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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 31 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.

Hitachi Transport System 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.

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
  - Customer Centricity, Teamwork, and Can Do Spirit
- 3 Disciplines
  - Attention to Detail, Uncovering Problems, and Strong Sense of Speed
- 3 Attributes

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.
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**

- **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**: Safety, Quality, and Productivity
- **3 Key Goal Indicators**: 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.

**The HTS Group’s tools for information disclosure**

- Financial information
  - Annual Securities Reports (Japanese version only)
  - Business Report (Japanese version only)
  - Corporate Governance Report (Japanese version only)
  - CSR/ESG
  - Presentation Material of Financial Results

- Non-financial information
  - Integrated Report
  - Corporate Governance Report (Japanese version only)
  - Company Profile
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.

Revenues

Segment: Global logistics

100 million yen

4,353
2,558
2,558

* Effective April 1, 2019, the Group adopted IFRS 16 “Leases.”

Our History

Hitachi Transport System, Ltd. Integrated Report 2020

Domestic logistics business (FY2019)

Global logistics business (FY2019)

Resources — Bases for Value Creation —

Number of Companies*1/Locations*2

103 companies 761 sites

<Domestic: 28 companies 125 sites/Overseas: 75 companies 436 sites>

Located in Logistics Center*2

7,411 Mm²

<Domestic: 1,091 Mm²/Overseas: 2,320 Mm²>

Number of Vehicles (Including Leased Vehicles)

Total: 16,792

Truck*4: 3,923
Trailer: 5,452
Forklift: 5,841
Other*5: 1,576

Number of Employees

45,328

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

Human Resources

FY2019 Business Overview by Segment

Domestic logistics business (FY2019)

Revenues

$4,353 million (Y o Y) +1%

Segment profit

$2,558 million (Y o Y) +18%

Revenues of domestic logistics business increased by 1% year-on-year to ¥4,353,111 million due to contribution of new projects despite a decrease in handling volume in automobile-related business.

Segment profit increased by 18% year-on-year to ¥2,558,000 million due to an increase in revenues and improved productivity, and the adoption of IFRS 16 “Leases.”

Global logistics business (FY2019)

Revenues

$2,558 million (Y o Y) -14%

Segment profit

$2,198 million (Y o Y) -9%

Revenues of global logistics business decreased by 14% year-on-year to ¥2,558,000 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 decreased by 9% year-on-year to ¥2,198,000 million due to a decrease in revenues, incorporation of risks in Freight Forwarding business, and the impact of the COVID-19

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

As a domestic 3PL (third party logistics)*1 market leader*2, 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 customer supply chains from material procurement and production to sales, distribution, and after-sales service.

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**/Locations***

Locations
103 companies 761 sites
<Domestic: 28 companies 125 sites/Overseas: 75 companies 436 sites>

Human Resources
45,328
<Domestic: 28,950 employees/Overseas: 16,378 employees>

Area of Logistics Centers*2

Warehouses
7.41 Mm²
<Domestic: 1.59 Mm²/Overseas: 2.32 Mm²>

Number of Vehicles (Including Leased Vehicles)

Vehicles
Total*: 16,792
Truck*: 3,923
Trailer: 5,452
Forklift: 5,841
Other*: 1,576

FY2019 Business Overview by Segment

Domestic logistics business (FY2019)

Revenues
(Y o Y) +1%
4,178
4,328
4,353
4,353
2019
2018
2017

Segment profit
(Y o Y) +18%
217
221
211

Global logistics business (FY2019)

Revenues
(Y o Y) -14%
3,000
3,506
3,203

Segment profit
(Y o Y) -9%
63
71
65

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

*1 A service that comprehensively undertakes logistics operation at various stages of customer 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

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

Our History

Foundation Supporting Value Creation

Achievements of Value Creation

Financial/Non-Financial Information

4
History of the HTS Group

Revenues

(100 million yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic logistics business</th>
<th>Global logistics business</th>
<th>Ratio of global logistics business (%)</th>
<th>3PL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
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<tr>
<td>1980</td>
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<td>2019</td>
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</table>

Listed on TSE Second Section in Jan. 1989
Moved to TSE First Section in Sep. 1990

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.

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.

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.

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.

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.

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.
### History of the HTS Group

**Revenues**

(100 million yen)

- **Domestic logistics business**
- **Global logistics business**
- **Ratio of global logistics business (%)**
- **3PL**

**Listed on TSE Second Section in Jan. 1989**

**Moved to TSE First Section in Sep. 1990**

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<td>Revenues</td>
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<td>21</td>
<td>22</td>
<td>933</td>
<td>25</td>
<td>6,723</td>
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<tr>
<td>3PL</td>
<td>19</td>
<td>64</td>
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<td>353</td>
<td>576</td>
<td>686</td>
<td>933</td>
<td>25</td>
<td>3PL</td>
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<tr>
<td>3PL</td>
<td>¥455.6 billion</td>
<td>¥161.6 billion</td>
<td>¥0.4 billion</td>
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</tbody>
</table>

**Our History**

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 5G 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.

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.

---

**Input**
- **Financial capital**
  - Stable financial base
  - Surplus funds to enable flexible investments
  - Credit rating: A
  - Cash and cash equivalents: ¥139 billion

**Manufactured capital**
- Global business sites
- Transport vehicles
- Digital business platform underpinning LOGISTEED

**Locations**
- Domestic 325 sites
- Overseas 436 sites in 28 countries and regions

**Area of logistics center**
- No. of systems in operation: 513
- Area of logistics center: 74.11 Mm²

**Intellectual capital**
- Patent (warehouse design/management system, etc.)
- No. of systems in operation: 650 billion

**Human/organizational capital**
- Number of patients held: 49
- Number of attendees of data scientist training course (accumulated): 58

**Social and relationship capital**
- Domestic share of 3P business: 14.9%

**Natural capital**
- Total energy consumption (domestic): 62,174 MWh

**Outcome**
- **Economic value**
  - Business development of customers through provision of global supply chain solutions

**Social value**
- Improvement of security, safety, and convenience of life

**Environmental value**
- Realization of low-carbon society through effective energy usages

**SDGs**
- (Sustainable Development Goals) on which we focus for sustainable growth

---

**Business model**

**Logistics services with less environmental load**
- Including modal shift, use of eco cars, introduction of double-trailer trucks and sharing of facilities and equipment

---

**Output**

- **3PL business**
  - We provide optimal logistics services for each stage of supply chain from procurement and production to sales, distribution, after-sales service, and recycling. As for the automobile parts logistics, we provide logistics-related services to the automobile industry by making full use of high level of know-how that accommodates specific needs.

---

**Value Creation**

**Economic value**
- Business development of customers through provision of global supply chain solutions

**Social value**
- Improvement of security, safety, and convenience of life

**Environmental value**
- Realization of low-carbon society through effective energy usages

**SDGs**
- (Sustainable Development Goals) on which we focus for sustainable growth

---

**External environment**
- Decrease in labor population/consumers in Japan
- Increases in climate change risk and large-scale natural disasters
- Risk of protectionism and escalation of trade friction
- Increase in geopolitical risk
- Occurrence of big disasters and global pandemic
- Advancement of digital technology
- Expansion of EC market
- Changes in environment surrounding the logistics business
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.

We will contribute to SDGs through sustainable increase of corporate value.

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.

**Value Creation Process of the HTS Group**

**Business model**

**Structure to support value creation**

**Toward New Dimensions**

**LOGISTEED**

**Strengths**

- **Ability to accomplish operation**
- **Advanced logistics engineering capability**
- **Global network**
- **Design**

**Operation**

- Flexible and reliable operation

**Analytic**

- Task analysis of the customers’ supply chain

**CPU**

- Analysis

**Business partners**

- Stakeholders
- Customers
- Employees
- Shareholders/Investors
- Local community
- Local administration

**External environment**

- Decrease in labor population/consumers in Japan
- Increase in climate change risk and large-scale natural disasters
- Rise of protectionism and escalation of trade friction
- Increase in geopolitical risk
- Occurrence of big disasters and global pandemic
- Advancement of digital technology
- Changes in environment surrounding the logistics business

**Input**

- Financial capital
  - Stable financial base
  - Surplus funds to enable flexible investments
  - Credit rating (R&A)
  - ¥139 billion

- Manufactured capital
  - Global business sites
  - Transport vehicles
  - Digital platform underpinning LOGISTEED

- Intellectual capital
  - Patent (warehouse design/management system, etc.)
  - Know-how (SCM optimization, safety, advanced logistics technology)

- Human/organizational capital
  - Number of patients held
  - Number of personnel in operation
  - ¥650 billion

- Social and relationship capital
  - Domestic share of 3PL business
  - Domestic 325 sites

- Natural capital
  - Total energy consumption (domestic) (crude oil equivalent)
  - Reduced CO2 emissions (domestic) (Scope 1&2)

**Output**

- Economic value
  - 3PL business
  - Improved logistics services for each stage of supply chain from material procurement and production to sales, distribution, after-sales service and recycling

- Social value
  - Heavy Machinery and Plant Logistics business
  - We provide sequential services including transportation, installation, setting up and import/export procedures for heavy machinery and precision instruments with our sophisticated engineering capability and know-how accumulated since our establishment

- Environmental value
  - Freight Forwarding business
  - We provide complex international transportation and ancillary services by using multiple modes of transportation such as air, sea, truck, and rail

**Outcome**

- Stakeholders
- Customers
- Employees
- Shareholders/Investors
- Local community
- Local administration

**Value Creation Process of the HTS Group**

- **Policy and strategy**
  - Decision on what we should be as the source of all values

- **Structure to support value creation**
  - Framework that supports how the Group should be and a path to take as the source of all values

- **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.

- **Sustainability management**
  - We support people’s lives and assume a role as a social infrastructure provider by providing comprehensive logistics services with high level of safety, quality, and productivity.

- **Business partners**
  - We are promoting 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.

- **External environment**
  - Changes in environment surrounding the logistics business

- **Input**
  - Financial capital
    - Stable financial base
    - Surplus funds to enable flexible investments
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    - ¥139 billion
  - Manufactured capital
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    - Domestic 325 sites
  - Natural capital
    - Total energy consumption (domestic) (crude oil equivalent)
    - Reduced CO2 emissions (domestic) (Scope 1&2)

- **Output**
  - Economic value
    - 3PL business
    - Improved logistics services for each stage of supply chain from material procurement and production to sales, distribution, after-sales service and recycling
  - Social value
    - Heavy Machinery and Plant Logistics business
    - We provide sequential services including transportation, installation, setting up and import/export procedures for heavy machinery and precision instruments with our sophisticated engineering capability and know-how accumulated since our establishment
  - Environmental value
    - Freight Forwarding business
    - We provide complex international transportation and ancillary services by using multiple modes of transportation such as air, sea, truck, and rail

- **Outcome**
  - Stakeholders
    - Customers
    - Employees
    - Shareholders/Investors
    - Local community
    - Local administration

**Value Creation Process of the HTS Group**

- **Structure to support value creation**
  - Framework that supports how the Group should be and a path to take as the source of all values

- **Value Creation Process of the HTS Group**
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- **External environment**
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- **Input**
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    - Number of personnel in operation
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    - Domestic share of 3PL business
    - Domestic 325 sites
  - Natural capital
    - Total energy consumption (domestic) (crude oil equivalent)
    - Reduced CO2 emissions (domestic) (Scope 1&2)

- **Output**
  - Economic value
    - 3PL business
    - Improved logistics services for each stage of supply chain from material procurement and production to sales, distribution, after-sales service and recycling
  - Social value
    - Heavy Machinery and Plant Logistics business
    - We provide sequential services including transportation, installation, setting up and import/export procedures for heavy machinery and precision instruments with our sophisticated engineering capability and know-how accumulated since our establishment
  - Environmental value
    - Freight Forwarding business
    - We provide complex international transportation and ancillary services by using multiple modes of transportation such as air, sea, truck, and rail

- **Outcome**
  - Stakeholders
    - Customers
    - Employees
    - Shareholders/Investors
    - Local community
    - Local administration

Hitachi Transport System, Ltd. Integrated Report 2020
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

- 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

2 Advanced Logistics Engineering Capability

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
  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
- No. of AGV installed within the Group: Approx. 230
  Installed in all vehicles of the domestic group companies

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

Business sites supporting global supply chain

- Locations: 761 sites in 29 countries and regions
- Logistics centers: Total 7.41 Mm²

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.
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

- 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
- Domestic share of 3PL business: Approx. 15%
- Heavy Machinery and Plant Logistics business
  Rail-related equipment transport
  Precision instruments transport
  Nuclear research equipment transport
- 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 VCE21 and collaborative innovation.

2 Advanced Logistics Engineering Capability

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
  Including cumulative 58 attendees of data scientist* training course

Introducing advanced technologies using our logistics engineering capability

- Introduction of automated facilities including AGV* and automated forklift

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

Business sites supporting global supply chain

- Locations
  761 sites in 29 countries and regions
- Logistics centers
  Total 7.41 Mm²

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.

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

Data scientist: human resources to discover and solve customer’s supply chain issues based on data

AGV: Automated Guided Vehicle
Our History

Hitachi Transport System, Ltd. Integrated Report 2020

Key Management Indicators

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 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.

CO₂ emissions and its intensity per revenues both decreased due to the strengthening of environmental management and promotion of Green Logistics*1.

Scope: HTS, domestic group companies (total of Scope 1 and 2)

We have continued to increase dividends every year since FY2010. We seek profit distribution linked to result of implementing various safety initiatives.

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

We have continued 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.

We have appointed many outside directors to further enhance the management supervision function and 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 promoted 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 promoted by government).

*3 Number of compliance meetings and whistle-blowing reports/consultations is the total for the entire HTS Group including overseas group companies. *4 Female directors are all independent officers.

*5 Female directors are all independent officers.

Revenues (10 million yen)/Intensity per revenues (tons-CO₂/100 million yen)

Adjusted operating income (10 million yen)/Adjusted operating margin (%)

Total equity (10 million yen)/ROE (%)

Cash dividends per share (Yen)

Capital expenditures (left axis)

Number of compliance meetings and whistle-blowing reports/consultations (right axis)

EBIT (10 million yen)/EBIT margin (%)

Capital expenditures/Purchased assets (10 million yen)

Number of whistle-blowing reports and consultations (cases) (

Ratio of female directors (%) Ratio of female assistant managers (%) Ratio of female managers (%) Ratio of female managers (%)

Directors and outside directors (persons)/Ratio of female directors (%) (%)

 Scope: HTS

 Number of compliance trainings and e-learning programs are provided to all employees of HTS and its domestics group companies.

 Due to the adoption of IFRS 16, Purchased assets remained at around ¥20 billion to ¥30 billion but increased in FY2019 due to the adoption of IFRS 16 Leases. Purchased assets*1 has remained at around ¥13 billion to ¥20 billion.

 We have started collecting data of the domestic group since FY2018.

 We have continued to increase dividends every year since FY2010. We seek profit distribution linked to result of implementing various safety initiatives.

 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%.

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 Our History

Hitachi Transport System, Ltd. Integrated Report 2020

Hitachi Transport System, Ltd. Integrated Report 2020

Our History

Our Future

Foundation Supporting Value Creation

Achievements of Value Creation

Financial/Non-Financial Information

Financial Highlights

Non-Financial Highlights

Eco-friendly vehicle ownership ratio (%) *2

Workplace accident index: Frequency rate/Severity rate *3

Ratio of female managers (%) Ratio of female assistant managers (%)

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

*5 Female directors are all independent officers.
Key Management Indicators

Financial Highlights

<table>
<thead>
<tr>
<th>Revenues (100 million yen)</th>
<th>Adjusted operating income (100 million yen)/Adjusted operating margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>6,894 6,654 7,004 7,288 6,723</td>
</tr>
<tr>
<td>2016</td>
<td>28.2</td>
</tr>
<tr>
<td>2017</td>
<td>11.1</td>
</tr>
<tr>
<td>2018</td>
<td>0.92</td>
</tr>
<tr>
<td>2019</td>
<td>31.3</td>
</tr>
<tr>
<td>2020</td>
<td>14.3</td>
</tr>
<tr>
<td>2021</td>
<td>26.5</td>
</tr>
</tbody>
</table>

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

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.

Capital expenditures including lease*1 remained at around ¥13 billion to ¥20 billion.

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

<table>
<thead>
<tr>
<th>EBIT (100 million yen)</th>
<th>EBIT margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>278 316 331 362 296</td>
</tr>
<tr>
<td>2016</td>
<td>4.0 5.5 4.8 4.0 5.5</td>
</tr>
<tr>
<td>2017</td>
<td>4.1 5.0 4.0 4.1 5.0</td>
</tr>
<tr>
<td>2018</td>
<td>4.2 5.1 4.2 4.2 5.1</td>
</tr>
<tr>
<td>2019</td>
<td>4.3 5.5 4.3 4.3 5.5</td>
</tr>
<tr>
<td>2020</td>
<td>4.4 6.5 4.4 4.4 6.5</td>
</tr>
</tbody>
</table>

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.

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

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

<table>
<thead>
<tr>
<th>Total equity (100 million yen)</th>
<th>ROE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.0 1.9 2.3 2.3 2.9</td>
</tr>
<tr>
<td>2016</td>
<td>6.8 10.3 10.7 10.7 11.0</td>
</tr>
<tr>
<td>2017</td>
<td>7.0 11.0 11.0 11.0 11.0</td>
</tr>
<tr>
<td>2018</td>
<td>7.2 11.3 11.3 11.3 11.3</td>
</tr>
<tr>
<td>2019</td>
<td>7.4 11.5 11.5 11.5 11.5</td>
</tr>
<tr>
<td>2020</td>
<td>7.6 11.7 11.7 11.7 11.7</td>
</tr>
</tbody>
</table>

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.

Capital expenditures/Purchased assets (100 million yen)

<table>
<thead>
<tr>
<th>Capital expenditures</th>
<th>Purchased assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>318</td>
</tr>
<tr>
<td>2016</td>
<td>273</td>
</tr>
<tr>
<td>2017</td>
<td>278</td>
</tr>
<tr>
<td>2018</td>
<td>278</td>
</tr>
<tr>
<td>2019</td>
<td>278</td>
</tr>
<tr>
<td>2020</td>
<td>278</td>
</tr>
</tbody>
</table>

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%.

CO₂ emissions (thousand tons)/Intensity per revenues (tons CO₂/10 million yen)

<table>
<thead>
<tr>
<th>CO₂ emissions (left axis)</th>
<th>Intensity per revenues (right axis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>120</td>
</tr>
<tr>
<td>2016</td>
<td>117</td>
</tr>
<tr>
<td>2017</td>
<td>122</td>
</tr>
<tr>
<td>2018</td>
<td>127</td>
</tr>
<tr>
<td>2019</td>
<td>132</td>
</tr>
</tbody>
</table>

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%.

Workplace accident index: Frequency rate/Severity rate*4

<table>
<thead>
<tr>
<th>Frequency rate (left axis)</th>
<th>Severity rate (right axis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.00</td>
</tr>
<tr>
<td>2016</td>
<td>0.95</td>
</tr>
<tr>
<td>2017</td>
<td>0.92</td>
</tr>
<tr>
<td>2018</td>
<td>0.90</td>
</tr>
<tr>
<td>2019</td>
<td>0.85</td>
</tr>
</tbody>
</table>

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.

Ratio of female managers (%)

<table>
<thead>
<tr>
<th>Ratio of female managers (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
</tr>
<tr>
<td>2016</td>
</tr>
<tr>
<td>2017</td>
</tr>
<tr>
<td>2018</td>
</tr>
<tr>
<td>2019</td>
</tr>
</tbody>
</table>

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.

Ratio of female assistant managers (%)

<table>
<thead>
<tr>
<th>Ratio of female assistant managers (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
</tr>
<tr>
<td>2016</td>
</tr>
<tr>
<td>2017</td>
</tr>
</tbody>
</table>

We have maintained high scores for the number of female directors and assistant managers in the Board of Directors.

*1 Leases are classified as financial instruments in accordance with IFRS 16. Purchased assets*2 are classified as non-current assets.

*2 Eco-friendly vehicles are as follows: hybrid, natural gas, and electric as well as highly fuel-efficient vehicles certified by the government (vehicles promoting as part of the Group’s business concept, Smart Logistics).

*3 Based on tangible and intangible assets accepted. *4 Based on non-current assets recorded

We have continued 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.

We have started collecting data of the domestic group since FY2018. 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.

Number of compliance trainings and meetings conducted (times)/Number of whistle-blowing reports and consultations (cases)*5

<table>
<thead>
<tr>
<th>Compliance trainings</th>
<th>Consultations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>11</td>
</tr>
<tr>
<td>2016</td>
<td>13</td>
</tr>
<tr>
<td>2017</td>
<td>15</td>
</tr>
<tr>
<td>2018</td>
<td>17</td>
</tr>
<tr>
<td>2019</td>
<td>19</td>
</tr>
<tr>
<td>2020</td>
<td>23</td>
</tr>
</tbody>
</table>

We started collecting data of the domestic group since FY2018.

Proficiency of e-learning

<table>
<thead>
<tr>
<th>Number of sessions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>3.0</td>
</tr>
<tr>
<td>2016</td>
<td>3.5</td>
</tr>
<tr>
<td>2017</td>
<td>4.0</td>
</tr>
<tr>
<td>2018</td>
<td>4.5</td>
</tr>
<tr>
<td>2019</td>
<td>5.0</td>
</tr>
<tr>
<td>2020</td>
<td>5.5</td>
</tr>
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We have continued 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.

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.
To Our Stakeholders
— Message from the President —

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.”

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 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...
To Our Stakeholders
— Message from the President —

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**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 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.

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*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.

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

*3 Smart & Safety Connected Vehicle
business for leading automobile manufacturers in

Its concept is to reduce initial cost of EC business

reducing CO2 emission. Also in our Shared Milkrun

logistics companies and cargo owners, in addition to

more partners and expand the ecosystem.

For example, “EC Platform Center” which started

recent years. For example, the intermodal business*

expansion by sharing “automated facilities,” “system,”

operators, including small-and medium-sized

Group will actively capitalize on these business

and overseas, with an aim to create shared value with

maintain the growth

innovation” are the keywords to

One of the keywords to sustain the growth under

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** 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 CO2 emission. Also in our Shared Milkrun business*** 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 5G 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.”

*5 Milkrun: Transportation method whereby one truck visits bases of

bordering industry domains.

beyond the logistics domain with “LOGISTEED” and

investments. I am confident that the Group will go

beyond boundaries of nationalities and industries.

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.

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.

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** 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.

*5 As of March 31, 2020

**6 As of March 31, 2020
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 and contribute to their business and overseas, with an aim to create 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.

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.”

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

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Our Strength

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*5 Milkrun: Transportation method whereby one truck visits bases of businesses, and contribute to their business and overseas, with an aim to create 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.

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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 the importance of ESG scale integrated report. However, I believe the most important issue as we engage in truck transportation, to show our commitment to solving these social issues 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.

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.

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 pandemic 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 “work 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.
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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 as their own issues and truly feels that their job and efforts are contributing to society and connecting with society.

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

Message from the CFO

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 sales/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*1 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*2 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-subsidiary loans and the Group’s intra-regional pooling system in China.

Introduction 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*3, 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.

*1 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)

*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)

<table>
<thead>
<tr>
<th>Mid-term Management Plan/FY</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Mid-term Management Plan Value Creation 2018</td>
<td></td>
</tr>
<tr>
<td>FY2016</td>
<td>Partially changed the business assessment approach (assess centers owned by the Group by adding market rent)</td>
</tr>
<tr>
<td></td>
<td>Issued corporate bonds of ¥30 billion</td>
</tr>
<tr>
<td></td>
<td>Set ROE as an important management indicator</td>
</tr>
<tr>
<td>FY2017</td>
<td>Asset liquidation (e.g. sale of distribution centers with low asset efficiency, leaseback)</td>
</tr>
<tr>
<td>FY2018</td>
<td>Introduced “comparison of ROIC and WACC” as one of the investment decision criteria</td>
</tr>
<tr>
<td></td>
<td>Newly established the Financial Strategy Office</td>
</tr>
<tr>
<td></td>
<td>Created rules for strategic investments</td>
</tr>
<tr>
<td></td>
<td>Issued corporate bonds of ¥30 billion</td>
</tr>
<tr>
<td>Current Mid-term Management Plan LOGISTEED 2021</td>
<td></td>
</tr>
<tr>
<td>FY2019</td>
<td>Reset ROIC to reflect the adoption of IFRS 16 Leases (adopted in FY2019)</td>
</tr>
<tr>
<td>FY2020</td>
<td>Introduced ROIC and WACC in the budget control</td>
</tr>
</tbody>
</table>
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** 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.
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.

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

<table>
<thead>
<tr>
<th>Item</th>
<th>Impact of adoption</th>
<th>Impact of adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>Increase</td>
<td>Increase</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>Increase</td>
<td>Increase</td>
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</tbody>
</table>

P/L impact

<table>
<thead>
<tr>
<th>Item</th>
<th>Impact of adoption</th>
<th>Impact of adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenues</td>
<td>Increase</td>
<td>Increase</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>Increase</td>
<td>Increase</td>
</tr>
<tr>
<td>Operating income</td>
<td>Increase</td>
<td>Increase</td>
</tr>
<tr>
<td>EBIT</td>
<td>Increase</td>
<td>Increase</td>
</tr>
<tr>
<td>ROE</td>
<td>Increase</td>
<td>Increase</td>
</tr>
<tr>
<td>ROA</td>
<td>Increase</td>
<td>Increase</td>
</tr>
<tr>
<td>ROIC (preliminary estimate)</td>
<td>Increase</td>
<td>Increase</td>
</tr>
</tbody>
</table>

Impact on financial indicators, etc. (FY2019)

<table>
<thead>
<tr>
<th>Item</th>
<th>Before adoption</th>
<th>After adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>¥1,653.8 trillion</td>
<td>¥1,154.1 trillion</td>
</tr>
<tr>
<td>Debt to equity ratio</td>
<td>2.4%</td>
<td>3.4%</td>
</tr>
<tr>
<td>ROIC</td>
<td>5.3%</td>
<td>5.4%</td>
</tr>
<tr>
<td>ROA</td>
<td>2.4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>ROE</td>
<td>5.4%</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

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)

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 also promote implementation of WFM*5 for standardization of working hours management and SPV*6 for standardization of management of logistics centers. Under the Mid-term Management Plan “LOGISTEED 2021”, 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 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 selected 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.

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*, 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.

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 expertise 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.
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

<table>
<thead>
<tr>
<th>Items</th>
<th>Impact of adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets (new standard)</td>
<td>Increase</td>
</tr>
<tr>
<td>Total liabilities and equity (new standard)</td>
<td>Increase</td>
</tr>
</tbody>
</table>

P/L Impact

<table>
<thead>
<tr>
<th>Items</th>
<th>Impact of adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted operating income</td>
<td>Decrease in net expenses</td>
</tr>
<tr>
<td>EBIT</td>
<td>Increase in EBIT</td>
</tr>
<tr>
<td>Net income attributable to stockholders of the parent company</td>
<td>Decrease</td>
</tr>
</tbody>
</table>

Impact on financial indicators, etc. (FY2019)

<table>
<thead>
<tr>
<th>Items</th>
<th>Before adoption</th>
<th>After adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>¥1,922 billion</td>
<td>¥2,012 billion</td>
</tr>
<tr>
<td>EBITDA</td>
<td>¥309 billion</td>
<td>¥310 billion</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥121 billion</td>
<td>¥129 billion</td>
</tr>
<tr>
<td>Net income</td>
<td>¥36 billion</td>
<td>¥36 billion</td>
</tr>
</tbody>
</table>

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.
- New 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

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

As mentioned above, as our global logistics business accounts for about 40% of total revenues in recent years, we consider that

As our successful efforts to promote it as a

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.
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–**

<table>
<thead>
<tr>
<th>Period</th>
<th>FY2016-FY2018</th>
<th>Review and issues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>In FY2018, both revenues and operating income hit record highs and ROE achieved 10%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>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.</td>
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<tr>
<td></td>
<td></td>
<td>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.</td>
</tr>
</tbody>
</table>

| Results      | Revenues: ¥708.8 billion | Adjusted operating income: ¥31.2 billion | EBIT: ¥36.2 billion | ROE: 10.7% |

**Mid-term Management Plan – LOGISTEED 2021–**

<table>
<thead>
<tr>
<th>Period</th>
<th>FY2019-FY2021</th>
<th>Basic policy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>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 the 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.</td>
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<table>
<thead>
<tr>
<th>Results</th>
<th>FY2018 Results</th>
<th>FY2019 Results</th>
<th>FY2021 Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenues: ¥708.8 billion</td>
<td>Adjusted operating income: ¥31.2 billion</td>
<td>EBIT: ¥36.2 billion</td>
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<tr>
<td></td>
<td>Revenues: ¥672.3 billion</td>
<td>Adjusted operating income: ¥33.5 billion</td>
<td>EBIT: ¥39.6 billion</td>
</tr>
<tr>
<td></td>
<td>Revenues: ¥720 billion</td>
<td>Adjusted operating income: ¥36 billion</td>
<td>EBIT: ¥40 billion</td>
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| Priority measures | - Implement portfolio strategy to build a solid core domain (Smart Logistics) |
|                   | - Implement collaborative innovation strategy aiming at enhancement of the core domain and further expansion of domains |
|                   | - Design supply chain based on and originating from the logistics domain |
|                   | - Originate and succeed operation (hands-on approach) toward the next generation |
|                   | - Take actions in consideration of environment, society and governance as well as corporate ethics |

**Numerical targets**

- Adjusted operating income growth (%) = EBIT (yen) / Revenues (yen) * 100
- ROE% = Adjusted operating income / Revenues * 100

**FY2018 (Result)**

- Revenues: ¥708.8 billion
- Adjusted operating income: ¥31.2 billion
- EBIT: ¥36.2 billion
- ROE: 10.7%

**FY2019 (Result)**

- Revenues: ¥672.3 billion
- Adjusted operating income: ¥33.5 billion
- EBIT: ¥39.6 billion
- ROE: 10%

**FY2021 (Mid-term Management Plan)**

- Revenues: ¥720 billion
- Adjusted operating income: ¥36 billion
- EBIT: ¥40 billion
- ROE: over 10%

*Figures for FY2021 are those released on May 24, 2019 and do not include the impact of adopting IFRS 16 leases.

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**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 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.

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**Our History**

**Our Future**

**Foundation Supporting Value Creation**

**Achievements of Value Creation**

**Financial/Non-Financial Information**
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."

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### Mid-term Management Plan – LOGISTEED 2021–

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**Numerical targets**

- Implement portfolio strategy to build a solid core domain (Smart Logistics)
- Implement collaborative innovation strategy aiming at enhancement of the core domain and further expansion of domains
- Originate and succeed operation (hands-on approach) toward the next generation
- Take actions in consideration of environment, society and governance as well as corporate ethics

**Logic model**

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

- Enhance competitiveness/profitability
- Growth with partner growth (expansion of domains)
- Collaborative innovation with core domains of HTS
- Expansion of business domain with strong business model
- Mutual sustainable growth and increase of corporate value

### 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.
Our Future

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.

Build an ecosystem (to new domain)

--- 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.)**.

** Acquisition of shares of PALENET CO., LTD.
- June 7, 2019: Concluded a share transfer agreement and 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 completed PALENET CO., LTD. in August 2019.

** Share transfer of Hitachi Travel Bureau, Ltd.
- July 1, 2019: Concluded a share transfer agreement and transferred shares
- July 2019: 30% of shares of Hitachi Travel Bureau, Ltd. are acquired from the HITB Corporation, Ltd. and transferred to Hitachi Life, Ltd. in July 2019.

** Acquisition of the distribution service business of Hitachi Life, Ltd.
- November 29, 2019: Concluded a share transfer agreement and April 1, 2019: Acquired shares
- In April 2019, we acquired all shares of a new company Hitachi Travel System East Japan Distribution Services Co., Ltd.

--- Achievements in FY2019 ---

Open digital platform (Big data, AI, IoT)

Major new collaborative innovation projects

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 provided 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.

Additional cost reductions by collaborative innovation activities in FY2019

<table>
<thead>
<tr>
<th>Category</th>
<th>Revenues</th>
<th>Operating income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>5.2</td>
<td>7.6</td>
</tr>
<tr>
<td>Global</td>
<td>8</td>
<td>1.5</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>0.4</td>
</tr>
<tr>
<td>Collaboration effect</td>
<td>62</td>
<td>9.5</td>
</tr>
</tbody>
</table>

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

Build an ecosystem (to new domain)

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.

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

July 1, 2019: Concluded a share transfer agreement - August 1, 2019: Transferred 70% shares

In July 2019, 70% of shares of Hitachi Travel Bureau, Ltd. was transferred to BCD Wholesales/retail/EC, a leading global company in the field.

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

November 29, 2019: Concluded a share transfer agreement - April 1, 2019: 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.

Our Future

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 ¥620 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 —

- **Smart Import/Smart Delivery**
  - Major new collaborative innovation projects
  - Additional contributions generated by collaborative innovation activities in FY2019: ¥62 million
  - Business Travel Management
  - Logistics center for a home appliance manufacturer
  - Integration of logistics operations to ensure high efficiency
- **Multi Delivery Service**
  - Major new collaborative innovation projects
  - Additional contributions generated by collaborative innovation activities in FY2019: ¥95 million
  - Business Travel Management
  - Logistics center for a home appliance manufacturer
  - Integration of logistics operations to ensure high efficiency

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

Problem: Unable to grasp the real operating status of its marine container transport

Solution: Digitize the transport process and analyze the data to optimize the operation

Example: In time delay due to shipping delays (stopping operation)

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 operations. As one of the DX initiatives, we are promoting overall digitalization of the entire Group by building a DX engine to structure to transform the business by integrating IT and business operations. 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.

LOGISTEED service (2) SSCV

[What is SSCV?]

SSCV is a service platform to support processes from identifying issues to solving customers’ supply chain information with a 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.

SSCV-Smart

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

SSCV-Safety

Sense-diverted 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.

On-site DX using RPA

Outline

We have been promoting RPA as part of the VCI 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 VPN2 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

On-site DX using RPA

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

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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.

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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 realize 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/delay fees of each 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 on 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 divers, 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.

On-site DX using RPA

Outline

We have been promoting RPA as part of the VCI1 activities aimed at operational improvement through company-wide bottom-up initiatives. We have developed 220 types of robots in the entire Group up to 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
- Improvement of monthly billing management processes
- Data analysis of CRM*3 and e-mail distribution of its results
- Process mining which identifies areas for improvements based on IoT technology
- AI-OCR which reads data of paper slips

*1 RPA: Robotic Process Automation

*2 VPN: Virtual Private Network

*3 CRM: Customer Relationship Management

https://www.hitachi-transportsystem.com/jp/sscv/
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 at 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 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)

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<tr>
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Various initiatives are underway to support activities in each site

Logistics OPEX

Dialogue café

Workshop for generating ideas

Improvement education

Use of digital tools such as RPA

Build a community where employees can repeat learning and improving through deep dialogue while enjoying them.

Have deep dialogue in interview-style workshops for mainly sales representatives.

Generate improvement ideas by directly hearing the voices of employees working on-site.

Provide various improvement education based on the self-developed “Improvement Handbook.”

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.

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.

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 chains 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 operations and transportation.
- Minimize workload at logistics sites.
- Promote diversity of the workplace.

3. Ensure Excellent Quality and Resilience

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

- 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 decarbonization* from the long-term perspective.

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

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.”

*1 Defined as “the capability of 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 CO2 to virtually zero. Decarbonization requires one step further than low-carbonization focusing on reduction of emissions.
Progress of the Mid-term Management Plan

Promotion of VC21 Activities

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More than ten thousand initiatives of the entire HTS Group have been proposed in FY2019, and the number of improvement initiatives of the entire HTS Group-wide VC21 meeting business model and the source of value creation.

"personal ownership," and the accumulation of such efforts has taken root as learning, generate ideas, and implement improvements.

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Various initiatives are underway to support activities in each site.

Let’s enjoy repeating VC21 Activity cycle!

Proposals focusing on daily improvement

OpEx

Objective 1: Ensure Excellent Quality and Resilience
- Ensure to bear in mind the notion of "Basics and Ethics" and foster a culture of "Basics and Ethics".
- Ensure high-quality logistics services
- Consideration for disposal and emission
- Contribution to disaster recovery assistance

Objective 2: Ensure Excellent Quality and Productivity
- Realize Low-carbon Business Processes
- We will work on realizing further occupational safety and enhancing productivity in logistics sites across the globe.
- Secure safety in operations and transportation
- Promote next-generation industries and lifestyles
- Social contribution/ Strengthening of BCP

Objective 3: Ensure Excellent Quality and Innovation
- Social contribution/ Strengthening of BCP
- Promote diversity of the workplace

Objective 4: Enhance Occupational Safety and Productivity
- Ensure Excellent Quality and Resilience
- We will pursue quality of the next-generation logistics that meets the social expectation and resilience against disaster and climate change.
- Ensure high-quality logistics services
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Objective 5: Ensure Excellent Quality and Innovation
- Social contribution/ Strengthening of BCP
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Objective 6: Enhance Occupational Safety and Productivity
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- Contribution to disaster recovery assistance

Objective 7: Enhance Occupational Safety and Productivity
- Ensure Excellent Quality and Innovation
- Social contribution/ Strengthening of BCP
- Promote diversity of the workplace

Objective 8: Enhance Occupational Safety and Productivity
- Ensure Excellent Quality and Innovation
- Social contribution/ Strengthening of BCP
- Promote diversity of the workplace

Objective 9: Enhance Occupational Safety and Productivity
- Ensure Excellent Quality and Innovation
- Social contribution/ Strengthening of BCP
- Promote diversity of the workplace

Objective 10: Enhance Occupational Safety and Productivity
- Ensure Excellent Quality and Innovation
- Social contribution/ Strengthening of BCP
- Promote diversity of the workplace

How to implement
- Implement improvement voluntarily
- Start from what you can do
- With the help of others
- There are many things we can use to learn
- Excellent cases within and outside the Company
- Videos initiate how to prepare, etc.
- Improvement targets are not only things, but also human-capabilities, communication, and human relations.
- All of above are subject to improvement.

Learn

Human-centered Deep Dialogue

Generate ideas

Use of digital tools such as RPA

Implementation improvement

Dialogue café

Workshop for generating ideas

Improvement education

Logistics OPEX

Objective-1

Objective-2

Objective-3

Objective-4

Objective-5

Objective-6

Objective-7

Objective-8

Objective-9

Objective-10

・ Suggestion box (comment box)
・ Hazy feeling
　・ Ideas come from not only things, but also human relations
　・ Communication, and Human relations
　・ Excellent cases within and outside the Company
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Feature of Cycles in the change

・ Suggestion box (comment box)
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Progressive Royal Awards

Good VC Award 2019

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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
  - Social
    - Secure safety in operations and transportation
    - Promote next-generation industries and lifestyles
    - Social contribution/ Strengthening of BCP
  - Governance
    - Ensure to bear in mind the notion of "Basics and Ethics" (Enhance compliance/governance)

Objective 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
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- Social contribution/Strengthening of BCP

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

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Objective 4: Realize Low-carbon Business Processes

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- Increase energy efficiency
- Introduce renewable energy
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Objective-1: Pursue Next-generation Industries and Lifestyles
- Promote total optimization of supply chain by making full use of advanced technologies
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Objective-5: 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’ a strategic investment in innovation while maintaining sufficient return on capital investment, 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.

Initiatives in FY2020

- Sharing/Pay-per-use
  - Customers pay for only what they use
  - Support speedy business launch
- Visualization of customers’ SC
  - Optimum inventory arrangement in each region
  - Reinforce resilience of supply chain
- Protect drivers/transportation companies
  - Technology to prevent accidents
  - Improve eco-driving technology/vehicle assignment
- Robotics/Group Control
  - Collaboration between people in the region and machines
  - Backcasting operation to eliminate waiting time in post-process

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

- Operations started April 2019: Automated warehouse in Toyama IV Logistics Center (Toyama Prefecture)
- Operations started Dec. 2019: Tsukuba DC Extended Building (Ibaraki Prefecture)
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- Renewal of vehicles, etc. (Turkey and other areas)

Investment funds

'Accumulation of operating cash flows' + 'Financing cash flows' = Secure funds for the growth

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**Investment Plan**

**Investment Strategy for Change and Evolution into “LOGISTEED”**

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**Strategic Investments**

Under the basic policy to make “investment to establish sustainable competitive advantage” 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.

**Initiatives in FY2020**

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- **Visualization of customers’ SC**
  - Optimum inventory arrangement in each region
  - Reinforce resilience of supply chain

- **Protect drivers/transportation companies**
  - Technology to prevent accidents
  - Improve eco-driving technology/vehicle assignment

- **Robotics/Group Control**
  - Collaboration between people in the region and machines
  - Backcasting operation to eliminate waiting time in post-process

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**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**

- 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 3D Center (U.S.)
- Renewal of vehicles, etc. (Turkey and other areas)

**Investment funds**

- “Accumulation of operating cash flows” + “Financing cash flows” = “Investment funds”
- Secure funds for the growth

**Investment Strategy for Change and Evolution into “LOGISTEED”**

<table>
<thead>
<tr>
<th>FY2016—FY2018 (accumulated)</th>
<th>(Audited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,382 Investments (Cash basis)</td>
<td>(+14)</td>
</tr>
<tr>
<td>1,266 Strategic investments (297)</td>
<td>(+51)</td>
</tr>
<tr>
<td>1,380 Business investments (907)</td>
<td>(+51)</td>
</tr>
<tr>
<td>1,530 Investments (Cash basis)</td>
<td>(+14)</td>
</tr>
</tbody>
</table>

*Including share acquisition and put option

**Balance at the beginning of FY2016**

- (Cash basis): 451
- Strategic investments: 1,266
- Business investments: 1,380

**Balance at the beginning of FY2019**

- (Cash basis): 1,084
- Strategic investments: 1,380
- Business investments: 1,530

**Investment Strategy**

- **Digital**
  - IoT x AI
  - Safety/Quality
  - Productivity
  - BIDC
  - G TA
  - BCP

**Dimensions**

- **LOGIS**
  - Toward New
  - Digital
  - Platform

---

**Value Creation**

- 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, risk prevention, security

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

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**Robotics**

- Collaborative work/Robotics
  - Improve safety
  - High productivity

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**SSCV: Stands for “Smart & Safety Connected Vehicle,” and is a transport digital platform comprising three solutions of... entire transportation industry, and “SSCV-Vehicle” aimed at improving efficiency of maintenance work and reducing costs (Refer to page 28).**
Our Future

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.

**Outline and Characteristics of EC Platform Center**

**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 cargos 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.

**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, 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 m²) 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.

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

- **Automatic packing**
  - It automatically packs the boxes with the optimum size. It aims to save height cost by selecting the minimum and right size of shipping boxes for the products.

**Business Case**

**CASE 1 Product: Accessories**

- Consultation from an accessories start-up company
- Proposed to achieve zero initial cost through sharing and pay-per-use model
- Support based on our abundant experience
- **Realized speedy launch and cost saving**
  - Support based on our abundant experience
  - Speedy business launch
  - Proposed to automate an initial cost through 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
  - Reduced the capacity shortage and established a BCP measure through warehouse diversification and labor saving
  - Reduced home delivery cost in Kanagawa and northward
  - **Reduced delivery cost by 10% and overall logistics cost by 5%**
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 warehouse 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.

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 with employees of less than 10 to large-scale EC malls. 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

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, 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 m²) 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.

- **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 height cost by selecting the minimum and right size of shipping boxes for the products.

- **Frontage sorting system**
  Movable shutter doors prevent wrong products from being picked in the picking process. Adding the inspection function to the picking process achieves high-quality work.

Achievements of Kasukabe EC Platform Center

- **Decreased labor cost by 72%**
- **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.**

- **Established a BCP measure through warehouse diversification and labor saving**
  - Location diversification in view of BCP
  - Consultation from a company based in Western Japan

- **Achievements of Kasukabe EC Platform Center**
  - Established a BCP measure and reduced cost —
    - Preparations to diversify by location using EC platform
    - Established a BCP measure through labor saving
  - Reduced delivery cost by 10% and overall logistics cost by 5%
Special Feature –Employee Roundtable Discussion–

“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 industry where quality control is particularly strict, so to prevent quality deterioration during transportation and storage.

Attendees in the discussion

Manager, Sanda Sales Office, Kansai Area Headquaters  
Yoshiharu Niioka

Manager, Business Development Department, Nishinippon Area Headquaters  
Tetsuhiro Uesugi

Senior Engineer, Logistics Technology Department, Logistics Solution Business Development Headquaters, Business Management Headquaters  
Takaaki Konno

Manager, GDP Management Group, Business Management Headquaters  
Torao Kawaguchi

Manager, Kansai Division IV, Kansai Area Headquaters, Hitachi Transport System West Japan  
Atsushi Watanabe

Senior Engineer, Business Planning Department, Nishinippon Area Management Headquaters  
Yusuke Kiritoshi

Senior Engineer, Smart Logistics Development Department, Logistics Solution Business Development Headquaters, Business Management Headquaters  
Shohei Kaeriyama

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 Machima 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.

- **Koner**: 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 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.

- **Koner**: 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.

- **Kiritoshi**: I was in the Business Development 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**: 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 (Machima 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.

- **Kawaguchi**: In the western Japan area, Machima 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.

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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:
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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.

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Business Development Department
Tetsuhiro Uesugi

Kansai Division
Yoshiharu Niioka

Sanda Sales Office
Atsushi Watanabe

Business Planning Department
Yusuke Kiritoshi

Manager, Senda Sales Office, Kansai Division, Nishinippon Area Headquarters
Yoshiharu Niioka

Manager, Business Development Department, Nishinippon Area Headquarters
Tetsuhiro Uesugi

Senior Engineer, Business Planning Department, Nishinippon Area Management Headquarters
Takaaki Konno

Senior Engineer, Logistics Technology Department, Logistics Solution Business Development Headquarters, Business Management Headquarters
Kanai Division IV, Hitachi Transport System West Japan

Manager, GDP Management Group, Business Management Headquarters
Torao Kawaguchi

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

Senior Engineer, Business Planning Department, Nishinippon Area Management Headquarters
Yusuke Kiritoshi

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

Logistics Technology Department
Takaaki Konno

Smart Logistics Development Department
Shohei Kaeriyama

GDP Management Group
Timaro Masagochi

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

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

Kono: 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.

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

Niioka: 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 work progress, enlightening messages on safety and quality and precautions. We share the progress of packaging 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?

Niioka: 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 interested in the 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 realize 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.
operation, productivity and speed, followed by careful pharmaceutical logistics in terms of level of quality and a two-week training while actually experiencing the day of operation. So, we sent workers to the existing center about a month and a half before the operation started to take 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.

**Konnos:** 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 ‘visualization’ can provide great supports to the sites. As mentioned in the Message from the President in the Report, the Group has focused on the “visualization” of the “Gemma” Power through digitalization. Please tell us about the “visualization” in the DC.

**Kawaguchi:** The handled part with GDP was responding to customer inspections. Mr. Kiritoshi took care of the ‘intangible 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.

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* SOP: Standard Operating Procedures

**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.

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**Konnos:** 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.

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**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 realize 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.

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**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.

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* SOP: Standard Operating Procedures
Our Future

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.

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 and construct a “super labor-saving logistics center” someday to become short-sighted and swerve from the purpose. This 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: 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.”

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.

Niikawa: 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.

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 shares 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, 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...
Our Future

Kanno: 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.

Kawaguchi: 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.”

Konno: 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, even more and evolve GDP services.

Finally, please tell us about your future aspirations.

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Kawaguchi: I worked at the site in Makushita 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.

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.

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Further, our associates should aim to satisfy all stakeholders including the capital market.

Evolution of Governance

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1. "History“ and “Future” of the Evolution of Governance

Outside Director
Chair of the Compensation Committee
Sayoko Izumoto

Outside Director
Chair of the Board of Directors
Mitsudo Urano

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: From the premise that the three Committees are functioning well, I believe the core of governance lies with 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, and each Committee is functioning quite well, ensuring the effectiveness.

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.

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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 reached 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 JPL 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” 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.

**Uranoto:** 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 wide range 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.

**Uranoto:** I think it is good to have more outside directors than 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 engaged in the third-party 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” on the stage the Company is currently in. I agree with Mr. 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 need 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.

**Uranoto:** 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.**

**Uranoto:** 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.
Urano: toward the resolution of those issues at the Board of Directors meetings. Could you give us some examples of discussions on “M&As” and “development of new products and services.”

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.

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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 range 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.

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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 enhanced the opportunity to explain 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 attitude 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 DIX. Considering that the COVID-19 pandemic is accelerating DIX 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 financial 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.

Izumoto: 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.

Urano: 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. 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.

Our History  Our Future  Foundation Supporting Value Creation  Achievements of Value Creation  Financial/Non-Financial Information

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’ interests 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 improvements for the period, and then 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, “supervision” 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 experience 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 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 team 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 is expected to improve capital efficiency without increasing the 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.
Hitachi Transport System, Ltd. Integrated Report 2020

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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. 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?

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<thead>
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<th>Committee</th>
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<tbody>
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<td>Outside Director</td>
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<td>Sayoko Izumoto</td>
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*1 As of June 23, 2020   *2 O’Chair

## Summary of Skillsets of Directors

<table>
<thead>
<tr>
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</tr>
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<tbody>
<tr>
<td>General management</td>
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<tr>
<td>Financial accounting/finance</td>
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<tr>
<td>Law</td>
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<td>Technology</td>
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<td>Society/culture</td>
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<tr>
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*1 As of June 23, 2020  *2 O/Chair

### Summary of Skillsets of Directors

<table>
<thead>
<tr>
<th>Field</th>
<th>Number of directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>General management</td>
<td></td>
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<tr>
<td>Financial accounting/finance</td>
<td></td>
</tr>
<tr>
<td>Law</td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td></td>
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<tr>
<td>Global business</td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td></td>
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<tr>
<td>Society/culture</td>
<td></td>
</tr>
<tr>
<td>Sales/market development</td>
<td></td>
</tr>
<tr>
<td>Risk management/compliance</td>
<td></td>
</tr>
</tbody>
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*This document provides detailed reasons for the appointment of directors, highlighting their qualifications and experiences that make them suitable for supervising the company's management in various aspects, including general management, financial accounting/finance, law, administration, global business, technology, society/culture, sales/industry development, and risk management/compliance.*
Board of Directors and ExecutiveOfficers

Kenji Abe
Vice President and Executive Officer
Deputy General Manager, Business Management Headquarters
General Manager, Business Development Headquarters
Executive, Nishinippon Area Management Headquarters

Kazuhisa Sakaguchi
Vice President and Executive Officer
Executive, Higashinippon Area Management Headquarters
General Manager, Business Management Headquarters

Kiyoshi Nagoa
Vice President and Executive Officer
General Manager, Human Resources & Business Support Office

Yasushi Hagiwara
Vice President and Executive Officer
Vice President and Executive Officer
Vice President and Executive Officer

Kenji Abe
Yasuo Nakatani*
Takashi Jinguii*
Yoshitaka Tsuda

Representative Executive Officer
President and Chief Executive Officer

Kunio Iida
Seiki Sato

Senior Vice President and Executive Officer
General Manager, Corporate Strategy Office
General Manager, Collaborative Innovation Project Team

Kazuhisa Hatakeyama
Nobukazu Hayashi

Senior Vice President and Executive Officer
Executive, Higashinippon Area Management Headquarters
General Manager, Financial Strategy Office
General Manager, Project Management Office

Kenji Abe

Representative Executive Officer
President and Chief Executive Officer

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

Yasuo Nakatani
Representative Executive Officer
President and Chief Executive Officer
General Manager, Global Business Management Headquarters
General Manager, AEO & Corporate Export Regulation Office

Takashi Jingui
Representative Executive Officer
Executive Vice President and Executive Officer
General Manager, Global Business Management Headquarters

Yoshitaka Tsuda
Executive Vice President and Executive Officer
In charge of IT/logistics solution

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, Nishinippon Area Management Headquarters

Kiyoshi Nagoa
Vice President and Executive Officer
General Manager, Business Management Headquarters
General Manager, Logistics Development Headquarters, Business Management Headquarters

Yasushi Hagiwara
Vice President and Executive Officer
General Manager, Human Resources & Business Support Office

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

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

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

Kazuhisa Hatakeyama
Senior Vice President and Executive Officer
Executive, Nishinippon 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

Yasushi Hagiwara
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, Nishinippon 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.)

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

Profile of Board of Directors and Executive Officers are available at the Company’s website. https://www.hitachi-transportsystem.com/en/ir/corporate/officer/
Corporate Governance

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

Measure to Enhance Corporate Governance Implemented in the Past

<table>
<thead>
<tr>
<th>Measures</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>Transitioned to a Company with Committees (established Nominating Committee, Audit Committee and Compensation Committee) To strengthen management supervision function of the Board of Directors</td>
</tr>
<tr>
<td>2014</td>
<td>Developed Criteria for Independence of Outside Directors To secure independence of directors</td>
</tr>
<tr>
<td>2015</td>
<td>Appointed a female director To diversify the Board of Directors</td>
</tr>
<tr>
<td>2016</td>
<td>Responded to the Corporate Governance Code Established Corporate Governance Guidelines of Hitachi Transport System To comply with the amended Companies Act</td>
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<tr>
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<td>2020</td>
<td>Appointed the third female director (accumulated) To diversify the Board of Directors</td>
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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 questions 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 CED 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.

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, business 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. (Michi Aoki, Sayako Izumoto, Mitudo Urano, Takashi Nishiyama, Teru Funakami, and Hajime Watanabe are registered as independent officers in accordance with Tokyo Stock Exchange regulations.) Criteria for independence of outside directors on the HTS Website


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

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The Current Corporate Governance System and Internal Control System

Corporate Governance Guidelines
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 maintain 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, the Chair of the Three Committees, and the President and Chief Executive Officer, and asked all directors and 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 a position to move forward to make full use of the changes it has been making 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 experience and expertise. JBR recommended that a smaller group of BOD members hold separate meetings to handle fundamental discussions of important management issues prior to deliberation by the full BOD.

2. JBR acknowledged that the composition of the BOD was good in overall terms. JBR recommended that the Company bring in—on a three-year rotation—former business executives from outside the Company, with experience in managing global businesses, overseas transactions and transforming companies’ business portfolios, or launching and running new businesses. This will use the BOD to have more animated discussions of fundamental issues related to corporate management.

3. JBR acknowledged that the Three Committees were performing as expected. JBR recommends that the Nominating Committee more vigorously review a succession plan for the CEO and succession plans for the CEO and executive officers. 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.

Self-Assessments by the Three Committees

During FY2019, the Nominating Committee met eleven times, the Audit Committee sixteen times, and the Compensation Committee eight times. Each committee meeting was chaired by an outside director. Results of the self-assessments of the Three Committees for FY2019 are as follows:

(1) Nominating Committee
The Nominating Committee discussed and approved nominations of 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 acquiring more information on the nominations 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 way 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 all 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 BOD of the six Group companies around the globe, which will 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 these 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 KPIs*—established as a KPI based on WACC*3, which the Committee had recommended—has been set up 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 points:

• Verifying that the IBM program is working in the Group from the perspective of Ross 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 (2), aspect of ESG management practices in line with meeting SDGs requirements, it will focus on the environmental (3) and social (3) aspects of ESG management practices.

(3) Compensation Committee
The Compensation Committee reviewed the current compensation scheme for the Company’s executive officers, which complies 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 follow-up need to be determined:

• The right balance between the fixed and variable portions of compensation and between the cash and non-cash (e.g., shares) portions of compensation.

• A compensation scheme based on the medium- to long-term business performance of the Company

• IPD to be used discretionarily in determining the performance-linked compensation.

From this discussion, the Committee weighed up approaches to motivate executive officers to achieve their individual medium- to long-term goals and determine the amount of executive compensation to reward them 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.
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

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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 expected and that they should continue to improve in their effectiveness, and that the Company was transitioning 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 experience and expertise. JBR recommended 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 good. JBR recommended that the Company bring in—as outside directors—former business executives from outside the Company who have experience in managing global businesses, overseeing 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 recommended that the Nominating Committee more vigorously review a succession plan for the CEO position and the composition of outside directors, and that it conduct an evaluation of the BOD with JBR. JBR also recommended 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

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

1. Self-Assessment by the BOD
   - The eight members of the BOD hold independent outside director, 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 (9%), corporate governance (29%), and business operations and others (62%), which was in line with the annual plan formalized at the beginning of the fiscal year. The BOD held 16 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.
2. Self-Assessment of the Three Committees
   - 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 practice. 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 are external, in addition to a complete picture of the Company’s Enterprise Risk Management (ERM) program—which the BOD had requested—and presented it 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 to each 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 director and approach that should be taken to ensure sustainable growth and increase to 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 eleven 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 of 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 the proposed candidates from the CEO and other members of the management team and executive officers. The committee had no objections to the proposed candidates from the CEO and other members of the management team and executive officers. The committee had no objections to the proposed candidates from the CEO and other members of the management team.

(2) Audit Committee
   - The Audit Committee—based on its audit policy—abided by the legal compliance,...
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 a basic standard of compensation levels, deliberation on the new executive officer and new director of the Company, and we do not draw their recommendations on the basic standard or objective of discussion, and other companies’ plans while collecting information and seeking advice from external compensation consultants.

■ Policy on the Determination of the Compensation 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/consultant 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 decision of 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 basic compensation and performance-linked compensation, and determined by reflecting executive 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 methods to determine the compensation amounts, please refer to “Compensation, etc. of Officers” in the 61st Annual Securities Report (Y4a. Shoken Hokokusho) of the Company (Japanese version only).

The 61st Annual Securities Report (Japanese version only)


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 maintain trust and expectations of the society.

Compliance education

In addition to training 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 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)


For details of compliance information, please visit our website.


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 overall environment 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 the prevention of theft and leak of information and overseas, in an effort to maintain and bolster security levels to provide safe and secure logistics services to customers.

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

Customer privacy

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

For details of information security, please visit our website.


Foundation Supporting Value Creation

Our History Our Future

Achievements of Value Creation

Financial/Non-Financial Information

Hitachi Transport System, Ltd. Integrated Report 2020

Hitachi Transport System, Ltd. Integrated Report 2020
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 agenda items to improve effectiveness of deliberations in the Committee, and we do not draw their recommendations on consensus building or the appropriateness of the decisions made. We hire Wilks 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 director compensation, etc. for FY2019, the Compensation Committee deliberated and determined compensation, etc. for each director 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. For executive officer compensation, etc. for FY2018, 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 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 officer performance review in a base amount commensurate with his/her position. The performance-linked compensation levels are comprised of annual bonus linked to the achievement level of the targets for consolidated performance, division mission, and individual mission in a single year, and stock compensation linked 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 ratios 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 methods to determine the compensation amounts, please refer to “Compensation, etc. of Officers” in the 61st Annual Securities Report (Yuka Shiken Hokkasuih of the Company (Japanese version only).

The 61st Annual Securities Report (Japanese version only)

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 training 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 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)

For details of compliance information, please visit our website.

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.

- 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.

- Procurement, etc.

For details of compliance information, please visit our website. For details of information security, please visit our website.
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 clarify 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.

<table>
<thead>
<tr>
<th>Internal factors</th>
<th>External factors</th>
<th>Group’s policies</th>
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<tbody>
<tr>
<td>Risk factors</td>
<td>Risk factors</td>
<td>Group’s measures</td>
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<tr>
<td>Strategic risks</td>
<td>Operational risk</td>
<td>Pure risks</td>
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<td>Growth risk</td>
<td>Hazard risk</td>
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**Initiatives to Strengthen BCP (Business Continuity Plan) System**

With respect to the risks associated with both business disasters which occur frequently in recent years, the Group has implemented countermeasures to fulfill its responsibilities in dealing with them by making 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.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk factors</th>
<th>Description of risk/opportunity</th>
<th>Impacts when risk occurs</th>
<th>Group’s measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk</td>
<td>Impact on business results and continued employment of key projects</td>
<td>Sharp drop of revenues and profit due to business results of customers</td>
<td>Account management through enhanced interdivisional collaboration</td>
<td>Monitor customer business condition</td>
</tr>
<tr>
<td>Risk</td>
<td>Impact on the HTS Group’s business in fluctuation of customer business results</td>
<td>Loss of ability to negotiate better prices</td>
<td>Agree to changes in order to develop new customer</td>
<td>Opportunity</td>
</tr>
<tr>
<td>Risk</td>
<td>Failure to accumulate revenue due to customers behaving inappropriately</td>
<td>Failure to accumulate revenue due to customers behaving inappropriately</td>
<td></td>
<td>Opportunity</td>
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<td>Opportunity</td>
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</tbody>
</table>

**Response to COVID-19**

The HTS Group has a responsibility for logistics, as 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.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk factors</th>
<th>Description of risk/opportunity</th>
<th>Impacts when risk occurs</th>
<th>Group’s measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk</td>
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</table>

<p>| Risk factors and the implementation status of our measures | | |
|----------------------------------------------------------|----------------------------------------------------------|</p>
<table>
<thead>
<tr>
<th>Risk</th>
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<td>Risk</td>
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<td>Sharp drop of revenues and profit due to business results of customers</td>
<td>Account management through enhanced interdivisional collaboration</td>
<td>Monitor customer business condition</td>
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</tbody>
</table>

**As for risk factors other than priority risks, please visit the following website:**


**Risk factors and the implementation status of our measures**

<table>
<thead>
<tr>
<th>Risk factors</th>
<th>Description of risk/opportunity</th>
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<tbody>
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</tbody>
</table>

**TOPICS**

**Foundation Supporting Value Creation**

- Our History
- Our Future
- Foundation Supporting Value Creation
- Achievements of Value Creation
- Financial/Non-Financial Information
### 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.

#### Risk factors and the implementation status of our measures

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<th>Risk</th>
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<th>Impacts when risk occurs</th>
<th>Group's measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic risks</td>
<td>Concentrations dependency on specific customers</td>
<td>Risk - Impact on business results and continued employment of key projects</td>
<td>Sharp drop of revenues and profit due to poor business results of customers</td>
<td>Account management through enhanced interdivisional collaboration Monitor customer business condition Establish early warning system Perform periodic review of customer dependency Allocate management resources to non-core businesses</td>
</tr>
</tbody>
</table>

#### 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.

- **Prevent risks from occurring**
- **Implement damage control assuming risks may occur**
- **Agressively take risks to pursue growth**

**TOPICS**

- **Risk Management**
- **Strategic risks**
  - (1) Growth risk
    - Risk factors that may impede implementation of the growth strategy that takes into account customer and business environment (human resources and assets)
  - (2) Environmental change risk
    - 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
- **Pure risks**
  - (3) Operational risk
    - Risk factors that result from inadequate or failure of internal process, human resources or systems
  - (4) Hazard risk
    - Risk factors beyond our control that result from external events and may impede business continuity by causing damage or harm
- **Group’s policies**
  - Prevent risks from occurring
  - Implement damage control assuming risks may occur

**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.

- **Prevent risks from occurring**
- **Improve business continuity and change management that may impede the business strategy**

- **Risks that may impede implementation of the growth strategy that takes into account customer and business environment (human resources and assets)**
- **Risks that result from changes in external environment (politics, economy, laws and regulations, technological innovation, and climate change) and may impede the growth strategy**
- **Risks that result from inadequate or failure of internal process, human resources or systems**
- **Risks beyond our control that result from external events and may impede business continuity by causing damage or harm**

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


Hitachi Transport System, Ltd. Integrated Report 2020

Hitachi Transport System, Ltd. Integrated Report 2020
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 process, 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: Understand issues
  With reference to global common standards including Global Reporting Initiative (GRI) guideline, CRIDOB, UN Global Compact, SDGs and priority issues in transportation sector by ESG rating agencies, we created a list of 73 issues of relevant environmental, social and economic issues.

- Step 2: Prioritization
  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 the priority 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.

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.

- Objective 1
  Pursue Next-generation Industries and Lifestyles

- Objective 2
  Enhance Occupational Safety and Productivity

- Objective 3
  Ensure Excellent Quality and Resilience

- Objective 4
  Realize Low-carbon Business Processes

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.

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.

For details of information on sustainability, please visit our website.

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 TCD (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 targets

<table>
<thead>
<tr>
<th>Objective</th>
<th>Description</th>
<th>Reduction Target</th>
<th>FY2030 Target (Base year: FY2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective 1</td>
<td>Pursue Next-generation Industries and Lifestyles</td>
<td><strong>Reduction Target 30%</strong></td>
<td>FY2030 Target (Base year: FY2013)</td>
</tr>
<tr>
<td>Objective 2</td>
<td>Enhance Occupational Safety and Productivity</td>
<td><strong>Reduction Target 30%</strong></td>
<td>FY2030 Stretch target (Base year: FY2013)</td>
</tr>
</tbody>
</table>

*Please refer to page 56 for details of the medium-to-long term environmental targets.
**Basic CSR Policy**

Under the corporate philosophy, the HTS Group promotes activities in line with the Basic CSR Policy with a aim to realize a sustainable society through communication with our various stakeholders and integrate sustainability and management. As part of this policy, 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 understand and prioritize 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, G30000, UN Global Compact, SDGs, and priority issues in transportation sector by ESG rating agencies, we created a list of 73 issues of relevant environmental, social, and economic issues.

- **Step 2: Prioritized issues**
  
  We evaluated “Importance on society” and “Importance 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 weighed them in a matrix. Then, the material issues were categorized 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.

**Sustainable Development Goals**

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**


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**Objective 1**

*Pursue Next-generation Industries and Lifestyles*

- **CSV viewpoint 1**
  
  Reconciling needs, products, and customers

**Objective 2**

*Enhance Occupational Safety and Productivity*

- **CSV viewpoint 2**
  
  Redefining productivity in the value chain

**Objective 3**

*Ensure Excellent Quality and Resilience*

- **CSV viewpoint 3**
  
  Improving the local and regional business environment

**Objective 4**

*Realize Low-carbon Business Processes*

**Corporate Activities: Four Objectives**

To determine 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.

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**Developed Medium-to-Long Term Environmental Target**

Under the corporate philosophy, the HTS Group has engaged in various activities and set “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.
Four Objectives of the HTS Group and Key Performance Indicators (KPIs)

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<th>Related SDGs</th>
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**Value Creation**

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<th>Our History</th>
<th>Our Future</th>
<th>Foundation Supporting Value Creation</th>
<th>Achievements of Value Creation</th>
<th>Financial/Non-Financial Information</th>
<th>Reference</th>
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1. **Recommended**

2. **Recommended**


**Note:** The HTS Group is a group of companies that includes Hitachi Transport System Co., Ltd and its subsidiaries. The group includes companies that provide logistics services. The HTS Group operates in Japan, the United States, Europe, and Asia and has around 70,000 employees. The group is one of the largest logistics companies in the world. The group is committed to creating value through its logistics services and contributes to the sustainable development of society.

**Key Performance Indicators (KPIs):**

- **Enhanced Competitiveness and Safety and Productivity:**
  - Reinforcement of information security measures
  - Strengthening of safety management
  - Consideration of emission and environmental management
  - Promotion of recycling
  - Contribution to disaster recovery and response

- **Enhanced Low-carbon Business Processes:**
  - Reduction of electricity consumption in buildings
  - Increase of vehicle fuel efficiency
  - Development of new customer routes
  - Introduction of renewable energy

- **Increased Value Creation:**
  - Development of system and technology
  - Improvement of integrated logistics
  - Promotion of environmental activities in each site
  - Strengthening of environmental management
  - Promotion of employer understanding through education and enthusiastic activities to raise their environmental awareness

**References:**

PS-Website: [Hitachi Transport System Co., Ltd, website](https://www.hitachi-traffic.com/en/pr/prf01socality/)

*2* CDP is a non-profit organization in the UK, which investigates, evaluates, and disclose information on climate change and other environmental matters of corporations upon request of investment in the world.
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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 CO₂ 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 CO₂ emission (Scope 1 and 2 in Japan)**

- **FY2030 target (base year: FY2013)**
  - Try to reduce CO₂ emission by 30% compared to the base year
  - Scope of emission: CO₂ emitted from energy consumption by the Group through its business operation
  - Type of energy: Electricity, fuel for vehicle, etc.

- **FY2050 stretch target (base year: FY2013)**
  - Try to reduce CO₂ emission by 80% compared to the base year
  - Scope of emission: CO₂ emitted from energy consumption by the Group through its business operation
  - Type of energy: Electricity, fuel for vehicle, etc.

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

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

- **Scope 1:** Direct emissions from in-house energy (fuel, etc.) use (e.g. CO₂ released by company vehicles)
- **Scope 2:** Indirect emissions from the use of energy supplied by other companies (e.g. CO₂ released by a third party power plant due to electricity use in the company's facility)
- **Scope 3:** Indirect emissions by supplies 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 is continuously working on initiatives to reduce CO₂ emissions from the entire supply chain. To achieve its medium-to-long-term environmental targets, the Group is focusing on the following three categories:

1. **Strengthen Environmental Management**
   - **Strengthen Environmental Management**
   - **Expand renewable energy**
   - **Reduce the electricity and fuel consumption in buildings**
   - **Strengthen environmental management**
   - **Promote low-carbon/logistics systems**
   - **Reduce the electricity and fuel consumption in buildings**
   - **Strengthen environmental management**
   - **Expand renewable energy**
   - **Reduce the electricity and fuel consumption in buildings**
   - **Strengthen environmental management**
   - **Promote low-carbon/logistics systems**

**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**

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<th>Risks/opportunities</th>
<th>Group companies</th>
<th>President/Environment Officer</th>
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<td>Physical risks</td>
<td>Accident risk</td>
<td>Risk of logistics operation being suspended due to interrupted wind and flood damage caused by extreme weather</td>
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<td>Environmental risks</td>
<td>Risk of deteriorating environmental load due to average temperature rising 2.5-3.5°C to secure human resources</td>
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<td>Opportunity</td>
<td>Opportunity to reduce CO₂ emissions by providing to customers with a new AI-driven, low-carbon transportation system</td>
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<td>Future</td>
<td>Opportunity to introduce efficient logistics operations using Smart Logistics and shared logistics services</td>
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For details about environmental information, please visit our website.


**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 LPG, and recyclable waste, etc.

2. **Provide logistics/services with less environmental load**
   - Contribute to customers through CO₂ emission reduction and resource reusing.

3. **Improve Eco-Management 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**
   - Promote Eco-Management system. Maintain environmental collaborative 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)**
   - **(Stop pollution)**
   - **(Reduce carbon)**
   - **(Resource efficiency)**

**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 system 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)**

- **Domestic: Environmental Promotion Conference**
  - 2 times
- **Overseas: Environmental Officers Meeting**
  - 2 times

**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 subject 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 offices 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 II" certification. From FY2017, we have upgraded the certification level to "Eco Stage II" which is equivalent to ISO 14001. 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.
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 CO₂ reduction goals 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.

Scope 1: Direct emissions from fuel combustion for transporting the Group’s own goods
Scope 2: Indirect emissions from the use of energy supplied by other companies (e.g. CO₂ released by a third party power plant due to electricity use in the company’s facility)
Scope 3: Indirect emissions by supply chains other than Scope 1 and 2 (total of 15 categories including transportation outsourcing and business trip of employees)

Scope of emission: CO₂ emitted from energy consumption by the Group through its business operation
Type of energy: Electricity, fuel for vehicle, etc.

HTS Group CO₂ emissions

Trend of HTS Group CO₂ emissions

CO₂ emissions throughout the supply chain

We started to calculate “Scope 3” from FY2017 to identify and reduce CO₂ emissions from the entire supply chain.

Environmental Policy

The HTS Group is promoting “business activities with less environmental load” based on the following four policies.

1. Reduce environmental load generated at all places of business
Reduce consumption of electricity, gasoline and LPG, and recycle waste, etc.

2. Provide logistics/services with less environmental load
Reduce CO₂ emissions throughout the supply chain by improving efficiency and reducing unnecessary activities in logistics and deliveries

3. Improve Eco-Mind level and enhance Eco-Management system
Incorporate environmental awareness into the Group’s overall management system

4. Promote symbiosis with nature and environmental communications
Promote and reinforce environmental communications with customers and the local communities

Material issues in the environmental field

Material issues identified in the environmental field are as follows.

- Carbon (low carbon)
- Stopping pollution
- 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.

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)

48

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 II” 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. on 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.
Energy Saving and Global Warming Countermeasures of Vehicles

The HTS Group strives to reduce CO₂ emissions 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 to reduce environmental load.

HTS Group eco-friendly vehicle ownership ratio (domestic)

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>50</td>
<td>60</td>
<td>65</td>
<td>75</td>
<td>98</td>
</tr>
</tbody>
</table>

- Vehicle fuel efficiency (domestic)
  Increase of vehicle fuel efficiency by vehicle type (driving distance/fuel consumption) (Target for CO₂ emission reduction)

<table>
<thead>
<tr>
<th>Type</th>
<th>Target</th>
<th>2019 Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dump truck</td>
<td>+1%</td>
<td>+0.4%</td>
</tr>
<tr>
<td>Container</td>
<td>-28%</td>
<td>-11.4%</td>
</tr>
<tr>
<td>Former</td>
<td>-28%</td>
<td>-14.2%</td>
</tr>
<tr>
<td>COMBINED</td>
<td>-28%</td>
<td>-14.2%</td>
</tr>
</tbody>
</table>

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

- Using cardboard materials with follow-up films

After improvements

- Using all-corrugated cardboard packaging

Eco-friendly vehicles Advanced eco-friendly vehicles

- Hybrid, natural gas, and electric
- High fuel efficiency

HTS Group eco-friendly vehicle ownership ratio (domestic)

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>16</td>
<td>75</td>
<td>98</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Energy Saving and Global Warming Countermeasures Implemented in Buildings

The HTS Group is proactively introducing LED lighting fixtures in 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.

Scope: HTS, domestic/overseas group companies

<table>
<thead>
<tr>
<th>Year</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sites</td>
<td>New sites: 3</td>
</tr>
<tr>
<td>Co₂ emissions suppressed</td>
<td>141.2 t-CO₂</td>
</tr>
</tbody>
</table>

Manufactured Capital Natural Capital Objective 3 Objective 4

KPI

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

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

Before improvements

- Using cardboard materials with follow-up films

After improvements

- Using all-corrugated cardboard packaging

Introduce 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 CO₂ 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.

Topics

1. Increase Energy Efficiency

KPI

- Reduction of electricity consumption per floor space in “buildings”
- Development of new customers/routes for modal shift

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.

2. Promotion of Modal Shift

We contribute to the reduction of CO₂ emission by further promoting modal-shifting to the sea transport in transporting recyclable materials such as waste plastics segregated from wastes. We had been implementing a modal shift to transportation with trucks and ships using special containers for recyclable materials. In FY2019, we introduced self-developed new containers and achieved further efficiency improvement and CO₂ reduction. This initiative was recognized, and we received “Logistics Environment Special Award” in the “21st Logistics Environment Awards.”
We are working to reduce CO₂ 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 CO₂ 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)

  
  
<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>96</td>
<td>98</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Target</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

- **Vehicle fuel efficiency (domestic)**
  - Increase of vehicle fuel efficiency by vehicle type (driving distance/fuel consumption) (Target for CO₂ emission to reduction)

  
  
<table>
<thead>
<tr>
<th>Target</th>
<th>compared to FY2018</th>
<th>Result: compared to FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>+1%</td>
<td>+0.4%</td>
</tr>
</tbody>
</table>

**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 lattice 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-computated 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
  - Non-computable cardboard packaging
  - Follow-up films

  After improvements
  - Computable cardboard packaging
  - No follow-up films

**TOPICS**

**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)**

- Rise in cost due to an introduction of advanced eco-friendly vehicles

**Promotion of Modal Shift**

We contribute to the reduction of CO₂ emission by further promoting modal-shift to the sea transport in transporting recyclable materials such as waste plastics segregated from wastes.

- We had been implementing a modal shift to transportation with trucks and ships using special containers for recyclable materials. In FY2019, we introduced self-developed new containers and achieved further efficiency improvement and CO₂ reduction. This initiative was recognized, and we received “Logistics Environment Special Award” in the “21st Logistics Environment Awards.”
Secure Safety in Operation and Transportation

Objective 1

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 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 deliberate and receives reports on accidence 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 country and group companies to provide safety instructions, 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 with the help of our partner companies to share information.

Safety Initiatives

- 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.

KPI

Financial Impacts (Example)

- Maintain profitability through stable operation
- Risk reduction due to 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.

Financial Impacts (Example)

- • 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

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.

Pursue Next-generation Industries and Lifestyles

Objective 2

Financial Impacts (Example)

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

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

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

We are working on establishing a 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.

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

- Logistics/demand forecast
- Blockchain technology
- Development of human resources meeting business needs

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.

- Inventory control
- Development of data scientists

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

Number of cases of manufacturing/sales control support (demand forecast)

| Number of cases | 20 |

Number of attendees of data scientist training course

| Number of attendees | 58 |

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

Secure Safety in Operation and Transportation

**Safety Slogan**

“Safety First”

**Objective 1**

Manufactured Capital

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 each group company to provide safety instruction, and invites representatives of partner companies to share information accordingly each group company holds a top seminar semiannually and ensures full coordination with our partner companies.

**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**

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**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. 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.

**KPI**

- Frequency rate/severity rate of workplace accidents
- and others

**Financial Impacts (Example)**

- Maintain profitability through stable operation
- Reduce cost due to 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.**

**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 at all 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.

**Number of cases for training**

- Transportation of social infrastructure-related equipment
- Emergency transportation making full use of our network based on careful transportation plan

<table>
<thead>
<tr>
<th>Transportation of social infrastructure-related equipment</th>
<th>Emergency transportation making full use of our network based on careful transportation plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation of a steam turbine to Andres Power Plant in the Dominican Republic</td>
<td>Transportation of a steam turbine to Andres Power Plant in the Dominican Republic</td>
</tr>
<tr>
<td>Mitsubishi Hitachi Power Systems, Ltd. (Currently Mitsubishi Power, Ltd.)</td>
<td>Mitsubishi Hitachi Power Systems, Ltd. (Currently Mitsubishi Power, Ltd.)</td>
</tr>
<tr>
<td>was going to supply a steam turbine equipment to</td>
<td>was going to supply a steam turbine equipment to</td>
</tr>
<tr>
<td>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</td>
<td>Las Americas International Airport, Santo Domingo, the Dominican Republic which was damaged by lightning, and we arranged</td>
</tr>
<tr>
<td>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.</td>
<td>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.</td>
</tr>
</tbody>
</table>

**Financial Impacts (Example)**

<table>
<thead>
<tr>
<th>Financial Impacts (Example)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Storage and transportation/conveyance to conforming to GDP</td>
</tr>
<tr>
<td>Promotion of transportation of social infrastructure-related equipment</td>
</tr>
<tr>
<td>Utilize artificial intelligence and develop supply chain solutions</td>
</tr>
<tr>
<td>Development of data scientists</td>
</tr>
<tr>
<td>and others</td>
</tr>
</tbody>
</table>

**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.**
For the HTS Group, diversity means that employees having different backgrounds and experiences can play an active role. We have been promoting working-style reform so that contributions 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.

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, individually, and values can fully demonstrate their potential and play an active role. We distribute “Emergency Information Kit” to our employees, and we hope that it will be useful to them when they are in a disaster. We distribute “Emergency Information Kit” to our employees, and we hope that it will be useful to them when they are in a disaster. We distribute “Emergency Information Kit” to our employees, and we hope that it will be useful to them when they are in a disaster.

The HTS Group College
The HTS Group College has established 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).

KPI
Ratio of female managers
FY2019 Result
4.7% Target: Achieve 10% by FY2020
Scope: HTS, domestic group companies
Systematic promotion of women to assistant managers and managers Top-system promotion of women: We train young women 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.

KPI
• Activities based on the social contribution activity guideline
• Dissemination of behavioral standard in the event of a disaster to employees

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

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

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 in 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.
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, individually, 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 scope 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% (Scope: HTS, domestic group companies)

- **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)

- **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**

- **Dissemination of behavioral standard in the event of a disaster**
  - 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 groups 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 employee-related initiatives, please visit our website.**

- **For more information about BCPS, please visit our website.**

- **Our History**
  - For details of social contribution activities, please visit our website.

- **Our Future**
  - For more information from our overseas locations.

Social Contribution/Strengthening of BCP

**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.

**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 headquarters training (desktop simulation) assuming a large-scale earthquake in K backyard 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, terrorist, 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.**

- **Scope of HTS Group**
  - HTS, domestic group companies

- **Scope of KPI**
  - Scope: HTS, domestic group companies
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 our abundant expertise and consulting capability and comprehensive infrastructure and introducing the latest technology.

**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.
- **Manufacturing coordination solution**: In addition to service engineering procurement in shaping, the solution includes end-to-end production process including assembly, quality check, as well as inventory management and accurate reception 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 needs of customers in the automobile industry.
- **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.

**FY2019 Result**

**Results (round amount)**

- **Revenues**: ¥376.6 billion (Y0Y +10.4 billion)
- **Operating income**: ¥22.82 billion (Y0Y +3.64 billion)

**New orders/new startups**

- **New Order**: 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 II/DC
  - Expanded logistics platform and logistics 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 packaging 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

**Measures toward LOGISTEED**

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 CO2 emissions through a review of transportation modes, improvement of transportation efficiency, and joint delivery
  - Reduce waste through a review of packaging, and reduce CO2 emissions through improvement of cooling efficiency
- **FY2019 topics**
  - **April 2019**: St group company WHITE CORPORATION started the operation of double-bale type (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.)

**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 customer’s 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.
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.
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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 1980s, and we have been supporting supply chains in Japan with our design and management capabilities backed by abundant experience as well as 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.

**Manufacturing coordination solution**
In addition to setup equipment procurement to shipping, the solution includes end-to-end production process including assembly, quality check, as well as inventory management and asset/ equipment management.

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

**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 8EC platform center (smart warehouse) which realized significant labor saving through coordinated control of multiple labor-saving equipment.

FY2019 Result

- **Results (round amount)**
  - Revenues: ¥376.6 billion
  - Operating income: ¥22.82 billion

- **New orders/new startups**
  - New Order: 20 projects
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- Expanded distribution logistics business with a next-generation model center
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- Further enhanced DC functions for construction machinery maintenance parts

ESG Topics

- **HTS’s initiatives**
  - Reduce CO2 emissions through a review of transportation modes, improvement of transportation efficiency, and joint delivery
  - Reduce waste through a review of packaging, and reduce CO2 emissions through improvement of loading efficiency

- **FY2019 topics**
  - August 2019: Received both “Logistics Award” and “Electric Equipment Packaging Award” at the Japan Packaging Contest 2019 (refer to page 63)
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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.

FY2019 Result

<table>
<thead>
<tr>
<th></th>
<th>Revenues:</th>
<th>Operating income:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>¥191.0 billion (¥61.9 billion)</td>
<td>¥6.35 billion (¥0.56 billion)</td>
</tr>
</tbody>
</table>

FY2019 Topics

Europe

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

Intermodal

“Intermodal transportation service” is a combined transport service that 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 Luxembourg by train. After that, the 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.

Message from the officer in charge

In Europe, we can provide a wide range of services from transportation service in 12 countries. For intermodal service, we plan to develop new routes such as a Romania route in the future.

Message from the officer in charge

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

ESG Topics

FY2019 topics

- April 2019: Mars Logistics Group in Turkey received the 2018 ETIKAY Turkey Ethics Award that awards companies who value ethics and make exemplary efforts
- July 2019: J.P. Holding Company, Inc. received the 2018 ETİKA Turkey Ethics Award.
- June 2019: Rolled out vehicle sharing service to benefit Thailand’s logistic sector
- October 2019: Carter Logistics in U.S. was awarded a 2019 "Top Company for Women to Work for in Transportation"

Message from the officer in charge

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 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 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 transportation cost, and improve customer satisfaction with their transportation service by sharing a warehouse and pickup routes.

Details of Shared Milkrun service are available at: https://carterlogistics.com/shared-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 CO₂ and air pollutants.

1. Tier 1 supplier: Primary supplier who directly ship parts manufactured and developed in-house to manufacturers
2. Cross-docking: Drive-in warehouse operations. It primarily sort received goods; keeps and re-prepare shipments for delivery right after its arrival, without taking in any inventories.

Reduced delivery time of 30% and CO₂ emissions by 13% compared to conventional distribution

Estimated effect of Shared Milkrun

Reduction of CO₂/NOx 22%
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.

FY2019 Result

| Results | 
| --- | --- |
| Revenues: | ¥191.0 billion (YoY ¥17.9 billion) |
| Operating income: | ¥6.35 billion (YoY ¥0.56 billion) |

FY2019 Topics

Europe

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

Intermodal

“Intermodal transportation service” is a combined transport service that combines multiple modes of transport (e.g. railways, trailer trucks, aircraft, 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 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 Luxembourg by train. After that, trailer 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.

*1 Comparison with truck transportation

Message from the officer in charge

In Europe, we provide a wide range of services from transportation service including LTL, 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.

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

Message from the officer in charge

Before

After

Carter Express, headquartered in Indiana, U.S., operates an Auto Parts Logistics business with its unique Milkmrun 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 Milkmrun 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.

Details of Shared Milkmrun service are available at: https://carterlogistics.com/shared-milkmrun/

ESG Topics

FY2019 topics

- April 2019: Mars Logistics Group in Turkey received the 2018 ETIKA Turkey Ethics Award that awards companies who value ethics and make exemplary efforts
- OCT 2019: Rolled out vehicle sharing service to benefit Thailand’s logistic sector
- June 2019: 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

Achievements of Value Creation

North America

- Expanded a shared cross-docking center for two leading automobile manufacturers and started a Shared Milkmrun service

Estimated effect of Shared Milkmrun

Reduction of CO₂/NOx 22%
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.

- **Air freight transportation service**
  We reliably and speedily transport cargoes that require careful handling including electronic products, industrial machinery, medical products, and foods.

- **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.

- **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).

- **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.

- **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 unbalanced 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*
  - **Air transportation:** 221 thousand tons

Topics by overseas region

* Logos of major freight forwarding operators are shown.

<table>
<thead>
<tr>
<th>Region</th>
<th>Ocean transportations</th>
<th>Air transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>40 thousand TEUs</td>
<td>-</td>
</tr>
<tr>
<td>Asia</td>
<td>178 thousand TEUs</td>
<td>36 thousand tons</td>
</tr>
<tr>
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</tr>
<tr>
<td>Japan</td>
<td>104 thousand TEUs</td>
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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, Hitachi Global Transport and Logistics
Headquarters (Chairman: MITSUAKI KIYOSUKE, CEO)
Freight Forwarding Business

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- **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 (eg. invoice, packing list).
- **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.

Features of Our Services

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Acquisition of AEO and C-TPAT Certifications

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Message from the officer in charge

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

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.
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 the 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 trains 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.

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.

FY2019 Result

■ Revenues
¥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

Measures toward LOGISTEED

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

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

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 knowhow on heavy cargo transportation.

FY2019 result:
Installation of in-house power generation 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,
Logistics and Infrastructure
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 abundant experience and high level of expertise ensure the entire mode by using the Group’s network, and our staffs who have high level of expertise ensure the entire process 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 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 realizing a sustainable society.

- Power generation, through which we will contribute to realizing a sustainable society.
- Services for renewable energy facilities such as solar and wind power generation, through which we will contribute to realizing a sustainable society.
- Power generation, through which we will contribute to realizing a sustainable society.
- Services for renewable energy facilities such as solar and wind power generation, through which we will contribute to realizing a sustainable society.

Environment-related Solutions

We provide high value-added reverse logistics services to contribute to the realization of a circular economy-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 services 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 support the foundation of society and industries by providing one-stop logistics services covering from shipping to transportation and installation of finished products.

FY2019 Result

■ Revenues

¥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

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

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

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 machinery, manufacture/production etc.
- FY2020 initiatives:

Message from the officer in charge

Since our foundation in 1990, we have provided high-quality one-stop logistics services ranging from transportation to relocation of large products throughout the world by taking advantage of a 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, transportation infrastructure, industrial plants, and other machines and facilities in order to make the world a better place.

Yuichi Kuroume
Executive Officer, General Manager, Global Cargo Transport and Environment

Three-party agreement of ITER comprehensive transport project

Photograph taken by EXPRESS in January 2019

Image 311x336 to 426x404

Image 311x239 to 426x307

Image 311x168 to 540x236

Image 311x407 to 426x483
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

<table>
<thead>
<tr>
<th></th>
<th>J-GAAP (¥)</th>
<th>IFRS (¥)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (Sales)</td>
<td>¥13,264</td>
<td>¥16,857</td>
</tr>
<tr>
<td>Domestic logistics</td>
<td>¥256,886</td>
<td>¥277,979</td>
</tr>
<tr>
<td>Global logistics</td>
<td>¥93,264</td>
<td>¥101,547</td>
</tr>
<tr>
<td>Other services</td>
<td>¥18,648</td>
<td>¥20,192</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥15,940</td>
<td>¥23,131</td>
</tr>
<tr>
<td>Global logistics</td>
<td>¥21,815</td>
<td>¥29,604</td>
</tr>
<tr>
<td>Other services</td>
<td>¥1,477</td>
<td>¥6,320</td>
</tr>
<tr>
<td>Elimination of inter-company sales expenses</td>
<td>(10,103)</td>
<td>(11,024)</td>
</tr>
<tr>
<td>Net income attributable to stockholders of the parent company (Net income)</td>
<td>¥6,806</td>
<td>¥13,250</td>
</tr>
</tbody>
</table>

Year-end:

- Total assets: ¥151,066
- Equity attributable to stockholders of the parent company: ¥147,887
- Net income attributable to stockholders of the parent company: ¥6,806

Consolidated Cash Flow:

Cash flows from operating activities: ¥16,352
- Depreciation and amortization: ¥3,578
- Capital expenditures: ¥3,154
- Share of investment activities: ¥1,512
- Cash dividends: ¥22,000
- Share price at year-end: ¥1,166

Capital expenditures:
- Capital expenditures: ¥13,264
- Purchased assets: ¥7,358
- Depreciation and amortization: ¥9,672

Financial ratios:
- Operating margin (%): 4.3
- ROE (%): 9.672

Other data:
- Number of employees: 371
- Total floor space of warehouse (Ten-thousand square meters): 671

* Terms in parentheses are used for J-GAAP.
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)

<table>
<thead>
<tr>
<th></th>
<th>J-GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>[FY]</td>
<td>[FY]</td>
</tr>
</tbody>
</table>

- **For the year:**
  - **Revenues (Service Revenues)**
  - **Domestic logistics**
  - **Global logistics**
  - **Other services (logistics related businesses)**
  - **Operating income**
  - **Domestic logistics**
  - **Global logistics**
  - **Elimination or company-wide expenses**
  - **Net income attributable to stockholders of the parent company (Net income)**

- **At year-end:**
  - **Total assets**
  - **Equity attributable to stockholders of the parent company (Stockholders’ equity)**
  - **Cash and cash equivalents at end of year**

- **Consolidated Cash Flows:**
  - **Cash flows from operating activities**
  - **Cash flows from investing activities**
  - **Cash flows from financing activities**

- **Net income attributable to stockholders of the parent company (Net income)**

- **Capital expenditures:**
  - **Purchased assets**
  - **Depreciation and amortization**

- **Financial ratios:**
  - **Operating margin (%)**
  - **ROE (%)**

- **Other data:**
  - **Number of employees (excluding senior employees, part-time or temporary employees)**
  - **Total floor space of warehouse (Ten-thousand square meters)**
  - **Number of stores**
  - **Number of overseas branches**

* Terms in parentheses are used for J-GAAP. *1 From the FY2015 (IFRS), the Group altered to allocate company-wide expenses to each business segment. The segment information of the FY2014 (IFRS) had also reflected the alteration above. *2 Based on tangible and intangible assets accepted. *3 Based on non-current assets recorded.
*4 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. *5 Excluding SAGAWA EXPRESS Group and AIT Group. *6 Effective April 1, 2019, the Group adopted IFRS 16, Leases.
### Environmental Management

**Scope**
- HTS domestic group
- Overseas group

**Category/Item**
- Green Purchasing
- Green purchasing rate
- Reduction target for copy paper consumption
- Total GHG emissions (Scope 1)
- Total GHG emissions (Scope 1&2)
- Amount of non-recycled waste
- Input of water resources
- Electricity consumption per "floor space" in "buildings"
- Total expenditure for social contribution
- Open Innovation
- EC Platform Center

**FY2015**
- 327,302
- 340,235
- 290
- 121,190
- 327,302
- 340,235
- 290

**FY2016**
- 327,302
- 340,235
- 290
- 121,190
- 327,302
- 340,235
- 290

**FY2017**
- 327,302
- 340,235
- 290
- 121,190
- 327,302
- 340,235
- 290

**FY2018**
- 327,302
- 340,235
- 290
- 121,190
- 327,302
- 340,235
- 290

**FY2019**
- 327,302
- 340,235
- 290
- 121,190
- 327,302
- 340,235
- 290

**Category/Item**
- Number of long-term employees
- Number of those who took maternity leave
- Number of those who took childcare leave
- Number of that who took care leave
- Number of those who took post care leave
- Rate of paid leave taken
- Rate of unpaid leave taken
- Wages of women
- Average age (full-time employees)
- Number of employees (excluding senior employees, part-time or temporary employees)

**FY2015**
- 41/3
- 31.1%
- 6/0
- 7/1
- 23/17
- 7/1
- 0.0
- 18/0
- 7/19
- 17

**FY2016**
- 29/2
- 38.1%
- 6/1
- 8/1
- 24/13
- 8/1
- 0.0
- 18/0
- 19

**FY2017**
- 34/4
- 35.2%
- 6/2
- 9/1
- 19/11
- 9/1
- 0.0
- 18/0
- 20

**FY2018**
- 24/1
- 37.9%
- 6/2
- 11/1
- 19/11
- 9/1
- 0.0
- 18/0
- 21

**FY2019**
- 11
- 37.9%
- 6/2
- 11/1
- 19/11
- 9/1
- 0.0
- 18/0
- 22

**Category/Item**
- Number of those who took sick leave
- Number of those who took other leave
- Number of those who took leave other than sick leave
- Number of those who requested re-employment
- Number of those who requested retirement
- Number of those who requested to change working conditions
- Number of those who requested to change working hours
- Number of those who requested to change working places

**FY2015**
- 3/0
- 4/1
- 4/2
- 4/2
- 3/0
- 4/1
- 4/2
- 4/2

**FY2016**
- 6/0
- 6/1
- 6/2
- 6/2
- 6/0
- 6/1
- 6/2
- 6/2

**FY2017**
- 7/1
- 8/1
- 8/2
- 8/2
- 7/1
- 8/1
- 8/2
- 8/2

**FY2018**
- 8/2
- 10/1
- 10/2
- 10/2
- 8/2
- 10/1
- 10/2
- 10/2

**FY2019**
- 8/2
- 10/1
- 10/2
- 10/2
- 8/2
- 10/1
- 10/2
- 10/2

**Category/Item**
- Number of those who requested retirement
- Number of those who requested to change working conditions
- Number of those who requested to change working hours
- Number of those who requested to change working places

**FY2015**
- 3/0
- 4/1
- 4/2
- 4/2

**FY2016**
- 6/0
- 6/1
- 6/2
- 6/2

**FY2017**
- 7/1
- 8/1
- 8/2
- 8/2

**FY2018**
- 8/2
- 10/1
- 10/2
- 10/2

**FY2019**
- 8/2
- 10/1
- 10/2
- 10/2

**Category/Item**
- Number of those who requested to change working places

**FY2015**
- 3/0

**FY2016**
- 6/0

**FY2017**
- 7/1

**FY2018**
- 8/2

**FY2019**
- 8/2

---

*17 Includes attendees via video conference system
*18 Postponed to FY2020 or later due to the spread of COVID-19

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**Social**

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**Category/Item**
- Number of those who took maternity leave
- Number of those who took childcare leave
- Number of that who took care leave
- Number of those who took post care leave
- Ratio of those who returned to work after childcare leave
- Ratio of those who took care leave
- Ratio of post care leave taken
- Rate of paid leave taken
- Rate of unpaid leave taken
- Wages of women
- Average age (full-time employees)
- Number of employees (excluding senior employees, part-time or temporary employees)

**FY2015**
- 6/0
- 7/1
- 18/0
- 7/19
- 17

**FY2016**
- 14
- 8/1
- 18/0
- 19

**FY2017**
- 11
- 9/1
- 19/11
- 20

**FY2018**
- 22
- 10/1
- 21/11
- 22

**FY2019**
- 23
- 10/1
- 22/11
- 23

**Category/Item**
- Number of those who took sick leave
- Number of those who took other leave
- Number of those who took leave other than sick leave
- Number of those who requested re-employment
- Number of those who requested retirement
- Number of those who requested to change working conditions
- Number of those who requested to change working hours
- Number of those who requested to change working places

**FY2015**
- 3/0
- 4/1
- 4/2
- 4/2
- 3/0
- 4/1
- 4/2
- 4/2

**FY2016**
- 6/0
- 6/1
- 6/2
- 6/2
- 6/0
- 6/1
- 6/2
- 6/2

**FY2017**
- 7/1
- 8/1
- 8/2
- 8/2
- 7/1
- 8/1
- 8/2
- 8/2

**FY2018**
- 8/2
- 10/1
- 10/2
- 10/2
- 8/2
- 10/1
- 10/2
- 10/2

**FY2019**
- 8/2
- 10/1
- 10/2
- 10/2
- 8/2
- 10/1
- 10/2
- 10/2

**Category/Item**
- Number of those who requested to change working places

**FY2015**
- 3/0

**FY2016**
- 6/0

**FY2017**
- 7/1

**FY2018**
- 8/2

**FY2019**
- 8/2

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*3 Specific case
*4 Please refer to page 20 of Annual Report 2016 for details.
*5 Please refer to page 26 of Annual Report 2016 for details.
*6 Please refer to page 20 of Annual Report 2016 for details.
*7 Please refer to page 26 of Annual Report 2016 for details.
*8 Please refer to page 20 of Annual Report 2016 for details.
*9 Please refer to page 26 of Annual Report 2016 for details.
*11 Includes attendees via video conference system
*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 Works (since opened in March 2017). Since April 2020, due to the spread of COVID-19, online viewing (live streaming) has been conducted.
*13 Includes visitors to Kasukabe Works (since opened in March 2017). Since April 2020, due to the spread of COVID-19, online viewing (live streaming) has been conducted.
*14 Includes attendees via video conference system
*15 Includes attendees to video conference system
*16 Started from FY2017

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*Numbers of employees are as of April 1.
*Numbers of patents held are as of March 31.
**ESG Data**

**Environmental Management**

**Greenhouse Gas (GHG)**

- **Reduction of Environmental Load by Products and Services**
  - **Green Purchasing Rate**
  - **Eco-friendly vehicle ownership ratio**
  - **Advanced eco-friendly vehicle ownership ratio**

**Air/Chemicals**

- **Emissions of NOx, SOx and other significant air emissions**
  - **Energy**
  - **Waste/Recycling**
  - **Water**

**Social**

- **Employee Basic Data**
  - **Employee mix**
  - **Number of new graduates hired**
  - **Number of those who took nursing care leave**
  - **Number of those who took maternity leave**
  - **Number of those who took childcare leave**
  - **Frequency rate of workplace accidents**
  - **Severity rate of workplace accidents**
  - **Number of sites which obtained third-party certification**

**Information Security**

- **Data protection control security score (total)**
  - **Rate of targeted these emails for simulation training operation**
  - **Rate of sites which obtained third-party certifications for information security**

**Business**

- **Number of patent applications**

---

**Note:**

- Large, Medium, and Small size (fuel efficiency km/ℓ)
- *1* Large, Medium, and Small size (fuel efficiency km/ℓ)
- *2* CO₂ emission reduction target was changed from “Reduction of CO₂ 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 2016 for details.
- *6* Postponed to FY2020 or later due to the spread of COVID-19.
- *7* Postponed to FY2020 or later due to the spread of COVID-19.
- *8* Excluding employees of associates accounted for by the equity method
- *9* Includes attendees via video conference system
- *10* Covers 8 group companies (excluding VANTEC Group): Hitachi Transport System East Japan

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**Hitachi Transport System, Ltd. Integrated Report 2020**

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**Hitachi Transport System, Ltd. Integrated Report 2020**
## Consolidated Statement of Financial Position

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

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

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>As of March 31, 2020</th>
<th>As of March 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>¥ 45,410</td>
<td>¥ 54,253</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>3,546</td>
<td>5,850</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>10,416</td>
<td>5,662</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>33,209</td>
<td>—</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>8,232</td>
<td>3,362</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>37,886</td>
<td>24,886</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>29,062</td>
<td>28,481</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>167,761</td>
<td>122,494</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>150,502</td>
<td>191,198</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>261,031</td>
<td>—</td>
</tr>
<tr>
<td>Retirement and severance benefits</td>
<td>34,825</td>
<td>32,083</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>10,123</td>
<td>10,712</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>12,299</td>
<td>22,958</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>3,346</td>
<td>4,141</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>472,126</td>
<td>261,092</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>639,887</td>
<td>383,586</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity attributable to stockholders of the parent company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>16,803</td>
<td>16,803</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>220,829</td>
<td>206,245</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>(4,587)</td>
<td>(520)</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(184)</td>
<td>(182)</td>
</tr>
<tr>
<td><strong>Total equity attributable to stockholders of the parent company</strong></td>
<td>232,861</td>
<td>222,346</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-controlling interests</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6,396</td>
<td>6,603</td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>239,257</td>
<td>228,949</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>¥ 879,144</td>
<td>¥ 612,535</td>
</tr>
</tbody>
</table>
## Consolidated Statement of Financial Position

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

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

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>As of March 31, 2020</th>
<th>As of March 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>¥ 45,410</td>
<td>¥ 54,253</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>¥ 3,546</td>
<td>¥ 5,850</td>
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<tr>
<td>Current portion of long-term debt</td>
<td>¥ 10,416</td>
<td>¥ 5,662</td>
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<tr>
<td>Lease liabilities</td>
<td>¥ 33,209</td>
<td>¥ –</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>¥ 8,232</td>
<td>¥ 3,362</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>¥ 37,886</td>
<td>¥ 24,886</td>
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<tr>
<td>Other current liabilities</td>
<td>¥ 29,062</td>
<td>¥ 28,481</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>¥ 167,761</td>
<td>¥ 122,494</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>¥ 150,502</td>
<td>¥ 191,198</td>
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<tr>
<td>Lease liabilities</td>
<td>¥ 261,031</td>
<td>¥ –</td>
</tr>
<tr>
<td>Retirement and severance benefits</td>
<td>¥ 34,825</td>
<td>¥ 32,083</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>¥ 10,123</td>
<td>¥ 10,712</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>¥ 12,299</td>
<td>¥ 22,958</td>
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<tr>
<td>Other non-current liabilities</td>
<td>¥ 3,346</td>
<td>¥ 4,141</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>¥ 472,126</td>
<td>¥ 261,092</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>¥ 639,887</td>
<td>¥ 383,586</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity attributable to stockholders of the parent company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>¥ 16,803</td>
<td>¥ 16,803</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>¥ 220,829</td>
<td>¥ 206,245</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>(¥ 4,587)</td>
<td>(¥ 520)</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(¥ 184)</td>
<td>(¥ 182)</td>
</tr>
<tr>
<td><strong>Total equity attributable to stockholders of the parent company</strong></td>
<td>¥ 232,861</td>
<td>¥ 222,346</td>
</tr>
<tr>
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<td>¥ 6,396</td>
<td>¥ 6,603</td>
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<td>¥ 228,949</td>
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<tr>
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<td>¥ 879,144</td>
<td>¥ 612,535</td>
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## Consolidated Statement of Profit or Loss

Hitachi Transport System, Ltd. and subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>2020 (Millions of yen)</th>
<th>2019 (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>672,286</td>
<td>708,831</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(598,078)</td>
<td>(626,458)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>74,208</td>
<td>82,373</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>84,208</td>
<td>82,373</td>
</tr>
<tr>
<td>Adjusted operating income</td>
<td>33,483</td>
<td>31,192</td>
</tr>
<tr>
<td>Other income</td>
<td>10,579</td>
<td>3,850</td>
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<tr>
<td>Other expenses</td>
<td>(9,706)</td>
<td>(4,689)</td>
</tr>
<tr>
<td>Operating income</td>
<td>34,356</td>
<td>30,553</td>
</tr>
<tr>
<td>Financial income</td>
<td>88</td>
<td>450</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(1,701)</td>
<td>(1,042)</td>
</tr>
<tr>
<td>Share of profits investments accounted for using the equity method</td>
<td>6,864</td>
<td>6,419</td>
</tr>
<tr>
<td>IFRS earnings before income taxes</td>
<td>19,607</td>
<td>36,190</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,186</td>
<td>1,075</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>(6,964)</td>
<td>(2,009)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>33,829</td>
<td>35,246</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(11,344)</td>
<td>(11,233)</td>
</tr>
<tr>
<td>Net income</td>
<td>22,485</td>
<td>24,013</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>21,614</td>
<td>22,786</td>
</tr>
<tr>
<td>Stockholders of the parent company</td>
<td>871</td>
<td>1,227</td>
</tr>
<tr>
<td>Diluted earnings per share attributable to stockholders of the parent company</td>
<td>193.76</td>
<td>204.27</td>
</tr>
</tbody>
</table>

## Consolidated Statement of Comprehensive Income

Hitachi Transport System, Ltd. and subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>2020 (Millions of yen)</th>
<th>2019 (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>22,485</td>
<td>24,013</td>
</tr>
<tr>
<td>Other comprehensive income (OCI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items not to be reclassified into net income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net changes in financial assets measured at fair value through OCI</td>
<td>(49)</td>
<td>(300)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>284</td>
<td>(191)</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>(93)</td>
<td>(14)</td>
</tr>
<tr>
<td>Total items not to be reclassified into net income</td>
<td>142</td>
<td>(305)</td>
</tr>
<tr>
<td>Items that can be reclassified into net income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>(4,344)</td>
<td>(1,121)</td>
</tr>
<tr>
<td>Net changes in cash flow hedges</td>
<td>(9)</td>
<td>(2)</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>(21)</td>
<td>(108)</td>
</tr>
<tr>
<td>Total items that can be reclassified into net income</td>
<td>(4,361)</td>
<td>(1,231)</td>
</tr>
<tr>
<td>Other comprehensive income (OCI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>18,266</td>
<td>22,277</td>
</tr>
<tr>
<td>Comprehensive income attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stockholders of the parent company</td>
<td>17,878</td>
<td>21,178</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>388</td>
<td>1,099</td>
</tr>
</tbody>
</table>

## Consolidated Statement of Cash Flows

Hitachi Transport System, Ltd. and subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>2020 (Millions of yen)</th>
<th>2019 (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>22,485</td>
<td>24,013</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>52,815</td>
<td>19,059</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>4,169</td>
<td>2,045</td>
</tr>
<tr>
<td>Gain on business reorganization</td>
<td>(1,244)</td>
<td>(3,134)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>11,344</td>
<td>11,233</td>
</tr>
<tr>
<td>Increase (decrease) in retirement and severance benefits</td>
<td>2,741</td>
<td>225</td>
</tr>
<tr>
<td>Interest and dividends income</td>
<td>1,267</td>
<td>(1,482)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>6,964</td>
<td>2,009</td>
</tr>
<tr>
<td>(Gains) losses on sale of property, plant and equipment</td>
<td>8,371</td>
<td>(44)</td>
</tr>
<tr>
<td>(Increase) decrease in trade receivables and contract assets</td>
<td>16,692</td>
<td>449</td>
</tr>
<tr>
<td>(Increase) decrease in inventories</td>
<td>60</td>
<td>389</td>
</tr>
<tr>
<td>(Increase) decrease in trade payables</td>
<td>(8,303)</td>
<td>816</td>
</tr>
<tr>
<td>(Increase) decrease in other assets and other liabilities</td>
<td>(3,256)</td>
<td>(1,286)</td>
</tr>
<tr>
<td>Other</td>
<td>1,145</td>
<td>17</td>
</tr>
<tr>
<td>Subtotal</td>
<td>89,110</td>
<td>47,890</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>3,896</td>
<td>3,937</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(6,880)</td>
<td>(1,912)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(7,922)</td>
<td>(12,103)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>78,204</td>
<td>37,912</td>
</tr>
<tr>
<td>Cash flows from investing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property, plant and equipment and intangible assets</td>
<td>(12,709)</td>
<td>(14,948)</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment and intangible assets</td>
<td>13,105</td>
<td>1,491</td>
</tr>
<tr>
<td>Collection of short-term loan receivables</td>
<td>3,900</td>
<td></td>
</tr>
<tr>
<td>Purchase of subsidiaries’ shares</td>
<td>(666)</td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of shares of consolidated subsidiaries to non-controlling interests</td>
<td>(8,303)</td>
<td>816</td>
</tr>
<tr>
<td>Repayments of lease liabilities</td>
<td>(37,103)</td>
<td>(4,964)</td>
</tr>
<tr>
<td>Proceeds from sale of shares of consolidated subsidiaries from non-controlling interests</td>
<td>(739)</td>
<td>(11,490)</td>
</tr>
<tr>
<td>Proceeds from sale of shares of subsidiaries from non-controlling interests</td>
<td>(199)</td>
<td>(4,963)</td>
</tr>
<tr>
<td>Dividends paid to stockholders of the parent company</td>
<td>(4,686)</td>
<td>(4,172)</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td>(180)</td>
<td>(151)</td>
</tr>
<tr>
<td>Other</td>
<td>(725)</td>
<td>(703)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(1,162)</td>
<td>(13,892)</td>
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<td>Cash flows from financing activities:</td>
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<td></td>
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<tr>
<td>Proceeds from issuance of short-term debt, net</td>
<td>(2,075)</td>
<td>(4,775)</td>
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<tr>
<td>Proceeds from long-term debt</td>
<td>(739)</td>
<td>(11,490)</td>
</tr>
<tr>
<td>Proceeds from lease liabilities</td>
<td>(37,103)</td>
<td>(4,964)</td>
</tr>
<tr>
<td>Proceeds from sale of shares of consolidated subsidiaries to non-controlling interests</td>
<td>(739)</td>
<td>(11,490)</td>
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<td>(199)</td>
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<td>(151)</td>
</tr>
<tr>
<td>Other</td>
<td>(725)</td>
<td>(703)</td>
</tr>
<tr>
<td>Net cash provided (used) in financing activities</td>
<td>(45,707)</td>
<td>21,104</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>(726)</td>
<td>(109)</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>30,609</td>
<td>44,915</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>108,412</td>
<td>63,497</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>139,021</td>
<td>108,412</td>
</tr>
</tbody>
</table>
## Consolidated Statement of Profit or Loss

Hitachi Transport System, Ltd. and subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>¥ 672,286</td>
<td>¥ 708,831</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(¥ 588,078)</td>
<td>(¥ 626,458)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>84,208</td>
<td>82,373</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(50,725)</td>
<td>(51,181)</td>
</tr>
<tr>
<td>Adjusted operating income</td>
<td>33,483</td>
<td>31,192</td>
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<td>450</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(1,701)</td>
<td>(1,042)</td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td>6,864</td>
<td>6,419</td>
</tr>
<tr>
<td>EBIT (Earnings before interest and taxes)</td>
<td>39,007</td>
<td>36,180</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,186</td>
<td>1,075</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>(6,964)</td>
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</tr>
<tr>
<td>Income taxes</td>
<td>(11,344)</td>
<td>(11,233)</td>
</tr>
<tr>
<td>Net income</td>
<td>¥ 22,485</td>
<td>¥ 24,013</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2020 (yen)</th>
<th>2019 (yen)</th>
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<tbody>
<tr>
<td>Basic</td>
<td>¥ 193.76</td>
<td>¥ 204.27</td>
</tr>
<tr>
<td>Diluted</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

## Consolidated Statement of Comprehensive Income

Hitachi Transport System, Ltd. and subsidiaries

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<th>2020 (¥ millions)</th>
<th>2019 (¥ millions)</th>
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<tbody>
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<td>Net income</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
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<td>(300)</td>
</tr>
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<td>Remeasurements of defined benefit plans</td>
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<td>(191)</td>
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<td>(14)</td>
</tr>
<tr>
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<td>(305)</td>
</tr>
<tr>
<td>Items that can be reclassified into net income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>(4,344)</td>
<td>(1,121)</td>
</tr>
<tr>
<td>Net changes in cash flow hedges</td>
<td>(4)</td>
<td>2</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>(21)</td>
<td>(108)</td>
</tr>
<tr>
<td>Total items that can be reclassified into net income</td>
<td>(4,361)</td>
<td>(1,231)</td>
</tr>
<tr>
<td>Other comprehensive income (OCI)</td>
<td>(4,219)</td>
<td>(1,736)</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>18,266</td>
<td>22,277</td>
</tr>
<tr>
<td>Comprehensive income attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stockholders of the parent company</td>
<td>17,878</td>
<td>21,178</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>388</td>
<td>1,099</td>
</tr>
</tbody>
</table>

## Consolidated Statement of Cash Flows

Hitachi Transport System, Ltd. and subsidiaries

<table>
<thead>
<tr>
<th>Cash flows from operating activities:</th>
<th>2020 (¥ millions)</th>
<th>2019 (¥ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>22,485</td>
<td>24,013</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>52,815</td>
<td>19,059</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>4,169</td>
<td>2,045</td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td>(6,864)</td>
<td>(6,419)</td>
</tr>
<tr>
<td>Gain on business reorganization</td>
<td>(1,244)</td>
<td>(3,134)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>11,344</td>
<td>11,233</td>
</tr>
<tr>
<td>Increase (decrease) in retirement and severance benefits</td>
<td>2,741</td>
<td>225</td>
</tr>
<tr>
<td>Interest and dividends income</td>
<td>(1,267)</td>
<td>(1,482)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>6,964</td>
<td>2,009</td>
</tr>
<tr>
<td>(Gains) losses on sale of property, plant and equipment</td>
<td>(8,371)</td>
<td>(44)</td>
</tr>
<tr>
<td>(Increase) decrease in trade receivables and contract assets</td>
<td>16,692</td>
<td>449</td>
</tr>
<tr>
<td>(Increase) decrease in inventories</td>
<td>60</td>
<td>389</td>
</tr>
<tr>
<td>(Increase) decrease in trade payables</td>
<td>(8,303)</td>
<td>816</td>
</tr>
<tr>
<td>(Increase) decrease in other assets and other liabilities</td>
<td>(3,256)</td>
<td>(1,286)</td>
</tr>
<tr>
<td>Other</td>
<td>1,145</td>
<td>17</td>
</tr>
<tr>
<td>Subtotal</td>
<td>89,110</td>
<td>47,890</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>3,896</td>
<td>3,937</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(6,880)</td>
<td>(1,912)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(7,922)</td>
<td>(12,103)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>78,204</td>
<td>37,812</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from investing activities:</th>
<th>2020 (¥ millions)</th>
<th>2019 (¥ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of property, plant and equipment and intangible assets</td>
<td>(12,709)</td>
<td>(14,948)</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment and intangible assets</td>
<td>13,105</td>
<td>1,491</td>
</tr>
<tr>
<td>Collection of short-term loan receivable</td>
<td>–</td>
<td>3,900</td>
</tr>
<tr>
<td>Purchase of subsidiaries’ shares</td>
<td>(666)</td>
<td>–</td>
</tr>
<tr>
<td>Decrease due to a loss of control of subsidiaries</td>
<td>(384)</td>
<td>(4,466)</td>
</tr>
<tr>
<td>Other</td>
<td>(508)</td>
<td>131</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(1,162)</td>
<td>(13,892)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from financing activities:</th>
<th>2020 (¥ millions)</th>
<th>2019 (¥ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase (decrease) in short-term debt, net</td>
<td>(2,075)</td>
<td>(4,775)</td>
</tr>
<tr>
<td>Proceeds from long-term debt</td>
<td>–</td>
<td>49,749</td>
</tr>
<tr>
<td>Repayments of long-term debt</td>
<td>(739)</td>
<td>(11,490)</td>
</tr>
<tr>
<td>Repayments of lease liabilities</td>
<td>(37,103)</td>
<td>(4,964)</td>
</tr>
<tr>
<td>Proceeds from sale of shares of consolidated subsidiaries to non-controlling interests</td>
<td>–</td>
<td>2,528</td>
</tr>
<tr>
<td>Purchase of shares of consolidated subsidiaries from non-controlling interests</td>
<td>(199)</td>
<td>(4,963)</td>
</tr>
<tr>
<td>Dividends paid to stockholders of the parent company</td>
<td>(4,666)</td>
<td>(4,127)</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td>(180)</td>
<td>(151)</td>
</tr>
<tr>
<td>Other</td>
<td>(725)</td>
<td>(703)</td>
</tr>
<tr>
<td>Net cash provided by (used in) financing activities</td>
<td>(45,707)</td>
<td>21,104</td>
</tr>
</tbody>
</table>

| Effect of exchange rate changes on cash and cash equivalents | (726) | (109) |
| Net increase in cash and cash equivalents | 30,609 | 44,915 |
| Cash and cash equivalents at beginning of year | 108,412 | 63,497 |
| Cash and cash equivalents at end of year | ¥ 139,021 | ¥ 108,412 |
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

Major shareholders (top 10)

<table>
<thead>
<tr>
<th>Name of shareholder</th>
<th>Number of shares held (thousands)</th>
<th>Percentage of shares held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hitachi, Ltd.</td>
<td>33,471</td>
<td>30.01%</td>
</tr>
<tr>
<td>SG Holdings Co., Ltd.</td>
<td>32,849</td>
<td>29.00%</td>
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<tr>
<td>The Master Trust Bank of Japan, Ltd.</td>
<td>3,582</td>
<td>3.21%</td>
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<td>Japan Trustee Services Bank, Ltd.</td>
<td>3,043</td>
<td>2.73%</td>
</tr>
<tr>
<td>National Mutual Insurance-Federation of Agricultural Cooperatives</td>
<td>2,733</td>
<td>2.45%</td>
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<tr>
<td>State Street Bank and Trust Company</td>
<td>2,364</td>
<td>2.12%</td>
</tr>
<tr>
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<td>2,023</td>
<td>1.81%</td>
</tr>
<tr>
<td>MSIP CLIENT SECURITIES</td>
<td>1,536</td>
<td>1.38%</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd.</td>
<td>1,384</td>
<td>1.24%</td>
</tr>
<tr>
<td>Hitachi Transport System, Ltd.</td>
<td>1,310</td>
<td>1.17%</td>
</tr>
</tbody>
</table>

Note: The percentage of shares held is calculated based on the number of shares excluding treasury stock (227,850 shares).

Stock Information: Composition of shareholders

- Financial institutions, securities companies: 1,273,081 shares (18.71%)
- Individuals and others: 6,018,222 shares (5.38%)
- Foreign shareholders: 209,123,232 shares (15.44%)
- Other corporations: 67,589,219 shares (50.47%)

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Individuals and others: 6,018,222 shares (5.38%)
Foreign shareholders: 209,123,232 shares (15.44%)
Other corporations: 67,589,219 shares (50.47%)

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

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

External Rating and Evaluation

Rating agency: Rating and Investment Information, Inc. (R&I)
Rating: A
Rating outlook: Stable

ESG evaluations:

- 2020 CONSTITUENT MSCI JAPAN
- ESG SELECT LEADERS INDEX

IR website evaluations:

- 2019 日刊アワード 総合ランクイン
- Corporate Website "AAA Website" (Hitachi Investor Relations)
- Ranked in all listed companies in Japan
- IR Site Owner Ranking "Silver Award" (2018) Gomez
- Internet IR Excellence Award (2019) Daisho Investor Relations

Our History
Our Future
Foundation Supporting Value Creation
Achievements of Value Creation
Financial/Non-Financial Information

Network Extending to 29 Countries and Regions

- Europe: 12 companies, 87 sites
- East Asia: 27 companies, 134 sites
- Japan: 28 companies, 325 sites
- Asia: 168 sites
- North America: 47 sites

Companies: 103
Locations: 761

*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.
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Number of shares per unit: 100 shares

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</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account)</td>
<td>1,384</td>
<td>1.24%</td>
</tr>
<tr>
<td>Hitachi Transport System, Ltd. Employees’ Shareholding Association</td>
<td>1,310</td>
<td>1.17%</td>
</tr>
</tbody>
</table>

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

Network Extending to 29 Countries and Regions

External Rating and Evaluation

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

Issuer rating: A
Rating outlook: Stable

ESG evaluations

2020 CONSTITUTENT MSCI JAPAN
2020 CONSTITUTENT MSCI JAPAN

IR website evaluations

Corporate Websites "AAAI Website" (2018)
Nikkei Investor Relations
Ranking in all listed companies in Japan
IR Site Owner Ranking “Silver Award” (2018)
Gomez

Internet IR Excellence Award (2018)
Daiwa Investor Relations

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