
## Value

We propose an optimal transportation plan from various transportation modes including aircraft, ship, rail, etc.



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

## Global logistics business (FY2019)



\* Effective April 1, 2019, the Group adopted IFRS 16 "Leases."

● Revenues  $\searrow$  (Y o Y) -14%

Revenues of global logistics business decreased by 14% year-on-year to ¥219,761 million due to a decrease in the handling volume in Freight Forwarding business (including an effect of exclusion of Nisshin Transportation Co., Ltd. from the scope of consolidation) and foreign exchange rates.

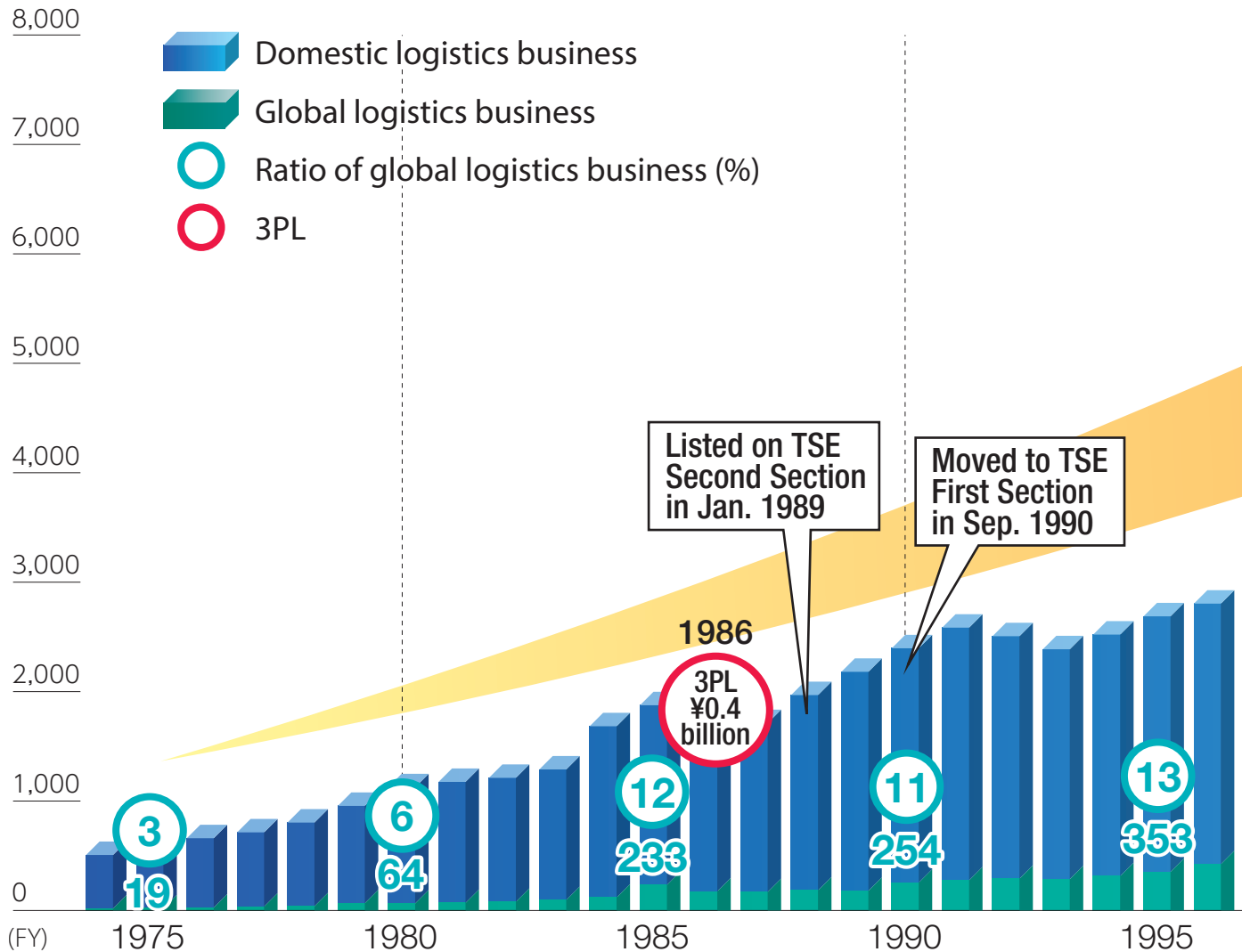
● Segment profit  $\searrow$  (Y o Y) -9%

Segment profit decreased by 9% year-on-year to ¥6,502 million due to a decrease in revenues, incorporation of risks in Freight Forwarding business, and the impact of the COVID-19.

# History of the HTS Group

## Revenues

(100 million yen)



### 1950-

#### Became independent by integrating transportation divisions

The Company was founded in February 1950 as a logistics subsidiary of Hitachi, Ltd. and commenced cargo transportation business. In 1967, the Company merged with Tokyo Monorail Co., Ltd. and another company, and changed its name to Hitachi Express & Tokyo Monorail Co., Ltd.



### 1976-

#### Expanded overseas

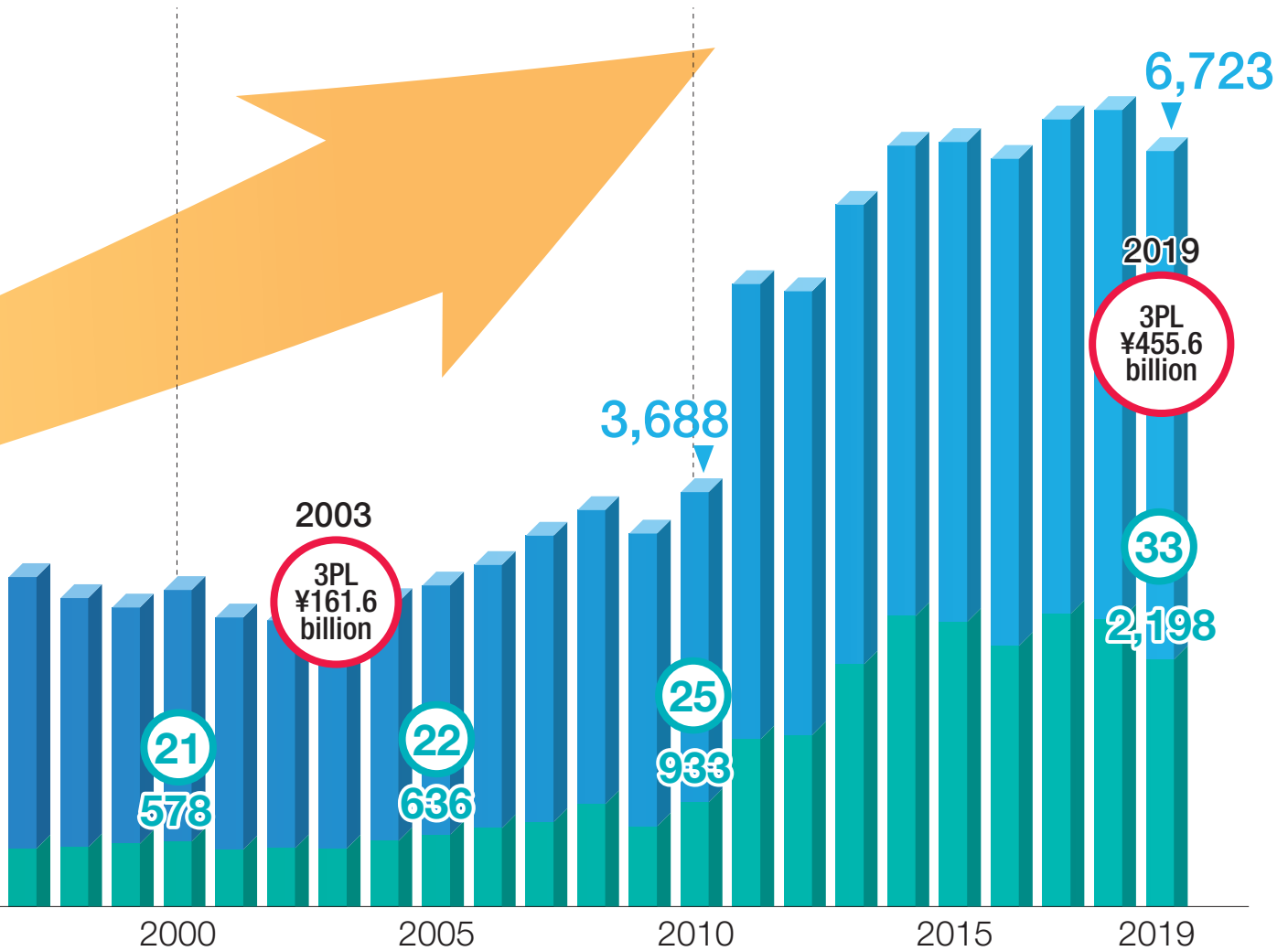
In 1976, our first overseas subsidiary was established in Singapore as the first step of the overseas strategy. In 1984, we entered into the air cargo business against the backdrop of increasing air freight volume.



### 1986-

#### Launched 3PL business

Following the telecommunications liberalization in 1985, we launched TRINET service, the prototype of 3PL business, for customers in apparel industry in August 1986. Then we expanded the target fields to include building materials, medical supplies, and food, etc.



1998-

**Entered into large-scale 3PL business with own assets**

We entered into large-scale 3PL businesses with own assets by undertaking overall logistics operation of adidas Japan K.K. in 1998 and AEON Co., Ltd. in 2002. Especially, Kansai NDC completed in February 2003 had the largest-class capacity in the Company and cutting-edge equipment.



2007-

**Expansion strategy through M&As**

With the aim of expanding the industry platform in Japan and overseas network, we expanded our business through a total of 18 M&As by 2013 including the acquisition of a logistics subsidiary of Shiseido Company, Limited in 2007.



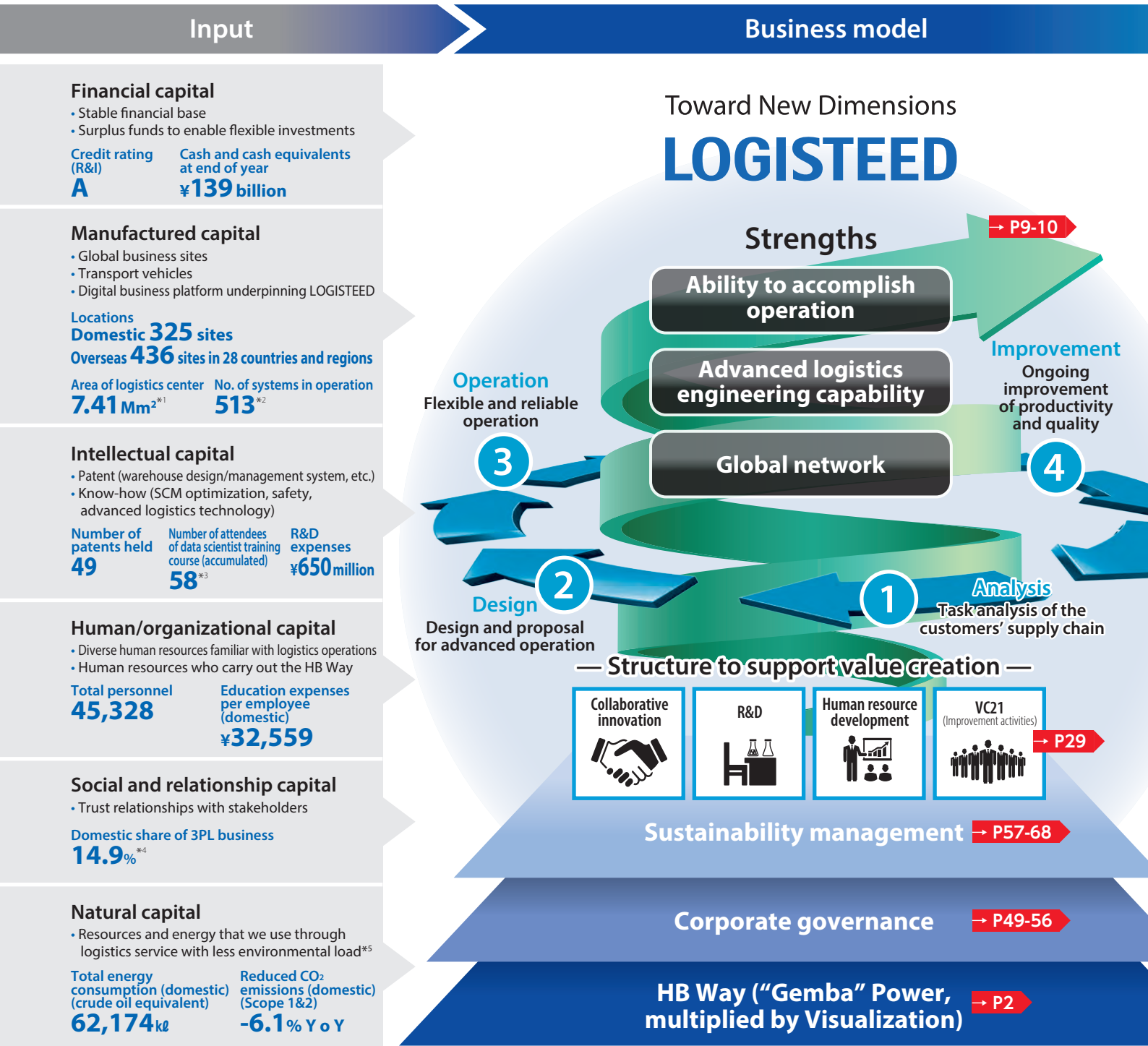
2016-

**Expansion strategy through collaborative innovation**

We have been promoting the expansion strategy through collaborative innovation and the creation of an ecosystem by forming alliance with SG Holdings Co., Ltd. and SAGAWA EXPRESS CO., LTD. in March 2016, AIT Corporation in October 2018, and Hitachi Capital Corporation in December 2018.

# Value Creation Process of the HTS Group

A business model to realize value creation of the HTS Group consists of a value chain comprising of task analysis, design for operation, operation and improvement of the customers' supply chain and structure to support it such as collaborative innovation, R&D, human resource development, and VC21 activities, with the HB Way indicating how the Group should be and a path to take as the source of all values.



(As of March 31, 2020)



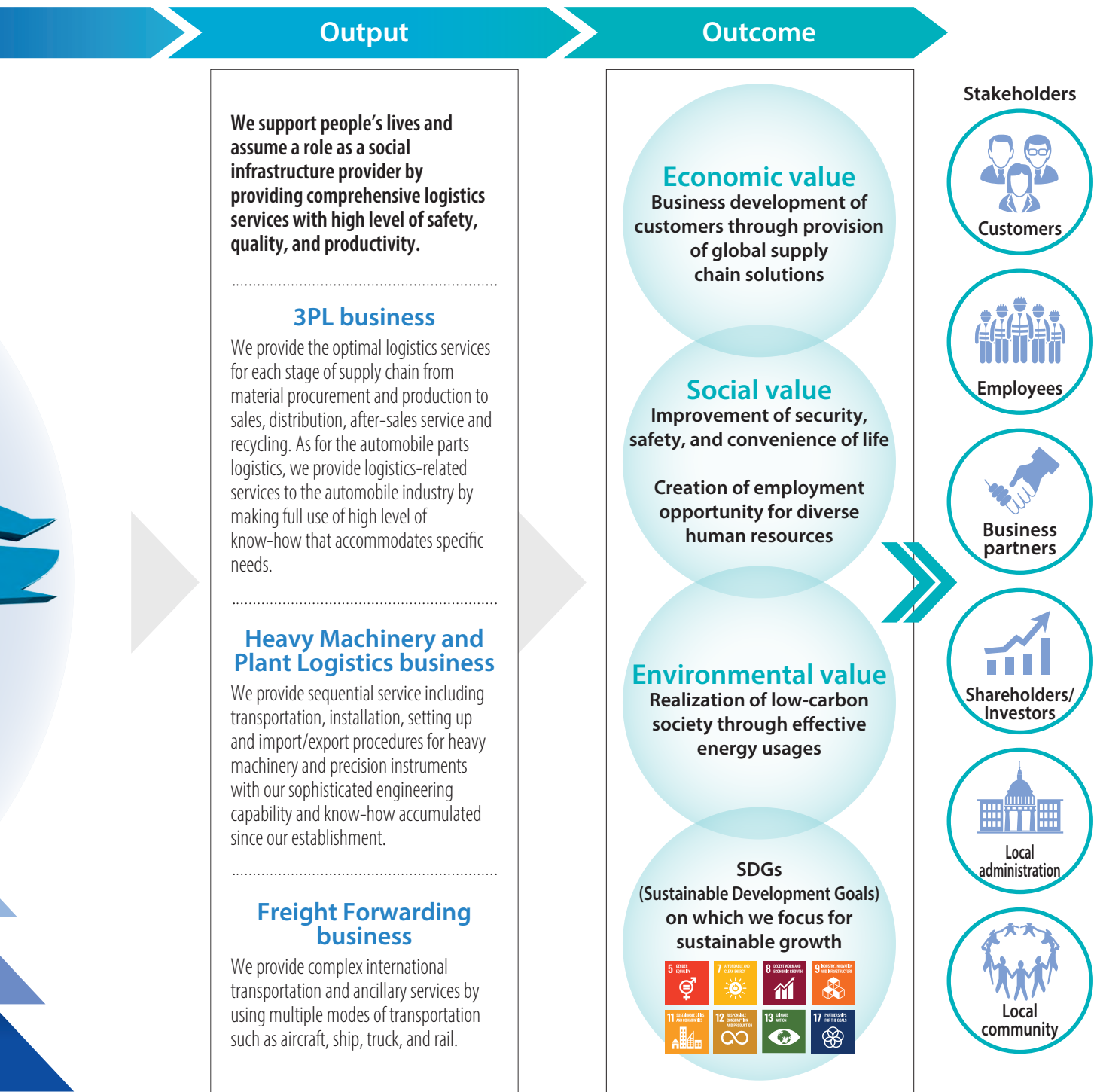
## External environment

- Decrease in labor population/consumers in Japan
- Rise of protectionism and escalation of trade friction
- Increases in climate change risk and large-scale natural disasters
- Increase in geopolitical risk

\*1 The area of logistics centers excludes those of SAGAWA EXPRESS Group, AIT Group, and HTB-BCD Travel Group. \*2 Self-developed systems \*3 No. of attendees of in-house training to foster data scientist with



Using our strengths of “Ability to accomplish operation,” “Advanced logistics engineering capability,” and “Global network” as key drivers, we strive to reinforce our value chain to sustainably create economic, social, and environmental values to our stakeholders.  
We will contribute to SDGs through sustainable increase of corporate value.



→ P69-76

- Occurrence of big disasters and global pandemic
- Advancement of digital technology
- Expansion of EC market
- Changes in environment surrounding the logistics business

# The HTS Group's Strengths

The HTS Group has three strengths: "Ability to accomplish operation," "Advanced logistics engineering capability," and "Global network". Drawing on our expertise and network accumulated over 70 years since our foundation as a logistics operator, we provide comprehensive logistics services with superior safety, quality, and productivity.

## 1 Ability to Accomplish Operation

Manufactured Capital

Human and Organizational Capital

Social and Relationship Capital



**Diverse human resources well-versed in logistics**

Total personnel

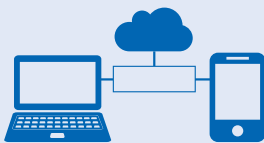
**45,328**



**Transportation assets to support society and people's lives**

No. of vehicles (including leased vehicles)

**16,792**



**Digital business platform underpinning LOGISTEED**

No. of self-developed systems in operation

**513**



**3PL business**

Procurement logistics services/  
Production logistics services/  
Distribution logistics services/  
Reverse logistics services



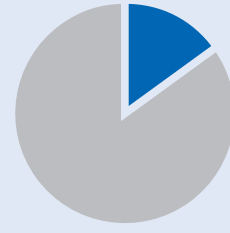
**Heavy Machinery and Plant Logistics business**

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



**Freight Forwarding business**

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



**Domestic share of 3PL business**

Approx. **15%**



**Domestic 3PL market leader**



**No. of customers (domestic/overseas)**

Over **20,000** companies

Our first strength is the "Ability to accomplish operation" in order to provide comprehensive logistics services with superior safety, quality, and productivity. We provide our services to over 20,000 customer companies by making full use of diverse human resources well-versed in logistics, transportation assets, digital business platform, expertise, and network. We will continue to enhance our unique strengths as a logistics operator supporting the manufacturing industry through improvement activities such as VC21 and collaborative innovation.

# 2 Advanced Logistics Engineering Capability

Manufactured Capital

Intellectual Capital

Human and Organizational Capital

A group of professionals of data analysis, operation management design, package design, and introduction of advanced technologies

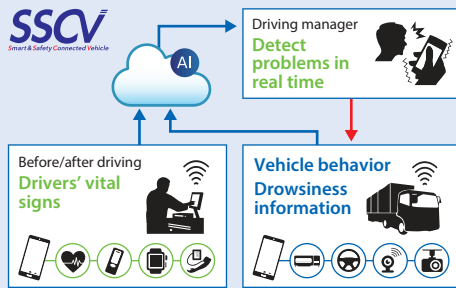


Human resources specialized in logistics engineering **Approx. 220**

\*Data scientist: human resources to discover and solve customers' supply chain issues based on data

Including cumulative 58 attendees of data scientist\* training course

Introducing advanced technologies using our logistics engineering capability



No. of SSCV installed within the Group **Approx. 1,300**  
Installed in all vehicles of the domestic group companies

Introduction of automated facilities including AGV\* and automated forklift  
**No. of AGV installed within the Group Approx. 230**

\*AGV: Automated Guided Vehicle

Our second strength consists of "logistics engineering," which is essential to improve productivity and quality at the logistics sites, human resources having knowledge of data science, and abundant expertise. We use them to analyze issues, propose improvements, and promote the introduction of advanced technologies to logistics sites.

# 3 Global Network

Manufactured Capital

Business sites supporting global supply chain

Locations



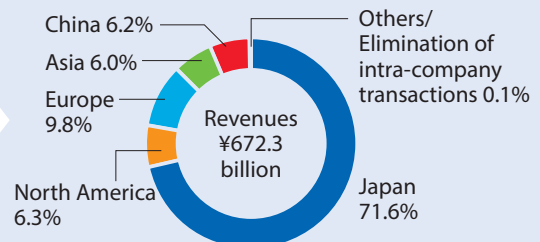
**761 sites in 29 countries and regions**

Logistics centers



**Total 7.41 Mm<sup>2</sup>**

Composition ratio of revenues by region



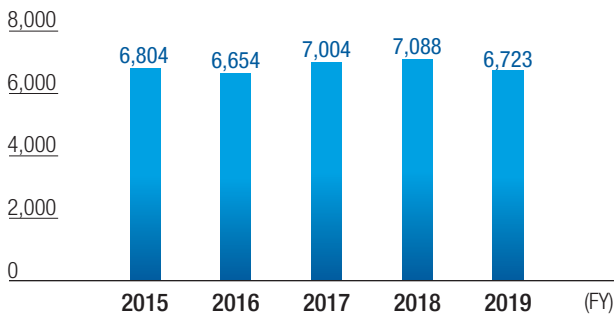
Note: Revenues of Japan include those of global logistics business recorded by domestic companies and logistics-related businesses.

Our third strength is "Global network" which supports customers' global supply chains and realizes their logistics strategy. We use this network to provide seamless, high quality services.

# Key Management Indicators

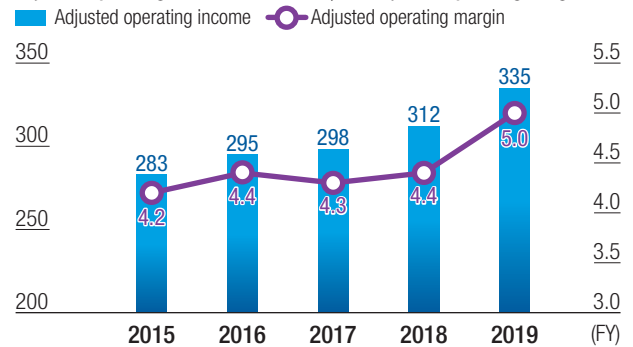
## Financial Highlights

### Revenues (100 million yen)



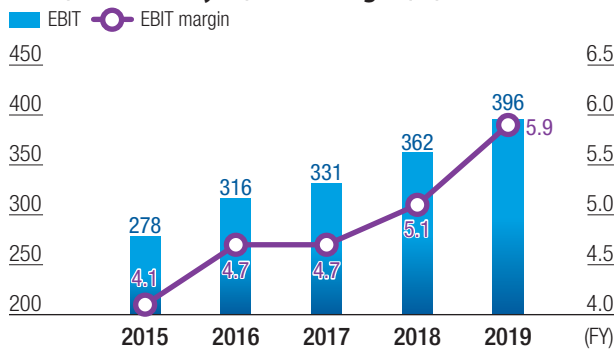
Revenues showed positive growth since FY2017 but decreased in FY2019 due to deconsolidation of Nisshin Transportation Co., Ltd. and a decrease in volume of automobile parts and freight forwarding business.

### Adjusted operating income (100 million yen)/Adjusted operating margin (%)



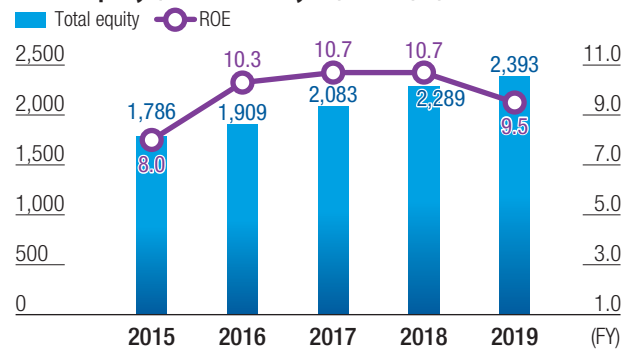
Adjusted operating income has been increasing since FY2013 and also increased in FY2019 due to productivity improvement and the adoption of IFRS 16 *Leases* despite the impact of COVID-19.

### EBIT (100 million yen)/EBIT margin (%)



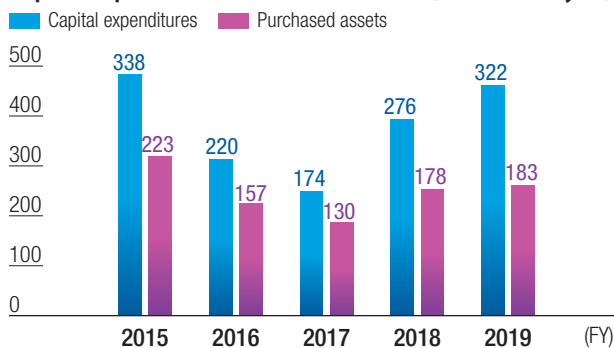
EBIT has been increasing since FY2013 and also increased in FY2019 due to the adoption of IFRS 16 *Leases*, net gain on sales of fixed assets and an increase in share of profits of investments accounted for using the equity method.

### Total equity (100 million yen)/ROE (%)



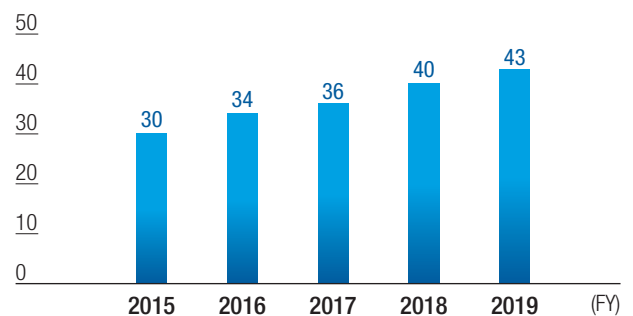
ROE remained flat since reaching 10% in FY2016 but decreased in FY2019 due to a decrease in net income attributable to stockholders of the parent company as a result of the adoption of IFRS 16 *Leases*.

### Capital expenditures/Purchased assets (100 million yen)



Capital expenditures including lease\*1 remained at around ¥20 billion to ¥30 billion but increased in FY2019 due to the adoption of IFRS 16 *Leases*. Purchased assets\*2 has remained at around ¥13 billion to ¥20 billion.

### Cash dividends per share (Yen)

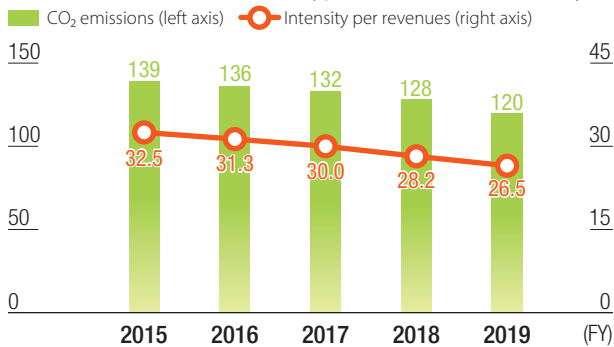


We have continued to increase dividends every year since FY2010. We seek profit distribution linked to business performance while considering medium-to-long-term business expansion and securing internal reserves to strengthen corporate structure.

\*1 Based on tangible and intangible assets accepted \*2 Based on non-current assets recorded

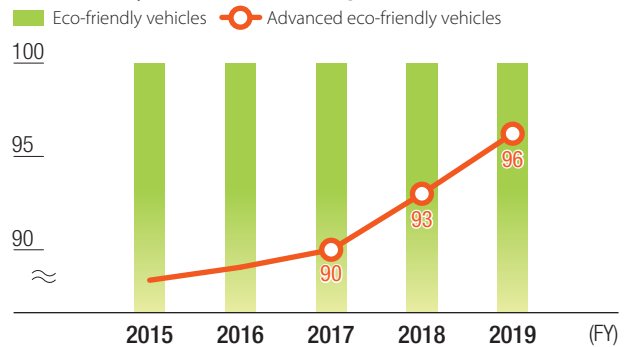
## Non-Financial Highlights

CO<sub>2</sub> emissions (thousand tons-CO<sub>2</sub>)/Intensity per revenues (tons-CO<sub>2</sub>/100 million yen)



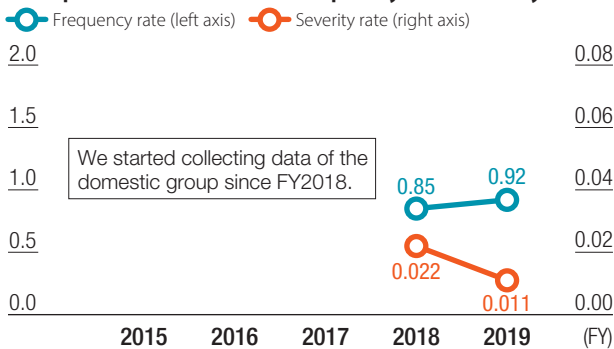
CO<sub>2</sub> emissions and its intensity per revenues both decreased due to the strengthening of environmental management and promotion of Green Logistics\*<sup>1</sup>. Scope: HTS, domestic group companies (total of Scope 1 and 2)

Eco-friendly vehicle ownership ratio (%)<sup>\*2</sup>



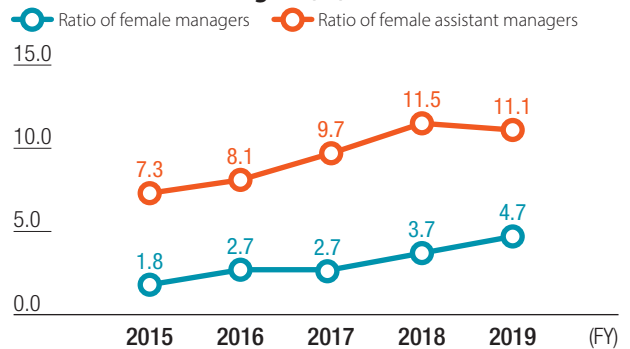
We have maintained 100% of the eco-friendly vehicle ownership ratio since FY2016. We also aim to achieve the advanced eco-friendly vehicle ownership ratio of 100%. Scope: HTS, domestic group companies

Workplace accident index: Frequency rate/Severity rate<sup>\*3</sup>



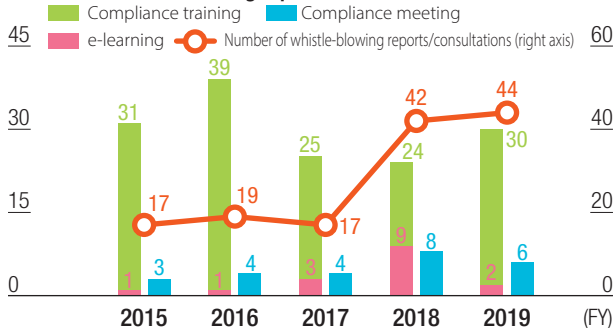
In FY2019, the “frequency rate” representing the frequency of workplace accidents slightly increased, but the “severity rate” representing the severity of accidents decreased as a result of implementing various safety initiatives. Scope: HTS, domestic group companies

Ratio of female managers (%)



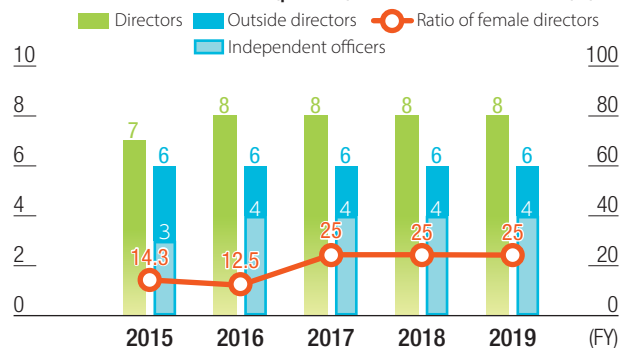
The ratio of female managers and assistant managers has been gradually increasing over the last five years due to our systematic efforts to develop female employees. Scope: HTS

Number of compliance trainings and meetings conducted (times)/ Number of whistle-blowing reports and consultations (cases)<sup>\*4</sup>



We continue to implement measures to enhance compliance of the entire Group. Also, the number of reports/consultations has increased due to the measures to raise awareness such as informative posters for internal whistle-blowing system.

Directors and outside directors (persons)/Ratio of female directors (%)<sup>\*5</sup>



We have appointed many outside directors to further enhance the management supervision function and the transparency of management. Also, we have promoted female directors to ensure the diversity of the Board of Directors. Scope: HTS

\*1 Green Logistics refers to environmentally-friendly logistics that contributes to prevention of global warming and promotes environmental measures such as collaborative logistics and modal shift, which we promote as part of the Group's business concept, Smart Logistics. \*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 emissions vehicles. Total of personal and business vehicles excluding special vehicles. \*3 A frequency rate, representing the frequency of accidents resulting in lost workdays, is expressed in terms of the number of injuries or deaths resulting from workplace accidents for each one million total hours worked by employees. A severity rate, representing the severity of accidents, is expressed in terms of the number of lost workdays for each 1,000 total hours worked by employees. \*4 Compliance trainings and e-learning programs are provided to all employees of HTS and its domestic group companies. Number of compliance meetings and whistle-blowing reports/consultations is the total for the entire HTS Group including overseas group companies. \*5 Female directors are all independent officers.

## To Our Stakeholders

— Message from the President —

Toward New Dimensions  
**LOGISTEED**

### **LOGISTEED**

**As the society and industry go through drastic changes, we will expand the ecosystem together with our stakeholders and pave the way for future value under the business concept of “LOGISTEED.”**

Yasuo Nakatani  
President and CEO



## HB Way

### HB Way to realize the corporate philosophy and corporate vision

Since I joined the Company 42 years ago, I have worked at various sites mainly overseas including Nigeria, and I have always felt a gap between the “ideal,” such as “Corporate Philosophy” and “Corporate Vision” of the Company, and the “reality” of day-to-day on-site operations. And when I was overseeing the site as a project manager or the head of a U.S. subsidiary, I strongly felt the need to fill the gap even more. So, shortly after I became president in 2013, we held discussions over and over on how we can apply the corporate philosophy to onsite operations. And that is how we created “HB Way.”

The HB Way, consisting of “Corporate Philosophy,” “Corporate Vision,” “Guiding Principles,” and “Success Drivers,” clearly summarizes the factors required of the Group’s employees to realize the Corporate Philosophy and Corporate Vision through their daily operations, using words familiar to employees at sites such as “Gemba’ Power, multiplied by Visualization.” Since its foundation 70 years ago, the Group has focused on on-site operations as the core of its business, and we will continue to base value creation on the practice of the HB Way.

### Realize shared value with society through both CSV and HB Way

The Group considers it important to adopt a perspective of CSV\*1 (Creating Shared Value) which seeks to solve social issues through business, and we think that if CSV refers to initiatives to create “shared value for the Group and society,” then the HB Way defines the “shared value for the Group and its employees.”

In other words, the Group aims to realize shared value with society through CSV initiatives and to realize shared value with employees by practicing the HB Way at the same time so that all employees will create

\*1 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.

shared value with society through their daily operations.

## Growth Strategy

### Reasons for focusing on the business concept “LOGISTEED”

There are two main reasons for focusing on “LOGISTEED\*2” as a concept of our current business and Mid-term Management Plan.

The first one is a sense of crisis that I am having as a president against the background that the logistics industry is becoming “borderless” as symbolized by a recent breakthrough by a major EC platformer.

The HTS Group is leading the domestic market of 3PL (third party logistics) with the support from many customers for our on-site operations, one of our strengths. However, with the logistics industry becoming “borderless” as mentioned above, we are now entering an era in which we cannot achieve medium-to-long-term growth unless we go beyond the logistics domain and produce added value in the fields of “Commerce,” “Finance” and “Information,” in addition to supporting industries by transporting products.

The second reason is a social issue of labor shortage, resulting from the acceleration of the decline in the birthrate and the aging of society, and the expanding opportunities for value creation related to the measures to address the issue. As a labor shortage also became a serious issue in the logistics industry around 2013, the Group has made various efforts including “visualization” of on-site operations through digitalization, promoting automation and labor saving in appropriate areas, and, above all, “SSCV\*3 (Smart & Safety Connected Vehicle)” has the potential to be applied in a broad area of society. The system, which has been developed through open innovation since 2018, is a service to protect drivers’ safety through real-time “visualization” by making full use of IoT. The original objective of the system was to ensure safety of our drivers, but now we found out that there is a large demand in many other transporters as well as

\*2 LOGISTEED: A word that combines LOGISTICS with Exceed, Proceed, Succeed, and Speed. It represents our determination to lead businesses to a new domain beyond the conventional logistics.

\*3 Smart & Safety Connected Vehicle

the bus and taxi industry. In the future, we will accumulate various data as a “transportation digital platform” to provide useful data for movement management, assignment management, and vehicle maintenance in addition to ensuring safety. Such development through SSCV shows that it is fully possible to realize shared value with society including “safety and security” by transforming social issues faced by the Group as “its own issues” into solutions through “visualization” with digitalization. And I can tell you that these challenges are the initiatives to solve social issues through business and achieve growth.

### “Sharing” and “collaborative innovation” are the keywords to sustain the growth

One of the keywords to sustain the growth under “LOGISTEED” in the medium to long term is “sharing.” For example, “EC Platform Center” which started operation in September 2019 is a smart warehouse that achieved full-scale automation and labor saving. Its concept is to reduce initial cost of EC business operators, including small-and medium-sized businesses, and contribute to their business expansion by sharing “automated facilities,” “system,” “space,” and “manpower.” We also recognize that the business development with a keyword “sharing” will become increasingly important in the global logistics business that accounts for 30% to 40% of the Group’s revenues in recent years. For example, the intermodal business\*4 operating between Turkey and Europe is viable because it shares ships and railways with other logistics companies and cargo owners, in addition to contributing to a reduction of climate change risks by reducing CO<sub>2</sub> emission. Also in our Shared Milkrun business\*5 for leading automobile manufacturers in the U.S., a new initiative has started that customers share Milkrun routes beyond their boundaries. The Group will actively capitalize on these business opportunities associated with “sharing” both in Japan and overseas, with an aim to create shared value with more partners and expand the ecosystem. Another keyword of “collaborative innovation” is the word that I proposed after I became president in 2013.

When I was working in Nigeria in my 20s, I learned that we could not do anything all by ourselves in a foreign country where the Group’s reputation did not help, so I had to begin with finding a partner. I also learned that the most important thing to complete projects successfully is collaboration beyond boundaries of nationalities and industries. “Collaborative innovation” is based on my own experience. Under this keyword, the effect of the collaborative innovation accumulated with SG Holdings, our capital and business alliance partner since March 2016, has grown into annual revenues and operating income of more than ¥20 billion and ¥2 billion, respectively.

The Group will continue to accelerate collaborative innovation with our partners under the keywords of “sharing” and “collaborative innovation” and ensure to expand the ecosystem and pave the way for sustainable growth under “LOGISTEED.”

\*4 Intermodal: Multimodal transportation combining trucks, ships, railroad, etc.

\*5 Milkrun: Transportation method whereby one truck visits bases of multiple suppliers to collect production parts and deliver them to a production plant.

### Create “sites that think by themselves” through “visualization”

As mentioned above, the Group has thoroughly analyzed its “Gemba” Power cultivated over the years through “visualization” with digitalization and implemented an optimum system for automation and labor saving in on-site operations. But now I would like to talk once again about a reality that “digitalization alone cannot move products.” The fact that the logistics business is viable only with analog knowledge and know-how accumulated on sites will not change. Our policy is to strengthen our operation by “visualizing” what happens on sites, creating “sites that think by themselves” based on the result of data analysis, and reinforcing analog knowledge with digitalization.



## Our Strength

### Ability to accomplish operation

In order to clarify the value creation process, we organized the Group's strengths that form the foundation of the growth strategy under "LOGISTEED" into the following three strengths: "ability to accomplish operation," "advanced logistics engineering capability" and "global network."

The first strength, "ability to accomplish operation" which refers to "Gemba" Power, is unique to the Group which was established as a logistics subsidiary of Hitachi, Ltd. and has supported manufacturing sites. It is know-how and DNA cultivated by transporting products of variable size from power plants to home appliances and semiconductors and can be applied to all of "procurement logistics," "production logistics," and "distribution logistics." It is an important strength for the Group to create added value sustainably, and we will continue to hone it through collaboration with our collaborative innovation partners and necessary investments. I am confident that the Group will go beyond the logistics domain with "LOGISTEED" and demonstrate its great ability in creating new value in bordering industry domains.

### Advanced logistics engineering capability

The second strength, "advanced logistics engineering capability," is an ability to plan and design safe and high-quality solutions for successful projects and also to provide high added value by combining automation and labor saving technologies used to improve on-site productivity with such advanced technologies as IoT, AI, and robotics. This strength is no use without the first strength of "ability to accomplish operation," and we will further hone these two strengths by closely connecting them and going beyond the domain of the logistics industry.

### Global network

The third strength is our global network with 761 sites\*<sup>6</sup> in 29 countries and regions. This strength is a capability to support customers' global supply chains by making full use of our network as well as flexibly expanding the network through collaboration with our collaborative innovation partners in relevant regions. We will expand the ecosystem through capital and business alliance with many partners in addition to optimum region-based operation in each site.

\*<sup>6</sup> As of March 31, 2020



## Toward Sustainable Society

### I hope employees will realize they are creating social value

The Group includes initiatives on environment/society/governance in the Mid-term Management Plan “LOGISTEED 2021” as one of the priority measures and developed four objectives from a perspective of CSV: “Pursue Next-generation Industries and Lifestyles;” “Enhance Occupational Safety and Productivity;” “Ensure Excellent Quality and Resilience;” and “Realize Low-carbon Business Processes.” We set themes for each objective and are implementing them as initiatives that contribute to the achievement of SDGs (Sustainable Development Goals). We acknowledge that the reduction of CO<sub>2</sub> emission is our highest priority issue as we engage in truck transportation, and developed medium-to-long-term environmental targets (targets for FY2030 and FY2050). In order to show our commitment to solving these social issues to stakeholders, we signed the “United Nations Global Compact” in May 2020.

As described above, we are striving to contribute to SDGs through initiatives of four objectives, including this “Integrated Report 2020” issued as our first full-scale integrated report. However, I believe the most important thing is that each employee takes solving social issues, which is symbolized by ESG (Environment, Social and Governance) and SDGs, as “his or her own issues” and truly feels that their job and efforts are “contributing to society” and “connecting with society.”

I was able to feel the “social value” that my job contributed to solving social issues in emerging countries as I worked on many social infrastructure projects including those from my days in overseas sites. And I hope more and more employees will have opportunities to gain such experience.

The COVID-19 pandemic made us realize that there is a strong need from society to maintain logistics function in times of crisis. I hope all employees now find their work rewarding and feel the significance of existence as members of an infrastructure operator that is essential to maintain people’s health and social life. Supporting logistics of medicine, food products, and daily commodities, etc. even during the time of the COVID-19 pandemic surely contributes to maintaining lifelines, creating shared value with society.

### Corporate governance/human resource development

As the Group has 102 domestic and overseas group companies, I recognize that it is absolutely critical to strengthen corporate governance. We ensure appropriate business operation in Japan and overseas through various management meetings, internal audit, and cooperation with and support from corporate divisions of the head office and are working to achieve management targets. Overseas group companies are grouped into four key management areas (Europe, North America, China, and other parts of Asia), and each area has a region-based governance system which applies certain rules tailored to reflect regional characteristics.



For human resource development, we believe continuing human resource development is important for sustainable growth while we reinforce work-ready resources with professional recruiting. We will develop human resources who will realize LOGISTEED and further strengthen our business base through practical and professional trainings in “HTS Group College,” an education system for all employees of the HTS Group.

## Review of FY2019

### Reviewed business portfolio and expanded ecosystem

We implemented various measures in FY2019, the first year of the Mid-term Management Plan “LOGISTEED 2021.”

As part of the business portfolio review, we transferred 70% of the shares of Hitachi Travel Bureau, Ltd. to the BCD Group in July 2019, and acquired 70% of the shares of PALENET CO., LTD., engaging in the development, sales, and rental of pallets, from Hitachi Automotive Systems, Ltd. in August 2019. In April 2020, we acquired the distribution service business of Hitachi Life, Ltd., engaging in the logistics operation for Hitachi Group’s product shipping in Ibaraki Prefecture, and established Hitachi Transport System East Japan Distribution Services Co., Ltd. SSCV and EC Platform Center, major examples of “LOGISTEED,” have both been steadily evolving and contributing to the expansion of the ecosystem. As for corporate governance, we introduced a performance-linked stock compensation plan in May 2020 in order to raise awareness of executive officers to increase corporate value by further clarifying the relationship between their compensation and the Company’s performance and stock value and sharing returns and risks associated with stock price movements with shareholders.

### The COVID-19 pandemic and beyond

The COVID-19 had a huge impact on the Group’s performance including a significant decline in the automobile-related handling volume.

On another front, a significant increase in the volume of domestic distribution, especially of food products and daily commodities, caused a shortage of workers, and we are sharing the Group’s human resources based on the volume in each site to deal with it. But it also created a side benefit that it became easier to share information and human resources beyond the boundaries of companies while they tended to be contained within individual regional group companies. Another benefit was the prevalence of teleworking among back office workers, and we intend to make it work for the working-style reform with the notion of “with/after COVID-19.”

## To Our Stakeholders

### Pave the way for future value under “LOGISTEED” amid the changing society and industry

While the spread of the COVID-19 has not yet been contained and the society and industry are undergoing major changes, the Group will continue to focus on “LOGISTEED” to pave the way for “future value.” To be more specific, I believe the ecosystem that we build with our stakeholders is the “future value.” Various ecosystems will continue to be built through sharing, the use of data, capital alliance or joint venture, etc. Under “LOGISTEED,” the Group will strive to build and maintain dialogues with new stakeholders, including those outside the logistics domain or those entering the logistics domain, place the most importance on relationships to be formed with all stakeholders through these initiatives, and connect their ecosystems with ours to create greater value.

We look forward to your continued support.

## Message from the CFO

**Aiming at sustainable increase of corporate value with ROIC management, I will serve as a “bridge” between the management and sites.**

### **Nobukazu Hayashi**

Senior Vice President and Executive officer  
General Manager, Financial Strategy Office

### **Support the Management and Fill the Gap with Sites**

When I was a new employee, my supervisor used to say repeatedly, “The mission of accounting department is to play a role like nerves and blood vessels in a company. Visit various sites and find and remedy what is wrong quickly to support the management. That is what accounting department is supposed to do.” So, I perform my duty as CFO with this motto in mind to this day.

I understand that the role of CFO is to use the “ability to understand the movements beyond the figures” cultivated in a long experience of working in the sections close to “sites” such as regional headquarters operating logistics centers, and serve as a “bridge” between the management and sites and promote in sites the operation focusing on capital efficiency. An example of “bridge” is operation of the budget system. Although we transitioned from a consolidated subsidiary of Hitachi, Ltd. to its equity-method affiliate in 2016, Hitachi Group’s DNA has taken root in our corporate culture, which carefully operates the budget system and continually encourages growth with “stretch targets.” Toward the end of each fiscal year, the Financial Strategy Office provides business divisions with guidelines for the budgeting of the next fiscal year with an aim to enhance effectiveness of the budget system. In case there is a gap between the budget prepared by a business division and the target figures set by the management, we try to reduce or eliminate the gap by setting the difference as a stretch target. As for global logistics business, whose revenues have almost tripled in the last 10 years and account for approximately 40% of the total revenues in recent years, its business environment and stance on budgeting are largely different from those of domestic business, and therefore, we focus on achieving the results close to management targets as a group by adjusting the individual stretch of the domestic and global business based on their respective situation.

### **Improve Asset Efficiency and Profitability Based on a Business Assessment Reflecting the Actual Situation**

When we started the previous Mid-term Management Plan “Value Creation 2018” in 2016, we also launched full-scale initiatives focusing on asset efficiency and capital efficiency. Our first initiative, “change of business assessment approach,” levelled the cost structure (depreciation or rent expenses) of logistics centers which used to vary largely depending on whether the center was an “own asset” or “leased asset” in order to understand the “real profitability” of each logistics center including that of warehouse management, in-plant operation, and delivery. As a result, it became possible to assess business or assets based on the actual situation, which led to liquidation of idle assets by sales, improvement of asset efficiency through sale/relocation of the head office building, and proactive sales and lease back of unprofitable assets.

## Pursue the Optimum Balance of Funding

In 2016, we stopped using the Hitachi Group's cash pooling system\*<sup>1</sup> for funding purpose and started to issue corporate bonds and borrow from banks at our own discretion. Especially when we acquired shares of SAGAWA EXPRESS in association with the capital and business alliance with SG Holdings, we carefully adjusted the ratio of "syndicated loans" and "issuance of corporate bonds" to secure debt capacity for future borrowing. Since then, our basic funding policy is to consider the optimal ratio of direct and indirect financing based on the financial situation and interest rate trends at that time. We also strive to maintain a credit rating of A or higher\*<sup>2</sup> to secure a sufficient level of liquidity.

In place of the Hitachi Group's cash pooling system, we have our own cash management system to loan the Group's funds to our domestic group companies, and for overseas group companies, we extend parent-subsidary loans and the Group's intra-regional pooling system in China.

\*1 A system with the purpose of improving capital efficiency and reducing interest-bearing debt of Hitachi, Ltd. on a consolidated basis whereby group companies pool their surplus funds in a centralized account and borrow from it in case of shortage of funds.

\*2 Issuer rating: A (Stable) (Rating and Investment Information, Inc.) (released on December 25, 2019)

## Introduce KPI Focusing on Capital Efficiency (Comparison of ROIC and WACC)

In FY2018, as an initiative to further improve capital efficiency, we incorporated a business assessment scheme using ROIC based on WACC as KPI into the budget process and investment assessment criteria. The reason is that, in order to achieve sustainable increase of corporate value, we need to break away from a short-term thinking focusing on profit and loss (statement of profit or loss) and spread the approach to consider the balance sheets and capital efficiency throughout the Group.

To spread the "ROIC management" concept in sites, domestic companies will put emphasis on providing explanations at managers meetings and through the company magazines, and also plan to make available e-learning for all employees in FY2020. Such approach has spread steadily among overseas companies through various notices, budget reports, and annual EGBM\*<sup>3</sup>, etc.

Although we just started the "ROIC management" initiatives focusing on the balance sheets and capital efficiency from the perspective of shareholders and investors, we will continue our efforts to spread it in domestic and overseas offices and further enhance it to achieve sustainable increase of corporate value.

\*3 EGBM (Expanded Global Business Meeting): A meeting attended by officers of the Company and managers of overseas subsidiaries, etc.

### Major initiatives focusing on asset efficiency and capital efficiency (recent five years)

Mid-term Management Plan/FY		Measures
Previous Mid-term Management Plan Value Creation 2018	FY2016	<ul style="list-style-type: none"> <li>■ Partially changed the business assessment approach (assess centers owned by the Group by adding market rent)</li> <li>■ Issued corporate bonds of ¥30 billion</li> <li>■ Set ROE as an important management indicator</li> </ul>
	FY2017	<ul style="list-style-type: none"> <li>■ Asset liquidation (e.g. sale of distribution centers with low asset efficiency, leaseback)</li> </ul>
	FY2018	<ul style="list-style-type: none"> <li>■ Introduced "comparison of ROIC and WACC" as one of the investment decision criteria</li> <li>■ Newly established the Financial Strategy Office</li> <li>■ Created rules for strategic investments</li> <li>■ Issued corporate bonds of ¥30 billion</li> </ul>
Current Mid-term Management Plan LOGISTEED 2021	FY2019	<ul style="list-style-type: none"> <li>■ <b>Reset ROIC to reflect the adoption of IFRS 16 Leases (adopted in FY2019)</b></li> </ul>
	FY2020	<ul style="list-style-type: none"> <li>■ <b>Introduced ROIC and WACC in the budget control</b></li> </ul>

## Reset ROIC after the adoption of IFRS 16 Leases

The adoption of IFRS 16 *Leases* had some impact on the Company's financial condition and various financial indicators such as WACC as it requires to recognize leased real estate on the balance sheets and related interest expenses. In particular, the calculation method of ROIC, which is compared with WACC, was redefined as the results using the previous method would deviate from actual situation.

### Impact of IFRS 16 Leases

- Recognize a right-of-use asset representing the right to use the underlying leased asset over the lease term and a lease liability representing the obligation to make lease payments for nearly all lease transactions
- Subsequent to recognition of right-of-use-assets and lease liabilities, recognize depreciation of right-of-use assets and interest on lease liabilities (interest expenses) separately

#### B/S impact

Items	Impact of adoption
Total assets	Recognition of right-of-use assets
Total liabilities	Recognition of lease liabilities
Total equity	
Total liabilities and equity	

Increase

#### P/L impact

Items	Impact of adoption
Revenues	
Adjusted operating income	• Decrease in rent expenses • Increase in depreciation
EBIT	
Income before income taxes	• Increase in interest expenses
Net income attributable to stockholders of the parent company	

Positive impact

Negative impact

#### Impact on financial indicators, etc. (FY2019)

Items	Before adoption	After adoption
Total assets	¥621.2 billion	↗ ¥879.1 billion
Debt to equity ratio	0.83 times	↗ 1.92 times
Total equity attributable to stockholders of the parent company ratio	37.6%	↘ 26.5%
ROE	9.9%	↘ 9.5%
ROA	3.7%	↘ 2.4%
ROIC (previous standard) (new standard)	5.3%	↘ 3.1% 5.4%

### Resetting of ROIC

We redefined the calculation method of ROIC as the calculation of ROIC of the financial statements including the impact of IFRS 16 using the previous method would result in financial indicators deviated from the Company's economic substance. (Redefined as below because the Group's interest expenses, which were previously a small amount, increased due to the adoption of IFRS 16.)

#### Calculation method of ROIC

- Changed the numerator used in the calculation of ROIC from net income to NOPAT (Net Operating Profit After Taxes) + equity method profit or loss.
- Formula: (NOPAT + equity method profit or loss) / Invested capital (2 year-average of interest-bearing debt + 2 year-average of equity attributable to stockholders of the parent company)  
[Reference] Previous formula: Net income / Invested capital (2 year-average of interest-bearing debt + 2 year-average of equity attributable to stockholders of the parent company)

## Improve Business Efficiency with the Sites as the Starting Point

We are continuing improvement activities aimed at improving profitability as an essential requirement to practice ROIC management more effectively. The main objective of the improvement activities, referred to as "Rise-up200 Project ("R200PJ)" in the previous Mid-term Management Plan and "VC21\*4 activity" in the current Mid-term Management Plan, is to improve efficiency and productivity of logistics centers. The Company's logistics centers used to differ from one another in factors including "customers," "delivery destination," "specifications/equipment," and "human resources," and each center worked on improvement and evolved independently. While it was one of our strengths, it also posed an issue that profitability and systems differed in each center. To address such issue, we launched R200PJ in FY2016 which carried out the bottom-up activities by engaging outside consultants and implemented improvement measures to align all centers' profitability with that of profitable centers and standardize IT systems. As our successful efforts to promote it as a company-wide project, such as reporting at the Executive Committee and inclusion in the budget report, we generated the improvement effect worth roughly ¥3 billion in three years, and were able to use it to make new strategic investments. Under VC21 which started in FY2019 at full scale, we have expanded the scope of target sites while maintaining the basic stance of R200PJ, and aim to realize the organization where each employee continues their improvement efforts with a stronger sense of "personal ownership" (Refer to page 29). Under the Mid-term Management Plan "LOGISTEED 2021", we also promote implementation of WFM\*5 for standardization of working hours management and SPV\*6 for standardization and labor saving of accounting operations. We intend to promote the visualization of management by integrating these two systems, and also improve operational efficiency through coordination with other systems.

\*4 Value Change & Creation 2021    \*5 WFM (Workforce Management): Human resource management  
\*6 SPV (Smart Performance Visualization Platform): A system to manage domestic performance

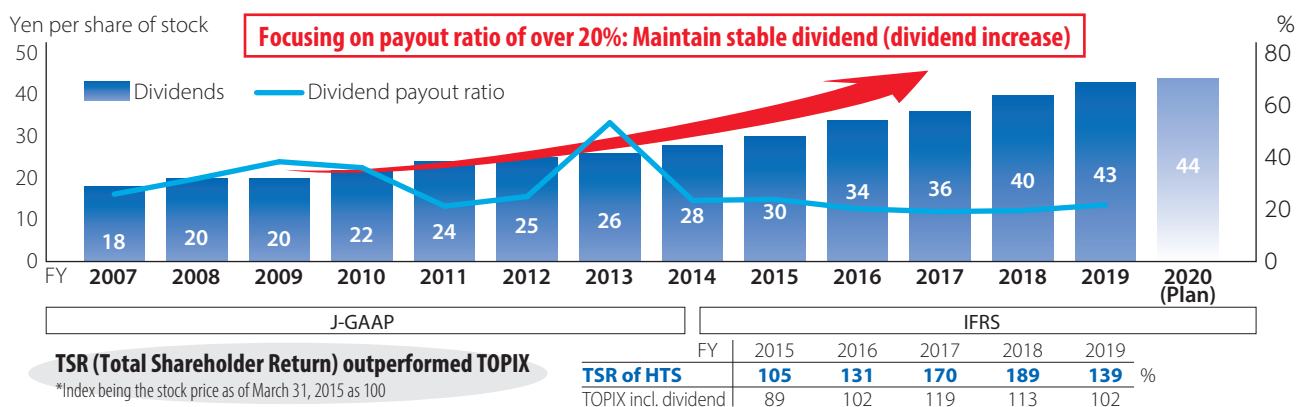
## Strategic Investments to Establish Competitive Advantage

Under the recognition that the Group is still at a growing stage, we will make proactive strategic investments toward changes and evolution under the Mid-term Management Plan “LOGISTEED 2021.” With the basic policy of “investment to establish sustainable competitive advantage by building a structure no one can imitate,” we plan to invest ¥86 billion (Mid-term Management Plan, accumulated) in promotion of DX\*7, establishment of IT platform, introduction of new technology and development of new business as well as human resource/safety measures and M&As (refer to page 31). In FY2020, the second year of the Mid-term Management Plan, we will select items to accelerate LOGISTEED and focus on investments in items to form the core of digital platform, including supply chain solutions, smart warehouse, and digitalization of transport, with an aim to further accelerate enhancement of the core functions and expansion of our customer service lineup. Especially in the area of digital related technology, while we are making progress in improving individual equipment and software, we still need to create a system to control them in an optimal way from a comprehensive viewpoint to establish competitive advantage; and therefore we will focus on strategic investments to make it happen.

\*7 Digital Transformation

## Aim for Stable Increase in Dividends While Securing Funds for the Growth

Going forward, 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. Under the policy, the Mid-term Management Plan “LOGISTEED 2021” aims at a stable and continuous increase in dividends with the target of the dividend payout ratio of 20% or higher while securing funds for the growth investment.



## Policy on the Development of Next-Generation Finance Human Resources

As mentioned above, as our global logistics business accounts for about 40% of total revenues in recent years, we consider that abundant overseas experience is essential for human resources who will be in charge of the Group’s financial strategy, including future CFO. Therefore, we aim to foster a number of candidates for CFO through a rotation system whereby all managers and chiefs of the Financial Strategy Office must experience overseas assignments, and also by having them experience all of “overseas subsidiary,” “Accounting and Finance Department of the Head Office,” and “regional headquarters/regional companies” to become all-round players.

## Dialogue with Our Shareholders and Investors

In dialogue with our shareholders and investors, I always strive not only to provide detailed explanations about ROIC, ROE, and our dividend policy but also to reassure them by explaining the uniqueness of our business including the price revision cycle of 3PL business in an easy-to-understand manner. I also endeavor to openly talk about the risks such as impacts of the COVID-19 pandemic on our performance in addition to our strengths of high level of safety and quality of our services which has led to support from customers, in an effort to maintain relationship of trust with our shareholders and investors.

# Mid-term Management Plan –LOGISTEED 2021–

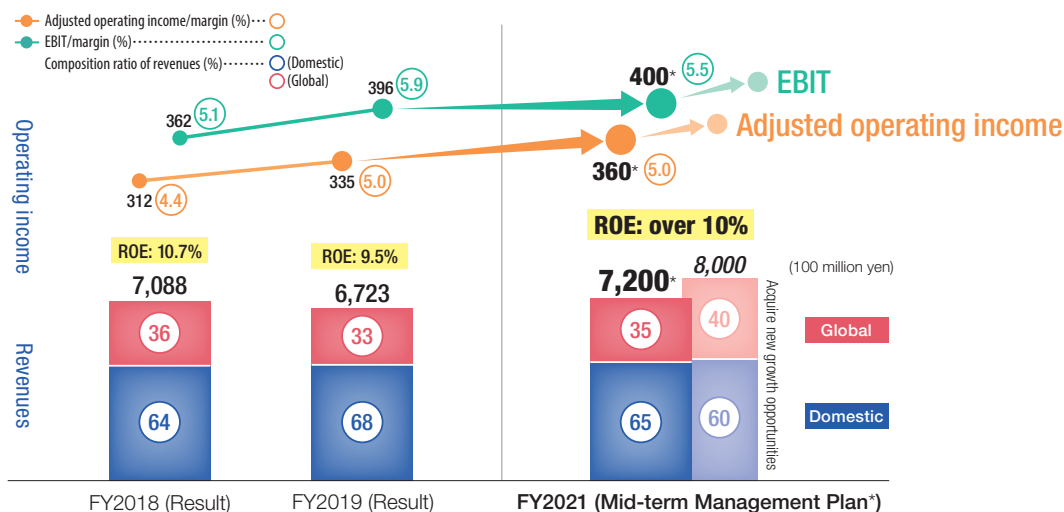
## Outline of the Mid-term Management Plan

With an aim to become the most preferred global supply chain solutions provider, the HTS Group promotes the Mid-term Management Plan and strives to achieve sustainable growth by solving issues and creating “values” through various “collaborative innovation.”

Mid-term Management Plan –Value Creation 2018–	
<b>Period</b>	FY2016-FY2018
<b>Review and issues</b>	In FY2018, both revenues and operating income hit record highs and ROE achieved 10%. Under the Mid-term Management Plan, we aimed at creating values through collaborative innovation with our customers and partners, and worked on thorough enhancement of our core 3PL business, expansion of Freight Forwarding business, and Heavy Machinery and Plant Logistics business and enhancement of logistics functions through collaborative innovation with SG Holdings Group, as well as started collaborative innovation activities with Hitachi Capital Corporation and AIT Corporation. In FY2018, we set a new business concept “LOGISTEED” representing our determination to lead businesses to a new domain beyond the conventional logistics. Our activities during these three years contributed to a significant rise in our stock price and the increase of corporate value.
<b>Results</b>	<b>Revenues: ¥708.8 billion    Adjusted operating income: ¥31.2 billion    EBIT: ¥36.2 billion    ROE: 10.7%</b>

Mid-term Management Plan – LOGISTEED 2021 –																
<b>Period</b>	FY2019-FY2021															
<b>Basic policy</b>	As the supply chain structure is changing significantly due to technological advancement and social changes, including “IoT,” “AI,” “Robotics,” “Fintech,” “Sharing Economy” and digitization, we promote digitalization of the Group and its collaborative innovation partners, and build open platform, in order to realize supply chain based on and originating from our logistics domain. The Group strives to enhance our new existence value and increase corporate value by changing and evolving to a company represented by “LOGISTEED” in order to become the most preferred solutions provider.															
<b>Results Numerical targets</b>	<table border="1"> <thead> <tr> <th>FY2018 Results</th> <th>FY2019 Results</th> <th>FY2021 Targets</th> </tr> </thead> <tbody> <tr> <td>Revenues: <b>¥708.8 billion</b></td> <td>Revenues: <b>¥672.3 billion</b></td> <td>Revenues: <b>¥720 billion</b></td> </tr> <tr> <td>Adjusted operating income: <b>¥31.2 billion</b></td> <td>Adjusted operating income: <b>¥33.5 billion</b></td> <td>Adjusted operating income: <b>¥36 billion</b></td> </tr> <tr> <td>EBIT: <b>¥36.2 billion</b></td> <td>EBIT: <b>¥39.6 billion</b></td> <td>EBIT: <b>¥40 billion</b></td> </tr> <tr> <td>ROE: <b>10.7%</b></td> <td>ROE: <b>9.5%</b></td> <td>ROE: <b>10%</b></td> </tr> </tbody> </table>	FY2018 Results	FY2019 Results	FY2021 Targets	Revenues: <b>¥708.8 billion</b>	Revenues: <b>¥672.3 billion</b>	Revenues: <b>¥720 billion</b>	Adjusted operating income: <b>¥31.2 billion</b>	Adjusted operating income: <b>¥33.5 billion</b>	Adjusted operating income: <b>¥36 billion</b>	EBIT: <b>¥36.2 billion</b>	EBIT: <b>¥39.6 billion</b>	EBIT: <b>¥40 billion</b>	ROE: <b>10.7%</b>	ROE: <b>9.5%</b>	ROE: <b>10%</b>
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ROE: <b>10.7%</b>	ROE: <b>9.5%</b>	ROE: <b>10%</b>														
<b>Priority measures</b>	<ul style="list-style-type: none"> <li>• Implement portfolio strategy to build a solid core domain (Smart Logistics)</li> <li>• Implement collaborative innovation strategy aiming at enhancement of the core domain and further expansion of domains</li> <li>• Design supply chain based on and originating from the logistics domain</li> <li>• Originate and succeed operation (hands-on approach) toward the next generation</li> <li>• Take actions in consideration of environment, society and governance as well as corporate ethics</li> </ul>															

### Numerical targets





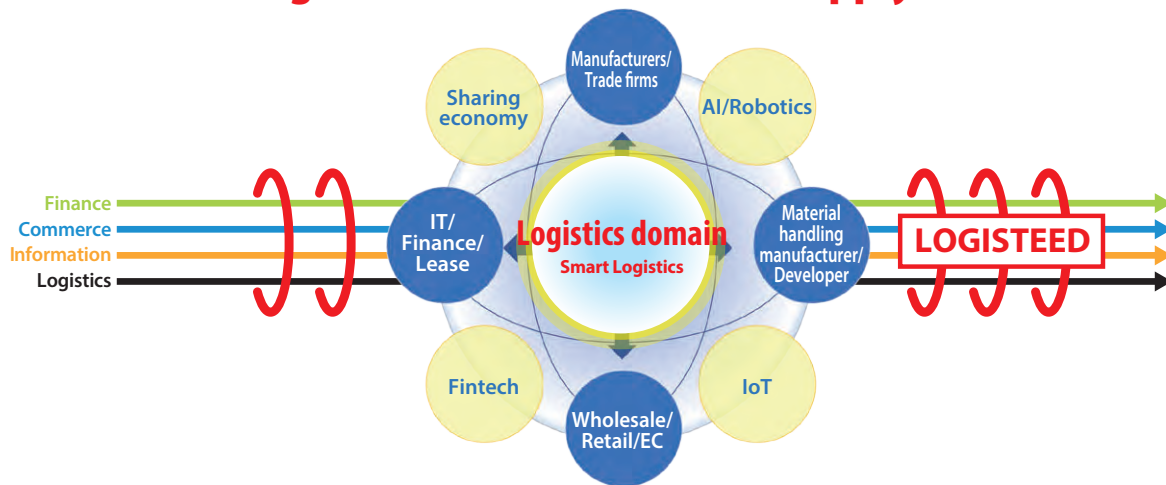
## Environment Surrounding the Company

Recently, the environment surrounding the Company has been drastically changing, including shortages of labor and drivers, changes in customers' businesses, sophisticated and complicated customer needs, changes in the environment surrounding supply chain due to digitalization and technological development, and intensifying competition in the 3PL market due to new entrants from outside the logistics industry.

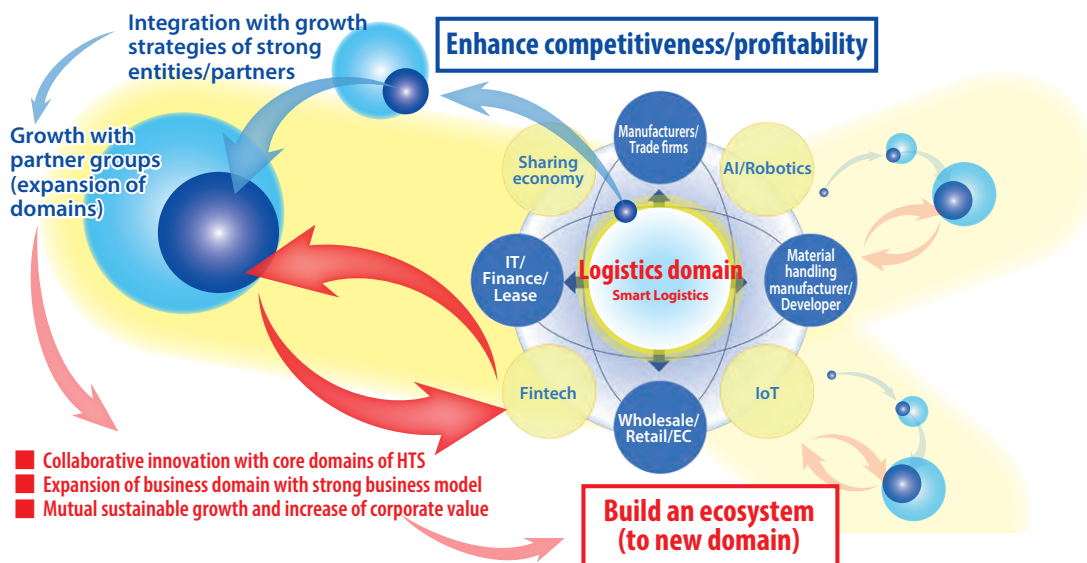
## Response to Changes and Future Vision

### Future Vision: The Most Preferred Global Supply Chain Solutions Provider

#### Integrate four flows for better supply chain



The HTS Group has grown to become a leading 3PL company providing services combining logistics and information, while we expect an increase in customer needs for supply chain solutions. We view these changes as opportunities to continue sustainable growth, and strive to extend our domains to finance and commerce through digital transformation platform. And we will create new solutions and design optimum supply chain for customers based on and originating from logistics.



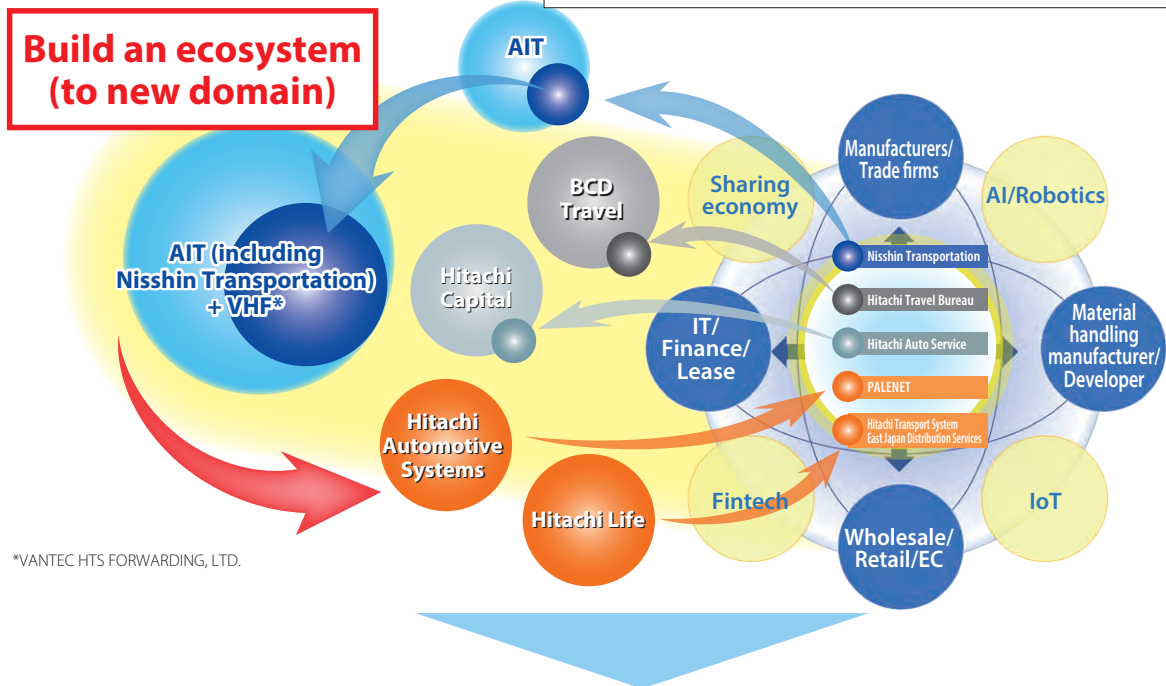
While the HTS Group has already been promoting various collaborative innovation under the concept of "LOGISTEED," we will not only enhance the core domain but also further accelerate the collaborative innovation beyond the logistics domain and build an ecosystem, with an aim to become the most preferred global supply chain solutions provider.

# Progress of the Mid-term Management Plan

## Priority Measure: Implement Portfolio Strategy to Build a Solid Core Domain (Smart Logistics)

The HTS Group has formed alliance with partner companies in business areas where all companies can increase corporate value. Our aim is to achieve sustainable growth for all companies by enhancing competitiveness and profitability in our core logistics domain (Smart Logistics) and also by building a larger ecosystem group to expand the collaborative innovation domains beyond businesses and industries.

- Feb. 2019: Transferred 40% shares of Hitachi Auto Service to Hitachi Capital
- Mar. 2019: Exchanged 100% shares of Nisshin Transportation for 20% shares of AIT
- Jul. 2019: Transferred 70% shares of Hitachi Travel Bureau to BCD
- Aug. 2019: Acquired 70% shares of PALENET from Hitachi Automotive Systems
- Apr. 2020: Acquired the distribution service business of Hitachi Life



\*VANTEC HTS FORWARDING, LTD.

### — Achievements in FY2019 —

Our successful efforts in FY2019 include the consolidation of PALENET CO., LTD. through share acquisitions, the share transfer of Hitachi Travel Bureau, Ltd. (currently, HTB-BCD Travel Ltd.) and the decision to acquire the distribution service business of Hitachi Life, Ltd. (currently, Hitachi Real Estate Partners, Ltd.)\*1.

#### Acquisition of shares of PALENET CO., LTD.

June 27, 2019: Concluded a share transfer agreement August 1, 2019: Acquired shares

In June 2019, the Company signed a share transfer agreement to acquire 70% of shares of PALENET CO., LTD. from Hitachi Automotive Systems, Ltd. and consolidated PALENET CO., LTD. in August 2019.

#### Purpose

- Establish a sharing service including procurement management of logistics equipment PALENET CO., LTD.'s unique pallet rental relay system with strong competitiveness
- Enhance/expand transport digital platform  
Combine with the vehicle movement management in SSCV\*2, visualize supply chain, etc.

#### Share transfer of Hitachi Travel Bureau, Ltd.

July 1, 2019: Concluded a share transfer agreement and completed the transfer

In July 2019, 70% of shares of Hitachi Travel Bureau, Ltd. engaging in three BTM\*3 businesses was transferred to BCD Travel Asia B.V., a leading global company in the field.

#### Purpose

- Expand global BTM business  
To integrate the corporate service expertise that Hitachi Travel Bureau, Ltd. has accumulated over the years with platforms and service lineup of the BCD Group, a leading global BTM market player, in the BTM market which has high potential for overseas growth.

#### Acquisition of the distribution service business of Hitachi Life, Ltd.

November 29, 2019: Concluded a share transfer agreement  
April 1, 2020: Acquired shares and started a new company "Hitachi Transport System East Japan Distribution Services Co., Ltd."

We decided to acquire the distribution service business of Hitachi Life, Ltd. in November 2019 and started a new company "Hitachi Transport System East Japan Distribution Services Co., Ltd." in April 2020.

#### Purpose

- Centralize undertaking of logistics operation to ship Hitachi Group's products in Ibaraki Prefecture  
Reduce costs and further improve service quality by integrating packing and transportation services

\*1 In April 2020, we acquired all shares of a new company to which Hitachi Life, Ltd. transferred its distribution service business through a company split.

\*2 Stands for Smart & Safety Connected Vehicle. For details of SSCV, please see page 28.

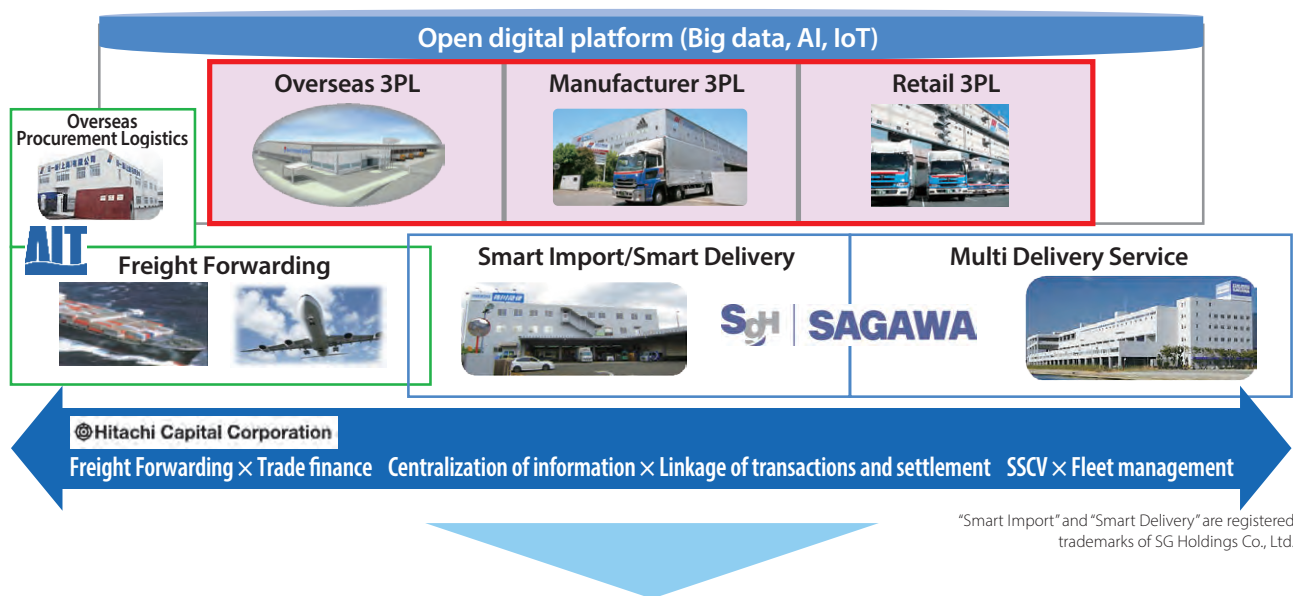
\*3 Business Travel Management

**Priority Measure: Implement Collaborative Innovation Strategy Aiming at Enhancement of the Core Domain and Further Expansion of Domains**

Under the capital and business alliance with SG Holdings Group since 2016, we have been promoting cross-selling to take advantage of both companies' strengths (mutual complement between logistics and delivery business) and offer 3PL of the HTS Group and delivery service of SG Holdings Group as one-stop service, and also working on the streamlining of business operation of both companies through the expansion of asset sharing.

Since FY2018, under the capital and business alliance with Hitachi Capital Corporation, we have been promoting initiatives to provide a comprehensive solution package including lease, insurance, maintenance, and joint procurement of vehicles under SSCV with an aim to realize a new innovation through "finance, commerce, logistics, and information" beyond the conventional logistics domain.

In FY2019, we have launched full-scale collaborative innovation activities with AIT Corporation, which has major strengths in the Freight Forwarding business between Japan and China, in order to create new customer value through seamless collaboration between Freight Forwarding and 3PL.



**— Achievements in FY2019 —**

In FY2019, our collaborative innovation activities, mainly with SG Holdings Group, generated additional contributions to revenues of approximately ¥6,200 million and operating income of approximately ¥950 million.

As for the collaborative innovation activities with SG Holdings Group, we newly started operation of large-scale logistics centers for construction machinery, cosmetics, and home appliance manufacturers, and also promoted collaboration in broader areas from PC kitting service to transportation of the fuel cell bus.

As for the collaborative innovation activities with AIT Corporation which stated in full scale in FY2019, we have been providing seamless services taking advantage of both companies' strengths such as jointly engaging in international transportation of large equipment from Japan to the Philippines and its installation at the destination.

**Major new collaborative innovation projects**

**Additional contributions generated by collaborative innovation activities in FY2019** (100 million yen)

	Revenues	Operating income
Domestic	52	7.6
Global	8	1.5
Other	2	0.4
<b>Collaborative innovation effects</b>	<b>62</b>	<b>9.5</b>

The table above includes collaborative innovation effects with SG Holdings Group and AIT Corporation.

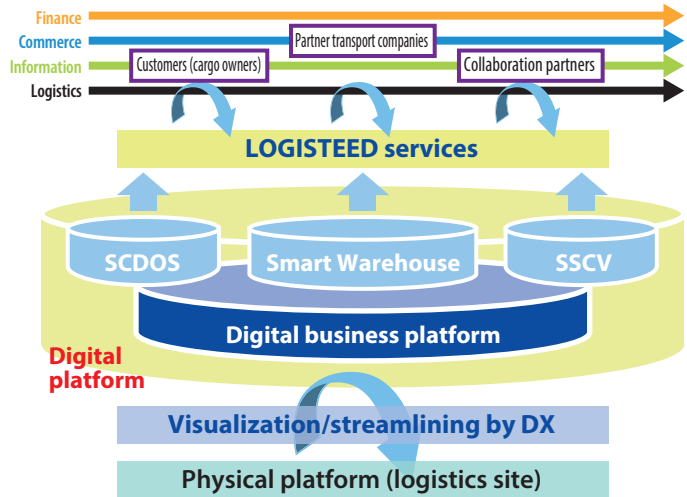
# Progress of the Mid-term Management Plan

## Priority Measure: Design Supply Chain Based on and Originating from the Logistics Domain

### Promotion of Digital Transformation (DX)

#### Whole picture of DX

The HTS Group is working to visualize logistics sites through DX and offer LOGISTEED services using data. First, we visualize the physical platform which is the logistics site through DX to improve on-site efficiency. Then, we accumulate data obtained through DX on a digital platform via digital business platform. We analyze these data to organize core service functions such as SCDOS, Smart Warehouse, and SSCV. We provide values to our stakeholders including customers (cargo owners), partner transport companies, and collaboration partners through LOGISTEED services using core functions.



### LOGISTEED service (1) Supply Chain Design & Optimization Services (SCDOS)

#### Outline

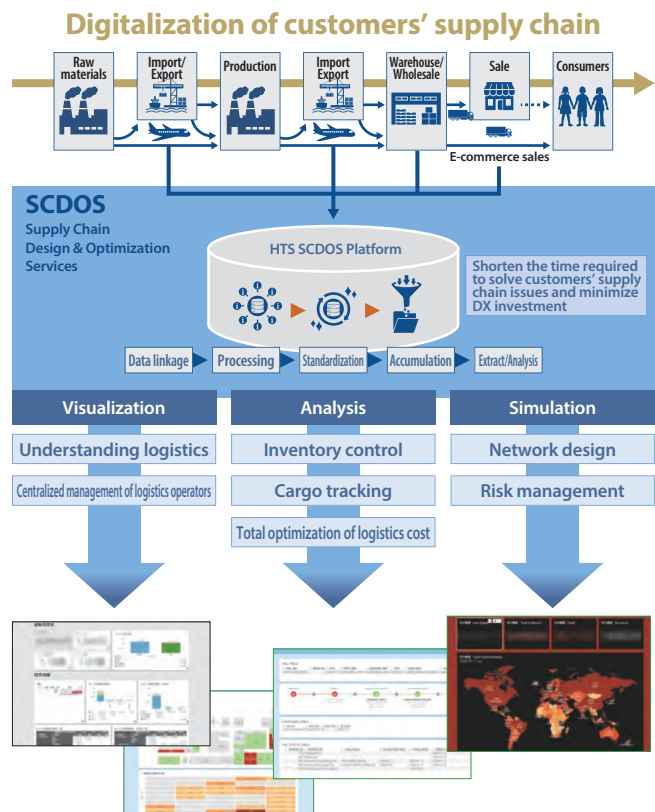
SCDOS are services that centrally manage and visualize customers' supply chain information with a digital business platform to support processes from identifying issues to solving them through analysis to optimizing business operations. The HTS Group makes full use of its expertise accumulated in the 3PL business, human resources, and advanced IT tools to provide a wide variety of services covering development of supply chain strategy, optimization of logistics, and BPO. We launched SCDOS in FY2019, and they have been used by customers in various industries and sectors.

#### Example

Customer: Daily commodities manufacturer  
 Issue: Unable to grasp the real operating status of its marine container transport  
 Proposal: Summarize and visualize the transport status interactively  
 Effect: Assess the effects of improvement measures and understand the quality of each shipping company  
 Analysis of volume/delays/fees of each shipping company



<Example> On-time delivery rate of shipping (by month/country/shipping company)



#### Message from the officer in charge

The HTS Group will achieve "Design Supply Chain Based on and Originating from the Logistics Domain," one of the priority measures in the Mid-term Management Plan by integrating DX and business operation. As one of the DX initiatives, we are promoting overall digitalization of the entire Group by building a "DX engine," a structure to transform the business by integrating IT and business operation. In addition, we will focus our IT division resources on the implementation of DX with an aim to realize data-driven business and provide higher added value.

**Shunsuke Yonekura**  
 Executive Officer, General Manager, Information and Communication Technology Strategy Headquarters, Business Management Headquarters



## LOGISTEED service (2) SSCV

### [What Is SSCV?]

SSCV is a service platform to help transporters improve operational efficiency and achieve zero-accidents by making full use of IoT technology. We also aim to create new services and businesses by sharing data with our collaborative innovation partners.

#### SSCV-Smart

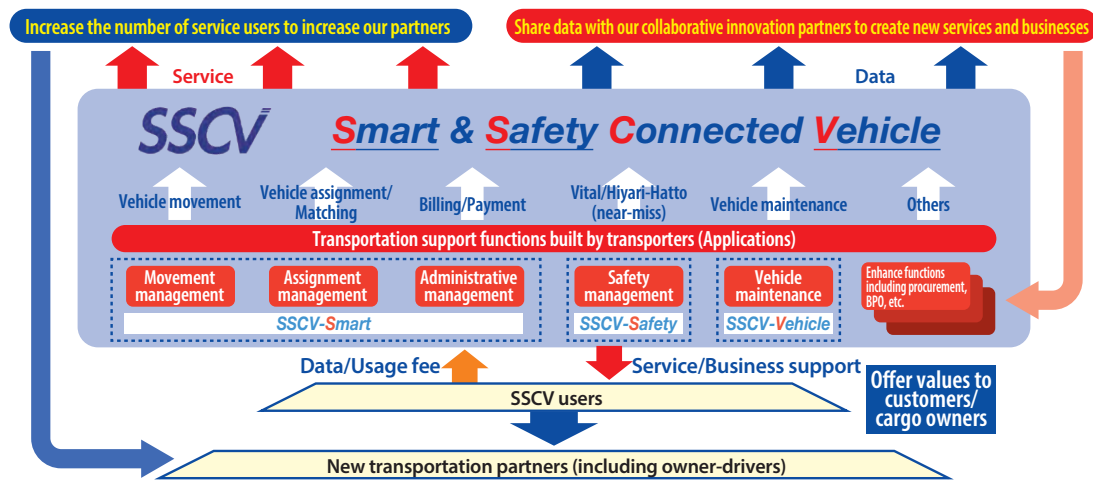
Digitalize operations related to transportation and delivery to help transporters improve operational efficiency and enhance compliance.

#### SSCV-Safety

Sense drivers' vital signs and vehicle conditions and analyze them using AI. Give real-time warnings to drivers and driving managers to prevent accidents.

#### SSCV-Vehicle

Improve the vehicle utilization rate and reduce management processes through visualization and digitalization of vehicle management and maintenance records.



### SSCV-Safety – Our Initiatives–

#### ● Installation to the Group's vehicles

The HTS Group installed SSCV in its own vehicles. We completed the installation of SSCV in all 1,300 vehicles used in our domestic group companies by the end of March 2020, and we are currently accumulating data and developing services.

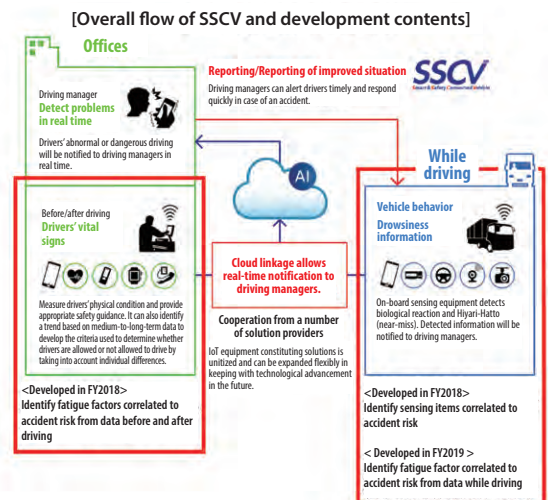
#### ● Industry-government-academia collaboration

We conducted a five-party\* joint development aimed at "Development of accident risk assessment/prediction method based on fatigue science in the logistics truck driving management"

**Phase I:** Confirmed the correlation between the physical condition measurements before/after driving (fatigue) and Hiyari-Hatto (near-miss) incidents. Presented at "the 15th Annual Meeting of Japanese Society of Fatigue Science" in May 2019

**Phase II:** Currently studying the correlation between the physical condition measurements while driving (fatigue) and Hiyari-Hatto (near-miss) incidents

\*Hitachi Transport System, Ltd., Hitachi Capital Auto Lease Corporation, RIKEN Center for Biosystems Dynamics Research, Kansai University of Welfare Sciences, Hitachi, Ltd.



For details of SSCV, please visit our website (Japanese version only).  
<https://www.hitachi-transportssystem.com/jp/sscv/>

## On-site DX using RPA

### Outline

We have been promoting RPA as part of the VC21 activities aimed at operational improvement through company-wide bottom-up initiatives. We have developed 220 types of robots in the entire Group until March 31, 2020, which enabled us to save 2,570 hours of work per month.

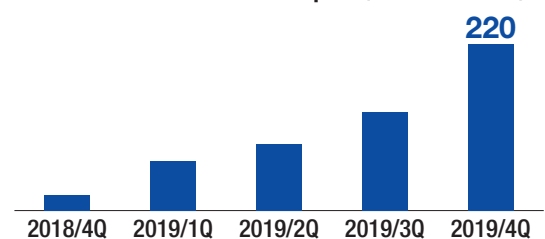
### Improvement examples

- Performance management in overseas subsidiaries
- Survey of usage status of VPN\*2 within the Company
- Data analysis of CRM\*3 and e-mail distribution of its results

### Future plan

- AI-OCR which reads data of paper slips
- Process mining which identifies areas for improvements based on the work log analysis

### RPA\*1 No. of robots developed (accumulated)



Number of working hours saved (March 2020, hours/month) **2,570**

\*1 RPA: Robotic Process Automation

\*2 VPN: Virtual Private Network

\*3 CRM: Customer Relationship Management

# Progress of the Mid-term Management Plan

**Priority Measure: Originate and Succeed Operation (Hands-on Approach) toward the Next-generation**

## Promotion of VC21 Activities

### ● Outline of activities

The HTS Group has been working on “VC 21 Activities” as daily improvement activities to implement the HB Way.

The aim of these activities is that “the Company continues to grow and employees find their work rewarding.”

We have been repeating a cycle where employees in each site and department exchange ideas under different themes, register initiatives in a dedicated system and carry out and follow up the improvement activities systematically.

We share initiatives of all sites among the entire Group via the system and give an award to excellent cases at the presentation meetings held on a regular basis as an effort to establish an improvement culture through “visualization of improvement activities” and “cultivation of the culture of praise.”

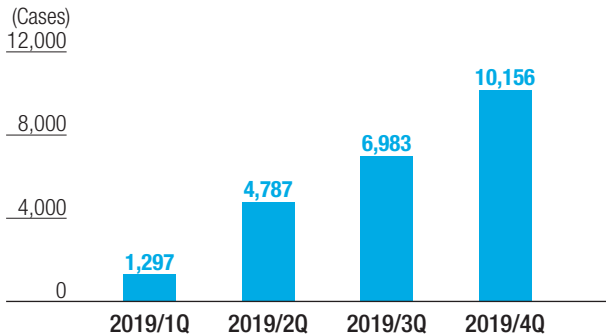
We have enhanced our organization and ability to accomplish operations through a cycle where we have human-centered deep dialogue, enjoy learning, generate ideas, and implement improvements.

Each employee has been working on “VC 21 Activities” with a sense of “personal ownership,” and the accumulation of such efforts has taken root as the improvement culture and has become the foundation to support our business model and the source of value creation.

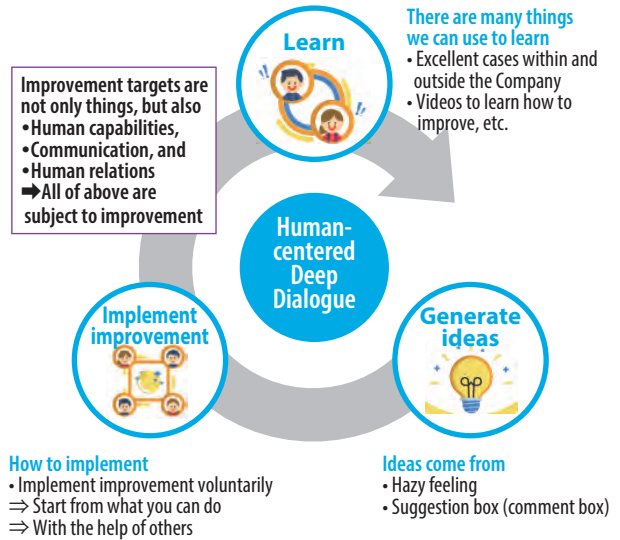
### ● Activities in FY2019

The number of improvement initiatives of the entire HTS Group proposed in FY2019 reached approximately 10,000.

No. of new improvement initiatives in FY2019 (accumulated)



Let's enjoy repeating VC21 Activity cycle!



Various initiatives are underway to support activities in each site

- Logistics OPEX (Operational Excellence)** Build a community where employees can repeat learning and improving through deep dialogue while enjoying them
- Dialogue café** Have deep dialogue in interview-style workshops for mainly sales representatives
- Workshop for generating ideas** Generate improvement ideas by directly hearing the voices of employees working on-site
- Improvement education** Provide various improvement education based on the self-developed “Improvement Handbook”
- Use of digital tools such as RPA** Implement cross-departmental productivity improvement by making full use of digital tools

We held meetings and award ceremonies for employees to participate to vitalize VC21 activities.



**Group-wide VC21 meeting**  
Had deep dialogue beyond job titles



**Good VC Award 2019**  
Enjoyed sharing activities with other departments and gave an award to excellent cases

**Priority Measure: Take Actions in Consideration of Environment, Society and Governance as Well as Corporate Ethics**

**Initiatives for SDGs — Four Objectives —**

We have taken actions in consideration of environment, society and governance as well as corporate ethics (ESG management) and promoted four objectives that contribute to the achievement of SDGs, with the view to realizing sustainable society and increasing corporate value.

**Contribution to SDGs**

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



**ESG Initiatives**

**Environment**

- Develop medium-to-long-term environmental targets
  - Strengthen environmental management
  - Consideration for disposal and emission
  - Increase energy efficiency
- ➔ **Pages 61-64**

**Social**

- Secure safety in operation and transportation
  - Pursue next-generation industries and lifestyles
  - Promote diversity of the workplace
  - Social contribution/Strengthening of BCP
- ➔ **Pages 65-68**

**Governance**

- Ensure to bear in mind the notion of "Basics and Ethics" (Enhance compliance/governance)
- ➔ **Pages 49-56**

**Four objectives**

**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.

- Promote total optimization of supply chain by making full use of advanced technologies
- Respond to local logistics needs and issues while further boosting response capability

**2 Enhance Occupational Safety and Productivity**

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

- Secure safety in operation and transportation
- Minimize workload at logistics sites
- Promote diversity of the workplace

**3 Ensure Excellent Quality and Resilience\*1**

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

- Pursue high quality logistics services
- Consideration for disposal and emission
- Contribution to disaster recovery assistance

**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\*2 from the long-term perspective.

- Increase energy efficiency
- Introduce renewable energy
- Strengthen environmental management

\*1 Defined as "the capability 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."

\*2 Reduce the emission of greenhouse gases including CO<sub>2</sub> to virtually zero. Decarbonization requires one step further than "low carbonization" focusing on reduction of emissions.

➔ **Pages 57-60**

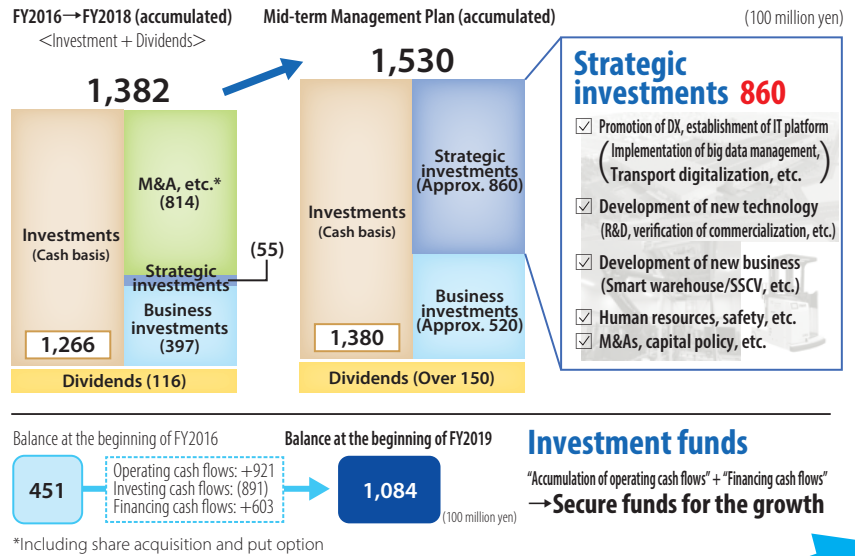
**Participate in the United Nations Global Compact**

The HTS Group signed the "UN Global Compact ("UNGC")," advocated by the United Nations, in May 2020 and joined its local network in Japan "Global Compact Network Japan." The UNGC is a voluntary initiative to participate in creating a global framework for the sustainable growth. Under the corporate philosophy "to deliver high-quality services that will help make the world a better place for people and nature for generations to come," the HTS Group strives to achieve sustainable growth by solving social issues and creating "values" through various "collaborative innovation."

# Investment Plan

## Investment Strategy for Change and Evolution into "LOGISTEED"

The HTS Groups aims to expand collaborative innovation domains beyond businesses and industries and create new innovation beyond the conventional logistics domain while focusing on the enhancement of logistics as a function (Smart Logistics) as our core target. In order to achieve them, the Group has made business investments mainly to expand logistic sites and strategic investments to evolve into a company envisioned by LOGISTEED using mainly operating cash flows and cash and cash equivalents.



## Strategic Investments

Under the basic policy to make "investment to establish sustainable competitive advantage by building a structure no one can imitate," the HTS Group focuses on investments in the cores of digital platform including supply chain solutions, Smart Warehouse, and transport digitalization, to strengthen core functions and expand customer services.

### Initiatives in FY2020

#### Sharing/Pay-per-use

- Customers pay for only what they use
- Support speedy business launch



Sharing

#### Visualization of customers' SC

- Optimum inventory arrangement in each region
- Reinforce resilience of supply chain



SCDOS\*1

#### Protect drivers/transportation companies

- Technology to prevent accidents
- Improve eco-driving technology/vehicle assignment



SSCV\*2

**IoT  
×  
DX**

Toward New  
**LOGIS**  
Digital



Safety/Quality

BI  
DA

SC optimization

Detect

#### Robotics/Group Control

- Collaboration between people in the region and machines
- Backcasting operation to eliminate waiting time in post-process

**SSCV**  
Smart & Safety Connected Vehicle



\*1 SCDOS: Stands for "Supply Chain Design & Optimization Services," and are services that centrally manage and visualize customers' supply chain information (refer to page 27)  
 \*2 SSCV: Stands for "Smart & Safety Connected Vehicle," and is a transport digital platform comprising three solutions of "SSCV-Safety" aimed at realizing a zero-accident



## Business Investments

The HTS Group carefully selects business investments to build robust core domain (Smart Logistics). In specific, we have expanded logistics sites and renewed vehicles, etc.

### Major Investments in FY2019



Automated warehouse IV  
Existing building IV

**Operations started April 2019:**  
Automated warehouse in Toyama IV Logistics Center (Toyama Prefecture)



**Operations started Dec. 2019:**  
Tsukuba DC Extended Building (Ibaraki Prefecture)



**Operations started Nov. 2019:**  
Knoxville XD Center (U.S.)



**Renewal of vehicles, etc.**  
(Turkey and other areas)

Dimensions

# TEED

Platform



Productivity

G  
TA

BCP

problems

5G  
×  
AI



Drone patrol



Smart watch



Face recognition



Thermal camera



VR



Hologram

### Safe and secure work environment

- Environment that watches over workers and warns of a danger
- Create workplace that allows everyone to participate actively

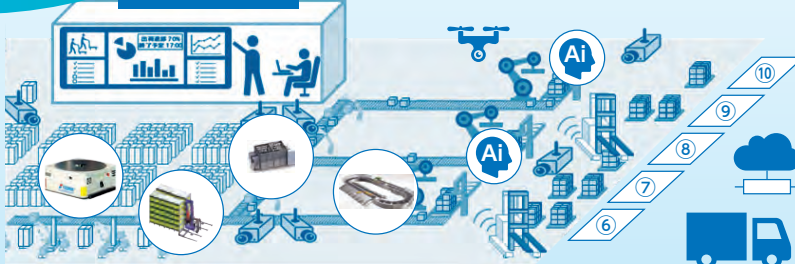
### Contactless operational management

- Stress-free health and hygiene control
- Secure personal authentication, crime prevention, security

### Virtual reality education

- Effective education through realistic experience of hazardous situations
- Distribution of intuitive and visual manuals

Control center



Loading dock management



## Robotics

**HITACHI**  
Inspire the Next

# Special Feature: EC Platform Center

## EC Platform (Evolution of Smart Warehouse)

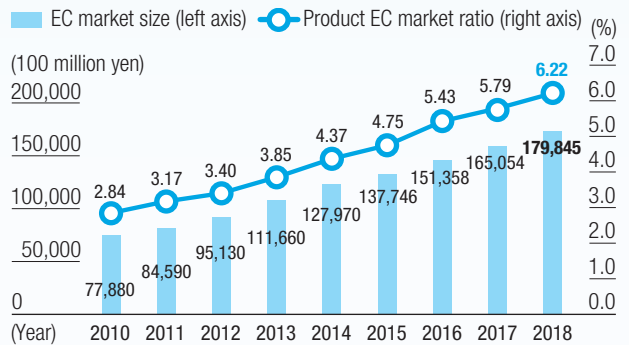
### Background

The expansion of EC in the market has increased small-lot logistics in supply chain. However, handling both large-lot distribution for stores and small-lot distribution for EC in the same warehouses or logistics centers complicates operations and may cause lower work efficiency, resulting in a rise in logistics cost or lower logistics quality. It may be useful to have facilities or equipment dedicated to EC and secure workers in order to avoid it, but such investment would put too much of a burden especially on small to medium business operators.

### Our initiatives

We provide EC platform using automation/labor-saving technology for small to medium business operators. Our EC platform allows to reduce initial investments by sharing facilities and equipment dedicated to EC as well as systems and workers with multiple business operators. In addition, the operation design using our expertise on EC logistics accumulated over the years through our businesses has achieved the improvement in work efficiency and logistics quality. We built the EC platform in FY2019, and it has been used by many business operators in various industries.

### Domestic EC market size and Product EC market ratio



Source: Ministry of Economy, Trade and Industry of Japan

### Logistics issues faced by EC business operators

Shipping cannot keep up with the rapid increase in orders.

The warehouse capacity is hampering the business growth.

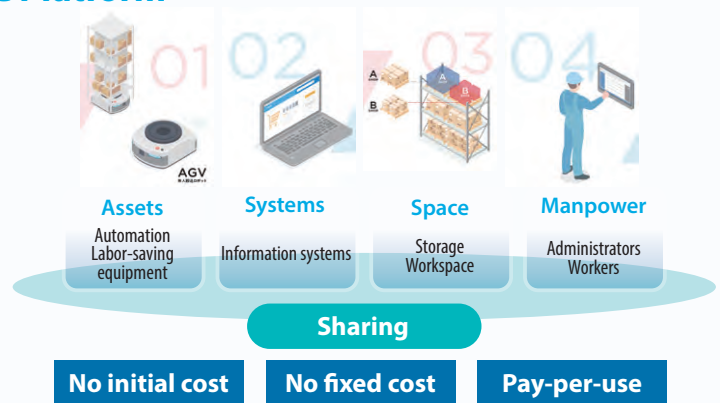
A combination of rising labor cost and labor shortage is causing an increase in operational errors.

Fixed cost weigh on profitability due to a large difference between the busy and off seasons.

## Outline and Characteristics of EC Platform

### Outline

Our EC platform provides a packaged service comprising four logistics operations (inventory storage, packing, shipping, and data linkage) required for the growth of EC business. Sharing enables the offer with no initial cost, no fixed cost and pay-per-use model, and the service has been used by many companies in various industries, from those with employees of less than 10 to large-scale EC malls. Our service is also evaluated as a BCP measure because automation achieves the minimization of the manual handling of cargoes and the long-hour operation.



### Characteristics of Smart Warehouse

- **Flexibility:** Sharing allows to flexibly expand capacity as business grows or during the busy season. Enables to expand product lines and increase sales of seasonal items
- **Quality:** Automated and standardized operation reduces operational errors, contributing to a decrease in complaints and an improvement of customer satisfaction.
- **Automatic (cutting-edge automation):** Automation with the labor-saving rate of 72% enables shipping of 18,000 packages per day. As automation reduces contact between people and packages and also allows to extend hours for accepting orders, users may use it as a BCP measure.
- **Variable Cost (turning logistics cost into variable cost):** The pay-per-use model, which incurs cost based on the logistic volume, allows users to save cost during the off season, contributing to the improvement of cost structure and operating income.



## Outline, Positioning and Characteristics of Kasukabe EC Platform Center

### Outline and positioning

In September 2019, Kasukabe EC Platform Center has started operation in Kasukabe, Saitama Prefecture as the first EC platform site.

- Kasukabe EC Platform Center operates 24/7 and meets diversifying consumer needs as a flexible and multi-functional automated warehouse.
- The good location near major roads facilitates nationwide distribution, and also its location in the Tokyo Metropolitan area allows to shorten the transport distance.
- Its usable space of approximately 2,000 tsubo (6,600 m<sup>2</sup>) can meet a volume increase in case of business expansion in the future.



### Facilities/systems to realize high-efficiency and high-quality operation



#### Automatic case former

It forms container boxes automatically based on the customers' orders. Formed boxes are automatically transferred to the picking station just in time.



#### AGV picking

Storage shelves are automatically transferred to the picking station by the delivery robot system, saving significant man-hours compared with the conventional "manual picking by foot" method.



#### Frontage sorting system

Movable shutter doors prevent wrong products from being packed in the picking process. Adding the inspection function to the picking process achieves high-quality work.



#### Automatic insertion of delivery slip

Delivery slips are automatically inserted into shipping boxes. Full automation from printing delivery slips to inserting them into boxes minimizes a risk of erroneous insertion.



#### Automatic packing

Sensors measure the height of the shipping boxes. It automatically packs the boxes with the optimum size. It aims to save freight cost by selecting the minimum and right size of shipping boxes for the products.



#### Operations monitoring system

Operations are recorded to prevent erroneous product shipping. Recorded videos are provided to customers if necessary.



## Business Case

### CASE 1 Product: Accessories

Consultation from an accessories start-up company

- **Speedy launch while holding down initial cost**
- **Support based on logistics insights that the company does not have**

### — Realized speedy launch and cost saving —

- Support based on our abundant experience  
⇒ **Speedy business launch**
- Proposed to achieve zero initial cost through sharing and pay-per-use model  
⇒ **Realized cost down of 8%**

### CASE 2 Product: Supplements

Consultation from a company based in Western Japan

- **Cure for insufficient warehouse capacity**
- **Location diversification in view of BCP**
- **Reduction of logistics cost by reviewing SCM**

### — Established a BCP measure and reduced cost —

- Proposed to diversify location by using EC platform
- Established a BCP measure through labor-saving  
⇒ **Solved the capacity shortage and established a BCP measure through warehouse diversification and labor saving**
- Reduced home delivery cost in Kanto and northward
- Reviewed SCM  
⇒ **Reduced delivery cost by 10% and overall logistics cost by 5%**

# Special Feature –Employee Roundtable Discussion–



Business Development Department  
Tetsuhiro Uesugi

Sanda Sales Office  
Yoshiharu Niioaka

Kansai Division IV, Hitachi Transport System West Japan  
Atsushi Watanabe

Business Planning Department  
Yusuke Kiritoshi

## “Present” and “Future” of the HTS Group’s “Gemba” Power

“Gemba” Power is one of the sources of the Group’s value creation and strengths.

In order for the employees working at the front line to move toward “Our Future,” what kind of motivation should they have and issues should they recognize?

For this report, we held a discussion with key members of the project to launch Kansai II Medical DC (Sanda City, Hyogo Prefecture) which started operation in 2018 with a number of new technologies and the GDP certification\* which has a growing need in the pharmaceutical logistics that we cannot stop as our social mission.



Kansai II Medical DC  
(Operation started in February 2018)

\* GDP (Good Distribution Practice): “Appropriate distribution standard for medical supply” to ensure strict quality control to prevent quality deterioration during transportation and storage.

### Attendees in the discussion

Manager, Sanda Sales Office,  
Kansai Division,  
Nishinippon Area  
Headquarters

**Yoshiharu Niioaka**

Manager, Kansai Division IV,  
Kansai Area Headquarters,  
Hitachi Transport System  
West Japan

**Atsushi Watanabe**

Manager, Business  
Development Department,  
Nishinippon Area  
Headquarters

**Tetsuhiro Uesugi**

Senior Engineer, Business  
Planning Department,  
Nishinippon Area  
Management Headquarters

**Yusuke Kiritoshi**

Senior Engineer, Logistics  
Technology Department, Logistics  
Solution Business Development  
Headquarters, Business  
Management Headquarters

**Takaaki Konno**

Senior Engineer, Smart Logistics  
Development Department,  
Logistics Solution Business  
Development Headquarters,  
Business Management  
Headquarters

**Shohei Kaeriyama**

Manager, GDP Management  
Group, Business Management  
Headquarters

**Torao Kawaguchi**

\*Names of organizations and positions are as of the date of the discussion

**Kansai II Medical DC ("the DC") has been operating stably since it started operation by a vertical startup in 2018. Please tell us how each of you were involved in the launch of the DC, along with your current duties.**

**Kawaguchi:** I was in charge of quality control of pharmaceutical logistics and other practical work at Maishima Sales Office in Osaka for about 10 years. I joined the GDP Promotion Team in 2017, and I've been working exclusively on GDP ever since. In the launch of the DC, I was mainly in charge of responding to the GDP inspection by foreign pharmaceutical manufacturers.

**Kaeriyama:** I was in the Logistics Technology Department and in charge of introducing automated forklifts. Now, I'm in the Smart Logistics Development Department and promoting the implementation of new technologies into the logistics sites in collaboration with external collaborative innovation partners.

**Konno:** At that time, I was in the Business Planning Department and worked on the business plan of the DC. After the project started, as a member of the Logistics Technology Department, I worked on the introduction of the Company's first rotary piece sorters and the warehouse design and engineering, etc. for domestic generic drug manufacturers. Currently, I'm in the Logistics Technology Department and in charge of warehouse design and engineering, launch, follow-up, and introduction of new technologies, etc. for new projects.

**Kiritoshi:** Like Mr. Konno, I was in the Business Planning Department and worked on the overall process of the project from the proposal of the DC through the launch of operations. I was mainly involved in designing the buildings and facilities of the DC and in charge of temperature mapping and air conditioning system for the storage of medical supplies.

**Uesugi:** I was in the Business Development Department and in charge of negotiations with customers over the contracts and prices.

**Niioka:** I was a site manager and in charge of coordinating the overall launch project. Although I had worked with customers in retail industry for a long time since I joined HTS, I was new to the pharmaceutical industry where quality control is particularly strict, so I studied quality control for medical supplies and worked with other members toward the launch of the DC. I'm still working as Manager of the DC.

**Watanabe:** I am an employee of HTS's group company, Hitachi Transport System West Japan, joined the project team about a year before the launch and worked as Manager for about a year after the launch. I mainly worked on preparing the environment for on-site operations and recruiting employees.

**Please tell us about the background of launching the DC and what you kept in mind when identifying customer needs.**

**Niioka:** In the western Japan area, Maishima Sales Office and Kita-Osaka Sales Office in Osaka Prefecture had been functioning as medical DCs. And when they reached their full capacity, customers requested to increase capacity, and there was also an increasing need for pharmaceutical distribution management conforming to GDP. HTS also had its own plan to build a new logistics center in an inland location with a view to maintaining and increasing pharmaceutical customers and enhancing BCP.

**Kawaguchi:** In terms of GDP, we had to carefully identify customers' demands. So, we conducted a survey in an effort to identify the details of the demands on the "tangible aspects (e.g. facilities)" and "intangible aspects (e.g. quality)" of GDP and find out what was best for the customers including "whether we should move them to a new center" or "whether we should continue to provide services at the existing sales office." As a result, we concluded that it was best to build a new center to further improve customer satisfaction and maintain and expand transactions.

**The DC started operations after relatively short preparation period of ten months from the start of the project. Please tell us "what you found most challenging" and "what you focused on most" during that period.**

**Niioka:** When the project first started, there were only two dedicated members including me, and as we spent time to examine introduction of new technologies and "visualization" with digitalization, other tasks did not make much progress. In addition, because the project involved a transfer from existing sales offices (Maishima and Kita-Osaka) and customers and our members needed to work on both the existing operations and the project at the same time, it was hard to arrange meetings for the new center. Sometimes, we even had to meet on weekends. Moreover, since the center's location was far away from the urban area, we had a hard time developing a distribution network. We transferred operations of each customer with a cycle of "prepare," "transfer," and "stabilize operation," and April 2018 turned out to be an extremely busy month because we transferred three customers' operations to new DC at the same time. I think we were able to get through such hard work because of the strong motivation of all members thinking that "if we are going to do it, we want to do it excellently," along with the generous supports from the Group.



Logistics Technology Department  
Takaaki Konno



Smart Logistics Development Department  
Shohei Kaeriyama



GDP Management Group  
Torao Kawaguchi

**Watanabe:** What I focused on most was to introduce a new technology, rotary piece sorters. When I introduced such new technologies in the past, it was quite difficult to achieve the productivity target. So, I had a strong determination to achieve the target this time and carefully prepared with the help of other members. Although there was a little confusion at first, it is now operating smoothly and has achieved the productivity target.

**Uesugi:** I was a sales representative and in charge of coordinating various matters with customers and drew up a carefully thought-out plan to transfer customers' operations in the short term. But because a customer also requested measures against troubles such as delay in the transfer process, we re-developed another transfer plan along with a backup plan, which were presented to and approved by the customer. That was the most challenging part.

**Kiritoshi:** As for me, when designing the buildings and facilities of a GDP-compliant center, we acquired insights and know-how by studying in-house cases as well as using external expert knowledge and network, shared a rough draft of specifications with the sales team and customers and repeated sincere exchange of opinions to brush it up. That's what I remember most.

**Konno:** I placed the highest priority on "creating a culture" in the DC. The Company has a good tradition that the founding members of each site create the culture. "Quality is vital" in pharmaceutical logistics, and even a scratch on the box could make customers raise concern about contamination. Accordingly, our task was how to embed cardinal rules such as "handle products as carefully as possible" and "never make a shipping error" in every single worker's mind as the DC's culture. Human resources development was especially important for this project as we had to demonstrate the same level of performance as the existing center from the very first day of operation. So, we sent workers to the existing center about a month and a half before the operation started to take a two-week training while actually experiencing the pharmaceutical logistics in terms of level of quality and operation, productivity and speed, followed by careful

education for a month at the DC. As a result, I believe we were able to start the operation of the DC without any major troubles. We were also able to make an "achievement" of dealing with a failure of the rotary piece sorters on the first day with our additional staff assigned to prepare for an emergency. I believe such response capability is one of our "Gemba" Power that the Company has accumulated over the years.

**Kaeriyama:** I was in charge of introducing automated forklifts and faced mainly two challenges. Firstly, automated forklifts were already widely used in factories, etc. but not in large-scale logistics warehouses like the DC. So, it was the first challenge for us and material handling equipment manufacturers. The adjustment work was especially difficult. For example, if the warehouse has 3,000 units of storage space, we need to input data, such as the height and locations of the shelf, into the automated forklifts for all 3,000 units in advance, and it took us two and a half months to do so. Moreover, because other works were being done at the site during the day, we had to do the advance adjustment work at night by coming to work early evening and going home in the morning.

Secondly, we had to deal with some failures after the operations started. Although we had some adjustment period before the operation started, various failures were identified and it took around a year before the operation became stable. Because someone had to rush over to the DC when a failure occurred even in the midnight, we asked Mr. Nioka several times, and I really appreciate his help. The operation is now stable, but we continue to take every possible means to ensure safe operation. The center operates unmanned during the night, but the area for unmanned operation is clearly separated during the day to prevent a collision accident with workers.

**Kawaguchi:** The hardest part with GDP was responding to customer inspections. Mr. Kiritoshi took care of the "tangible aspects" such as buildings and facilities as a GDP-compliant center. I was in charge of the "intangible aspects" of the DC including operation quality and quality control and received quite a few requests from customers during a few months of the preparation period leading up to the on-site inspection of around two days. In particular, as customers demanded a very high level of SOP\*, we prepared the SOP which incorporates the entire GDP from Chapter 1 through 9 into each process from management to operation and defined it as the DC's rule as well as the Company's internal rule (GDP standard), in order to receive approval from customers. Currently, we are working to apply this SOP to all sales offices and other centers handling medical supplies.

\* SOP: Standard Operating Procedures



Part of this discussion was held online in order to prevent the spread of the COVID-19 (held on June 10, 2020).



Rotary piece sorters introduced for the first time



Fully automated unmanned forklifts



Hand camera used to check work procedures by workers

**Konno:** This project constantly faced a shortage of human resources during the preparation period as we had to work on transfer and launch while maintaining the operations of the existing center. But we managed to follow through to a successful launch, and I believe it is one of the Company's strengths. However, if we do a similar project, integrate the existing centers or consolidate operations related to the existing customers in the future, I hope we will have a well-prepared structure using our experience in this project.

**Labor shortage has been a long-standing issue in our society, and it seems particularly serious in the logistics industry. What kind of creative ideas have you tried in recruiting human resources for the DC?**

**Watanabe:** The DC was to be built in an area where the HTS Group did not have any sites before, so we started the preparation early as we thought we might have difficulty securing human resources. While we surveyed the local employment situation in cooperation with the recruiting team in the administration division, we posted a preliminary notice on the DC on a local media as a "prior notice" before placing an advertisement for job recruitment with an emphasis on the working environment such as a café-style break room with free Wi-Fi. As a result, we received many applications from those in search of jobs as well as those who had a job at that time, and we were able to successfully secure human resources early. Currently, we recruit human resources as needed with no difficulty so far, except for those with specialized skills such as forklift operation. So, we are making various efforts including training the recruit to become a forklift operator.



Break room with free Wi-Fi for employees

**As mentioned in the Message from the President in the Report, the Group has focused on the "visualization" of the "Gemba" Power through digitalization. Please tell us about the "visualization" in the DC.**

**Nioka:** In terms of enhancement of quality control, for

example, we adopt a "weight inspection system" at the volume inspection to "visualize" weight instead of the number of units to prevent errors. Also, we introduced a video search system capable of searching footage from the workers' hand cameras using a keyword such as a product code for the purpose of investigating causes in case of errors. We installed many monitors (digital signage) to share information in places like each site and a break room to repeatedly display the work progress, enlightening messages on safety and quality and precautions. We share the progress of packing operations via the monitor in a loading dock berth to reduce frustration of drivers at not being able to estimate the waiting time. In addition, we repeatedly display detailed and timely contents such as productivity, safety, and COVID-19 preventive measures to enhance employees' awareness.

**How did the various challenges you took on in this project change you or the "mindset" of the site?**

**Nioka:** In terms of changing the mindset to handle medical supplies, providing the introductory education mentioned earlier and recruiting a pharmacist specifically for the education at the DC produced a great effect. I think the systematic education on pharmaceutical affairs including GDP conformity by the pharmacist helped to make every employee involved in operations aware of "how they should handle medical supplies."

**Watanabe:** As for myself, although I have worked at pharmaceutical logistics centers for years, I was new to GDP compliance, and I am sure this new knowledge will be an advantage for my future career. Currently, the Group is working on changing the mindset to further improve our operation quality as the group-wide theme, and I think we were able to start that in the DC ahead of schedule through this project.

**Kiritoshi:** I rarely installed cameras or monitors in buildings and facilities I designed in the past, but using them in this project made me realized that such new initiatives for "visualization" can provide great supports to the sites. I believe I was able to greatly change my mindset in that sense.

■ **Konno:** I also think it was a good experience for me to consider and introduce various new equipment. I think that rotary piece sorters and automated forklifts as well as a video search system mentioned earlier and smartphone-type handheld scanners will contribute to further enhancement of the mindset and productivity improvements of the sites in the future.

■ **Kaeriyama:** In introducing automated forklifts, I made sure that I always remembered “for whom I was doing it.” The longer you work in a specialized domain, the more you tend to become short-sighted and swerve from the purpose. This project made me have a clearer sense that “all we do is for the entire operation and employees in the sites.”

■ **Kawaguchi:** I worked at the site in Maishima Sales Office before joining the project, but my role in this project was to be in charge of GDP and support the sites, which changed my mindset greatly. My previous work tended to be passive as I basically followed customers’ instruction. Now, I’m focusing on spreading awareness of GDP to the sites by proactively encouraging to promote GDP compliance and relevant education.

**Finally, please tell us about your future aspirations.**

■ **Kawaguchi:** A project to launch a new medical DC is underway, and I believe our experience with Kansai II Medical DC can be useful for the project. As for GDP, I will try to accelerate the implementation of the common SOP across the Group while revising it as necessary, with an aim to maintain and improve quality of pharmaceutical logistics of the entire Group. To that end, I think we need to meet customer needs even more and evolve GDP services.

■ **Kaeriyama:** As a member of the technology division, I will try to implement new facilities to support the sites as early as possible. Automated forklifts are operating stably in the DC, but there are still issues to be solved before they can be implemented in other sites, so I will work on them one by one.

■ **Konno:** Rotary piece sorters, which were introduced in the DC for the first time in the Company, are increasing as they are scheduled to be introduced in several other centers, so I will

focus on their stable operations. In the long term, I am hoping to construct a “super labor-saving logistics center” someday and making preparations as I watch for an opportunity. For example, I’m thinking about a super labor-saving site whose operation is fully automated from receiving to storage and shipping. In order to realize it, I will try to expand collaborative innovation with external partners and an ecosystem in addition to our own resources.

■ **Uesugi:** This project made me feel once again the strength of the Company’s organization power that each team of “site,” “facility,” “GDP,” and “sales” ensures to fulfill their roles. I believe it contributes to realizing our advantage stemming from high logistics quality and low-cost operation. Although the severe business environment including a labor shortage and intensifying competitions is expected to continue, I will work on differentiation through new technologies and the “Gemba” Power. As a GDP-related ministry ordinance is expected to be released in a few years, I intend to use it as a new business opportunity.

■ **Kiritoshi:** The DC has received the in-house award as a success model. I will draw on this experience to actively propose to build new warehouses and introduce new facilities, under the motto of creating an environment easy for site workers to use and comfortable to work in.

■ **Watanabe:** The new facility (rotary piece sorters) in the DC has achieved productivity target (saving 10 workers’ labor), but I believe we can do better. I will try to value communication at the sites so that I can make suggestions as a person familiar with the sites when launching new centers in the future.

■ **Nioka:** As a large investment was made in this project, I will ensure strict budget control to recover the investment. In terms of the initiatives in anticipation of the release of a GDP-related ministry ordinance, I will work on raising the overall level of the sales office to reinforce the structure. When we expand the Company’s pharmaceutical logistics business on a full scale, we will also further enhance human resource development.



Weight inspection system



Digital signage



Monitor placed in loading dock



## Independent Director Dialogue

# “History” and “Future” of the Evolution of Governance



Outside Director  
Chair of the Compensation Committee  
Member of the Audit Committee  
Sayoko Izumoto



Outside Director  
Chair of the Board of Directors  
Chair of the Nominating Committee  
Mitsudo Urano

**Amid drastic change in society and economy, the HTS Group focuses on value creation through “LOGISTEED,” “collaborative innovation,” “expansion of ecosystem,” and “Gemba” Power. How has the underlying corporate governance changed so far and how will it evolve in the future to support sustainable increase of corporate value? Two independent outside directors held a dialogue.**

**Mr. Urano and Ms. Izumoto have served as the Company’s independent outside directors for six years and three years, respectively. What do you think of the characteristics of the Company’s current governance?**

**Urano:** I think it’s easier to understand the characteristics of the Company’s current governance if we learn its history. The Company was established as a logistics subsidiary of Hitachi, Ltd., which still owned more than 50% of sharers when I became outside director in 2014. At that time, it had been over ten years since the Company transitioned to a Company with Committees in pace with Hitachi, Ltd., but the system was not fully functioning. However, as a result of our efforts to drastically change that for the past six years, I believe it is now effectively functioning. For example, based on various opinions from our stakeholders, the Compensation Committee successfully aligned the compensation plan for officers with the level required by the Corporate Governance Code in FY2020. The Nominating Committee also organized the

“Vision” of the Company’s board directors and executive officers and operates a system to objectively evaluate CEO. The Audit Committee inherited the excellent system of the Hitachi Group, which is functioning well.

**Izumoto:** As I concurrently hold a position of outside audit and supervisory board member in other company with an audit and supervisory board, I get the impression that in the Company, being a Company with a Nominating Committee, etc., each of the three Committees is clearly functioning. Resolutions at these Committees would never be altered by the Board of Directors, and each Committee is functioning quite well, ensuring the effectiveness.

**Urano:** On the premise that the three Committees are functioning well, I believe the core of governance lies with the Board of Directors. I’ve been saying at the Board of Directors meetings that “the Company’s growth strategy should aim to satisfy all stakeholders including the capital market.” If we can achieve this, I think we can say, “our governance is effective.” Because the Company was a

consolidated subsidiary of Hitachi, Ltd. in the past, there was plenty of room for improvement in terms of the consideration for the capital market. However, after Hitachi, Ltd.'s ownership ratio declined to 30% in 2016, the Company significantly changed its direction to push forward its growth strategy under its own governance. The Board of Directors feels proud that it has successfully strengthened the Company's initiatives to appeal its growth strategy to the capital market under its supervision.

I think that our growth strategy has three aspects of "M&As," "development of new products and services," and "productivity improvement." And what we should focus on should be discussed at the Board of Directors meetings based on the stage the Company is in at that time. The Company is currently in the middle of the growth stage and has achieved the growth strategy by "M&As" in the past ten years with revenues increasing more than twofold. We also made solid progress in the "development of new products and services" based on 3PL with our new business concept of LOGISTEED starting to be developed. As for "productivity," the Company is enhancing its initiative for "VC21 activities." I believe our growth strategy with "M&As," "development of new products and services," and "productivity improvement" has been making excellent progress so far.

Under such circumstance, if we are going to talk about some issues to be resolved as we continue to improve effectiveness of governance, the first one is that there is room for improvement in capital efficiency. The second one is that while most of M&As were successful, there is some room for improvement in group governance. The third one is that our IT infrastructure needs to catch up with the level of digital transformation (DX) in society. The Board of Directors will address these issues and share the growth strategy with each stakeholder. In specific, we will place emphasis on changing the portfolio and continue to focus on "M&As" and "development of new products and services."

### Could you give us some examples of discussions toward the resolution of those issues at the Board of Directors meetings?

**Urano:** At the Board of Directors meetings, opinions offered and questions raised by directors from their professional viewpoints will always become useful in decision-making at some point in the future. As the Company adopted a Company with a Nominating Committee, etc. System, whereby the authority is substantially delegated to executive officers and day-to-day decisions are made by the Executive Committee while the Board of Directors concentrates on discussions on the underlying basis for such decisions. For example, before developing the Mid-term Management Plan with strong emphasis on capital

efficiency or introducing the concept of Total Shareholder Return (TSR), the Board of Directors first discussed the underlying basis for the decision-making.

### How were you involved in making the sites aware of capital efficiency?

**Izumoto:** While the Board of Directors discusses the "underlying basis" for the enhancement of awareness of capital efficiency, the Audit Committee ensured to give instructions to incorporate performance indicators such as ROIC and total asset turnover ratio in their target whenever it visited the sites for audit. As a result, employees on sites are starting to become aware of not only profit and loss items such as revenues and gross profit but also balance sheet items such as capital efficiency and asset turnover ratio. I believe we have produced remarkable results in this regard.

**Urano:** While I value the fact that the Company has changed so much in four years, I also think we need to work on further enhancement. For example, the Company's asset balance increased significantly due to the adoption of IFRS 16 *Leases* in FY2019. When I discussed what we should do with the sites, I got an impression that they only cared about profit and loss items such as operating margin. If they truly understand ROIC, they can easily understand that the most important thing for the Company right now is to "improve turnover ratio." Furthermore, I believe we should expand collaborative innovation with SG Holdings Group, 24-hour operation of logistics centers, and collaborative logistics with multiple cargo owners under such BS-based thinking. It is true that ROIC management and BS-based thinking are starting to spread into the sites through the initiatives implemented so far, so I hope to see further evolution through activities such as VC21.

### Please tell us about the benefit of a very high ratio of outside directors\*.

**Izumoto:** As the Board of Directors comprises outside directors having a wide variety of expertise, it is expected to produce synergy effects, and also the atmosphere that allows directors to give their candid opinions to CEO and other directors and stimulates active discussions has been created. Prior explanation and sufficient information are provided to outside directors. I always felt that we could have more effective discussions if we add more outside directors with management experience, and we recently welcomed a new outside director, so I'm looking forward to the future Board of Directors meetings.

**Urano:** I think it is good to have more outside directors than

\* Of nine directors, seven are outside directors including six independent outside directors (as of June 23, 2020).

inside directors. But having many outside directors will not lead to effective discussions if they don't say anything or they mainly ask questions. However, because the Company ensures to provide prior explanation to outside directors before the Board of Directors meetings, very few simple questions are asked now. So, I think it is important for outside directors to think regularly about "the fields in the Company they can contribute to" using their expertise and to express their opinions. As for me, since I became outside director, I've made use of my insights acquired over the years to call the Board's attention to the two points of "how to cope with the capital market" and "capital efficiency" in every discussion. I think each outside director express their opinion in consideration of "how and where I can contribute" based on the stage the Company is currently in. I agree with Ms. Izumoto about the attribute of outside directors. Considering the current stage of the Company, it is preferable if the majority of the outside directors have management experiences, and I recognize that as one of the issues that needs to be addressed in the future.

#### In association with the attribute of outside directors, what are your opinions on diversity of the Board of Directors?

**Izumoto:** We should discuss diversity in a broader context including background, skills, and insights as well as gender. About female directors, I haven't really thought about being one of them myself when I'm working. In terms of skill-mix, I think having more directors with management experiences or IT expertise will further stimulate discussions on DX. Considering that the COVID-19 pandemic is accelerating DX in society, I think this is an urgent issue.

**Urano:** As for diversity, I think the world has started to see its true nature. Until the 20th century, the strength of Japanese companies was that groups of the same nature were working hard, and that was one of the key growth drivers. All this has completely changed, and it is an era where companies made up only of people of the same nature are at risk of being endangered. Thus, I recognize the true nature of diversity is how people of different nature can pursue growth by interacting with one another. Of course, it includes women and also diversity of nationalities, and in a wider sense, I think human resources with different "cultural background" and "body of knowledge" should take advantage of diversity. In that sense, the Company, under the policy of President Nakatani, has proactively recruited outside talents mainly as executive officers and general managers in the past five to six years. For example, in the finance division, insights of the talent with finance experience in other company are quite valuable to the Company whose entire finance operations used to be handled within the Hitachi Group for a considerable period

of time. Also in the sales division, having the talent with experience in logistics sales in a trading company should bring a whole new perspective. If we are to try such various combinations, I think the quickest way would be to recruit human resources with experiences.

#### In FY2019, the Company engaged a third-party assessor for evaluation of the effectiveness of the Board of Directors for the first time in addition to the conventional self-assessment. Please tell us about the issues pointed out at the evaluation.

**Urano:** Various issues were pointed out, but the one pointed out in both the third-party assessment and the self-assessment was "whether the discussions by the Board of Directors really consider all stakeholders." With the expanding movement toward "stakeholder capitalism" in mind, we will deepen discussions to enhance dialogue with stakeholders by taking advantage of each director's characteristics such that some directors will take care of the capital market and some directors will take care of employees.

**Izumoto:** There was a recommendation to the Board of Directors to further deepen its discussions. It's true that because of the large number of agendas and the timing of receiving materials, we sometimes need to ask questions, but I hope to secure as many hours as possible for discussions. Moreover, we always need to understand the current situation and "atmosphere" of the sites to deepen our discussions, but information gap tends to occur between directors who are members of the Audit Committee who frequently visit sites and those who are not, which is also an issue. As this was also pointed out as an issue in the self-assessment, the Company created more opportunities for directors who are not members of the Audit Committee to visit the sites. I believe we can further enhance the effectiveness by continuing to increase such opportunities and deepening discussions closely linked to the "atmosphere" of the sites.



**Please tell us about major improvements or changes in or themes that you think should be improved about the Company's governance in recent years other than the effectiveness of the Board of Directors.**

**Urano:** Although we have resolved most of the issues that need to be improved one by one in the past six years, one thing that still remains as unsolved issue is a schedule of the Executive Committee meetings and the Board of Directors meetings. The Board of Directors meetings are often held on the following day of the Executive Committee meetings, but discussions at the Board of Directors meetings could turn out to be useless if directors don't understand the process leading up to decision-making at the Executive Committee meetings. There have been cases where I thought we could have had more constructive discussions if we had had the knowledge in advance. In companies where the executive committee and the board of directors are functioning well, they usually hold their meetings with an interval of approximately two weeks. I think it is possible in the Company as well if each executive officer moves up their process to obtain the president's approval. As we have already created the atmosphere where we can have a lively, open, and frank exchange of views, we should be able to further evolve the Company's governance if outside directors can know in advance what has been discussed by the Executive Committee.

**Izumoto:** I think we should proactively streamline wherever possible in order to secure time to discuss key themes as much as possible. For example, we receive reports from executive officers on the status of the execution of their duties at the Board of Directors meetings, but I feel the amount of information is too much. I think the objectives of the initiatives they worked on and a summary of the results and explanations on future issues and key points of priority measures should suffice for reports to the Board of Directors.

**How do you recognize the effectiveness of the Board of Director's supervisory function over management?**

**Urano:** As I mentioned earlier, I think the fact that we have changed the Company's "common sense" until six years ago from various aspects is a kind of proof that our supervisory function has been fulfilled. For example, under the recently introduced performance-linked stock compensation plan for executive officers, because of the new system aimed at the alignment of executive officers' interest with those of the shareholders, there may be a case where individual compensation will decrease depending on the business performance and fluctuations of stock value. Moreover, it was unthinkable in the Company's previous culture that the Nominating Committee evaluates CEO's performance based on concrete figures. In addition to these reforms, I think there are three essential points to the supervisory function of the Board of Directors: "is it consistent with the growth strategy?" "is the Company willing to take necessary risks?" and "is the succession plan of CEO fully operational?" With these in mind, each outside director should make recommendations by taking advantage of their expertise as I believe it will lead to further enhancement of the Board of Directors' supervisory function.

**Izumoto:** Our activity as members of the Audit Committee is based on a cycle in which we point out various matters, submit an audit report, receive reports on the progress of improvement measures regularly and point out again the matters that still need improvement. So, it is easy to feel that the Audit Committee is functioning well. On the other hand, what I said at a Board of Directors meeting is not necessarily reflected in the discussion in the next Board of Directors meeting, so it's hard to feel how much contribution I have made as supervisory function. However, we can clearly see how much things have changed over the long term if we look back. I think that's how we can feel for the first time that the supervisory function has been fulfilled.

**Urano:** In a Company with a Nominating Committee, etc. like the Company, I think there is a very sensitive issue as to how to use two words of "supervisory" and "audit" differently. In my personal opinion, "audit" refers to checking and instructing so that matters and budgets that a company has already determined are carried out as planned. On the other hand, "supervisory" covers a wider area and refers to recommending matters including those that a company has not determined or prepared yet. For example, recommendations from perspectives of "how will the Company's growth contribute to stakeholders?" "when the Company's core business becomes no longer the growth area, which area should we expand instead?" or



“assuming no growth, how should we share values with stakeholders?” The Audit Committee of the Company, however, is different from other companies’ audit committees, and not only checks the status of budget attainment but also makes recommendations by looking slightly further into the future. I think this is excellent.

**Please tell us how you are using your skills, achievements, and experience in the management of the Company.**

**Urano:** For the persons with management experiences like myself, the key is how they can use whatever they have put all their energy into in their past careers. I’ve served as outside director in various companies, and I always asked first what they expected of me as outsider director. Sometimes I declined the offer because the answer was not clear. In the case of the Company, at the interview with Mr. Suzuki, then Chair of the Board, we both agreed that “HTS needs to give consideration to the capital market in order to function as an independent company,” which was the deciding factor because what I put all my energy into in my former job was the improvement of capital efficiency. If each outside director clearly recognizes their respective role, it may lead to the most important diversity of “diverse capabilities.”

**Izumoto:** As I’m a certified public accountant whose expertise is quite clear, I think I was expected to serve as a member of the Audit Committee from the beginning.

**In association with the previous question, please tell us about the policy of the Nominating Committee for the selection of candidates for outside directors?**

**Urano:** What kind of human resources a company needs differs depending on the stage that company is in. As I mentioned earlier, the Company is currently in the growth stage, and I believe it is preferable if the majority of the members of the Board of Directors have management experiences. Also, the succession plan clearly specifies profiles and job descriptions for the selection of the management members from within the Company, and we have been advancing relevant discussions. In particular, the succession of CEO is recognized as an urgent issue.

**For the Company’s future growth, what kind of management issues do you recognize?**

**Urano:** Considering the industry HTS is currently in or HTS’s position, I’m certain we have enough potential for growth. Based on such premise, I think there are mainly three management issues. The first one is the acceleration of DX. The Board of Directors also recognizes its importance, and we have to strengthen DX speedily, while bringing in outside talent, to the level that all business departments

can build their own IT governance. The second one is the change of the business portfolio. In order to present a convincing revenue growth scenario to the capital market, it is desirable to change the business portfolio including M&As during the period covered by the current Mid-term Management Plan. The third one is the enhancement of group governance. While the Audit Committee is functioning quite effectively, I recognize there still remains some issues if we include internal control and compliance. I think we should enhance the group governance with an aim to formulate an integrated group governance under the leadership of the Audit Committee.

**Izumoto:** I also recognize that the Company’s issue is the enhancement of the group governance, especially the governance of the overseas group companies consolidated through M&As. Previously, there were some aspects resulting in insufficient group governance such that managers of the accounting division concurrently served as part-time audit and supervisory board members of several group companies. But the situation was considerably improved after the Group introduced a dedicated corporate auditor system about two years ago whereby a person serves as a dedicated corporate auditor of several group companies. As there are some group companies that haven’t introduced this system yet, we will continue our efforts to spread the system. In addition, vigorous efforts have been made to hold the Group Corporate Auditor meetings for corporate auditors only to exchange opinions and various other briefing sessions, and I think the Group is headed in the right direction.

**Finally, please give us a word of advice for further growth of HTS and sustainable increase of corporate value in the future.**

**Urano:** I think it all comes down to the aim of “increasing capital turnover ratio to improve capital efficiency.” I don’t think the current HTS can improve capital efficiency without increasing turnover ratio. Even with the impact of IFRS 16 *Leases*, the Company has to improve total asset turnover ratio to 1 or higher by turning over capital as quick as possible. Keeping this in mind, I will continue to make recommendations on various matters.

**Izumoto:** As I mentioned earlier, the Company needs to enhance group governance, but we should not impose excessive burden on the sites by making too detailed and strict demands. As long as we stay on the objective and remember “what we are doing it for,” I think it is possible to enhance governance effectively while reducing the burden on the sites. I will continue to make recommendations from such viewpoint.

## Board of Directors and Executive Officers/ Board of Directors



### Reasons for the Appointment of Directors

Name	Position	Reasons for the appointment
<b>Miho Aoki</b>	Outside Director	Ms. Miho Aoki served as executive officer in Deloitte Tohmatsu Consulting Co., Ltd. (currently known as ABeam Consulting Ltd.) and held executive positions at various other firms. Based on her abundant experience in company management, she currently works as an associate professor at a university. The Company determines that she can apply her knowledge and experience to supervise the Company's management aiming for sustainable value enhancement.
<b>Sayoko Izumoto</b>	Outside Director	Ms. Sayoko Izumoto has a long career in corporate accounting at a large audit corporation and has served in various public posts. Ms. Izumoto has sufficient knowledge and experience in the field of audit and supervision of business execution. The Company determines that she is qualified to supervise the Company's management aiming for sustainable value enhancement.
<b>Mitsudo Urano</b>	Outside Director	Mr. Mitsudo Urano has worked to enhance management efficiency as a top executive in manufacturing and logistics businesses and has experienced a number of positions as an outside officer at various enterprises. The Company determines that his excellent business sense and familiarity with various management issues make him qualified to supervise the Company's management aiming for sustainable value enhancement.
<b>Takashi Nishijima</b>	Outside Director	After serving as the president at Yokogawa Electric Corporation and holding various executive positions in the Yokogawa group, Mr. Takashi Nishijima currently serves as the chairman of Yokogawa Electric Corporation. The Company determines that his managerial excellence and profound understanding of various management issues make him qualified to supervise the Company's management aiming for sustainable value enhancement.
<b>Tetsu Fusayama</b>	Outside Director	After his long career as a public prosecutor, Mr. Tetsu Fusayama is now active as an attorney at law, with a wealth of expertise and experience in legal and compliance issues. The Company determines that his knowledge and experience are continuously helpful for the Company's management aiming for sustainable value enhancement.
<b>Hiroshi Maruta</b>	Outside Director	Mr. Hiroshi Maruta has deep insights in the field of finance and accounting and has extensive experience working overseas. The Company determines that he is expected to leverage his knowledge and experience for supervising the Company's management aiming for sustainable value enhancement.
<b>Hajime Watanabe</b>	Outside Director	Mr. Hajime Watanabe is an attorney at law, who is savvy about international business and trade law. The Company determines that his specialized knowledge and experience are appropriate for supervising the Company's management aiming for sustainable value enhancement.
<b>Takashi Jinguji</b>	Director	Since joining the Company, Mr. Takashi Jinguji has been engaged in a variety of operations including personnel management, labor management, marketing, business strategy, and operations outside Japan. At present, he serves Representative Executive Officer, Executive Vice President and Executive Officer and Director. The Company has determined that his wide-ranging business experience and knowledge makes him qualified as a director who can contribute to the enhancement of the Company's value.
<b>Yasuo Nakatani</b>	Director	Since his assumption of office as Representative Executive Officer, President and Chief Executive Officer and Director of the Company, Mr. Yasuo Nakatani has been exercising strong leadership to enhance the Company's value. In light of his proven track record of successfully improving the Company's performance, the Company has determined that Mr. Nakatani has the competence to promote the Company's global management and ensure ongoing enhancement of its corporate value.



Age <sup>*1</sup>	Registration	Independent officer	Committee		
			Nominating	Compensation	Audit
59	2020	○			○
66	2017	○		◎*2	○
72	2014	○	◎		
62	2020	○	○	○	
68	2016	○	○		
66	2015				◎
60	2020	○			○
64	2016				
64	2013		○	○	

\*1 As of June 23, 2020 \*2 ◎Chair

## Summary of Skillsets of Directors

Field	Number of directors					
General management	●	●	●			
Financial accounting/ finance	●	●				
Law	●	●				
Administration	●					
Global business	●	●	●	●	●	●
Technology	●					
Society/culture	●					
Sales/market development	●	●	●	●	●	
Risk management/ compliance	●	●	●	●		

## Board of Directors and Executive Officers/Executive Officers



**Yasuo Nakatani\***

Representative Executive Officer  
President and Chief Executive Officer



**Takashi Jinguji\***

Representative Executive Officer  
Executive Vice President and Executive Officer

General Manager, Global Business  
Management Headquarters  
General Manager, AEO & Corporate Export  
Regulation Office



**Yoshitaka Tsuda**

Executive Vice President and Executive Officer

In charge of IT/logistics solution



**Kunio Iida**

Senior Vice President and Executive Officer

In charge of safety and quality management



**Seiki Sato**

Senior Vice President and Executive Officer

General Manager, Corporate Strategy Office  
General Manager, Collaborative Innovation  
Project Team



**Kazuhisa Hatakeyama**

Senior Vice President and Executive Officer

Executive, Higashinippon Area Management  
Headquarters  
(President, Hitachi Transport System South  
Kanto Co., Ltd.)



**Nobukazu Hayashi**

Senior Vice President and Executive Officer

General Manager, Financial Strategy Office  
General Manager, Project Management Office

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



**Kenji Abe**

Vice President and Executive Officer

Deputy General Manager, Business Management Headquarters  
General Manager, Business Development Headquarters, Business Management Headquarters

**Kazuhisa Sakaguchi**

Vice President and Executive Officer

Executive, Nishinippon Area Management Headquarters  
Executive, Nishinippon Area Headquarters, Nishinippon Area Management Headquarters

**Kiyoshi Nagao**

Vice President and Executive Officer

General Manager, Business Management Headquarters  
General Manager, Logistics Solution Business Development Headquarters, Business Management Headquarters

**Yasushi Hagiwara**

Vice President and Executive Officer

General Manager, Human Resources & Business Support Office

**Yuichi Kuroume**

Executive Officer

General Manager, Heavy Cargo Transport and Engineering Headquarters  
(President, VANTEC HTS FORWARDING, LTD.)

**Hiroaki Takagi**

Executive Officer

Chief Executive for China  
(President, Hitachi Transport System (China), Ltd.)

**Kazuhiro Nishikawa**

Executive Officer

Executive, Metropolitan Area Headquarters, Higashinippon Area Management Headquarters  
Deputy General Manager, Corporate Strategy Office

**Riichiro Hirano**

Executive Officer

Chief Executive for Europe  
(President, Hitachi Transport System (Europe) B.V.)

**Hitoshi Honda**

Executive Officer

Deputy General Manager, Financial Strategy Office

**Tetsuji Mimura**

Executive Officer

Executive, Higashinippon Area Headquarters, Higashinippon Area Management Headquarters

**Shunsuke Yonekura**

Executive Officer

General Manager, Information and Communication Technology Strategy Headquarters, Business Management Headquarters  
General Manager, Information Security Office  
(President, Hitachi Distribution Software Co., Ltd.)



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

<https://www.hitachi-transportssystem.com/en/ir/corporate/officer/>

# Corporate Governance

## Basic Views

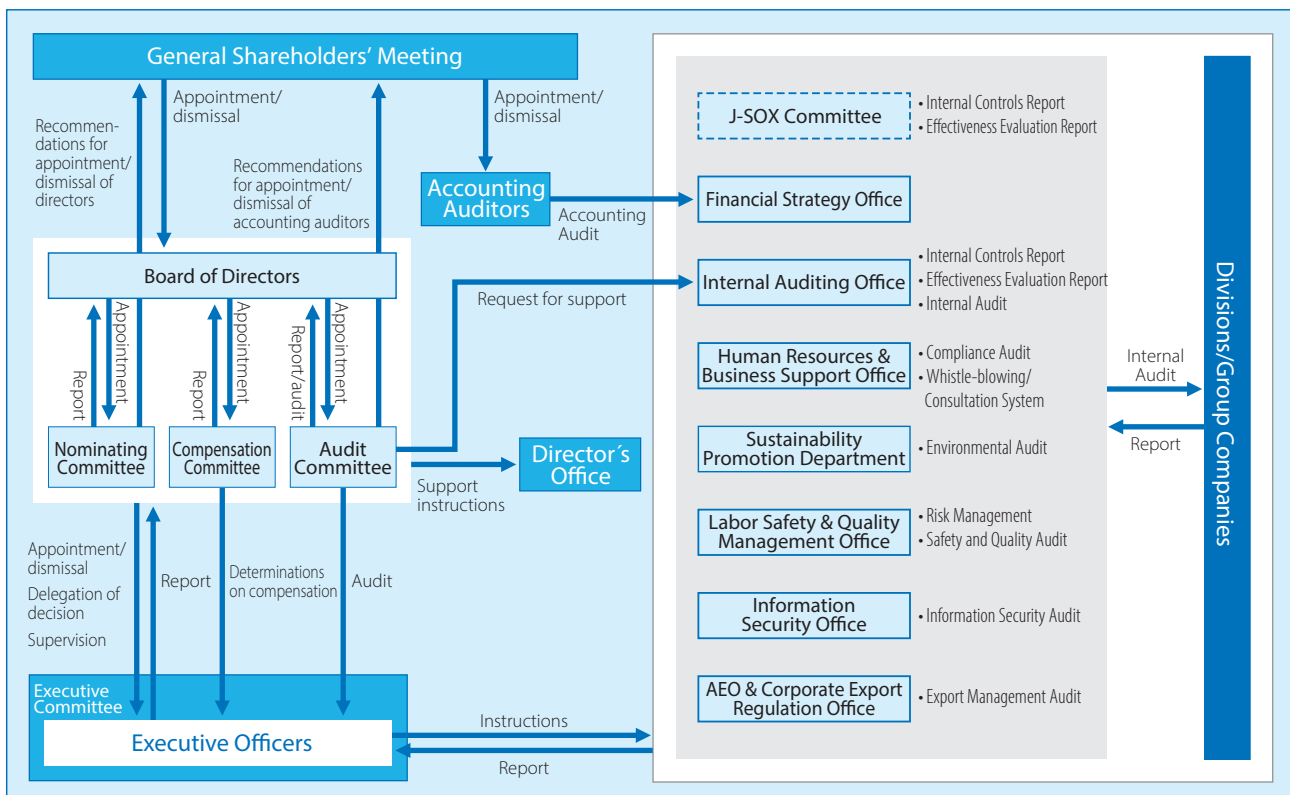
At the HTS group, we consider corporate governance to be key to realizing even greater management transparency and efficiency, as well as ensuring that our business is carried out with compliancy and in accordance with correct corporate ethics. By extension, the crux of corporate governance lies in boosting corporate value and sustainable development. Rooted in this basic policy, we have adopted a corporate governance structure capable of responding deftly to changes in the business environment as well as boosting soundness and transparency—namely a company with a Nominating Committee, etc. System. This

means that we have effectively separated our corporate management and our business implementation—a setup that largely transfers business decision-making rights from our Board of Directors to our Executive Committee. 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 and transparency of management, we have also established three committees overseeing nomination, auditing, and compensation respectively.

## Measures to Enhance Corporate Governance Implemented in the Past

	Measures	Purpose
2003	Transitioned to a Company with Committees (established Nominating Committee, Audit Committee and Compensation Committee)	To strengthen management supervision function of the Board of Directors
2014	Developed Criteria for Independence of Outside Directors	To secure independence of directors
	Appointed a female director	To diversify the Board of Directors
2015	Transitioned to a Company with a Nominating Committee, etc. System	To comply with the amended Companies Act
	Responded to the Corporate Governance Code Established Corporate Governance Guidelines of Hitachi Transport System	To strengthen governance
2016	Evaluated the effectiveness of the Board of Directors	To strengthen functions of the Board of Directors
2017	Appointed the second female director	To diversify the Board of Directors
2019	Evaluated the effectiveness of the Board of Directors by a third-party assessor	Ensured the neutrality and objectivity of the evaluation of the Board of Directors' effectiveness
2020	Appointed the third female director (accumulated)	To diversify the Board of Directors

## The Current Corporate Governance System and Internal Control System



## HTS's Organization Design

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

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

### ■ Primary roles of the Board of Directors and the Committees

#### (1) Board of Directors

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

#### (2) Nominating Committee

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

#### (3) Audit Committee

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

#### (4) Compensation Committee

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

### ● Appointment and dismissal of officers

Candidates for directors are selected at the Nominating Committee and appointed at the General Shareholders' Meeting. Regarding candidates for senior management members (executive officers), the Nominating Committee prepares a list of candidates and submits it to the Board of Directors for appointment.

The policy of appointment and dismissal of CEO and the composition of the Board of Directors and independence of outside directors to be considered in selecting candidates for directors are specified in the Corporate Governance Guidelines of the Company.



Corporate Governance Guidelines  
<https://www.hitachi-transportssystem.com/en/profile/csr/governance/cg/>

### ● Succession plan

The Company has had in-depth discussions about a succession plan at the Nominating Committee and the Board of Directors. Appropriate supervision is conducted through decisions by President and Chief Executive Officer and business reporting and evaluation by executive officers at the Board of Directors.

### ● Relationship between HTS and outside directors

There are no special interests involved between seven outside directors appointed at the HTS 61st Regular General Shareholders' Meeting held June 23rd, 2020 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 independent 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. (Miho Aoki, Sayoko Izumoto, Mitsudo Urano, Takashi Nishijima, Tetsu Fusayama, and Hajime Watanabe are registered as independent officers in accordance with Tokyo Stock Exchange regulations.) The criteria for independence of outside directors are noted on the HTS Website.



Criteria for Independence of Outside Directors  
<https://www.hitachi-transportssystem.com/en/profile/csr/governance/cg/>

### ■ Executive Committee

- Deliberates on important issues related to business implementation
- Comprised entirely of executive officers or individuals appointed by the company president
- Executive Committee meeting held once a month in principle (additional sessions held as necessary)
- Total of 18 executive officers (as of April 1, 2020)

### ■ Internal Controls

Based on the relevant laws and ordinances, we have established an Audit Committee to supervise the work of our directors and executive officers, while our Board of Directors implements comprehensive systems related to internal controls. The HTS Group has set up an Internal Controls Committee, through which internal controls related to financial reporting are documented and also assessed for effectiveness throughout the HTS Group. By adhering to internal control reporting systems on financial reporting as stipulated in the Financial Instruments and Exchange Act, our financial reporting earns the optimal trust level.

## Corporate Governance (Analysis and Evaluation of Effectiveness of the Entire Board of Directors, and the Result)

### Started the Evaluation of the Effectiveness of the Board of Directors by a Third-party Assessor

Five years have passed since the Company started evaluating the effectiveness of its Board of Directors (BOD). To ensure the impartiality and objectivity of evaluation, the Company, in addition to conducting a self-assessment of the BOD, asked Japan Board Review Co., Ltd. (JBR), a third-party institution specializing in assessing various companies' boards of directors, to evaluate the effectiveness of the BOD for FY2019 (from June 2019 to May 2020). As part of the evaluation, JBR reviewed documents prepared for the BOD, Nominating Committee, Audit Committee, and Compensation Committee (the Three Committees), as well as the minutes of their meetings and observed BOD meetings. In addition, JBR prepared a questionnaire in consultation with the Chair of the Board, chairs of the Three Committees, and the President and Chief Executive Officer, and asked all directors and three executive officers who regularly attended BOD meetings to complete it. JBR followed up the questionnaire by interviewing each respondent and compiling an evaluation report on the BOD, including a list of identified issues related to its effectiveness. JBR submitted the report—as well as recommendations for improvement—at a BOD meeting in March 2020. The BOD used the evaluation report and recommendations offered by JBR as a basis for discussion of how to address the identified issues and conduct future BOD meetings.

### A Summary of the Evaluation Results Provided by a Third-Party Assessor

JBR acknowledged that the Company's BOD and Three Committees were performing as they should to continually improve their effectiveness, and that the Company was in transition to make its BOD more effective in responding to profound changes in business environments. JBR also found that the Company's Audit Committee was making every effort to conduct audits from a management perspective. JBR recommended that the Company take the following actions to further improve the effectiveness of its BOD and Three Committees:

1. JBR acknowledged that the Company's outside directors were actively participating in deliberations at the BOD meetings by providing advice and opinions from broad perspectives, based on their professional expertise and experience. JBR recommends that a smaller group of BOD members hold off-site meetings to have fundamental discussions of important management issues prior to deliberation by the full BOD.
2. JBR acknowledged that the composition of the BOD was in good order. JBR recommends that the Company bring in—as outside directors—former business executives from outside the Company who have experience in managing global businesses, overhauling and transforming companies' business portfolios, or launching and running new businesses. This will assist the BOD in having more animated discussions of fundamental issues related to corporate management.
3. JBR acknowledged that the Three Committees were performing as well as expected. JBR recommends that the Nominating Committee more vigorously review a succession plan for the CEO position and the composition of outside directors and share the results with the BOD. JBR also recommends that the Audit Committee formulate a long-term succession plan to maintain its effective auditing capabilities.

### Results of the Self-Assessments by the BOD and the Three Committees

Results of the self-assessments by the BOD and the Three Committees for FY2019 are as follows:

#### 1. Self-Assessment by the BOD

Four of the eight members of the BOD are independent outside directors, two of whom are

women. The BOD comprises a certified public accountant, a lawyer, and other members with a wealth of professional expertise and experience across a diverse range of fields such as corporate management, corporate finance and accounting, and business management studies. BOD meetings are chaired by one of the outside directors. Matters deliberated at BOD meetings during FY2019 consisted of management strategies (39%), corporate governance (23%), and business operations and others (38%), which was in line with the annual plan formulated at the beginning of the fiscal year. The BOD held 14 meetings during FY2019. The principle of holding a BOD meeting every month was appropriate, and the annual plan for BOD meetings incorporated prior input from its members and covered all bases.

During FY2019, much time was spent in BOD meetings reviewing the progress that the Company was making in implementing its Mid-term Management Plan "LOGISTEED 2021" and discussing the Company's risk management policy and practices. In reviewing the progress of "LOGISTEED 2021," the BOD acknowledged that the plan covers the entire supply chain operations and provides implementation details for each proposed solution. The BOD asked the Company's executive officers to clarify how proposed solutions are related to each other and to consider developing business models that use external data. It was timely that a complete picture of the Company's Enterprise Risk Management (ERM) program—which the BOD had requested—was presented to the BOD. The BOD asked the executive officers to appoint a risk owner for each identified risk, quantify each risk, and determine how to respond effectively to a tail risk. The independent outside directors met to have a brainstorming session as they had done in the previous fiscal year, and BOD members held small meetings with executive officers and external experts to discuss important management issues, including defining the direction and approach that the Company should take to ensure its sustainable growth and increase its medium- to long-term corporate value.

The BOD acknowledged the need to update the composition of its outside directors to be able to respond more effectively to profound changes anticipated in business environments as well as the need to focus its deliberations on fundamental management issues, such as the restructuring of the Group's business portfolio and the allocation of available resources. More specifically, the BOD intends to discuss the following issues intensively at future BOD meetings in order to provide clear guidance:

- The trends in innovation and digital transformation in the logistics industry
- The "To-Be" business portfolio with medium- to long-term implications
- Initiatives to meet SDGs requirements and implement ESG management practices

### Self-Assessments by the Three Committees

During FY2019, the Nominating Committee met seven times, the Audit Committee 16 times, and the Compensation Committee eight times. Each committee meeting was chaired by an outside director.

Results of the self-assessments by the Three Committees for FY2019 are as follows:

#### (1) Nominating Committee

The Nominating Committee discussed candidates for next-generation members of the management team and executive officers. The committee had no objections to reappointing the current President and Chief Executive Officer for another term for FY2020, upon deliberation based on the Process of Reappointing the President and Chief Executive Officer, which was established by the Committee. The Committee intends to fulfill its responsibilities more actively by discussing intensively the composition of the BOD and succession plans for the CEO and directors and sharing the outcome of deliberation with the BOD.

#### (2) Audit Committee

The Audit Committee—based on its audit policy—audited the legal compliance,

appropriateness, and efficiency of the ways in which the Company's directors and executive officers performed their duties. During FY2019, the Committee conducted on-site audits of the Company's four corporate divisions and eight Group companies outside Japan considered to pose high potential governance risks, identified management issues with each of the units, and offered recommendations for improvement, for which each of them submitted a plan of proposed actions. The Committee verified the effectiveness of the BODs of 81 group companies around the globe, which collectively play a central role in practicing groupwide governance, by auditing them. The Committee recommended that executive officers of each Group company take corrective actions based on the results of those audits, as well as on regular audit reports submitted by their corporate auditors and audit reports submitted by the Internal Auditing Office. Group companies, acting on the recommendations offered by the Committee, added more dedicated corporate auditors to their staff during FY2019, which has helped enhance the groupwide governance in cooperation with the Committee. The Committee acknowledges that the Group companies' executive officers were quick to act upon the recommendations offered by the Committee, which indicates that the effectiveness of the Committee was at an adequate level. The three auditing bodies—the Audit Committee, the Internal Auditing Office, and an independent accounting auditor—worked together and shared information at regularly scheduled meetings to identify risks across the Group and improve the quality of the audits they perform, which ensured the effectiveness and efficiency of the audits based on the division of roles among the three bodies.

With regard to the task of continuously increasing the Group's corporate value as required by the Corporate Governance Code, the Committee acknowledges that the system for evaluating the performance of a business unit against the ROIC\*1—established as a KPI\*2 based on WACC\*3, which the Committee had recommended—has taken hold in the Group, indicating that the Group has stepped up its efforts for management to pursue greater capital efficiency.

In FY2020 and beyond, the Committee intends to focus its audits on the following two areas:

- Verifying that the ERM program is working in the Group from the perspective of loss management
- Verifying that the Group takes environmental and social considerations into account in

its management decisions. As the Committee has already spent much time auditing the Group's corporate governance (G) aspect of ESG management practices in line with meeting SDGs requirements, it will focus on the environmental (E) and social (S) aspects of ESG management practices.

### (3) Compensation Committee

The Compensation Committee reviewed the current compensation scheme for the Company's executive officers, which comprises monthly salary and performance-linked compensation. To establish a new scheme with a clear focus on motivating executive officers to contribute more to the Company's sustainable growth, the Committee reviewed their current compensation levels and weighed the pros and cons of proposed revisions to the executive compensation scheme to include base salary, performance-linked compensation, and long-term incentives. The Committee engaged Willis Towers Watson, a consulting firm specializing in executive compensation, to conduct an extensive benchmark analysis of the Company's executive compensation plan against those of other companies of varying sizes across a diverse range of industries. Based on the findings of the analysis, the Committee discussed that following need to be determined:

- The right balance between the fixed and variable portions of compensation and between the cash and non-cash (shares) portions of compensation
- A compensation scheme based on the medium- to long-term business performance of the Company
- KPIs to be used to determine the amount of performance-linked compensation

From this discussion, the Committee weighed up approaches to motivating executive officers to achieve their individual medium-to long-term goals and determining the amount of executive compensation to reward them based on the accomplishment of those goals.

The Committee intends to achieve greater objectivity and transparency based on the policy and procedure for determining the amount of compensation for the Company's directors and executive officers.

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

## Attendance record of Board of Directors meetings and Committee meetings in FY2019

Name	Registration	Positions and assignments in the Company* in FY2019	Number of attendances for the Board of Directors meetings during FY2019
<b>Independent Officer</b> Sayoko Izumoto	2017	Outside Director Audit Committee 16/16 Compensation Committee 8/8	14/14
<b>Independent Officer</b> Mitsudo Urano	2014	Outside Director Nominating Committee Chair 7/7 Compensation Committee Chair 8/8	14/14
Koji Tanaka	2018	Chair of the Board, Outside Director	14/14
<b>Independent Officer</b> Tetsu Fusayama	2016	Outside Director Nominating Committee 7/7 Audit Committee 16/16	14/14
<b>Independent Officer</b> Emiko Magoshi	2014	Outside Director Nominating Committee 7/7	14/14
Hiroshi Maruta	2015	Outside Director Audit Committee Chair 16/16	14/14
Takashi Jinguji	2016	Representative Executive Officer Executive Vice President and Executive Officer	14/14
Yasuo Nakatani	2013	Representative Executive Officer President and Chief Executive Officer Nominating Committee 7/7 Compensation Committee 8/8	14/14

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

## Corporate Governance (Officers' Compensation, etc.)

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

As the HTS Group positions officers' compensation, etc. as one of the important pillars underpinning corporate governance, we have in place the following compensation governance to ensure that our officers will work toward our brand slogan "Taking on the Future" and our business concept "LOGISTEED" under our corporate philosophy and operate the compensation program according to our basic policy on the compensation plan for officers to deliberate and decide their compensation, etc.

#### ■ Operation Policy, etc. for the Compensation Committee

We are in compliance with the Companies Act pertaining to a company with a Nominating Committee, etc. and define the function, size and composition, and operation of the Compensation Committee in the Corporate Governance Guidelines of the Company, etc. In determining details of compensation, etc. for each director and executive officer of the Company, the Compensation Committee deliberates appropriately based on objective, necessary and sufficient information including recent status of the officers' compensation, point of discussion, and other companies' plans while collecting information and seeking advice from external compensation consultants on the basic policy, compensation structure, performance-linked compensation scheme, and individual payments, etc. of our compensation plan for officers. The involvement and participation by external compensation consultants in the Compensation Committee is limited to advice on establishing agendas to improve the effectiveness of deliberation in the Committee, and we do not draw their recommendations on consensus building or the appropriateness of the decisions made. We hire Willis Towers Watson as the external compensation consultant.

#### ■ Activity Status of the Compensation Committee in Determining Compensation, etc. of Last Business Year

For director compensation, etc. for FY2019, the Compensation Committee deliberated and determined compensation, etc. for each director on June 18, 2019 and the end-of-term bonus for each director on May 22, 2020 in accordance with the policy for determining compensation, established by the Compensation Committee on December 26, 2018. For executive officer compensation, etc. for FY2019, the Compensation Committee deliberated and determined compensation, etc. for each executive officer on March 29, 2019 and performance-linked compensation for each executive officer on May 22, 2020 in accordance with the policy for determining compensation, established by the Compensation Committee on December 26, 2018. In the meetings held from October 2019 to April 2020, the Compensation Committee carefully deliberated mainly on the revision of the compensation plan for executive officers. The Compensation Committee has decided to introduce a performance-linked stock compensation plan for the Company's executive officers from FY2020, with the aim of raising their awareness to improve medium-to-long-term performance and increase corporate value by further clarifying the relationship between the executive officers' compensation and the Company's performance and stock value and sharing returns and risks associated with stock price movements with shareholders.

#### ■ Policy on the Determination of the Composition Ratio of Performance-Linked Compensation and Other Compensation

We determine the composition ratio of performance-linked compensation and other compensation in accordance with the basic policy on the compensation plan for officers. In determining the composition ratio of performance-linked compensation and other compensation, we benchmark our compensation levels against those of peer companies with similar business size based on the "management compensation database" compiled by the external compensation consultant every year to verify the appropriateness of our compensation levels and then determine the compensation levels, etc. for officers commensurate with the ability and responsibilities, etc. required for each position.

#### <Director compensation, etc.>

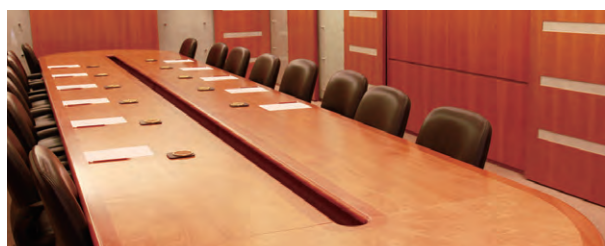
Director compensation levels are comprised of basic compensation which is fixed compensation. Basic compensation reflects factors such as full-time or part-time service and position and is determined based on the deliberation at the Compensation Committee. Directors who also serve as executive officers do not receive additional compensation as directors.

#### <Executive officer compensation, etc.>

Executive officer compensation levels are comprised of a combination of basic compensation and performance-linked compensation, and determined by reflecting executive's performance review in a base amount commensurate with his/her position. The performance-linked compensation levels are comprised of annual bonus linking to the achievement level of the targets for consolidated performance, division mission, and individual mission in a single year, and stock compensation linking to the achievement level of the Company's performance target for three business years. The composition ratio of officers' compensation by type reflects the level of management responsibility with higher ratio of performance-linked compensation for senior officers. For the ratio of each compensation element by position with the basic compensation as 100, KPIs for performance-linked compensation and reasons for selecting them, and the method to determine the compensation amounts, please refer to "Compensation, etc. of Officers" in the 61st Annual Securities Report (Yuka Shoken Hokokusho) of the Company (Japanese version only).



The 61st Annual Securities Report (Japanese version only)  
[https://www.hitachi-transportssystem.com/jp/ir/library/securities/pdf/61st\\_yuho.pdf](https://www.hitachi-transportssystem.com/jp/ir/library/securities/pdf/61st_yuho.pdf)



# Compliance/Information Security

## Compliance

In order to ensure management in compliance with laws and regulations, the HTS Group has put in place a system to clarify compliance functions and set a compliance basic policy to be observed by all officers and employees, to ensure thorough compliance with laws and regulations, company rules, and corporate ethics. We have also established "HTS Group Code of Conduct" defining how all officers and employees should act in their daily operations as it is vital for the entire group 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.

### Compliance education

In addition to e-learning for all employees including officers, we provide rank-based group trainings for compliance education targeting new employees, young employees, new assistant managers/managers, new directors of domestic group companies. The Legal Department also implements training sessions travelling around sites.

**Number of attendees of compliance education excluding e-learning (FY2019)** **555**

### Procurement compliance education

To ensure fair procurement activities, we provide e-learning for procurement compliance targeting all employees, as well as special e-learning and group trainings on a regular basis for those engaging in procurement in domestic and overseas group companies.

**Number of companies implementing education for those engaging in procurement (FY2019)**

**Domestic: 19 companies Overseas: 36 companies**

### Whistle-blowing system

The Group has established a whistle-blowing system with internal and external points of contact for reporting, which allows employees to report illegal and/or inappropriate actions without hesitation in order to detect and correct them early on.

#### Poster for dissemination of whistle-blowing system

To further improve internal awareness of "HTS Group In-company Compliance Reporting System", posters for dissemination were prepared in 20 languages and posted in each office.



### Non-compliance with laws and regulations

In FY2019, there were no incidents in which HTS violated or was penalized under laws or regulations regarding bribery or corrupt practices and competition.



**HTS Group Code of Conduct (Japanese version only)**

<https://www.hitachi-transportssystem.com/jp/profile/policy/pdf/koudoukiban.pdf>



**For details of compliance information, please visit our website.**

<https://www.hitachi-transportssystem.com/en/profile/csr/management/compliance.html>

## Information Security

We recognize that the highest priority is to properly manage and protect information assets of customers and the HTS Group, and accordingly the entire Group has been promoting the preparation of internal rules as well as education and awareness activities for employees.

We revise the internal rules in keeping with changes in social conditions and the overseas trend regarding personal information protection and confirm the management and operation status of personal information protection and information security. We are also enhancing governance across the entire Group and working on education and simulation trainings for targeted threat emails for employees, responses to GDPR\* in EU, and personal information protection in Japan and overseas, in an effort to maintain and bolster security levels to provide safe and secure logistics services to customers.

\* GDPR (General Data Protection Regulation): A regulation established by EU to protect personal data and privacy, which imposes severe restrictions on the handling of personal data (processing and transfer) by companies and organizations

### Education and training for personal information protection/information security

In addition to e-learning for all employees, we provide rank-based group trainings for information security education targeting new employees, mid-career employees, and assistant managers/managers. Simulation trainings to cope with targeted threat emails are also conducted every year.

**Attendance rate of information security training course (FY2019)** **100%**

Scope: HTS, domestic/overseas group companies

**Rate of targeted threat emails for simulation trainings opened (FY2019)** **5.0%**

Scope: HTS, domestic group companies

### Acquisition and maintenance of third-party certification

#### Privacy mark/Information Security Management System (ISMS)

HTS and its domestic group companies have acquired the Privacy Mark certification which certifies that a business operator has established a system to take appropriate measures to protect personal information. We have also acquired ISO/IEC 27001 which is an international standard certifying that an information security management system satisfies a certain criteria.

**Privacy mark acquisition status at HTS and its domestic group companies (as of March 31, 2020)** **12 companies**

**ISMS Certification\* (As of March 31, 2020)** **36 departments**

\*Scope: Sales, design, development and logistics center operation in 3PL business (medical, medicine, pesticide, document management, information communication equipment)

### Customer privacy

In FY2019, there were no complaints filed for the violation of customer privacy.



**For details of information security, please visit our website.**

<https://www.hitachi-transportssystem.com/en/profile/csr/management/riskmanagement.html>

# Risk Management

The HTS Group strives to manage risks that are difficult to foresee and require company-wide countermeasures by sharing risk recognition, visualizing risks, selecting priority risks and examining relevant measures, with an aim to increase corporate value and achieve sustainable growth.

## ■ Definition and classification of risks

The HTS Group defines risk as “the influence of uncertainty about our objectives and the possibility to influence the achievement of our strategy and business goals when an event occurs.”

We classify recognized risks as follows based on their type (strategic or pure) and factor (internal or external) to select “priority risk” that are highly likely to occur and have material impact and focus on discussing countermeasures against them.

	Internal factors	External factors	Group's policies
Strategic risks	<b>(1) Growth risk</b> Risk factors that may impede implementation of the growth strategy that takes into account customer and business environment (human resources and assets)	<b>(2) Environmental change risk</b> Risk factors that result from changes in external environment (politics, economy, laws and regulations, technological innovation, and climate change) and may impede the growth strategy	<b>Aggressively take risks to pursue growth</b>
	<b>(3) Operational risk</b> Risk factors that result from inadequate or failure of internal process, human resources or systems	<b>(4) Hazard risk</b> Risk factors beyond our control that result from external events and may impede business continuity by causing damage or harm	
Pure risks			<b>Hedge risks to minimize potential losses</b>
Group's policies	<b>Prevent risks from occurring</b>	<b>Implement damage control assuming risks may occur</b>	

## TOPICS

### Response to COVID-19

The HTS Group has a responsibility for logistics, a part of social infrastructure, and is required to maintain stable business operation. As a measure against the recent outbreak of the COVID-19, we set up “COVID-19 Response Headquarters” to prevent the infection among group employees and continue business operation in cooperation with business divisions, etc.

As basic infection prevention measures to be strictly implemented, employees are required to measure their body temperature before coming to work and refrain from coming to work if they have a fever or cold-like symptoms, etc. We also urge employees to wash and disinfect their hands frequently, for example when entering offices and during breaks, disinfect worktables and doorknobs with disinfectant cleaners, and wear a mask. In addition, the HTS Group has implemented thorough group-wide measures to prevent the infection of our stakeholders including employees and their family members.

In terms of business continuity, the administrative division (the head office function) has identified key operations to be maintained, appointed responsible persons for those operations and their deputies, arranged for teleworking and determined alternate offices. For business divisions, simulation drills were conducted at major four sites on the assumption that some employees were infected with COVID-19 at the office.

### Initiatives to Strengthen BCP (Business Continuity Plan) System

With respect to the risks associated with natural disasters and infectious diseases which occur frequently in recent years, the Group has implemented countermeasures to fulfill its responsibilities in dealing with them based on the BCP policies and measures determined by the Business Continuity Management Committee (BCM), chaired by the President and CEO, with an aim to continue its business operation and provide high quality services to our customers even when faced with these risks.



## Risk factors and the implementation status of our measures

Risk	Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
Growth risk	Concentration/dependence on specific customers	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Impact on business results and continued employment of losing projects</li> <li>Impact on the HTS Group business of the fluctuation in customers' business results</li> <li>Loss of ability to negotiate better prices</li> <li>Decrease in incentive to develop new customers</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Efficient business expansion and able to take advantage of scale</li> </ul>	<ul style="list-style-type: none"> <li>Sharp drop of revenues and profit due to poor business results of customers</li> <li>Downsizing of the business base</li> <li>Failure to collect accounts receivable due to customers' bankruptcy</li> </ul>	<ul style="list-style-type: none"> <li>Account management through enhanced interdivisional collaboration</li> <li>Monitor customers' business condition</li> <li>Establish and monitor credit limit</li> <li>Perform periodic review of customer dependency</li> <li>Allocate management resources to non-core businesses</li> </ul>
	Changes in a business model (technological innovation, etc.)	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Changes in customer needs</li> <li>Technological obsolescence</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Acquisition of growth opportunities through the development of revolutionary technology</li> </ul>	<ul style="list-style-type: none"> <li>Loss of competitive advantages in the logistics industry</li> <li>Decrease in competitiveness due to delayed response to digitalization</li> </ul>	<ul style="list-style-type: none"> <li>Collect information on new business models including new technologies and different industries as well as benchmark other companies</li> <li>Promote cooperation among industry, government, and academia as well as open innovation (refer to pages 27 to 28)</li> <li>Reinforce human resources with IT/digital skills</li> </ul>
	Securing human resources	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Difficulty in securing excellent human resources due to intensified competition in the labor market</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Acquisition of new know-how and creation of new businesses</li> </ul>	<ul style="list-style-type: none"> <li>Stagnation of the business</li> <li>Decrease in competitiveness</li> <li>Slowdown in growth</li> </ul>	<ul style="list-style-type: none"> <li>Secure human resources with global, digital, and management capabilities according to the business strategy</li> <li>Enhance in-house training programs to foster and educate human resources</li> <li>Perform human resource retention control (refer to page 67)</li> </ul>
Environmental change risk	Increase in cost	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Increase in procurement costs (fuel, car allocation expenses, and labor costs)</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Improvement of business profitability due to a decrease in procurement costs</li> </ul>	<ul style="list-style-type: none"> <li>Deterioration in profitability due to failure to collect adequate fee corresponding to the increase in cost</li> <li>Negative impact on business continuity due to shortage of human resources and vehicles, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Build close relationships with partner companies</li> <li>Optimize fees based on the movements of peer companies</li> <li>Efficient management by promoting digitalization</li> </ul>
	Sharp fluctuation of exchange rates	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Exchange loss</li> <li>Negative impact of translation of business results of overseas subsidiaries into Japanese yen due to sharp fluctuation of exchange rates</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Exchange gain</li> <li>Positive impact of translation of business results of overseas subsidiaries into Japanese yen due to sharp fluctuation of exchange rates</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in profit due to exchange loss (items below EBIT in the income statement)</li> <li>Decrease in revenues and profit due to negative impact of translation of business results of overseas subsidiaries into Japanese yen</li> </ul>	<ul style="list-style-type: none"> <li>Concentrate exchange risks (centralize transactions such as forward exchange contracts and currency options in the head office)</li> <li>Enter into hedge transactions including forward exchange contracts with financial institutions</li> </ul>
Operational risk	Compliance violations (violation of the labor law, bribery, infringement on human rights, etc.)	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Violation of overtime regulations, etc.</li> <li>Disagreement with the authority on the interpretation of equal pay for equal work</li> <li>Violations of laws and regulations such as bribery and competition law</li> <li>Deviation from social norms</li> <li>Information leakage</li> <li>Infringement on human rights including harassments, child labor, and cheap labor</li> </ul>	<ul style="list-style-type: none"> <li>Impairment of corporate value due to decline in social trust</li> <li>Decrease in revenues and profit due to decline in customer and social trust</li> </ul>	<ul style="list-style-type: none"> <li>Establish and educate the HTS Group Code of Conduct</li> <li>Conduct investigation and education by legal divisions in each region (refer to page 54)</li> <li>Establish a structure to manage an attendance management system</li> <li>Clarify wage calculation method</li> </ul>
	Occurrence of incidents	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Occurrence of occupational, fire, vehicle or product accidents</li> </ul>	<ul style="list-style-type: none"> <li>Compensation for losses caused by accidents or fire to products or the affected people, and payment of damage compensation to the affected people</li> <li>Decrease in revenues and profit due to decline in customer and social trust</li> </ul>	<ul style="list-style-type: none"> <li>Develop and implement a facility maintenance plan</li> <li>Establish an initial response and reporting system in case of an accident, and conduct drills</li> <li>Share lessons, insights, and good examples within the Company</li> <li>Create safety workplaces by introducing safety technology (refer to page 65)</li> </ul>
	Deterioration in service quality	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Deterioration in service quality and delays in delivery, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in revenues and profit due to decline in customer and social trust</li> <li>Compensation for losses such as reimbursement due to the incidents</li> </ul>	<ul style="list-style-type: none"> <li>Manage KPIs by quality control divisions</li> <li>Quality control through process management</li> <li>Conduct monitoring based on the internal control system, perform audit, and enhance support</li> </ul>
Hazard risk	Severe disasters and global expansion of infectious disease (pandemic)	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Damage to employees</li> <li>Disruption of logistics network</li> <li>Damage to the Group's assets (e.g. buildings and facilities) and customers' products</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in revenues and profit due to impacts on business (e.g. shutdown)</li> <li>Restoration cost and impairment of assets</li> </ul>	<ul style="list-style-type: none"> <li>Assess business interruption risk in each region and develop BCP (business continuity plan) for early business recovery (refer to page 68)</li> <li>Establish rules for information collection and work regulations as a global organization in case of pandemic</li> <li>Carry out BCM (business continuity management)</li> </ul>
	Threat to capital	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Changes in capital policies of major shareholders</li> <li>Change of control as a result of acquisition of large number of the Company's shares by a specific investor</li> </ul>	<ul style="list-style-type: none"> <li>Confusion in the management</li> <li>Decline of initiative of the current management</li> <li>Business disruption</li> </ul>	<ul style="list-style-type: none"> <li>Increase corporate value to grow market capitalization</li> <li>Invest in growth opportunities</li> <li>Increase shareholder returns</li> </ul>



As for risk factors other than priority risks, please visit our website.

[https://www.hitachi-transportssystem.com/en/profile/csr/pdf/htsgroup\\_riskfactor.pdf](https://www.hitachi-transportssystem.com/en/profile/csr/pdf/htsgroup_riskfactor.pdf)

# HTS Group Sustainability

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.



## Basic CSR Policy

Under the corporate philosophy, the HTS Group promotes activities in line with the Basic CSR Policy with an aim to realize a sustainable society through communication with our various stakeholders and integrate sustainability and management. 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.



## Sustainability Promotion Structure

In order to promote sustainability on a group-wide level, the HTS Group has set up the "Sustainability Promotion Committee," chaired by Senior Vice President and Executive Officer, General Manager of Corporate Strategy Office, and holds meetings regularly.



## Recognition of Social Responsibility: Material Issues

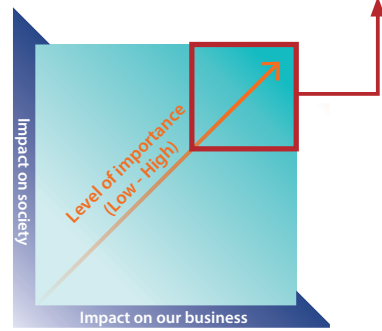
Taking into consideration opinions of external experts, we understood and prioritized social/environmental issues and expectations to identify material issues in 2017 after assessment and examination for adequacy by CSR Promotion Committee (predecessor of the Sustainability Promotion Committee) and the management, as well as approval of the Executive Committee. With the recognition of the identified material issues as the social responsibility that the HTS Group should fulfill, we promote effective activities toward solving social issues.

### 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 the HTS Group's 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 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.

### Material issues

- Social**  
 Safe and healthy work environment (occupational Health and Safety)/ Social and environmental responsibility in supply chains (socially responsible procurement)/New technologies (creating/utilizing innovations and cutting-edge technologies)/Diversity and employee development/Job creation (promoting employment in the local community)/Dialog with employees (labor-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/Renewable energy (use of clean energy)
- Governance**  
 Compliance/governance/BCP <including climate change adaptation>/ Information disclosure (operational transparency)

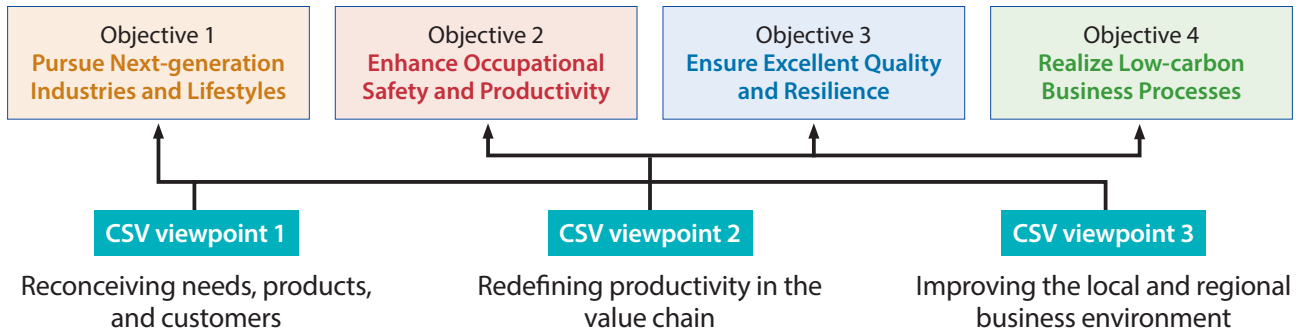


## Corporate Activities: Four Objectives

To decide specific activities for the issues that we should address with priority, we developed four objectives based on the material issues with CSV viewpoint. In FY2018, the HTS Group set specific themes and relevant KPIs\* for each objective, based on which we started to strengthen our initiatives using PDCA cycle.

\*Please refer to pages 59-60 for details.

### Four objectives



## Review and Improvement: Information Disclosure and Communication

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

## Contribution to SDGs

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

### SDGs especially relevant to four objectives



## SUSTAINABLE DEVELOPMENT GOALS



For details of information on sustainability, please visit our website.  
<https://www.hitachi-transportssystem.com/en/profile/csr/>

## Developed Medium-to-long Term Environmental Target

Under the corporate philosophy, the HTS Group has engaged in various activities and sets "Realize Low-carbon Business Processes" as one of our objectives. Among the recent social issues, especially climate change has been a focus of the major trend created by Paris Agreement and TCFD (Task Force on Climate-related Financial Disclosures) by involving the financial industry and corporations. In 2019, the HTS Group also started the examination about the risks/opportunities related to climate change, and developed the medium-to-long term environmental targets while re-acknowledging the importance of climate change-related risks.

Medium-to-long term environmental targets (CO<sub>2</sub> emission reduction targets) \*

**FY2030 Target (Base year: FY2013)**


**Reduction Target 30%**

**FY2050 Stretch target (Base year: FY2013)**

**Reduction Target 80%**

\*Please refer to page 61 for details of the medium-to-long term environmental targets.

# Four Objectives of the HTS Group and Key Performance Indicators (KPIs)

Related SDGs	Objectives	Themes	Initiatives	KPIs	HTS	Domestic	Overseas	
	1 Pursue Next-generation Industries and Lifestyles	(1) Promote total optimization of supply chain by making full use of advanced technologies	Enhancement of logistics platform	Type of SSCV-safety functions	●	●		
				Increase of EC platform centers	●	●		
		Number of cases of manufacturing/sales control support (demand forecast)		●	●			
		Expansion of use case of blockchain technology		●	●			
		(2) Respond to local logistics needs and issues while further boosting response capability	Development of trainings that promptly meet business needs	Number of attendees of data scientist training course	●	●		
				Expansion of high-quality logistics services	Storage and transportation/delivery conforming to GDP Guidelines	●	●	
Optimization/management of supply chains	On-site implementation of RFID system				●	●		
Promotion of transportation of social infrastructure-related equipment	Execution of transportation of social infrastructure-related equipment			●	●	●		
	2 Enhance Occupational Safety and Productivity	(1) Secure safety in operation and transportation	Enhancement of occupational Health and Safety management	Workplace accident index/frequency rate, severity rate	●	●		
			Strengthening of transport safety management	Number of traffic accidents (those defined in Article 2 of the Transportation Safety Management Regulation)	●	● <sup>*1</sup>		
		(2) Minimize workload at logistics sites	Systematic development of female employees	Expand the use of automated/labor-saving equipment	Expand the use of automated/labor-saving equipment	●	●	
				Support for career formulation of female employees	Ratio of female managers	●		
					Suggestion of various role models/career path and hosting of networking events with female managers	●	●	
				Encouragement for male employees to take childcare leave	Manager-level training to encourage active participation of women in the workplace	●	●	
					Rate of childcare leave taken by male employees	●		
				Rate of childbirth leave for prospective fathers taken	●			
		(3) Promote diversity of the workplace	Reduction of overtime hours	Implementation of measures to reduce overtime hours	Implementation of measures to reduce overtime hours	●		
				Encouragement to take annual paid leave	Implementation of measures to take annual paid leave	●		
Development of OPEX designers	Number of OPEX designers developed				●	●		
Implementation of social contribution activities for local community	Activities based on the social contribution activity guideline			●	●	●		
	3 Ensure Excellent Quality and Resilience	(1) Pursue high quality logistics services	Enhancement of compliance framework	Implementation of measures to enhance compliance	●	●	●	
			Boosting information security level/management structure	Rate of attendance for information security training course	●	●	●	
				Rate of targeted threat emails for simulation trainings opened	●	●		
			Strengthening of BCP system	Number of disaster response training implemented	●	●		
		Implementation of overseas BCP Caravan				●		
		(2) Consideration for disposal and emission	Enhancement of domestic and overseas procurement compliance	Provision of procurement compliance education to those engaging in procurement in Japan and overseas	●	●	●	
				Reduction of air pollutants	Ownership ratio of vehicles in compliance with environmental standards	●	●	
					Recycling rate	●	●	
				Promotion of resource recycling	Number of non-compliance with environmental laws and regulations	●	●	
					Reduction of water consumption intensity per floor space	●	●	
Green purchasing rate	●			●				
(3) Contribution to disaster recovery assistance	Protection of forest timber resources	Rate of reducing copy paper consumption	●	●				
		Strengthening of BCP system	Dissemination of behavioral standard in the event of a disaster to employees	●	●			
	4 Realize Low-carbon Business Processes	(1) Increase energy efficiency	Reduction of electricity consumption in "buildings"	Number of sites with LED lighting fixtures	●	●	●	
				Reduction of electricity consumption per floor space (intensity) in "buildings"	●	●		
			Increase of vehicle fuel efficiency	Number of sites subjected to energy-saving inspections	●	●		
				Promotion of introducing double-trailer trucks	Increase of vehicle fuel efficiency by vehicle type	●	●	
				Promotion of joint use of logistics and transportation equipment	Support of introducing double-trailer trucks	●	●	
				Implementation of joint use of logistics and transportation equipment	●	●	●	
		(2) Introduce renewable energy	Development of new customers/routes for modal shift	Development of new customers/routes	●	●	●	
				Promotion of streamlining transportation through establishing platform and integrated delivery sites, etc.	Implement new shared transportation	●	●	
			Shift to eco-friendly vehicles with better environmental performance	Maintenance of 100% ownership ratio of eco-friendly vehicles	●	●		
				Ownership ratio of the advanced eco-friendly vehicles	●	●		
				Ongoing eco-friendly driving training	Implementation of eco-friendly driving training in each site	●	●	
				Performance of internal environmental audit	Performance of internal environmental audit	●	●	
		(3) Strengthen environmental management	Development of voluntary environmental activities in each site	Promotion of environmental activities in each site	●	●		
				Review of the environmental management system	Consideration of the design of the environmental management system	●	●	
			Enhancement of overseas environmental management	Identification of key environmental laws and holding of global environment meetings			●	
				Promotion of continuous improvement by the environmental management system	Continuous implementation of "Eco Stage 2" obtained by the head office to other domestic offices	●	●	
			Promotion of employees' understanding through education and enlightenment activities to raise their environmental awareness	Attendance rate of environmental e-learning courses	●	●		
				Communication of environmental-related information to employees	●	●		
Clean-up activities outside the Company and the light-down campaign	●	●						
Environmental advertisement and disclosure of environmental information	●	●						

\*1 Covers 8 group companies (excluding VANTEC Group): Hitachi Transport System East Japan Co., Ltd., Hitachi Transport System Kanto Co., Ltd., Hitachi Transport System Metropolitan Co., Ltd., Hitachi Transport System South Kanto Co., Ltd., Hitachi Transport System Central Japan Co., Ltd., Hitachi Transport System West Japan Co., Ltd., Hitachi Transport System Kyushu Co., Ltd., and Hitachi Transport Dires Co., Ltd. For details, please see the website. <https://www.hitachi-transportssystem.com/en/profile/csr/social/safety/>

Our History	Our Future	Foundation Supporting Value Creation	Achievements of Value Creation	Financial/Non-Financial Information
	<b>Achievements/progress in FY2019</b>		<b>Targets/plans for FY2020</b>	<b>Reference</b>
	Enhanced the overall system performance by enhancing 7 types of functions such as Hiyari-Hatto (near-miss) prediction		Enhance the overall system performance by enhancing 6 types of functions such as vital signs alert	P28/Website
	Started service at Kasukabe EC Platform Center		Monetize Kasukabe EC Platform Center and verify functions with a view to increasing the number of centers	P33/Website
	Designed a demand forecasting tool in a joint development with a customer (1 case) and considered the operation of the logistics forecasting tool (3 cases)		Verify the on-site implementation of the demand forecasting tool (1 case) and improve accuracy of the logistics forecasting tool through continued operation (2 cases)	P66/Website
	Confirmed hypothesis verification for payment scheme		Expand the scope of hypothesis verification and verify the applied use case	P66/Website
	Total 25 (cumulative 58)		Develop data scientists	P66/Website
	Enhanced functions of medical DCs across the country and introduced vehicles conforming to GDP		Enhance functions and improve the quality level of medical DCs, and expand transportation conforming to GDP	P35-39, 66/Website
	Continuously participated in a demonstration experiment led by METI of Japan		Consider on-site implementation of RFID system	Website
	Transported steam turbine equipment for power generation from Japan to the Dominican Republic		Complete the project to transport social infrastructure-related equipment	P66/Website
	Frequency rate: 0.92(0) Severity rate: 0.011(0) *Inside the parentheses are non-consolidated figures		Enhance initiatives such as safety educations, safety caravan, and introduction of safety technology	P12, 65/Website
	Number of traffic accidents: None		Introduce SSCV and strengthen various safety activities	P12, 28/Website
	Introduced automated pallet storage and automated forklift in logistics centers		Expansion of the use of automated/labor-saving equipment	P69/Website
	Ratio of female managers: 4.7%		Continue systematic development of female employees (ratio of female managers: 10%)	P67/Website
	Participated in a career seminar organized by Hitachi, Ltd. for young female employees of the Hitachi Group		Suggest various role models/career path and set up networking events with female managers	Website
	Held seminars by external lecturers for executives and managers on how to change employees' mindset, motivate employees, and promote diversity (150 attendees)		Continue initiatives to encourage employees to change their mindset	Website
	Acquisition rate: 8.3%		Implement measures to encourage male employees to take childcare leave	Website
	Acquisition rate: 29.2%		Implement measures to encourage prospective fathers to take childbirth leave	Website
	Reduced overtime year-on-year with various working-style reform initiatives (average overtime in FY2019: 28.6h (down by 1.6h year-on-year))		Enhance group-wide initiatives such as to visualize achievements of the entire domestic group and follow up by executive meetings of each company	P67/Website
	Promoted operational reforms and visualized monthly results (No. of days and rate of annual paid leave taken in FY2019: 18.5 days and 77.3%)		Enhance group-wide initiatives such as to visualize achievements of the entire domestic group and follow up by executive meetings of each company	P67/Website
	Number of OPEX designers developed: cumulative 32		Develop OPEX designers	P67/Website
	Implemented new supports in 3 areas under the basic principle of social contribution activities		Continue supports implemented in FY2019/Consider activities in 2 areas	P68/Website
	Revised HTS Group Code of Conduct, provided compliance education to employees, and held compliance meetings as planned		Implement measures to enhance compliance	P54/Website
	Attendance rate: 100%		Rate of attendance for information security training course: 100%	P54/Website
	Open rate: 5.0%		Rate of targeted threat emails for simulation trainings opened: less than 5%	P54/Website
	Implemented a training in Kanagawa area/Held a seminar in the head office of HTS (122 attendees)		Implement disaster response training	P68/Website
	Postponed the Caravan in India to or after FY2020 due to the spread of COVID-19		Consider implementation of overseas BCP Caravan (2 group companies in India, etc.)	P68/Website
	Provided procurement compliance education to those engaging in procurement in 19 domestic companies and 36 overseas companies		Continue to provide procurement compliance education to those engaging in procurement in Japan and overseas	P54/Website
	Eco-friendly vehicle ownership ratio: 100% Advanced eco-friendly vehicles: 96%		Eco-friendly vehicle ownership ratio: 100% Advanced eco-friendly vehicles: 98%	P63/Website
	Recycling rate: 99.0%		Recycling rate: 99%	Website
	Number of non-compliance with environmental laws and regulations: 0		Number of non-compliance with environmental laws and regulations: 0	Website
	Intensity: down 7.5% year on year		Reduce intensity: down 1% from FY2019	Website
	Purchasing rate: 86.0%		Green purchasing rate: 90%	Website
	Reduction rate: down 5.3% year on year		Rate of reducing copy paper consumption: down 1% from FY2019	Website
	Replaced "Disaster Response Card" with "Emergency Handbook"		Distribute "Emergency Handbook" to all employees	P68/Website
	Implemented new supports in 3 areas under the basic principle of social contribution activities		Continue the supports implemented in FY2019/Consider activities in 2 areas	P68/Website
	Number of sites: 8		Install LED in all the Group sites by the end of FY2022	P64/Website
	Reduction rate: down 3% from FY2018		Electricity consumption per floor space in "buildings" down 2% from FY2018	Website
	Number of sites: 132		Conduct energy-saving inspections	Website
	Vehicle fuel efficiency: up 0.4% from FY2018		Increase of vehicle fuel efficiency by vehicle type: up 2% from FY2018	P63/Website
	Started operation between Shizuoka and Kyoto in August		Continue support of introducing double-trailer trucks	P63/Website
	Started shared use of facilities with SAGAWA EXPRESS CO., LTD./Started Milkrun of automobile parts in North America		Expand the scope of shared use of logistics facilities and transport equipment	P72/Website
	Developed a new container for modal shift of recyclable resource waste transportation		Expand the scope of and enhance modal shift	P64, 71/Website
	Started shared service business of transport vehicles with Hitachi Asia (Thailand) Co., Ltd. in Thailand/Expanded the scope of the existing initiatives		Expand streamlining of transportation range through establishing platform, integrated delivery sites, and container round use	P72/Website
	Maintenance of 100% ownership ratio of eco-friendly vehicles from the end of FY2016		Maintain 100% ownership ratio of eco-friendly vehicles	P63/Website
	Ownership ratio of the advanced eco-friendly vehicles: Achieved the target of 96% for FY2019		Ownership ratio of the advanced eco-friendly vehicles: 98%	P63/Website
	Completed eco-friendly driving trainings to 1,944 drivers (cumulative total as of March 31, 2020)		Implement eco-friendly driving training in each site	Website
	Performed internal environmental audit in 84 domestic group sites		Perform periodic audit of internal environment	P62/Website
	Number of sites: 224		Development of voluntary environmental activities in each site	Website
	Implemented 2 systems improvement on environmental load and vehicles		Start operation of the industrial waste management system	Website
	Conducted a survey on the U.S., the Netherlands, South Korea, and Taiwan/Held 2 Environment Officers Meetings		Identify key environmental laws of all relevant countries and regions, and hold Overseas Environment Officers Meetings	P62/Website
	Renewed certification in FY2017/Hitachi Transport System Central Japan Co., Ltd. independently acquired "Eco Stage 2" Certification		Renew and continue implementation of "Eco Stage 2" obtained by the head office and Hitachi Transport System Central Japan Co., Ltd. to other domestic offices	P62/Website
	Attendance rate: 99.7%		Attendance rate of environmental e-learning courses: 99%	Website
	Reported activities during the HTS Group Environment Month (June) in the Group magazine		Communicate environmental-related information to employees	Website
	Implemented in each site during the HTS Group Environment Month		Clean-up activities outside the Company and the light-down campaign	Website
	Prepared for CDP <sup>*2</sup>		Respond to CDP/Enhance disclosure of environmental information via the website, etc.	Website

\*2 CDP: A non-profit organization in the U.K., which investigates, evaluates, and discloses information on "climate change" and other environmental matters of corporations upon request of investors in the world.

# Development of the HTS Group Medium-to-Long-term Environmental Targets 2030/2050

The HTS Group is fully aware of the importance of achieving the SDGs, the universal goals for the international community toward 2030. We developed the medium-to-long-term environmental targets 2030/2050 for the Group in reference to the global CO<sub>2</sub> reduction targets set by the Paris Agreement and the TCFD Guidance, etc. issued by the Japanese government with the aim of contributing to the realization of sustainable society required of global companies.

### Medium-to-Long-term Environmental Targets

**Reduction of CO<sub>2</sub> emission (Scope 1 and 2 in Japan\*)**

<p style="text-align: center; color: #008080; font-weight: bold;">FY2030 target (base year: FY2013)</p> <p style="text-align: center;">Aim to <b>reduce</b> CO<sub>2</sub> emission <b>by 30%</b> compared to the base year</p>	<p style="text-align: center; color: #008080; font-weight: bold;">FY2050 stretch target (base year: FY2013)</p> <p style="text-align: center;">Try to <b>reduce</b> CO<sub>2</sub> emission <b>by 80%</b> compared to the base year</p>
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● Scope of emission: CO<sub>2</sub> emitted from energy consumption by the Group through its business operation   
 ● Type of energy: Electricity, fuel for vehicle, etc.

\* Definition of scope  
 Scope 1: Direct emissions from in-house energy (fuel, etc.) use (e.g. CO<sub>2</sub> released by company vehicles)  
 Scope 2: Indirect emissions from the use of energy supplied by other companies (e.g. CO<sub>2</sub> released by a third party power plant due to electricity use in the company's facility)  
 Scope 3: Indirect emissions by supply chain other than Scope 1 and 2 (total of 15 categories including transportation outsourcing and business trip of employees)

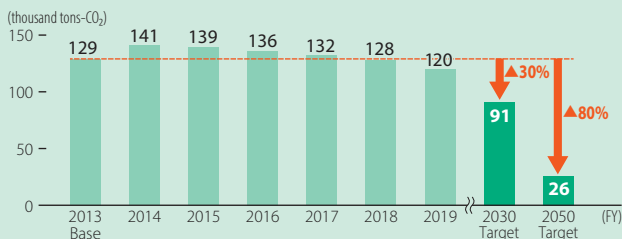
## Approach toward the Achievement of the Medium-to-Long-term Environmental Targets

The HTS Group will carry out the following initiatives for the Medium-to-Long-term Environmental Targets.

Reduce vehicle fuel and promote efficient transportation	Reduce the electricity and fuel consumption in buildings	Common matters
1) Improve vehicle fuel efficiency 2) Promote modal shift [1] Shift to rail transportation [2] Shift to sea transportation 3) Promote container round use 4) Improve transportation efficiency 5) Improve vehicle operation efficiency through active use of SSCV	1) Improve the operation of facilities and equipment which uses power 2) Increase energy efficiency 3) Increase the forklift utilization rate through operational improvement 4) Reduce heating fuel 5) Expand renewable energy (Including review of power procurement method) 6) Introduce energy management system	1) Strengthen environmental management 2) Sharing (joint use of facilities/equipment) 3) Promote low-carbon logistics system 4) Participate in emissions trading 5) Introduce/use carbon pricing 6) Open innovation toward decarbonization 7) Next-generation logistics by use of AI and IoT

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

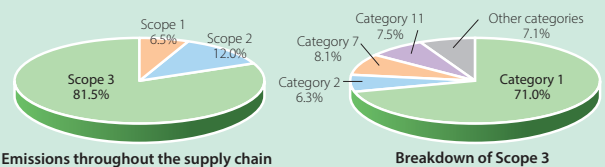
### Trend of HTS Group CO<sub>2</sub> emissions



\*Total of Scope 1 and 2  
 Scope: HTS, domestic group companies

### CO<sub>2</sub> emissions throughout the supply chain

We started to calculate "Scope 3" from FY2017 to identify and reduce CO<sub>2</sub> emissions from the entire supply chain.



For details of the categories, please visit our website.  
<https://www.hitachi-transportssystem.com/en/profile/csr/environment/plan.html>

## Risks and Opportunities Associated with Climate Change

HTS listed disclosure items required by TCFD and items related to risks and opportunities associated with external climate change, and assessed their impacts on our business. Based on such assessment, we identified risks and opportunities associated with climate change currently faced and to be faced in the future by the Group.

Expected risks/opportunities		
Transition risks	Policy and legal risks	• Risk of increasing tax burden (e.g. carbon tax, fuel tax) in relation to climate change and risk of rising cost due to tightening or introduction of regulations on GHG* emissions
	Technology risk	• Risk of increasing GHG emission reduction cost and losing customers due to delay/failure in introducing environmental technology
	Market risk	• Risk of losing customers due to inadequate response to customers who prefer low-carbon or carbon-neutral transportation
	Reputation risk	• Risk of losing corporate reputation due to insufficient efforts against climate change and for information disclosure
Physical risks	Acute risk	• Risk of logistics operation being suspended due to intensifying wind and flood damage caused by extreme weather
	Chronic risk	• Risk that deterioration of working environment due to a rise in average temperature makes it difficult to secure human resources
Opportunities	Resource efficiency	• Opportunity to reduce energy consumption by vehicles and GHG emission with advanced environmental technology • Opportunity to introduce efficient logistics operations using Smart Logistics and shared logistics services
	Products and services	• Opportunity associated with diversification of business activities
	Resilience	• Opportunity associated with energy diversification

\*GHG: Greenhouse gas

For details about environmental information, please visit our website.  
<https://www.hitachi-transportssystem.com/en/profile/csr/environment/>

## Environmental Policy

The HTS Group is promoting “business activities with less environmental load” based on the following four policies. As for measures against global warming, we are working to enhance green logistics including collaborative logistics and modal shift together with our partner companies.

### 1. Reduce environmental load generated at all our places of business

Reduce consumption of electricity, gasoline and LP gas and recycle waste, etc.

### 2. Provide logistics/services with less environmental load

Contribute to customers through CO<sub>2</sub> emission reduction and resource recycling.

### 3. Improve Eco-Mind level and enhance Eco-Management system

Increase global environmental awareness. Observe environmental laws/ordinances and company regulations.

### 4. Promote symbiosis with nature and environmental communications

Preserve biodiversity and ecosystem. Maintain environmental collaboration with customers and local communities.

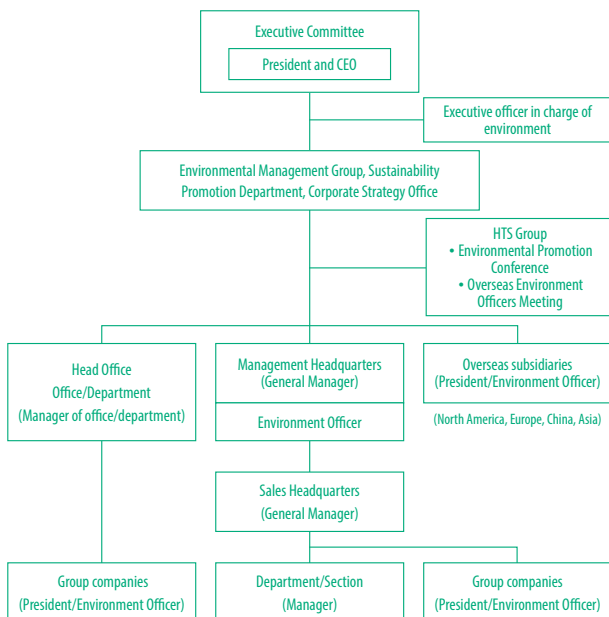
## Material Issues in the environmental field

Material issues identified in the environmental field are as follows.

- (1) Carbon (low carbon)
- (2) Stopping pollution
- (3) Renewable energy

## Environmental Management Structure

Since the establishment of a department dedicated to environmental issues in the head office in August 1992, we have worked on reducing environmental load and are currently promoting group-wide activities toward the global “environment-conscious business operations.”



## Strengthen Environmental Management

We utilize management systems to understand and monitor actual data. In overseas, we conduct research on important environmental laws and regulations for the purpose of managing environmental load and legal compliance. In FY2019, we started reviewing the management systems with the aim of improving the management level, continuing to raise employees’ awareness and reducing environmental load.

### Holding Environmental Promotion Conference

We share environmental information in Japan and overseas to improve environmental awareness and the management level.

### Number of environment conferences held (FY2019)



### Performance of internal environmental audit

We perform internal audit to prevent or promptly correct violations of the environmental compliance and improve the management level.

### Number of sites subjected to internal environmental audits (Japan: FY2019)

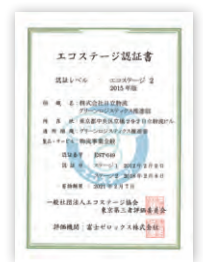
84

### Ensuring compliance in overseas offices

We identify important environmental laws and regulations related to “Transport and Warehouse Business” in overseas sites and conduct research on their outline to ensure proper operation management in each site. In FY2019, we conducted research on four countries and regions (the U.S., the Netherlands, South Korea, and Taiwan).

### Third-party certification initiatives

The Group seeks third-party certification and Sustainability Promotion Department has acquired the “Eco Stage” certification. From FY2017, we have upgraded the certification level to “Eco Stage II” which is equivalent to ISO14001. In FY2019, Hitachi Transport System Central Japan, Co., Ltd., our group company, independently acquired “Eco Stage II” Certification, and the entire Group has worked to improve the environmental management level. In addition, as of April 2020, we have earned “Green Management Certification” at 26 of our truck transport sites and eight of our warehouses. Building on these management systems, we are committed to ongoing reduction of environmental load.



Eco Stage II Certification



Green Management Certification

# Consideration for Disposal and Emission

- Manufactured Capital
- Natural Capital
- Objective 3
- Objective 4

## KPI

- Ownership ratio of vehicles in compliance with environmental standards
  - Recycling rate
- and others

## Financial Impacts (Example)

- Reduction in future environmental tax due to reduction in environmental load
- Rise in cost due to an introduction of advanced eco-friendly vehicles

We are working to reduce CO<sub>2</sub> emissions and wastes generated by supply chain, with an aim to offer the eco-friendly next-generation logistics solutions expected by society.

## Energy Saving and Global Warming Countermeasures of Vehicles

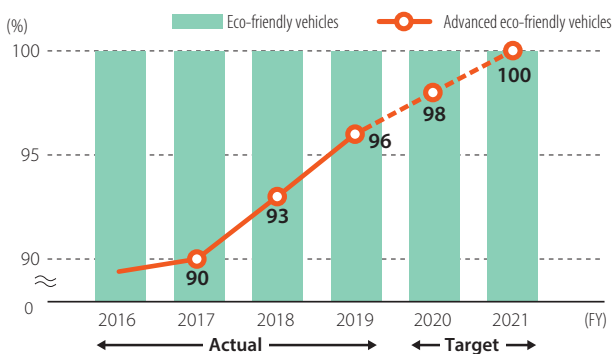
The HTS Group strives to reduce CO<sub>2</sub> emission generated by vehicle fuel through such initiatives as the introduction of the advanced eco-friendly vehicles and improvement of transportation including promotion of eco-friendly driving.

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

We are promoting the shift to eco-friendly vehicles (highly fuel-efficient, low-pollution vehicles). We achieved the eco-friendly vehicle ownership ratio of 100% at the end of FY2016, except for certain special vehicles. We will further promote the shift to the advanced eco-friendly vehicles with better environmental performance in order to reduce air pollutant emissions and will also promote eco-friendly driving, etc. to reduce environmental load.



### HTS Group eco-friendly vehicle ownership ratio (domestic) (As of March 31, 2020)



\*1: Totals shown are business and personal vehicles combined (excludes special vehicles)  
 \*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 emissions vehicles

### Vehicle fuel efficiency (domestic)

## Increase of vehicle fuel efficiency by vehicle type (driving distance/fuel consumption) [Target for CO<sub>2</sub> emission reduction]

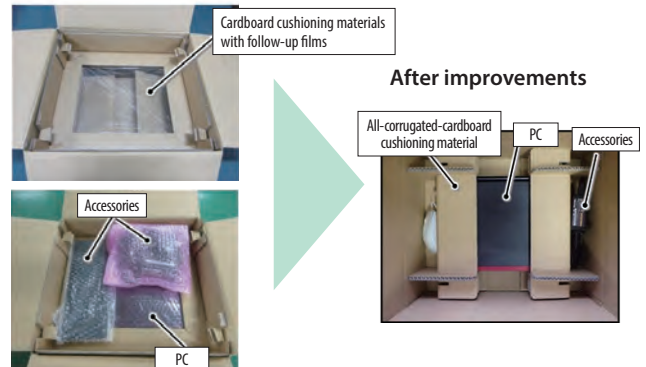
**Target:** compared to FY2018 **+1%** **Result:** compared to FY2018 **+0.4%**

## Design/Development of Eco-friendly Packaging

We are working to improve packaging technology and contribute to reducing environmental load including reduction of packaging-related materials and wastes while meeting customers' diverse needs.

For example, our site engaging in PC kitting service previously used cardboard cushioning materials with follow-up films for PCs in different sizes and cushioning film for their accessories, but achieved plastic-free all-corrugated cardboard packaging by improving the shape of dividers and holding method. These efforts were recognized, and we received "Electric Equipment Packaging Award" at the Japan Packaging Contest 2019.

### Before improvements



Received both "Logistics Award" and "Electric Equipment Packaging Award" at the Japan Packaging Contest 2019 (Japanese version only)  
<https://www.hitachi-transportssystem.com/jp/news/20190902-1.html>

### Introduction of double-trailer trucks

VANTEC CENTRAL LOGISTICS CORPORATION, our group company, introduced two sets of 21-meter long double-trailer trucks and started operation under the "Project to promote CO<sub>2</sub> emissions reduction measures in the transport sector" which is a joint project by the Ministry of the Environment and the Ministry of Land, Infrastructure, Transport and Tourism. The company has continued this project since FY2019 and will verify safety and driving management through actual operation to further improve logistics efficiency.





# Increase Energy Efficiency

## KPI

- Reduction of electricity consumption per floor space in "buildings"
- Development of new customers/routes for modal shift and others

## Financial Impacts (Example)

- Improvement in profitability due to a reduction in energy consumption
- Rise in cost due to an introduction of high efficiency facilities and equipment

We will steadily carry out initiatives to improve energy/resource efficiency and also work on decarbonization from a long-term perspective to realize low-carbon business processes.

## Energy Saving and Global Warming Countermeasures Implemented in Buildings

The HTS Group is proactively introducing LED lighting fixtures in new logistics centers and offices. We are also replacing existing fluorescent/mercury lights with LED lighting fixtures in the existing facilities and will continue until the replacement is completed in all facilities.

	FY2019
Number of sites with LED lighting fixtures	<b>New sites: 3</b> <b>Existing sites: 5</b>
CO <sub>2</sub> emissions suppressed with LED lighting fixtures	<b>141.2 t-CO<sub>2</sub></b>

Scope: HTS, domestic/overseas group companies

## TOPICS

### Smartphone Application Helps to "Fill in the Empty Space" of Trucks

Mobile TMS\*<sup>1</sup> of VANTEC CORPORATION, our group company, received "Logistics Environmental Impact Mitigation Technology Development Award" in the "21st Logistics Environment Awards." Previously, information such as truck operation plans and load volume records cannot be easily shared or confirmed as they were managed manually, which brought about a situation where "empty space was being transported," having caused transport inefficiency. In order to solve it, VANTEC developed a smartphone application enabling to share real-time information such as driver work management and loading status at arrival/departure points using edge AI\*<sup>2</sup>. VANTEC was able to increase the loading ratio by consolidating goods and reducing empty space on the loading platform based on the real-time information on the operating status and load capacity of trucks, and accordingly we achieved transportation which "fills in the empty space" with the loading ratio in a specific site increasing approximately 7% year on year. As a result, VANTEC was able to reduce CO<sub>2</sub> emissions by approximately 48 tons from a year earlier. In addition, as this application automatically registers arrival/departure time of trucks, the length of standby time at each site is visualized. VANTEC used this data to optimize the truck operation plans with cargo owners, and reduced standby time.

\*1 TMS: Transport Management System

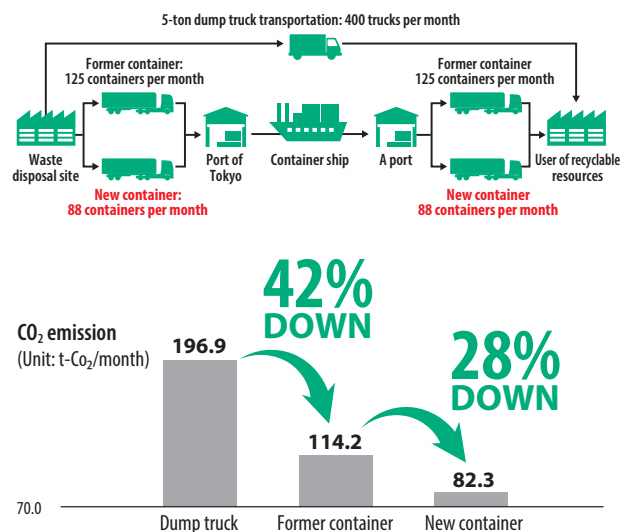
\*2 Edge AI: Non-cloud based AI installed on the edge close to sites, such as automobiles, industrial robots, and smartphones, for real-time forecasting and analysis.



Please see the news release.

(Japanese version only)

[https://www.vantec-gl.com/japanese/news/pdf/2020061001\\_JP.pdf](https://www.vantec-gl.com/japanese/news/pdf/2020061001_JP.pdf)



Please see the news release.

(Japanese version only)

<https://www.hitachi-transportssystem.com/jp/news/20200706.html>

# Secure Safety in Operation and Transportation

Human and Organizational Capital

Objective 2

## KPI

Frequency rate/severity rate of workplace accidents and others

## Financial Impacts (Example)

- Maintain profitability through stable operation
- Rise in cost due to an introduction of new equipment to prevent accidents

Under the policy that “Safety is our number one priority” and the safety slogan based on the policy, the HTS Group ensures that each employee carries on the safety cultures and strives to provide safe and secure services.

### Safety Slogan

『“Safety First”』

## Safety Priority Policy

The HTS Group establishes a unified priority initiative policy every year and works on activities based on the policy and the safety slogan.

## Safety Promotion Structure

HTS assigns “an officer in charge of safety” appointed by the president and establishes a top-down safety promotion structure to promote group-wide safety activities. Monthly Executive Committee deliberates and receives reports on accident occurrence and the Audit Committee also receives reports on the progress of safety activities and accident occurrence, in order to implement improvement activities.

To ensure thorough health and safety management, we developed regulations on health and safety, assigned safety supervisor in the Company and group companies to provide safety instruction, and set up an “Health and Safety Committee” in each office to promote various safety activities. We also recognize that safety activities in full coordination with our partner companies are essential, and accordingly each group company holds a top seminar semiannually and invites representatives of partner companies to share information about good safety examples and preventive maintenance.

## Safety Initiatives

- Boosting safety knowledge and driving and operation skill
- Sending contestants to non-HTS forklift and trucking competition

Each year, we send 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. Again in FY2019, contestants who won out at prefectural-level preliminary contests around the country competed in the national contests and achieved excellent results.



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

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

### ● Practical training and experiential sessions

We envision a full range of scenarios in workplaces and implement appropriate on-site training sessions based on them, covering practical training and experiential sessions.

### ● Practical training and instruction for heavy cargo engineering

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

### ● Overseas safety caravan

In order to spread global safety standards of the HTS Group overseas, we send safety caravans led by Japanese instructors to overseas and engage in improvement activities together with local staff.



### ● Internal forklift competitions at overseas locations

The overseas group companies hold forklift competitions for local employees, helping each employee increase their willingness to grow and safety awareness through sound competition between local employees.



### ■ Adoption of safety technology

Each site has adopted various safety technologies including SSCV (refer to page 28) to prevent accidents. A logistics site of Hitachi Transport System East Japan Co., Ltd. in Tsukuba City installed dashboard cameras with communication function on the forklifts in FY2019, which enabled advice based on real-time video monitoring and reduced Hiyari-Hatto (near-miss) incidents by 60% nine months after the installation.

### Workplace accident index of the HTS Group (Domestic)

#### Frequency rate:

Inside the parentheses are non-consolidated figures

0.92<sub>(0)</sub>

#### Severity rate:

Inside the parentheses are non-consolidated figures

0.011<sub>(0)</sub>



For details of our safety initiatives, please visit our website.

<https://www.hitachi-transportssystem.com/en/profile/csr/social/safety/>

## Pursue Next-generation Industries and Lifestyles

Manufactured Capital

Intellectual Capital

Objective 1

### KPI

- Storage and transportation/delivery conforming to GDP
- Promotion of transportation of social infrastructure-related equipment
- Utilize artificial intelligence and develop supply chain solutions
- Development of data scientists and others

### Financial Impacts (Example)

- Acquisition of business opportunities through vitalization of regional economy
- Creation of new businesses by accumulating new know-how
- Increase in technology development cost

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.

### Respond to Local Logistics Needs and Issues While Further Boosting Response Capability

#### ■ Storage and transportation/delivery conforming to GDP

The HTS Group has enhanced medical DCs across the country and provides storage services specialized in pharmaceutical logistics. We contribute to maintaining high quality medical supplies by enhancing a quality assurance system through establishment of a dedicated organization to improve the intangible aspects of GDP and working on proper management of complicating distribution channels. We also have a fuel procurement scheme and dedicated drivers familiar with characteristics, etc. of medicines as part of the BCP system to sustain supply chain in case of an emergency (refer to pages 35 to 39).



#### ■ Transportation of social infrastructure-related equipment Emergency transportation making full use of our network based on careful transportation plan - Transportation of a steam turbine to Andres Power Plant in the Dominican Republic -

Mitsubishi Hitachi Power Systems, Ltd. (Currently Mitsubishi Power, Ltd.) was going to supply a steam turbine equipment to replace the one in AES Andres Power Plant located near Las Americas International Airport, Santo Domingo, the Dominican Republic which was damaged by lightning, and we arranged the transportation. Since a prompt restoration was expected to secure electricity in the country, we considered a number of different approaches with the customer, such as chartering a cargo flight, to shorten the delivery time as much as possible. We made full use of our global network to centrally manage the entire process and progress from the shipment from a plant in Japan to the arrival at the destination, and successfully completed the transportation of approximately 13,000 kilometers without delay.



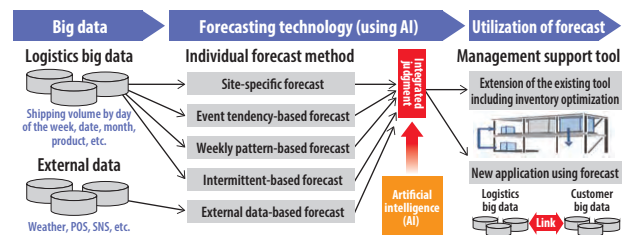
### Promote Total Optimization of Supply Chain by Making Full Use of Advanced Technologies

#### ■ Utilize artificial intelligence and develop supply chain solutions

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

#### ● Logistics/demand forecast

We aim to improve operational efficiency by optimizing inventories at logistics centers based on high-accuracy volume forecast using AI.



Number of cases of manufacturing/  
sales control support (demand forecast)  
(as of March 31, 2020, cumulative)

# 20

#### ● Inventory control

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

#### ● Blockchain technology

We are studying transportation/delivery of products using distributed ledger technology and a mechanism to speed up payments for such operations.

#### ■ Development of human resources meeting business needs -Development of data scientists-

We are fostering data scientists who use data to identify and solve issues of customers' supply chain.

Number of attendees of data  
scientist training course  
(as of March 31, 2020, cumulative)

# 58



For details of initiatives described on this page, please visit our website.

<https://www.hitachi-transportssystem.com/en/profile/csr/social/customer>

# Promote Diversity of the Workplace

Human and Organizational Capital

Objective 2

## KPI

- Ratio of female managers
- Development of OPEX designers

and others

## Financial Impacts (Example)

- Acquisition of new know-how and creation of new businesses by securing diversified human resources
- Reduction of recruiting cost by increasing the employee retention rate
- Cost increase due to creation of a pleasant workplace

The HTS Group aims to create a pleasant workplace where diverse human resources of the entire Group of different gender, nationality, generation, skill, and career having various attributes, individuality, and values can fully demonstrate their potential and play an active role.

## Respect for Human Rights

### Human right 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. The HTS Group creates opportunities for its employees to acquire accurate understanding of human rights, including providing training in accordance with employee rank, at meetings and seminars, with an aim to boost individual awareness of human rights by using “HTS Group Code of Conduct,” which incorporates “Respect for human rights” into basic behavioral guideline, as a manual.

## Promotion of Diversity

For the HTS Group, diversity means that employees having different attributes, individuality, and values use their diversified way of thinking to create new ideas and businesses. In 2012, we established the Diversity Promotion Center with the aim of creating a pleasant workplace where various human resources of the entire Group can play an active role.

### Promotion of women's participation in the workplace

HTS positions the active participation of women as an essential issue for a global company and has implemented various initiatives. In FY2013, we established KPIs for the active participation of women to accelerate our initiatives to achieve the targets.

## Ratio of female managers FY2019 Result

4.7%

Target: Achieve 10% by FY2020

Scope: HTS

### Systematic promotion of women to assistant managers and managers

To promote active promotion of women, we trust young woman employees with assignments with greater responsibilities to give them opportunities to gain knowledge and experience as well as raise their motivation, and systematically promote them to assistant managers and managers.

### Promotion of working-style reform

We have been promoting working-style reform so that contributions of individual employees lead to improvement of the productivity of the entire organization. In specific, we manage work hours by managing PC logs and change mindset of employees and the managers as part of our initiatives to address long working hours. We also actively encourage employees to take annual paid leave. Additionally, we also encourage to improve work efficiency through operational reform, and promote labor-saving at logistics centers by gradually introducing automated facilities.

## Training Upcoming Generations of Employees

### The HTS Group College

We have established the HTS Group College as an educational system for all of our employees, designed to draw out the strengths of each individual through practical and specialized training courses. In addition to training by rank, on-site operations, and manager-level training, we also institute general training for all employees to enhance their basic skills. Furthermore, we have developed training systems including our Managerial Personnel Training, which fosters core personnel of 3PL business. These personnel development programs are implemented to further solidify our business base.



## Creating a Workplace Full of Smiles and Vibrance

### Promoting communications through Logistics OPEX

With the aim of creating a workplace full of smiles and vibrance, we promote “Logistics OPEX”, a community where employees enjoy repeating learning and improvement through deep dialogue. Through these activities, we also encourage managers and employees to share and appreciate each other’s experiences and insights for the purpose of active communication and productivity improvement. Additionally, we are promoting activities to develop human resources who utilize Logistics OPEX in each site to further spread it within the Company (Refer to page 29).



## Number of OPEX designers developed (FY2019, cumulative)

32

Scope: HTS, domestic group companies



For details of employee-related initiatives, please visit our website.  
<https://www.hitachi-transportssystem.com/en/profile/csr/social/employee/>

## Social Contribution/Strengthening of BCP

Social and Relationship Capital

Objective 2

Objective 3

### KPI

- Activities based on the social contribution activity guideline
- Dissemination of behavioral standard in the event of a disaster to employees and others

### Financial Impacts (Example)

- Stable operation as a result of earning local community's trust
- Increase in disaster prevention measures cost

We strive to create a community where diverse people have stronger connection and feel affluent, safe and secure, by collaborating with a variety of organizations.

## Social Contribution

### Basic principle

The HTS Group aims to be a good corporate citizen by supporting various activities in such fields as "traffic and road safety," "training a new generation of people," "innovation," "environmental protection," and "contribution to local community" both in Japan and overseas under the basic principle of "Objectives of Social Contribution Activities."

For activities in each field, please visit our website.

### Traffic and road safety initiatives

As a logistics operator, we aim to realize a safe and secure traffic society. To achieve zero traffic accidents, we will contribute to creating opportunities to raise awareness and improve traffic manners of walkers and drivers through continuing traffic and road safety education.

### Holding traffic and road safety class

In May 2019, Mars Logistics Group Inc., our Turkish group company, held a traffic and road safety class for children. In the class, we used the rear deck of the truck as a classroom, prepared creative learning tools such as quizzes using a tablet terminal so that children can develop a better understanding about road signs while having fun.



### Contribution to local community

#### -Disaster recovery assistance-

When some regions were stricken by a disaster, we send relief donations to support the affected region. We made a donation to the authorized NPO Japan Platform in FY2019.

### The HTS Group Magokoro (Sincere Heart) Fund

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



For details of social contribution activities, please visit our website.  
<https://www.hitachi-transportssystem.com/en/profile/csr/social/contribution/>

## Disaster Preparedness Measures

### Promotion of BCP

Natural disasters and infectious diseases which occur often in recent years have significant impacts on corporate activities as well as threaten our daily life. Amid such circumstances, we believe that the BCP in the logistics business is not just a plan to continue our business but a preparation to make contributions by delivering medical supplies and foods to the affected regions and restoring social infrastructure to protect people's lives, which is our social mission.

### Strengthening of BCP system

For prompt restoration and continuation of our business at the time of a large-scale disaster, we conduct trainings to enhance coordination between disaster prevention headquarters of the head office, management headquarters, and group companies on a regular basis, and we are also establishing emergency contact systems with overseas group companies.

### Disaster prevention training in Japan

In Japan, we have BCPs mainly assuming large-scale natural disasters that threaten our business continuity. To enhance BCPs' effectiveness, we conducted a disaster prevention headquarter training (desktop simulation) assuming a large-scale earthquake hit Kanagawa area in August 2019. Trainings scheduled to be held in other areas were postponed to FY2020 due to the spread of COVID-19.

### Strengthening risk management system in overseas

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

### Dissemination of behavioral standard in the event of a disaster

We distribute "Emergency Handbook," an updated version of the former "Disaster Response Card," to all employees.



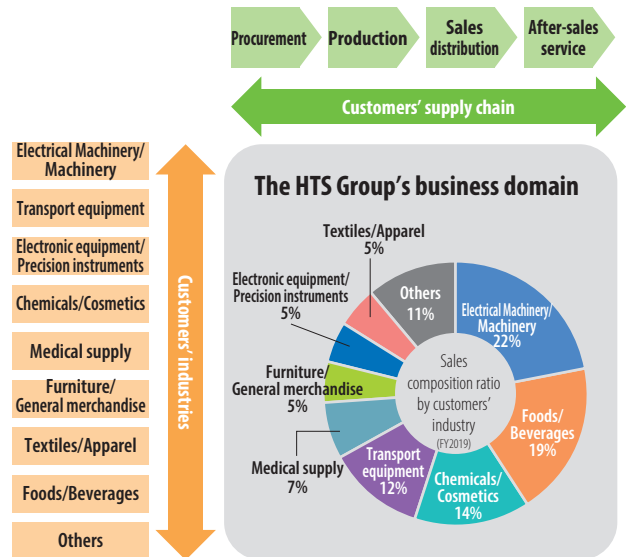
For more information about BCPs, please visit our website.  
<https://www.hitachi-transportssystem.com/en/profile/csr/social/governance/riskmanagement>

## 3PL Business (Domestic)

For logistics operation at any segment of customers' supply chain, from procurement, production, sales and distribution, to after-sales service, we provide a comprehensive outsourcing service and a warehouse management system (WMS) underpinning the service to improve service quality and logistics efficiency. As a pioneer of 3PL, we provide the best service and always lead the industry evolution by drawing on our abundant expertise and consulting capability and comprehensive infrastructure and introducing the latest technology.

### Major Services

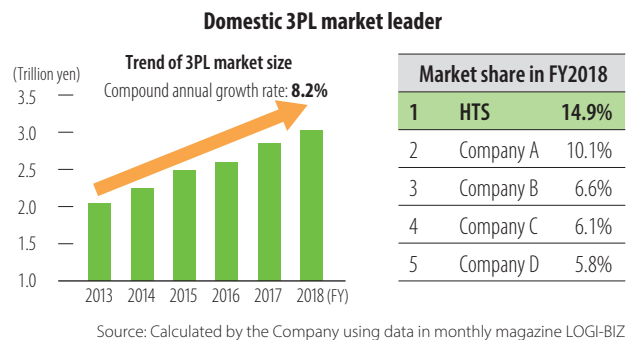
- **Procurement logistics:** We provide a comprehensive service from picking up parts/materials to storage, kitting, and delivery to customer's production line.
- **Production logistics:** Our professionals well-versed in customer's operations optimize factory in-house logistics including management, packaging, and shipping of materials and products.
- **Distribution logistics:** We establish 3PL service integrating storage, delivery, and information to provide high quality service ranging from inventory management and inbound/outbound processing to delivery order handling on customers' behalf.
- **Reverse logistics:** We provide various reverse logistics solutions such as smooth collection and return service leading to customer satisfaction, collection service for reuse and recycling, and waste disposal service requiring advanced, special expertise and technology.



### Positioning of the HTS Group in the Market

As a market leader in the ever-expanding domestic 3PL market, the HTS Group comprehensively undertakes logistics operations of customers in a wide range of sectors and industries (see chart on the right).

We have been a pioneer in the industry since we started providing service in the 1980's, and we have been supporting supply chains in Japan with our design and management capabilities backed by abundant experience as well as with fine-tuned services by a group of experts specialized in the customer's industry.



### Features of Our Services

#### ICT equipment solution

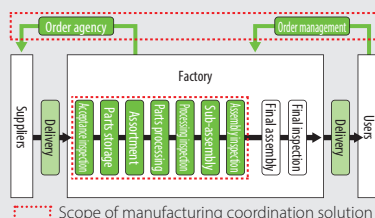
We offer transport and storage of ICT equipment as well as ancillary work such as kitting, on-site setup, and operation test, in order to provide comprehensive support from introduction of a product to data wiping, removal/collection, disposal, and purchase.



Kitting service

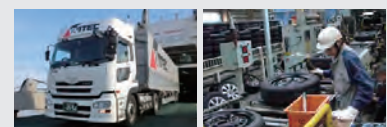
#### Manufacturing coordination solution

In addition to one-stop service from procurement to shipping, the solution includes undertaking of production processes including assortment, assembly, quality check, as well as inventory management and order receipt/placement management.



#### Auto parts logistics

Leveraging our know-how and experience in the automobile parts logistics, we provide services ranging from procurement logistics to in-house factory logistics onto mixed production lines and maintenance service parts logistics to meet various logistics-related needs of customers in the automobile industry.



Auto parts logistics

#### Smart Logistics

The HTS Group is accelerating the realization of next-generation logistics centers that achieve automation/labor saving by Smart Logistics, and in September 2019, we opened an EC platform center (smart warehouse) which realized significant labor saving through coordinated control of multiple labor-saving equipment.

\*Please refer to pages 33 to 34 for EC platform center.



Rotary piece sorters



Depalletizer



Automated forklift

# FY2019 Result

## Results (round amount)

Revenues:

¥376.6billion

(YoY + ¥10.4 billion)

Operating income:

¥22.82billion

(YoY + ¥3.64 billion)

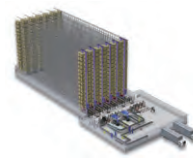
## New orders/new startups

New Orders: **20** projects    New startups: **23** projects

## FY2019 Topics

- **April 2019:** Started full-scale operation of labor-saving equipment in the automated warehouse in Toyama Phase IV DC  
→ Expanded pharmaceutical logistics business and realized a next-generation model center
- **November 2019:** Acquired distribution service business from Hitachi Life, Ltd.  
→ Centralized undertaking of logistics operation to ship products from Hitachi Group's factories and integrated packing and transportation services to reduce costs and improve service quality
- **December 2019:** Started operation of Tsukuba DC's Extended Building  
→ Further enhanced DC functions for construction machinery maintenance parts

Introduced automated warehouse and labor-saving equipment, etc. in Toyama Phase IV DC



Automated pallet warehouse



Depalletizer



Rider-type automated forklift

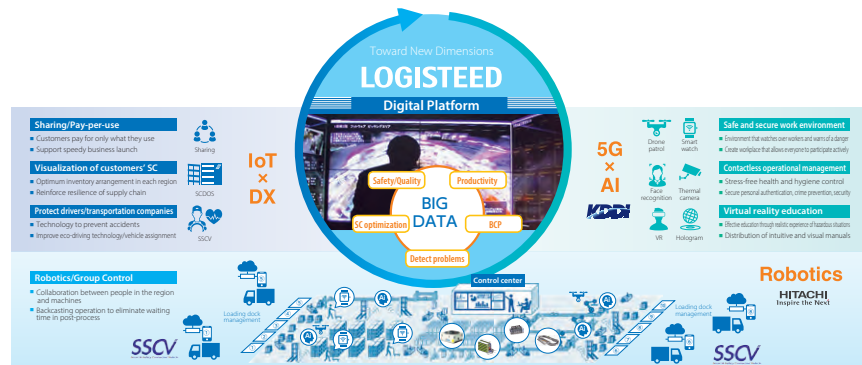
## Tsukuba DC Extended Building



## Measures toward LOGISTEED

## Sophisticate logistics using 5G (collaborative innovation with KDDI)

HTS and KDDI CORPORATION announced the plan to jointly conduct verification experiments aimed at optimizing operation of logistics centers as well as overall logistics by using various sensing with 5G technologies and image recognition by AI. (Joint press release in October 2019)  
In FY2020, we will conduct various verification experiments under 5G environment in the actual fields of HTS in the Tokyo metropolitan area.



## ESG Topics

### HTS's initiatives

- Reduce CO<sub>2</sub> emissions through a review of transportation modes, improvement of transportation efficiency, and joint delivery
- Reduce waste through a review of packaging, and reduce CO<sub>2</sub> emissions through improvement of loading efficiency

### FY2019 topics

- **August 2019:** Our group company VANTEC CORPORATION started the operation of double-trailer trucks (refer to page 63)
- **August 2019:** Received both "Logistics Award" and "Electric Equipment Packaging Award" at the Japan Packaging Contest 2019 (refer to page 63)
- **November 2019:** Received "2019 Excellent Business Entities Working on Modal Shift (new market category)"
- **December 2019:** Co-awarded "METI Minister's Awards" at the Green Logistics Partnership Conference (Hitachi Distribution Software Co., Ltd.)

### Packaging solution

We have a facility specialized in packaging technology (Technical Center) and propose the optimal packaging solution based on accumulated quantitative data and evaluation test results.



Verification of packaging material by testing machine

## Message from the officer in charge

As a pioneer and leader in the industry, we design the optimal supply chain and offer excellent logistics services with an aim to support customers' growth from the logistics aspect. As an essential infrastructure for our lives, we will continue to support society through stable operation and strive to create collaborative innovation in logistics with our customers and partner companies to deliver new values.

### Kiyoshi Nagao

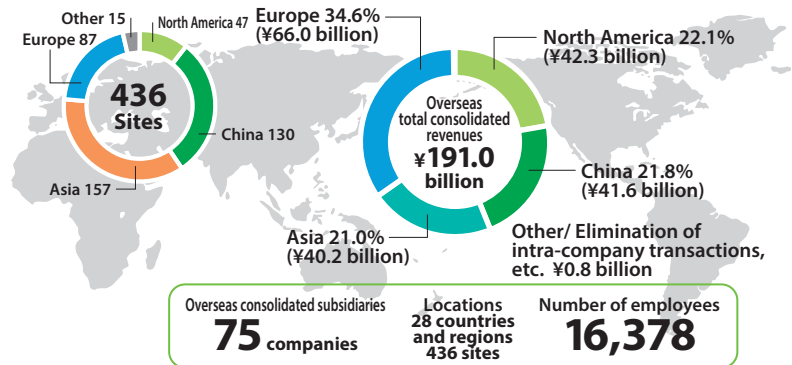
Vice President and Executive  
Officer, General Manager,  
Business Management  
Headquarters



## 3PL Business (Overseas)

As of March 31, 2020, the HTS Group has established a global network of 436 sites in 28 countries and regions outside of Japan, since expanding into Singapore in 1976. In order to support our customers' increasingly large and complicated global supply chain, we offer a wide range of services including 3PL and Auto Parts Logistics.

Revenues by overseas region and no. of overseas sites (FY2019)



## FY2019 Result

### Results

Revenues:

**¥191.0 billion** (YoY -¥17.9 billion)

Operating income:

**¥6.35 billion** (YoY -¥0.56 billion)

### New orders/new startups

New orders: **6** projects

New startups: **7** projects

## FY2019 Topics

**Europe** Turkey-based Mars Logistics Group promoting the intermodal business between Turkey and Europe has established a Spanish subsidiary

In December 2019, Mars Logistics Europe S.A. was established in Barcelona, Spain, to expand business in Europe. The company provides chartered transportation between Turkey and Spain, consolidated delivery, and cross-docking service to electronic device and apparel manufacturers. It will expand its service by offering domestic transportation in Spain and intra-European transportation departing from Barcelona. The company was established to expand Mars Logistics Group's intermodal business network.



Appearance of the warehouse/office

## Intermodal

"Intermodal transportation service" is a combined transport service that combines multiple modes of transportation (e.g. railways, trailer trucks, aircrafts, ships) to transport freight in containers all the way to the final destination using successively two or more modes. Mars Logistics Group, who is familiar with the local situations, effectively combines various modes of transportation to offer customers the optimal route of the wide-area transportation from Middle East to Eastern and Western Europe, taking into account costs, delivery time and environmental friendliness.



### Example of transportation route

The cargoes are transported by trailer trucks from various places in Turkey to main ports such as Istanbul and transported to Trieste, Italy, by ship, and then to Luxemburg by train. After that, trailers are loaded onto trailer trucks again at the terminal and delivered by land to all over Europe, including Belgium, Netherlands, U.K., France, and Germany.

### Environmental friendliness

Modal shift that combines marine and rail transportation for the trunk line transport leads to a reduction of environmental load caused by transportation. The intermodal business sets a CO<sub>2</sub> emissions reduction target\*1 at 13,000 tons per year and reduced approx.17,800 tons in FY2019.

\*1 Comparison with truck transportation

## Message from the officer in charge

In Europe, we provide a wide range of services from transportation service including 3PL, intermodal and cross-border transportation to heavy construction equipment transportation and Auto Parts Logistics to customers in 12 countries. For intermodal service, we plan to develop new routes such as a Romania route in the future.

**Riichiro Hirano**

Executive Officer  
 Chief Executive for Europe & President,  
 Hitachi Transport System (Europe) B.V.



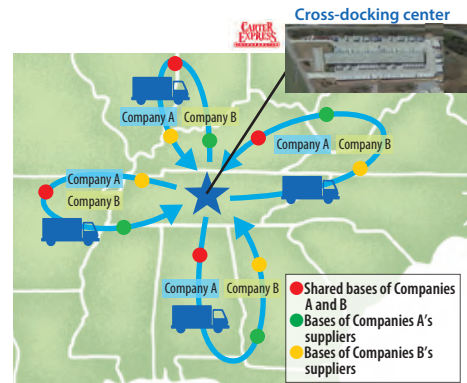


**North America** Expanded a shared cross-docking center for two leading automobile manufacturers and started a Shared Milkrun service

Carter Express, headquartered in Indiana, U.S., operates an Auto Parts Logistics business with its unique Milkrun business model. It has been providing procurement logistics services to Tier 1 suppliers\*1 for leading automobile manufacturers, and in November 2019, it expanded a cross-docking center in Knoxville, Tennessee and started the management of cross-docking service\*2 for them.

It also started a Shared Milkrun service whereby one truck visits bases of multiple suppliers to collect parts for two manufacturers. It aims to reduce driving distance and achieve environment-friendly transportation service by sharing a warehouse and pickup routes.

\*1: Tier 1 suppliers: Primary suppliers who directly deliver parts manufactured and developed in-house to manufacturers  
 \*2: Cross-docking: One of the warehouse operations. To promptly sort received goods/cargoes and re-prepare shipments for delivery right after its arrival, without taking in any inventories.

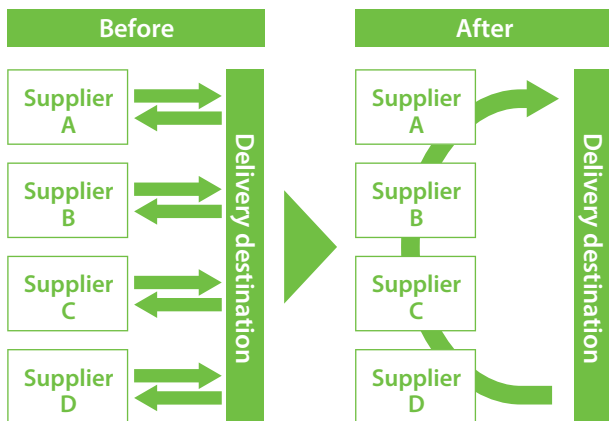


**Estimated effect of Shared Milkrun**

Reduction of CO<sub>2</sub>/NO<sub>x</sub> **22%**

Details of Shared Milkrun service are available at: <https://carterlogistics.com/shared-milkrun/>

**Milkrun**



A Milkrun is a transportation method whereby one truck visits bases of multiple suppliers to collect production parts and deliver them to a production plant. It can improve transport efficiency and streamline the management of shipment receiving process at customers (manufacturers). The company repeats simulations to optimize pickup routes and streamline the transportation/delivery process while minimizing costs. As the Milkrun reduces the number of vehicles and improves the loading ratio, it can contribute to solving social issues including traffic/transportation accidents and driver shortages as well as environmental issues including emissions of CO<sub>2</sub> and air pollutants.

**Message from the officer in charge**

We offer end-to-end supply chain management with a network that spans North America, including a strong Intra-Mexico operation. The Shared Milkrun Network gives our customers the strategic advantage in cost-savings and efficiency.

**John N. Paugh**

Director, Chief Executive for North America & President, J.P. Holding Company, Inc.



**ESG Topics**

**FY2019 topics**

- **April 2019: Mars Logistics Group in Turkey received the 2018 ETİKA Turkey Ethics Award that awards companies who value ethics and make exemplary efforts**
  - ✓ Its approach to corporate governance and social responsibility was evaluated
- **June 2019: Rolled out vehicle sharing service to benefit Thailand's logistic sector**
  - ✓ Vehicle sharing among multiple shipping companies enables a reduction in cost and delivery time
  - ✓ Reduce traffic congestion, accidents, and air pollution by improving logistics efficiency through the reduction of the number of vehicles and improvement of loading ratios
- **October 2019: Carter Logistics in U.S. was awarded as a 2019 "Top Company for Women to Work for in Transportation"**
  - ✓ Elected as a top company for women to work for from among more than 150 companies
  - ✓ Active involvement of women in various types of job, including executives, truck drivers, and mechanics, was highly evaluated



2018 ETİKA Turkey Ethics Award



Award ceremony of 2019 "Top Company for Women to Work for in Transportation"

# Freight Forwarding Business

Making full use of the HTS Group's extensive global network, we provide international freight forwarding services including air and ocean transportations in which we have a wealth of experience and achievements. We meet a wide variety of global logistics needs of customers in all industries and seamlessly connect global supply chains by combining optimal transport modes.

## Major Services

### ■ Ocean freight transportation service



We use abundant expertise and networks to meet customer needs and safely transport large quantities of daily commodities, apparel, and general merchandise as well as large-scale cargoes such as railway cars and industrial plants.

### ■ NVOCC (International multimodal transport)



Efficiently combining land, ocean, and air transportation modes, we provide door-to-door, safe, high-quality one-stop transportation to overseas destination for cargoes of all sizes from container cargo to small-lot cargo.

### ■ Customs clearance service



Our registered customs specialists with abundant experience prepare customs documents required for import/export customs clearance and submit them to customs on behalf of customers. We support a wide range of products including electronic equipment which requires a high level of export control decisions and apparel that requires specialized knowledge.

### ■ Air freight transportation service



We reliably and speedily transport cargoes that require careful handling including electronic products, industrial machinery, medical products, and foods.

### ■ Agency service for trade administration



When customers export cargoes, our agency service takes care of complicated trade administration including transportation insurance and various certificates as well as the preparation of shipping documents necessary for export (e.g. invoice, packing list).

### Acquisition of AEO and C-TPAT Certifications

Both the Customs-Trade Partnership Against Terrorism (C-TPAT) program of the U.S. and the Authorized Economic Operator (AEO) program implemented by other



countries and regions promote cargo security management and enhancement of compliance in the international trade, and authorized operators are granted benefits such as simplified procedures. As part of our efforts to provide safe and high-quality international transportation services, the Group is acquiring these certifications. To this date, our U.S. subsidiary acquired the C-TPAT certification, and our subsidiaries in Japan, the Netherlands, the Czech Republic, and Thailand acquired the AEO certification.

## Features of Our Services

### ■ Automobile transportation

We transport general vehicles as well as undisclosed confidential vehicles. We accommodate various needs such that only those with permission from customers handle packing using special cases in the area with security control.

### ■ Event transportation

Our experts having a wealth of experience meet diverse requests of customers. We propose the optimal plan suited for the situation for services including not only installation and exhibition of exhibits but also arrangement for returning exhibits, re-import, and delivery after the event.

### ■ Air transportation of precision instruments

To ensure safe and speedy air transportation of heavy, tall or unbalance cargoes, we get involved in the process of packaging design.

### ■ Buyer's consolidation

We reduce transportation costs and risk for product damage when handling cargo by consolidating cargoes from multiple suppliers imported by the same customer into a single marine container.

## FY2019 Result

Revenues (round amount):

¥**93.8** billion

Freight forwarding volume (round amount):

Ocean transportation **462** thousand TEUs\*<sup>1</sup> Air transportation **221** thousand tons

## Topics by overseas region

\* Logos of major freight forwarding operators are shown

### Europe

Ocean 40 thousand TEUs  
Air 20 thousand tons

Expanded the transport network across Europe using ocean/rail/land transportations

### Japan

Ocean 104 thousand TEUs  
Air 61 thousand tons

Started collaboration with AIT Corporation under a capital and business alliance agreement

### North America

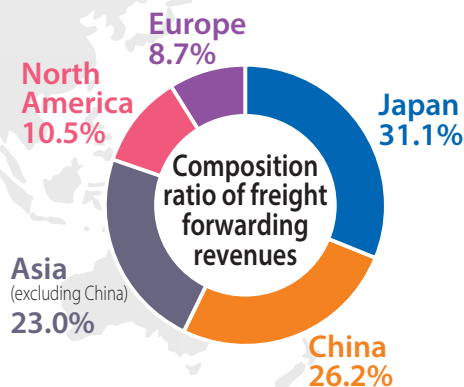
Ocean 35 thousand TEUs  
Air 12 thousand tons

Started the agency business for AIT Corporation in North America

### Asia

Ocean 178 thousand TEUs  
Air 36 thousand tons

Promoted the Container Round Use\*<sup>2</sup> with collaborative innovation partners in Thailand and Indonesia



### China

Ocean 106 thousand TEUs  
Air 91 thousand tons

Enhanced freight forwarding functions in inland China, including rail transportation to Europe

\*1: TEU (Twenty-Foot Equivalent Unit): The volume converted into the number of 20-foot-long marine containers

\*2: Round Use: An initiative to use marine containers used in import for export, instead of returning them to a port, with an aim to reduce costs and environmental load and ease traffic congestion

## Message from the officer in charge

As the global supply chain becomes diversified and complicated, it is becoming increasingly important to consider and select the best international transport modes in a timely manner. The Group will continue to support our customers' global business activities by making full use of our specialized expertise and a network of more than 700 locations around the world and always providing optimal and seamless freight forwarding services.

### Yuichi Kuroume

Executive Officer, General Manager,  
Heavy Cargo Transport and Engineering  
Headquarters (President, VANTEC HTS  
FORWARDING, LTD.)

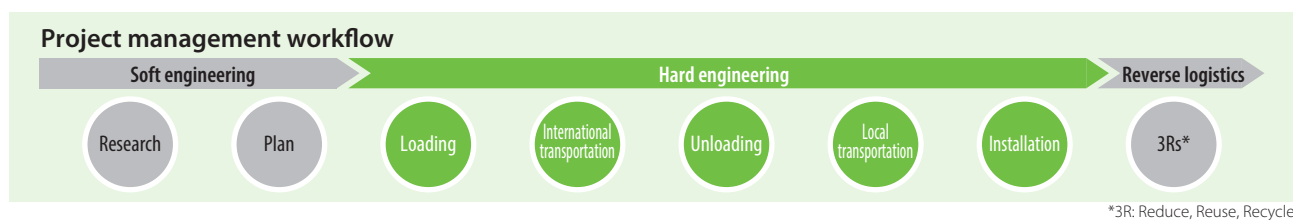


# Heavy Machinery and Plant Logistics Business

We support the foundation of society and industries by providing one-stop logistics services covering from shipping to transportation and installation of social infrastructure-related equipment, plant facilities, and production facilities for factories in Japan and overseas. As we handle irreplaceable and precious heavy products, we ensure to put safety and quality above all else. We optimize overall SCM by using our expertise accumulated through the Hitachi Group's heavy electric machinery and railway projects and support the realization of customers' TCM (Total Cost Minimization) in procurement and production logistics and transportation of finished products.

## Positioning of the HTS Group in the Market

The HTS Group is one of a few domestic logistics operators who can offer self-managed one-stop service covering from soft engineering to hard engineering for large-scale projects to transport and install heavy cargoes. In the heavy machinery relocation and installation and reverse logistics, we have been developing a wide variety of businesses including services using the Group's domestic network and the development of unique equipment.



## Major Services

### Services for power plant and industrial project cargoes

With regard to power and industrial plant facilities delivered to various locations around the world, our professional team plans and executes the optimal transportation according to characteristics of each product including precision instruments and heavy cargoes weighing several hundred tons. We can offer any transportation mode by using the Group's network, and our staffs who have abundant experience and high level of expertise ensure the entire process up to the setting up is completed. In addition, we have a dedicated team for transportation of ultra-heavy cargoes using special ships such as a self-propelled barge, and they work with customers to design transporting jig and special cradle.



### Services for rail and other transport system project cargoes

We meet various logistics needs including transportation of train cars of bullet trains and other high-speed railways, city trains, and monorails, as well as related equipment such as girders and platform barriers, procured parts to manufacture train cars, and maintenance parts. Our knowledgeable experts combine transport modes of land, sea, and air in an optimal manner to realize safe and high-quality seamless transportation. In addition to delivery of finished products, we also provide a broad range of services for maintenance after an equipment is put into operation by making full use of our 3PL expertise and transportation capacity, supporting the development of transport infrastructure.



### Services for renewable energy

We provide transportation and installation services for renewable energy facilities such as solar and wind power generation, through which we will contribute to the achievement of environmental preservation and a sustainable society.

#### Solar power generation

We have a wealth of experience in transportation and installation of mega-solar power facilities across the country mainly in Kyushu.

#### Wind Power Generation

We use our special equipment (multi-axle trailer) and engineering capability to transport and install wind power facilities.

## Environment-related Solutions

We provide high value-added reverse logistics services to contribute to the realization of a recycling-oriented society.

### • Recycling solutions for goods and machinery

We collect used products for reuse or recycling when delivering PCs, servers, and ATMs.

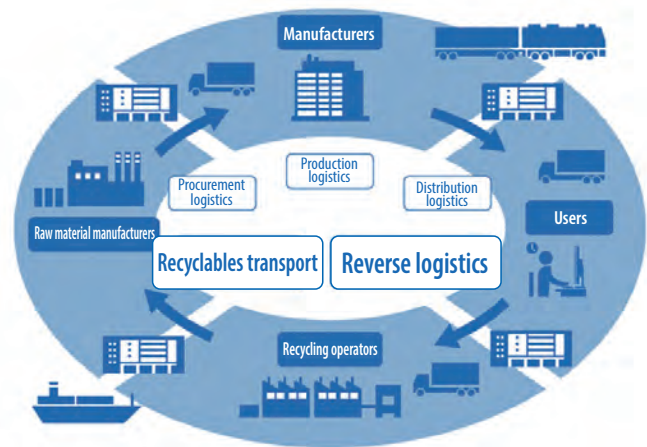
### • Recyclables transport

We offer a wide variety of solutions for recycling materials such as waste plastic bottles and waste plastic, including transportation as well as the development of special container with higher transport efficiency.

### • Compliant recycling

We provide logistics services complying with various related laws and regulations including collection and transportation of PCB-containing wastes and recycling of home appliances.

## Reverse logistics services in supply chains



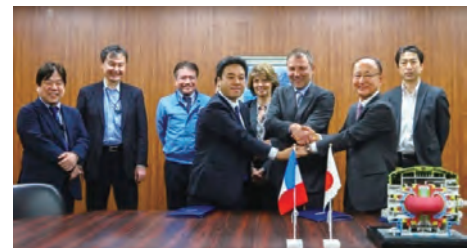
## FY2019 Result

■ Revenues (round amount included in the reportable segments of Domestic logistics and International logistics)

**¥39.6 billion** (YoY + ¥1.6 billion)

### FY2019 Topics

- Signed a basic agreement on the comprehensive transportation of International Thermonuclear Experimental Reactor (ITER) in March 2019
- Continued projects of constructing coal-fired power plants in Japan and overseas
- Expanded the natural energy-related business including biomass, offshore wind power, and solar power generation projects
- Increased recyclables transport using self-developed containers



Three-party agreement of ITER comprehensive transport project

## Measures toward LOGISTEED

Expand businesses through collaborative innovation with partner companies

**Collaborative innovation with SG Holdings Group**  
Expand collaborative innovation by leveraging the strengths of both companies



\*Photograph taken by SAGAWA EXPRESS in January 2019

We use sales offices owned by SAGAWA EXPRESS CO., LTD. across the country as transfer centers or unloading places, and transport fuel cell buses using our know-how on heavy cargo transportation.



**FY2019 results:** Transportation of fuel cell buses, relocation of a machinery manufacturer's factory, etc.

**FY2020 initiatives:** Relocation of hospitals and factories, etc.

**Collaborative Innovation with Kintetsu World Express, Inc.**  
Sales tie-up through joint venture



\* Project Cargo Japan, Inc. (PCJ): HTS owns 51% and Kintetsu World Express, Inc. owns 49%

We provide one-stop service with an expanded value chain combining Kintetsu World Express, Inc.'s overseas network and sales capabilities with our heavy machinery and plant logistics services.

**FY2019 result:** Installation of in-house power generators for the Rugby World Cup

**FY2020 initiative:** Installation of portable container fuel stations

## Message from the officer in charge

Since our foundation in 1950, we have provided high-quality one-stop logistics services ranging from transportation to installation of large products throughout the world by taking advantage of our high level of expertise accumulated through the transportation services for large-scale power-generation facilities of the Hitachi Group. We safely and securely transport important products supporting social and industrial foundation around the world, including power plants, transport infrastructure, industrial plants, and other machineries and facilities in order to make the world a better place.

### Yuichi Kuroume

Executive Officer, General Manager,  
Heavy Cargo Transport and Engineering  
Headquarters (President, VANTEC HTS  
FORWARDING, LTD.)



# 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, 2020)	← J-GAAP →			
(FY)	2010	2011	2012	2013
<b>For the year:</b>				
Revenues (Service Revenues) *1	¥368,798	¥553,934	¥547,517	¥624,504
Domestic logistics	256,886	386,448	375,560	388,765
Global logistics	93,264	148,610	152,485	215,193
Other services (logistics related businesses)	18,648	18,876	19,472	20,546
Operating income *5	15,940	23,131	19,535	20,992
Domestic logistics	21,815	29,146	27,452	28,523
Global logistics	1,477	2,763	1,123	2,910
Other services (logistics related businesses)	2,751	2,246	2,619	2,743
Elimination or company-wide expenses *2	(10,103)	(11,024)	(11,659)	(13,184)
Net income attributable to stockholders of the parent company (Net income) *1	6,806	12,563	11,156	5,433
<b>At year-end:</b>				
Total assets	¥246,558	¥365,013	¥374,206	¥427,733
Total equity (Net assets) *1	151,066	164,640	174,904	181,401
Equity attributable to stockholders of the parent company (Stockholders' equity)	147,887	156,622	169,327	168,683
<b>Consolidated Cash Flows:</b>				
Cash flows from operating activities	¥16,352	¥26,020	¥24,689	¥25,689
Cash flows from investing activities	(11,884)	(58,948)	(16,759)	(24,595)
Cash flows from financing activities	(6,522)	37,215	(7,522)	(2,038)
Cash and cash equivalents at end of year	26,910	31,081	33,052	33,614
<b>Per share data (Yen):</b>				
Net income attributable to stockholders of the parent company (Net income) *1	¥61.01	¥112.62	¥100.01	¥48.70
Equity attributable to stockholders of the parent company (Net assets) *1	1,325.72	1,404.03	1,517.93	1,512.16
Cash dividends	22.00	24.00	25.00	26.00
Share price at year-end	1,166	1,505	1,500	1,676
<b>Capital expenditures:</b>				
Capital expenditures *3	¥13,264	¥16,857	¥17,854	¥27,948
Purchased assets *4	7,358	14,664	15,187	21,622
Depreciation and amortization	9,672	14,003	14,958	16,579
<b>Financial ratios:</b>				
Operating margin (%) *5	4.3	4.2	3.6	3.4
ROE (%)	4.6	8.3	6.8	3.2
<b>Other data:</b>				
Number of employees (excluding senior employees, part-time or temporary employees)	14,700	21,104	22,793	24,425
Total floor space of warehouse (Ten-thousand square meters) *6	371	516	564	637
Domestic	301	394	426	461
Overseas	70	122	138	176

\*1 Terms in parentheses are used for J-GAAP. \*2 From the FY2015 (IFRS), the Group altered to allocate company-wide expenses to each business segment. The segment information of the FY2014 (IFRS) had also reflected the alternation above. \*3 Based on tangible and intangible assets accepted. \*4 Based on non-current assets recorded.

		IFRS					
2014	2014	2015	2016	2017	2018	2019 <sup>*7</sup>	
Millions of yen						Millions of yen	
¥677,108	¥678,573	¥680,354	¥665,377	¥700,391	¥708,831	¥672,286	
397,844	397,954	405,080	411,796	417,835	432,793	435,311	
258,354	258,231	253,144	231,727	260,285	255,828	219,761	
20,910	22,388	22,130	21,854	22,271	20,210	17,214	
21,198	21,465	28,320	29,466	29,803	31,192	33,483	
26,082	14,071	20,333	21,830	21,740	22,099	26,063	
5,897	4,848	5,652	5,693	6,280	7,108	6,502	
2,883	2,546	2,335	1,943	1,783	1,985	918	
(13,664)	—	—	—	—	—	—	
10,932	13,250	14,011	18,703	20,916	22,786	21,614	
¥450,048	¥459,386	¥464,399	¥549,924	¥564,903	¥612,535	¥879,144	
188,935	176,726	178,552	190,919	208,291	228,949	239,257	
176,714	173,720	175,543	187,482	204,328	222,346	232,861	
¥31,578	¥32,266	¥38,820	¥26,372	¥27,924	¥37,812	¥78,204	
(19,860)	(19,886)	(10,373)	(69,004)	(6,178)	(13,892)	(1,162)	
(11,648)	(12,065)	(16,712)	55,592	(16,445)	21,104	(45,707)	
34,542	34,544	45,146	57,483	63,497	108,412	139,021	
¥98.00	¥118.78	¥125.60	¥167.66	¥187.50	¥204.27	¥193.76	
1,584.16	1,557.32	1,573.67	1,680.70	1,831.72	1,993.25	2,087.52	
28.00	28.00	30.00	34.00	36.00	40.00	43.00	
1,817	1,817	1,882	2,313	2,990	3,285	2,349	
¥26,528	¥26,528	¥33,755	¥21,961	¥17,355	¥27,559	¥32,242	
13,601	13,601	22,340	15,670	13,010	17,760	18,250	
18,403	18,715	19,125	18,741	19,030	19,059	52,815	
3.1	3.2	4.2	4.4	4.3	4.4	5.0	
6.3	8.0	8.0	10.3	10.7	10.7	9.5	
24,728	24,728	24,744	25,274	25,074	24,139	23,837	
691	691	709	719	731	734	741	
500	500	496	497	499	513	509	
191	191	213	222	231	221	232	

\*5 In order to present business conditions more appropriately, the HTS Group started to use "Adjusted operating income" as a major indicator from FY2016 and also presented "Adjusted operating income" for FY2015. \*6 Excluding SAGAWA EXPRESS Group and AIT Group \*7 Effective April 1, 2019, the Group adopted IFRS 16 Leases.

Category/Item	Scope			FY2015	FY2016	FY2017	FY2018	FY2019
	HTS	Domestic group	Overseas group					
<b>Environment</b>								
<b>Environmental Management</b>								
Coverage of environmental management system (ISO14001) (percentage of certification acquisition)	●	●	●	Head office acquired "Eco Stage 2" (equivalent to ISO14001) and implemented it in domestic group companies.				
Number of non-compliance with environmental laws and regulations (environmental compliance)	●			0	0	0	0	0
Attendance rate of environmental e-learning courses	●	●		97.6%	99.4%	99.8%	99.8%	99.7%
<b>Reduction of Environmental Load by Products and Services</b>								
Eco-friendly vehicle ownership ratio	●	●		90.2%	100%	100%	100%	100%
Advanced eco-friendly vehicle ownership ratio	●	●		—	—	90%	93%	96%
<b>Greenhouse Gas (GHG)</b>								
Improve fuel efficiency by vehicle type (driving distance/fuel consumption) <sup>*1</sup> [CO <sub>2</sub> emission reduction target <sup>*2</sup> ]	●	●		Compared to FY2013: -2%	Compared to FY2014: -2%	Compared to FY2014: -3%	Compared to FY2014: +4%	Compared to FY2018: +1%
Improve fuel efficiency by vehicle type (driving distance/fuel consumption) <sup>*1</sup> [Result of reduction of CO <sub>2</sub> emission]	●	●		Compared to FY2013: -5.4%	Compared to FY2014: +1.1%	Compared to FY2014: +2.5%	Compared to FY2014: +1.2%	Compared to FY2018: +0.4%
CO <sub>2</sub> reduction by modal shift (t-CO <sub>2</sub> ) <sup>*3</sup>	●	●		Modal shift to railway transport for precision instruments from Chiba Prefecture to other areas in Japan 22.8 <sup>*4</sup>	Modal shift to railway transport for precision instruments from Aichi Prefecture to other areas in Japan 25.4 <sup>*5</sup>	Modal shift to sea transport for recyclable resource waste from Kanto area to Hokkaido and Kyushu 320 <sup>*6</sup>	Modal shift to railway transport for household medicine from Toyama area to other areas in Japan 45.8	Modal shift to vessel for transportation of recyclable resource waste 31.9 <sup>*7</sup>
Total of above CO <sub>2</sub> emission reductions in comparison with truck transport				-79%	-86%	-50%	-79%	-28% <sup>*8</sup>
CO <sub>2</sub> emissions suppressed with LED lighting fixtures (t-CO <sub>2</sub> )	●	●	●	400	227	1,300	2,730	141.2
Total GHG emissions (Scope 1) (t-CO <sub>2</sub> )	●	●		48,335	46,891	44,290	43,656	42,207
Total GHG emissions (Scope 1&2) (t-CO <sub>2</sub> )	●	●		138,640	135,690	132,122	127,561	119,753
Total GHG emissions (Scope 3) (t-CO <sub>2</sub> )	●	●	●	—	563,622 (partial tally)	537,272	557,860	527,187
<b>Air/Chemicals</b>								
Emissions of NOx, SOx and other significant air emissions	●	●		Since 1992, we purchased only the vehicles equipped with measures against NOx and SOx to comply with emission regulations.				
<b>Energy</b>								
Electricity consumption per "floor space" in "buildings" [Reduction target for energy consumption intensity]	●	●		Compared to FY2013: -2%	Compared to FY2014: -2%	Compared to FY2014: -3%	Compared to FY2014: -4%	Compared to FY2018: -1%
Electricity consumption per "floor space" in "buildings" [Result of reduction of energy consumption intensity]	●	●		Compared to FY2013: -6.7%	Compared to FY2014: -0.7%	Compared to FY2014: -1.0%	Compared to FY2014: +0.9%	Compared to FY2018: -3%
Total energy input/consumption (amount used) (GJ)	●	●		1,214,832	2,417,036	2,454,703	2,462,590	2,409,865
<b>Waste/Recycling</b>								
Total waste emissions (t)	●	●		33,139	34,564	33,304	30,527	29,892
Reduction target for copy paper consumption [reduction of resource use]	●	●		YoY: -1%	YoY: -1%	YoY: -1%	YoY: -1%	YoY: -1%
Results of copy paper consumption [reduction of resource use]	●	●		YoY: -3.9%	YoY: -2.9%	YoY: -2.9%	YoY: -2.4%	YoY: -5.3%
Recycling rate target [waste reduction]	●	●		99%	99%	99%	99%	99%
Actual recycling rate [waste reduction]	●	●		99.0%	99.4%	99.6%	99.4%	99.0%
Amount of non-recycled waste (t)	●	●		331	206	133	121	246
Amount of recycled waste (recycled amount: total) (t)	●	●		32,808	34,358	33,171	30,406	29,564
Emissions of hazardous waste (total volume) (t)	●	●		Although we do not keep track of the exact amount of PCB, other waste oil and polluted mud because their amount is low, we manage them properly in accordance with laws.				
<b>Green Purchasing</b>								
Green purchasing rate	●	●		87.2%	88.3%	90.0%	88.3%	86.0%
<b>Water</b>								
Input of water resources (m <sup>3</sup> )	●	●		348,371	337,765	333,803	340,129	318,916
<b>Social</b>								
<b>Employee Basic Data</b>								
Number of employees (excluding senior employees, part-time or temporary employees)	●			1,964	1,886	1,781	1,571	1,374
Male	●			1,680	1,602	1,498	1,309	1,126
Female	●			284	284	283	262	248
Total personnel <sup>*9</sup>	●	●	●	46,621	47,939	47,784	46,295	45,328
Senior employees, part-time or temporary employees	●	●	●	21,877	22,665	22,710	22,156	21,491
Domestic	●	●		29,170	29,513	29,669	29,440	28,950
Overseas			●	17,451	18,426	18,115	16,855	16,378
Average age (full-time employees) (years old)	●			40.3	40.5	41.1	41.7	42.3
Average service years (full-time employees) (years)	●			16.8	16.9	17.3	18.4	19.3
Number of employee turnover (full-time employee only, excluding those retired or transferred to group companies) (persons)	●			45	43	32	41	50
<b>Diversity</b>								
Ratio of female new graduates hired	●			Joined on April 1, 2016: 31.6%	Joined on April 1, 2017: 33.3%	Joined on April 1, 2018: 33.3%	Joined on April 1, 2019: 47.8%	Joined on April 1, 2020: 39.1%
Ratio of female new graduates hired	●	●		Joined on April 1, 2016: 31.1%	Joined on April 1, 2017: 38.1%	Joined on April 1, 2018: 35.2%	Joined on April 1, 2019: 37.9%	Joined on April 1, 2020: 36.4%
Numbers of female managers (persons)	●			15	19	19	26	34
Ratio of female managers	●			1.8%	2.7%	2.7%	3.7%	4.7%
Number of female assistant managers (persons)	●			46	48	56	66	61
Ratio of female assistant managers	●			7.3%	8.1%	9.7%	11.5%	11.1%
Number of foreign employees (persons)	●			34	31	38	48	42
Ratio of foreign employees	●			1.5%	2.0%	2.3%	2.4%	2.2%
Number of foreign managers (persons)	●			1	1	1	3	3
Ratio of persons with disabilities hired (as of June each year)	●	●		2.15%	2.30%	2.35%	2.46%	2.57%
Ratio of re-employment of the elderly (only those who requested)	●			100%	100%	100%	100%	100%



Our History	Our Future	Foundation Supporting Value Creation			Achievements of Value Creation			Financial/Non-Financial Information	
		Category/Item	Scope			FY2015	FY2016	FY2017	FY2018
		HTS	Domestic group	Overseas group					
<b>Social</b>									
<b>Job Creation</b>									
Number of new graduates hired/members of the Track and Field Club (persons)		●			Joined on April 1, 2016 41/3	Joined on April 1, 2017 29/2	Joined on April 1, 2018 34/4	Joined on April 1, 2019 24/1	Joined on April 1, 2020 26/3
Number of female new graduates hired (persons)		●			12	9	10	11	9
Number of new graduates hired who remained for three years (excluding those in the Track and Field Club) (persons)		●			Joined in April 2013: 52 Remained as of April 1, 2016: 42	Joined in April 2014: 56 Remained as of April 1, 2017: 51	Joined in April 2015: 51 Remained as of April 1, 2018: 47	Joined in April 2016: 38 Remained as of April 1, 2019: 35	Joined in April 2017: 27 Remained as of April 1, 2020: 25
Retention rate of new graduates hired after three years		●			80.8%	91.1%	92.2%	92.1%	92.6%
Number of experienced workers hired (persons)		●			15	10	19	20	23
Number of female experienced workers hired (persons)		●			8	5	9	9	5
<b>Work-life Balance</b>									
Number of those who took maternity leave (persons)		●			6	4	12	11	11
Number of those who took childcare leave (persons)		●			9	9	16	14	15
Number of male employees (persons)		●			1	4	3	4	4
Ratio of those who returned to work after childcare leave		●			100%	100%	94.4%	100%	100%
Number of those who took nursing care leave (persons)		●			2	1	0	2	2
Number of paid leave taken (days)		●			16.7	17.4	17.4	18.5	18.5
Rate of paid leave taken		●			69.6%	72.5%	72.5%	78.0%	77.3%
Overtime hours (average of full-time employees excluding managers) (hours/month)		●			33.4	32.8	32.2	30.2	28.6
<b>Occupational Health and Safety</b>									
Frequency rate of workplace accidents		●			0.0	0.0	0.0	0.0	0.0
Severity rate of workplace accidents		●			0.0	0.0	0.0	0.0	0.0
Number of traffic accidents defined in Article 2 of the Transportation Safety Management Regulation (incidents)		●	● <sup>*10</sup>		—	1	1	0	0
<b>Social Contribution</b>									
Total expenditure for social contribution (millions of yen) <sup>*11</sup>		●			11.0	12.0	9.0	18.0	29.0
<b>Open Innovation</b>									
Number of visitors to the Company's facilities (persons) <sup>*12</sup>		●			—	150	1,336	573	709
<b>Governance</b>									
<b>Corporate Governance</b>									
Number of directors/female (persons)		●			7/1	8/1	8/2	8/2	8/2
Outside Director		●			6/0	6/1	6/2	6/2	6/2
Independent Officer		●			3/0	4/1	4/2	4/2	4/2
Number of executive officers/female (persons)		●			18/0	18/0	16/0	15/0	18/0
<b>Compliance</b>									
Number of compliance training conducted <sup>*13</sup>		●	●		31(1)	39(1)	25(3)	24(9)	30(2)
Number of compliance meeting held		●	●	●	3	4	4	8	6
Number of whistle-blowing reports/consultations (cases)		●	●	●	17	19	17	42	44
<b>Risk Management</b>									
Areas which conducted BCP simulation trainings and number of attendees (persons)		●	●		Tokyo area 64	Total of Tokyo, Kansai, Chugoku, and Kyushu areas 55 <sup>*4</sup>	Kyushu area 22 Saitama area 20	Kansai area 31	Kanto area 17 <sup>*15</sup>
Overseas sites which conducted BCP Caravan and number of attendees (persons) <sup>*16</sup>				●	—	—	China area 6 Thailand area 8	Indonesia area 23 <sup>*17</sup>	— <sup>*18</sup>
<b>Information Security</b>									
Number of attendees of information security training course (persons)		●	●	●	36,790	35,581	36,508	37,497	30,426
Rate of targeted threat emails for simulation trainings opened		●	●		4.2%	4.3%	8.0%	0.7%	5.0%
Number of sites which obtained third-party certifications for information security		●	●		ISO27001: 38 departments Privacy mark: 5 group companies	ISO27001: 34 departments Privacy mark: 13 group companies	ISMS: 35 departments Privacy mark: 13 group companies	ISMS: 36 departments Privacy mark: 13 group companies	ISMS: 36 departments Privacy mark: 12 group companies
Number of sites which conducted information security audit		●	●		780	798	767	782	606
<b>Intellectual Properties</b>									
Number of patent applications		●	●	●	7	19	15	17	46
Number of patents held		●	●	●	40	28	27	31	49

\*1 Large, Medium, and Small size (fuel efficiency km/ℓ) \*2 CO<sub>2</sub> emission reduction target was changed from "Reduction of CO<sub>2</sub> emission intensity"(until FY2017) to "Improvement of fuel efficiency" (from FY2018 and FY2019). \*3 Specific case \*4 Please refer to page 20 of Annual Report 2016 for details. \*5 Please refer to page 26 of Annual Report 2017 for details. \*6 Please refer to page 28 of Annual Report 2018 for details. \*7 Please refer to page 64 for details. \*8 Comparison with transport by former container \*9 Excluding employees of associates accounted for by the equity method \*10 Covers 8 group companies (excluding VANTEC Group): Hitachi Transport System East Japan Co., Ltd., Hitachi Transport System Kanto Co., Ltd., Hitachi Transport System Metropolitan Co., Ltd., Hitachi Transport System South Kanto Co., Ltd., Hitachi Transport System Central Japan Co., Ltd., Hitachi Transport System West Japan Co., Ltd., Hitachi Transport System Kyushu Co., Ltd., and Hitachi Transport Direx Co., Ltd. \*11 Includes donation and matching gifts \*12 Number of visitors to R&D Center (opened in March 2016) until FY2018 (FY2016: from July 2016 to March 2017) and number of visitors to Kasukabe EC Platform Center (started operation in September 2019) from FY2019 \*13 Includes e-learning for all employees of domestic group companies: number shown in ( ) \*14 Includes attendees via video conference system \*15 Trainings in Hokuriku area and at Hitachi Collabonext Transport System Co., Ltd., originally scheduled in March 2020 were postponed to FY2020 or later due to the spread of COVID-19. \*16 Started from FY2017 \*17 Includes attendees via video conference system \*18 Postponed to FY2020 or later due to the spread of COVID-19

# Consolidated Statement of Financial Position

Hitachi Transport System, Ltd. and subsidiaries

(Millions of yen)

<b>Assets</b>	<b>As of March 31, 2020</b>	<b>As of March 31, 2019</b>
<b>Current assets</b>		
Cash and cash equivalents .....	¥ 139,021	¥ 108,412
Trade receivables and contract assets .....	115,419	132,544
Inventories .....	1,066	1,145
Other financial assets .....	5,102	4,597
Other current assets .....	6,801	11,965
Total current assets .....	267,409	258,663
<b>Non-current assets</b>		
Investments accounted for using the equity method .....	89,271	84,009
Property, plant and equipment .....	148,232	182,400
Right-of-use assets .....	288,441	–
Goodwill .....	24,112	26,212
Intangible assets .....	24,397	28,556
Deferred tax assets .....	10,123	8,083
Other financial assets .....	21,274	18,241
Other non-current assets .....	5,885	6,371
Total non-current assets .....	611,735	353,872
<b>Total assets</b>	<b>¥ 879,144</b>	<b>¥ 612,535</b>

(Millions of yen)

	As of March 31, 2020	As of March 31, 2019
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables .....	¥ 45,410	¥ 54,253
Short-term debt .....	3,546	5,850
Current portion of long-term debt .....	10,416	5,662
Lease liabilities .....	33,209	–
Income tax payable .....	8,232	3,362
Other financial liabilities .....	37,886	24,886
Other current liabilities .....	29,062	28,481
Total current liabilities .....	167,761	122,494
<b>Non-current liabilities</b>		
Long-term debt .....	150,502	191,198
Lease liabilities .....	261,031	–
Retirement and severance benefits .....	34,825	32,083
Deferred tax liabilities .....	10,123	10,712
Other financial liabilities .....	12,299	22,958
Other non-current liabilities .....	3,346	4,141
Total non-current liabilities .....	472,126	261,092
<b>Total liabilities</b>	<b>639,887</b>	<b>383,586</b>
<b>Equity</b>		
<b>Equity attributable to stockholders of the parent company</b>		
Common stock .....	16,803	16,803
Retained earnings .....	220,829	206,245
Accumulated other comprehensive income .....	(4,587)	(520)
Treasury stock, at cost .....	(184)	(182)
Total equity attributable to stockholders of the parent company .....	232,861	222,346
<b>Non-controlling interests</b>	<b>6,396</b>	<b>6,603</b>
<b>Total equity</b>	<b>239,257</b>	<b>228,949</b>
<b>Total liabilities and equity</b>	<b>¥ 879,144</b>	<b>¥ 612,535</b>

## Consolidated Statement of Profit or Loss

Hitachi Transport System, Ltd. and subsidiaries

(Millions of yen)

	2020	2019
<b>Revenues</b> .....	¥ 672,286	¥ 708,831
<b>Cost of sales</b> .....	(588,078)	(626,458)
Gross profit .....	84,208	82,373
<b>Selling, general and administrative expenses</b> .....	(50,725)	(51,181)
Adjusted operating income .....	33,483	31,192
<b>Other income</b> .....	10,579	3,850
<b>Other expenses</b> .....	(9,706)	(4,689)
Operating income .....	34,356	30,353
<b>Financial income</b> .....	88	450
<b>Financial expenses</b> .....	(1,701)	(1,042)
<b>Share of profits of investments accounted for using the equity method</b> .....	6,864	6,419
EBIT (Earnings before interest and taxes) .....	39,607	36,180
<b>Interest income</b> .....	1,186	1,075
<b>Interest expenses</b> .....	(6,964)	(2,009)
Income before income taxes .....	33,829	35,246
<b>Income taxes</b> .....	(11,344)	(11,233)
Net income .....	¥ 22,485	¥ 24,013
<b>Net income attributable to:</b>		
Stockholders of the parent company .....	21,614	22,786
Non-controlling interests .....	871	1,227

(yen)

	2020	2019
<b>Earnings per share attributable to stockholders of the parent company</b>		
Basic .....	¥ 193.76	¥ 204.27
Diluted .....	-	-

## Consolidated Statement of Comprehensive Income

Hitachi Transport System, Ltd. and subsidiaries

(Millions of yen)

	2020	2019
Net income .....	22,485	24,013
Other comprehensive income (OCI)		
Items not to be reclassified into net income		
Net changes in financial assets measured at fair value through OCI .....	(49)	(300)
Remeasurements of defined benefit plans .....	284	(191)
Share of OCI of investments accounted for using the equity method .....	(93)	(14)
Total items not to be reclassified into net income .....	142	(505)
Items that can be reclassified into net income		
Foreign currency translation adjustments .....	(4,344)	(1,121)
Net changes in cash flow hedges .....	4	(2)
Share of OCI of investments accounted for using the equity method .....	(21)	(108)
Total items that can be reclassified into net income .....	(4,361)	(1,231)
Other comprehensive income (OCI) .....	(4,219)	(1,736)
Comprehensive income .....	18,266	22,277
Comprehensive income attributable to:		
Stockholders of the parent company .....	17,878	21,178
Non-controlling interests .....	388	1,099

# Consolidated Statement of Cash Flows

Hitachi Transport System, Ltd. and subsidiaries

(Millions of yen)

	2020	2019
<b>Cash flows from operating activities:</b>		
Net income .....	¥ 22,485	¥ 24,013
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization .....	52,815	19,059
Impairment losses .....	4,169	2,045
Share of profits of investments accounted for using the equity method .....	(6,864)	(6,419)
Gain on business reorganization .....	(1,244)	(3,134)
Income taxes .....	11,344	11,233
Increase (decrease) in retirement and severance benefits .....	2,741	225
Interest and dividends income .....	(1,267)	(1,482)
Interest expenses .....	6,964	2,009
(Gains) losses on sale of property, plant and equipment .....	(8,371)	(44)
(Increase) decrease in trade receivables and contract assets .....	16,692	449
(Increase) decrease in inventories .....	60	389
Increase (decrease) in trade payables .....	(8,303)	816
Increase (decrease) in other assets and other liabilities .....	(3,256)	(1,286)
Other .....	1,145	17
Subtotal .....	89,110	47,890
Interest and dividends received .....	3,896	3,937
Interest paid .....	(6,880)	(1,912)
Income taxes paid .....	(7,922)	(12,103)
Net cash provided by operating activities .....	78,204	37,812
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment and intangible assets .....	(12,709)	(14,948)
Proceeds from sale of property, plant and equipment and intangible assets .....	13,105	1,491
Collection of short-term loan receivable .....	–	3,900
Purchase of subsidiaries' shares .....	(666)	–
Decrease due to a loss of control of subsidiaries .....	(384)	(4,466)
Other .....	(508)	131
Net cash used in investing activities .....	(1,162)	(13,892)
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term debt, net .....	(2,075)	(4,775)
Proceeds from long-term debt .....	–	49,749
Repayments of long-term debt .....	(739)	(11,490)
Repayments of lease liabilities .....	(37,103)	(4,964)
Proceeds from sale of shares of consolidated subsidiaries to non-controlling interests .....	–	2,528
Purchase of shares of consolidated subsidiaries from non-controlling interests .....	(199)	(4,963)
Dividends paid to stockholders of the parent company .....	(4,686)	(4,127)
Dividends paid to non-controlling interests .....	(180)	(151)
Other .....	(725)	(703)
Net cash provided by (used in) financing activities .....	(45,707)	21,104
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>(726)</b>	<b>(109)</b>
<b>Net increase in cash and cash equivalents .....</b>	<b>30,609</b>	<b>44,915</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>108,412</b>	<b>63,497</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥ 139,021</b>	<b>¥ 108,412</b>

(As of March 31, 2020)

## Corporate Data

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

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

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

**Paid-in capital:** ¥16,802 million

### Main businesses:

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

## Stock Information

### Stock Exchange

First Section of Tokyo  
Securities Code: TSE-9086

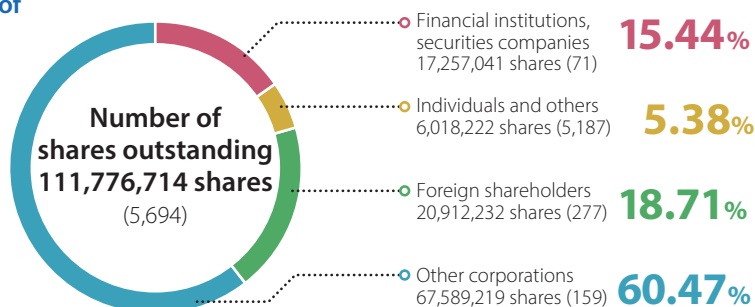
### Number of shares outstanding

111,776,714 shares

### Number of shares per unit

100 shares

### Composition of shareholders



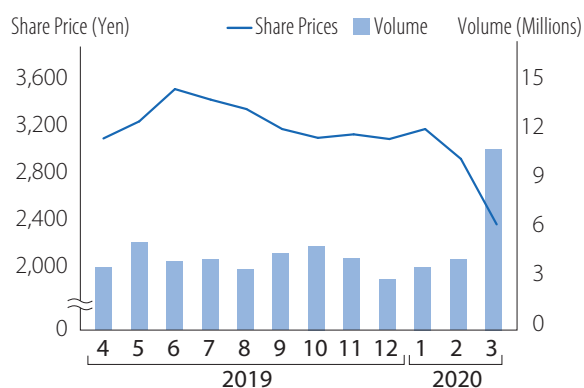
\*Numbers inside parentheses are number of shareholders.

### Major shareholders (top 10)

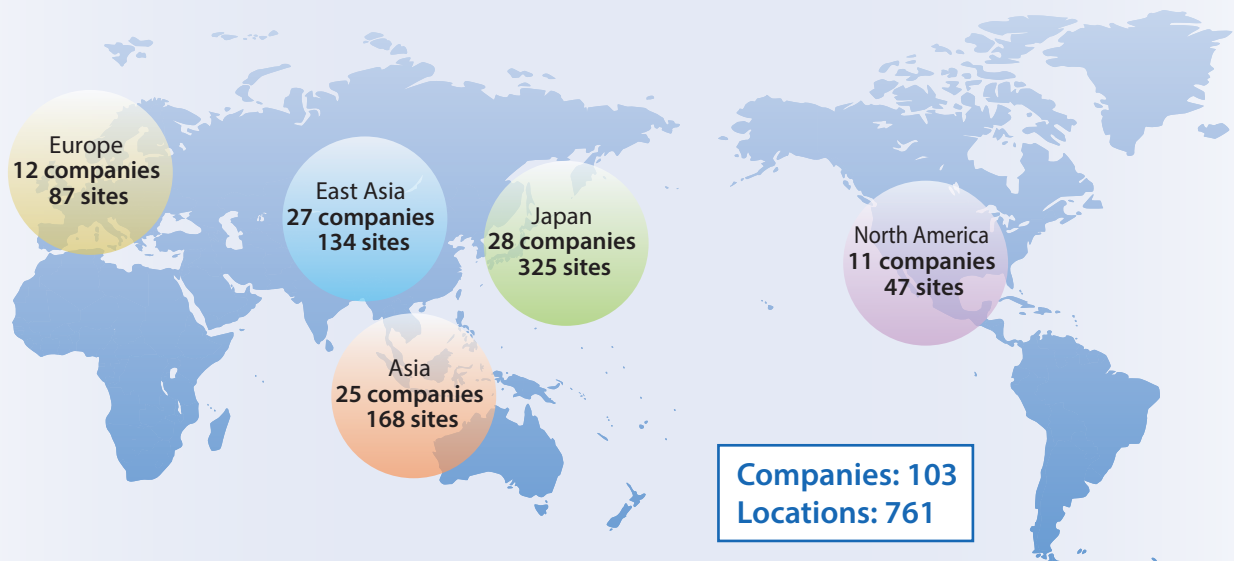
Name of shareholder	Number of shares held (thousands)	Percentage of shares held
Hitachi, Ltd.	33,471	30.01 %
SG Holdings Co., Ltd.	32,349	29.00
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,582	3.21
Japan Trustee Services Bank, Ltd. (Trust Account)	3,043	2.73
National Mutual Insurance Federation of Agricultural Cooperatives	2,733	2.45
State Street Bank and Trust Company 510312	2,364	2.12
State Street Bank and Trust Company 510311	2,015	1.81
MSIP CLIENT SECURITIES	1,536	1.38
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,384	1.24
Hitachi Transport System, Ltd. Employees' Shareholding Association	1,310	1.17

Note: The percentage of shares held is calculated based on the number of shares excluding treasury stock (227,790 shares).

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



## Network Extending to 29 Countries and Regions



\*Number of companies includes associates accounted for using the equity method.

\*Number of sites excludes SAGAWA EXPRESS Group, AIT Group, and HTB-BCD Travel Group

## External Rating and Evaluation

### Rating information

Rating agency

**Rating and Investment Information, Inc. (R&I)**

Rating

**Issuer rating: A Rating outlook: Stable**

### ESG evaluations

**2020 CONSTITUENT MSCI JAPAN  
ESG SELECT LEADERS INDEX**

**2020 CONSTITUENT MSCI JAPAN  
EMPOWERING WOMEN INDEX (WIN)**



### IR website evaluations



Corporate Websites "AAA Website" (2019)  
Nikko Investor Relations  
Ranking in all listed companies in Japan



IR Site Overall Ranking "Silver Award" (2019)  
Gomez



Internet IR "Excellence Award" (2019)  
Daiwa Investor Relations

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

FY2019 Edition (issued in September 2020)

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