ANNUAL REPORT 2017
Management Philosophy & Brand

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

Corporate Vision
The Most Preferred Global Supply Chain Solutions Provider

Guiding Principles
Compliance
We value “Basics and Ethics”.

Customer Focus
We deliver value to our customers.

Innovation and Excellence
We strive for service excellence through collaborative innovation.

Diversity and Inclusion
We leverage inclusive diversity for holistic growth.

Sustainability
We think and act responsibly as a global citizen.

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

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

We create and deliver innovative solutions, embracing cutting-edge technologies. And we keep moving forward as one team, fostering mutual respect and releasing individual potential.

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

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

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

The HTS Group’s tools for information disclosure

Financial information
Investor Relations (website)

Non-financial information
About Us (website)

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

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

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

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

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

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

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

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

In FY2016, the first year of the Mid-term Management Plan, we thoroughly enhanced our “Earning capability” and “Growing power.” In order to improve our productivity and profitability, we implemented various measures such as opening “R&D Center,” a dedicated research and development facility for logistics innovation. We also promoted “Collaborative innovation” through joint use of distribution centers with SG Holdings Group, our capital and business alliance partner, and launch of cross-border trucking transport service in Southeast Asia and China-Japan integrated shipping service “Smart Import” for apparel. In addition, we reviewed our “Corporate Philosophy,” “Corporate Vision” and “Guiding Principles” and implemented initiatives to organize and clarify their positioning and meaning and instill those philosophies among officers and employees, with an aim to enhance human resource/organization power and foster a growth-oriented corporate culture.

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

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

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

We look forward to your continued support.

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

Yasuo Nakatani, President and CEO
Our Value Creation

—Value Creation of the Hitachi Transport System Group—

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

Services —Businesses & Solutions—

We provide comprehensive logistics services excellent in safety, quality and productivity by taking advantage of our extensive network in Japan and overseas as well as abundant experience and know-how as a pioneer.

Resources —Bases for Value Creation—

Number of Companies*1/Locations*2

<table>
<thead>
<tr>
<th>Locations</th>
<th>Warehouses</th>
<th>Area of Distribution Center*2</th>
</tr>
</thead>
<tbody>
<tr>
<td>113 companies</td>
<td>770 sites</td>
<td>7.19 Mm²</td>
</tr>
</tbody>
</table>

<Domestic: 25 companies 363 sites/Overseas: 88 companies 407 sites> <Domestic: 4.97 Mm²/Overseas: 2.22 Mm²>

Total Personnel*3

<table>
<thead>
<tr>
<th>Human Resources</th>
<th>Vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>47,939</td>
<td>15,989</td>
</tr>
</tbody>
</table>

<Domestic: 29,513 employees/Overseas: 18,426 employees> "Truck*: 13,164 Forklift: 5,764 Trailer: 4,599 Other*: 1,120

*1 Number of companies includes SAGAWA EXPRESS CO., LTD.  *2 Numbers of sites and warehouse floor space exclude those of SAGAWA EXPRESS CO., LTD.  *3 Including overseas associates accounted for by the equity method.  *4 Including tractors and vans  *5 Including buses and passenger cars, etc.
We will create values to meet all of our stakeholders’ expectations through steady implementation of growth strategy and continuous self-transformation.

(As of March 31, 2017)

<table>
<thead>
<tr>
<th>J-GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2015</td>
</tr>
<tr>
<td>$ Millions of yen</td>
<td>$ Millions of yen</td>
</tr>
<tr>
<td><strong>For the year:</strong></td>
<td></td>
</tr>
<tr>
<td>Revenues (Service Revenues)</td>
<td>$338,217</td>
</tr>
<tr>
<td>Domestic logistics</td>
<td>243,946</td>
</tr>
<tr>
<td>Global logistics</td>
<td>76,311</td>
</tr>
<tr>
<td>Other services (logistics related businesses)</td>
<td>17,960</td>
</tr>
<tr>
<td>Operating income*1</td>
<td>14,002</td>
</tr>
<tr>
<td>Domestic logistics</td>
<td>19,056</td>
</tr>
<tr>
<td>Global logistics</td>
<td>1,270</td>
</tr>
<tr>
<td>Other services (logistics related businesses)</td>
<td>1,222</td>
</tr>
<tr>
<td>Elimination of company-wide expenses*5</td>
<td>(7,546)</td>
</tr>
<tr>
<td>Net income attributable to shareholders of the parent company (Net income)</td>
<td>7,747</td>
</tr>
<tr>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>Equity attributable to shareholders of the parent company (Net assets)</td>
<td>$553,934</td>
</tr>
<tr>
<td>Total assets</td>
<td>386,448</td>
</tr>
<tr>
<td>Operating income</td>
<td>148,610</td>
</tr>
<tr>
<td>Global logistics</td>
<td>18,876</td>
</tr>
<tr>
<td>Other services (logistics related businesses)</td>
<td>23,131</td>
</tr>
<tr>
<td>Elimination of company-wide expenses</td>
<td>29,466</td>
</tr>
<tr>
<td>Net income attributable to shareholders of the parent company (Net income)</td>
<td>28.3</td>
</tr>
<tr>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>Cash dividends per share</td>
<td>116.8</td>
</tr>
<tr>
<td>2011</td>
<td>2012</td>
</tr>
<tr>
<td>Number of employees</td>
<td>205,048</td>
</tr>
<tr>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>Cash dividends per share</td>
<td>200,344</td>
</tr>
</tbody>
</table>

*1 U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥112.19=U.S.$1, the prevailing exchange rate as of March 31, 2017.

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

*3 From the FY2015 (IFRS), the Group changed its disclosure format to reflect the adoption of IFRS 15 "Revenue from contracts with customers" and IFRS 16 "Leases". For more information, please refer to pages 19-20.

*4 Based on tangible and intangible assets accepted.

*5 Based on non-current assets recorded.

*6 In order to present business status more appropriately, starting FY2016, the HTS Group started to use "Adjusted operating income" as a major indicator, which is calculated as "Revenues" – "Cost of sales" – "Selling, general and administrative expenses". As a result, "Adjusted operating income" for FY2015 is presented in the table above, and "Adjusted operating income" and "Operating income" are presented in the graph below and in pages 9-10.

*7 Only full-time employees (excluding senior employees, part-time or temporary employees).

*8 Excluding SAGAWA EXPRESS CO., LTD.

**Highlights**

For the year:


(As of March 31, 2017)

<table>
<thead>
<tr>
<th>Billions of yen</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>$3,930,805</td>
</tr>
<tr>
<td>Operating income</td>
<td>$5,930,805</td>
</tr>
<tr>
<td>Equity attributable to stockholders of the parent company (Net assets)</td>
<td>$4,901,720</td>
</tr>
<tr>
<td>Net income attributable to stockholders of the parent company (Net income)</td>
<td>4.1</td>
</tr>
<tr>
<td>Cash dividends per share</td>
<td>34.0</td>
</tr>
<tr>
<td>Number of employees</td>
<td>198,703</td>
</tr>
</tbody>
</table>

**Financial ratios**

Operating margin (%)*5 |

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2</td>
<td>4.2</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Total equity /ROE |

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.3</td>
<td>14.0</td>
<td>18.7</td>
</tr>
</tbody>
</table>

Other data:

- Safety Initiatives
- Revenue
- Operating income
- Operating margin
- Net income
- Cash dividends
- Number of employees

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**The track record of 10 years**

- Highlights
- Financial ratios
- Other data:
Review of Operations

Review of Operations

Domestic logistics business (FY2016)

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

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

Global logistics business (FY2016)

-8% Revenues of global logistics business decreased by 8% year-on-year to ¥311,727 million due to an appreciation of yen despite a revenues increase from operation of new projects in commodities, automobile, and apparel-related.

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

FY2016 Topics

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

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

Chiba-chuo DC
Chiba City, Chiba Prefecture
Food service related

Canton ILC *1
Mississippi, U.S.
Automobile related

*1 Integrated Logistics Center

Pomona DC *2
California, U.S.
Apparel products

*2 Distribution Center

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

VHF *3 began new temperature-controlled transportation service
Mar. 2017

Collaborative Innovation Project with SG Holdings Group
Nov. 2016: Consolidation of container drayage operations of VHF *, Nishin Transportation and Yabuki Kaiun in Port of Tokyo

*3 VANEC HTS FORWARDING, LTD

Enhancement and expansion of transportation through consolidation of container drayage
Nov. 2016: Consolidation of container drayage operations of VHF *, Nishin Transportation and Yabuki Kaiun in Port of Tokyo

Consolidation of container drayage operations of VHF *, Nishin Transportation and Yabuki Kaiun in Port of Tokyo

Mar. 2017

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

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

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

Opened a Location for Research and Development (R&D Center)
Jul. 2016
• Tokyo
• Dedicated R&D facility

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

* Using a part of the floor inside an existing distribution center
Special Feature1  Mid-term Management Plan/ Priority Measures in FY2017

Mid-term Management Plan –Value Creation 2018–

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

FY2018 Mid-term Management Plan

- Revenues: ¥803 billion
- Adjusted operating income: ¥34 billion
- EBIT*1: ¥40 billion
- ROE: 10.8%

Present: Logistics company

Sales Strategy

Develop new business model

- LLP strategy
  “Offer high-level LLP with consulting capability (brain) and business power (physical) (visualize horizontal business collaboration)”
  - Logistic planning: Hypothesis verification, overhead view
  - Logistic operation: Business operator, new technologies
  - KP: Visualized data, objective assessment (Continuous cost improvements: Central PCOA, establish overall SCM)
- Platform center for EC
  - Share resources (business sharing) [Standardized WMS for EC]
  - Establish EC center (Back office)
  - Collaborative innovation with SG Holdings, etc.

- Global business (forwarding business connecting to new business model)
  “Expand service menu as a solution provider”
  - Transportation (Freight Forwarding) [SCM Finance] [Trading] [Smart Import]
  - Response to diversified supply chain
  - By product view: Pursue opportunities for collaborative innovation/connecting
  - By forward system as SCM solution
    - Forwarding system as SCM solution

Future Vision: Global Supply Chain Solutions Provider

LLP standardized model connecting 7 pillars with a system

- Advanced technology
- Budgetary control
- Logistics network design

Overseas Business Strategy

Toward sustainable growth within the region

- Europe
  - Enhance truck transport capability/network (including M&A)
  - Enhance Bridge Turkey Project (transportation between Europe and Central Asia)
  - Reorganize/strengthen locations in Benedox countries (including M&A)

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

- Asia
  - Expand CBI business [Innovative collaboration with SG Holdings, etc.]
  - Deal with GST*2 in India [Strengthen/improve locations/network]
  - Expand business in Middle East

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

Domestic Business Strategy (Next Generation Labor Saving Center)

Establish labor-saving distribution center by implementing new technologies

Tsuchiura Phase II DC

- Full operation started on April 2017

Kansai II Medical DC

- Operation to be started on February 2018

Toward sustainable growth within the region
Mid-term Management Plan – Value Creation 2018 –

**Value Creation**

Offering value to new customers

Active proposal to existing customers

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**Examples**

**Example 1**

Undertook line-haul trucking of SAGAWA EXPRESS using VANTEC vehicles

- Night-time use of trucks held by VANTEC

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**Example 2**

Cross-selling to retail customers, providing integrated solution

- Automobile parts
- Distribution/retail
- Industry

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**Future Plan**

- Automated forklift
- “Smart Logistics Configurator” (logistics network simulation)
- “R&D Center” (accelerate verification of new technology)

For details of Smart Logistics, please refer to “Special Feature 2” (Pages 15-16) and “Working together with our customers” (Page 30).
Increasing needs for automation/labor-saving is a driving force of technology development

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

Our strength is site-originated development

Our motto for technology development is to match logistics site with the cutting-edge technologies with hope to meet our customers’ true logistics needs. With a view to introduce IoT technology and AI, we promote the best use of on-site logistics data gathered in various sites in addition to our experiences and know-how accumulated in the logistics sites over the years. For example, a software tool such as “Smart Logistics Configurator” (logistics network simulation). Using those new tools enables us to offer flexible solutions, including a new picking system using Hitachi’s compact, low-height automated vehicle “Racrew” and optimization support software. We have engaged in a series of technology development through open innovation under partnership with our business partners, including Hitachi Group. As a result, we have a wide range of solutions lineup for both hardware and software.

Establish competitive advantage through open innovation with collaborative innovation

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>% points of Dr. shortage (% of regular employees)</th>
<th>% points Dr. shortage (vl) (% of regular employees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>2014</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>2015</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>2016</td>
<td>18</td>
<td>5</td>
</tr>
</tbody>
</table>

% points of Dr. shortage = (% of regular employees - % of regular employees) / % of regular employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Total of surveyed industries</th>
<th>Transport, postal industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>23,000</td>
<td>12,000</td>
</tr>
<tr>
<td>2014</td>
<td>23,000</td>
<td>12,000</td>
</tr>
<tr>
<td>2015</td>
<td>23,000</td>
<td>12,000</td>
</tr>
<tr>
<td>2016</td>
<td>23,000</td>
<td>12,000</td>
</tr>
</tbody>
</table>

Create good cycle to develop market through further collaborative innovation

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

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

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

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

Interview

Hiromoto Fujitani

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

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

Please refer to “Working together with our customers” (Page 30) for more details.
HTS Group CSR initiatives

At the HTS Group, we are all about treating people and nature with great respect. In this connection, our fundamental policy is to do our part to help create an affluent society through fair business practices, as we boost our value for all of our stakeholders. As a logistics partner of the Hitachi Group, we carry out our corporate activities in accordance with the framework of the Hitachi CSR Statement and Mission Statement.

HTS Group’s Stakeholders

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

Our CSR Implementation Policy

<Hitachi Group CSR Statement and Mission>

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

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

<CSR management Framework>

Identify, Prioritize, and Act

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

<CSR Promotion Structure>

President and Chief Executive Officer
Executive Committee
Chair of CSR Promotion Committee
CSR Promotion Office

Step 1: Understood issues

With reference to global common standards including Global Reporting Initiative (GRI) guideline, ISO26000, UN Global Compact and SDGs, we created a list of relevant environmental, social and economic issues.

Step 2: Prioritized issues

We assessed and prioritized issues on the list from the perspective of "social interests, demands and concerns" and "impact on our business" through workshops with external experts.

Step 3: Validate and identify

CSR Promotion Committee members and the management will assess and verify adequacy with reference to opinions of external experts; and identify material issues before the end of FY2017.

Identifying material issues of the HTS Group

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

Safety is our number one priority

Bringing safety and peace of mind to our customers

Policy on Safety and Quality Initiatives

Slogan
Safety Management by Walking Around

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

Transport Safety Management*

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

Transport Safety Management

* Transport Safety Management System
Policy on Safety, Transport and Freight
The goal of this system is to bolster transport safety by building and continuously improving a safety management system.

Safety Caravan Activity

Reminder at Workplace/5S3T** Activities

Global Expansion of Safety Management

We are working on further improvement of on-site operations of the entire HTS Group by having each site make a presentation on their efforts for “improvement of on-site operations” to share and expand the best practice of safety management across the Group. In FY2016, Hitachi Transport System (China), Ltd., as a representative of overseas group companies, made a presentation on its effort to build safe working environment based on Chinese culture and laws and regulations.

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Adoption of Safety Technology

**Mobileye**

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

**Safety Cockpit**

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

Boosting safety and quality assurance training and system

**Safety Supervisor Training**

As an initiative to improve on-site operations, safety measures include identifying potentially dangerous spots, implementing improvements to any problems, safety training on operations, and more. Additionally, starting with group training, we have potentially dangerous spots, implementing improvements to any problems, safety

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

Interview

Shimizu Service Office, Nisaka Division, Hitachi Transport Systems Central Japan Co., Ltd.

Kazuhisa Saito

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

Management Controls Department, Labor Safety & Corporate Health Assurance Hitachi Shizuoka Co., Ltd.

Masayuki Hashimoto

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

Boosting Safety Techniques and Safety Awareness

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

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

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

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

In FY2016 as well, contestants winning out at prefectural-level preliminary contests around the country competed in the national contests. Through these projects, we are working to improve safety awareness not only amongst drivers but all employees, and also to prevent accidents.

**31st National Forklift Driving Contest**

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

**48th National Truck Driver Contest**

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

HTS dominated the top four places of the 4-ton category, and won the Prime Minister’s Prize. HTS also won the 2nd place in the trailer category, and our overall results were truly remarkable this year.


1. National Forklift Driving Contest: An event organized by the Japan Forklift Driver Competition Association for the purpose of acquiring specialized skills and knowledge in forklift operations, including safety and efficiency.
2. National Truck Driver Contest: An event organized by the Japan Truck Driver Competition Association for the purpose of acquiring specialized knowledge and skills in truck driving, including safety and efficiency.
Environmental Management

Putting an End to Global Warming/Saving Energy

- Cutting CO₂ emissions with LED lighting equipment

The HTS Group is working on CO₂ reduction by introducing low-power LED consumption lighting facilities in distribution centers, etc. every year.

In FY2016, we installed the equipment fully at the following new distribution centers, etc. cutting CO₂ by a total of 227 tons annually.

- Cikarang Distribution Center (Completed April 2016, floor space=40,000 m²)
- Mito Platform Center (Completed May 2016, floor space=20,150 m²)
- Rebuilding of Kure Office (Completed November 2016, floor space=1,890 m²)
- Tsuchiura Phase II Distribution Center (Completed December 2016, floor space=11,200 m²)

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

Observance of the Law

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

- Use of the Management System
  We use the management system to collect daily operation data so that both sites and the upper organizations such as the environmental department in Head Office can monitor the management status and ensure compliance with laws.
  - The management system and relevant laws and ordinances
    - Industrial waste management system: Manifest management (Waste Management and Public Cleansing Act)
    - Environmental load research system: Usage of energy including electricity and fuel (Act on Rationalizing Energy Use, etc.)
    - Vehicle management system: Usage of vehicle fuel, travel distance, registration information (Act on Rationalizing Energy Use, Automobile NOx/PM Act, etc.)
  - Continuing training for waste management personnel
    Trainings covering laws and regulations and administrative practice are held for all personnel in charge of waste management in sites to maintain and enhance the management level.

Raising environmental awareness

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

Third-Party Certification Initiatives

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

Promoting Green Purchasing

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

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

* The term “e-learning” refers to a method of learning using the Internet.
Boosting Communication on the Environment

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

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

Moving forward with Green Logistics

### Global Warming Prevention Initiatives

- **Reduction of CO2 emissions**: To reduce CO2 emissions, the HTS Group makes various efforts including installation of solar panels on the building roof and use of LED illumination. We will keep working on CO2 reduction.

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

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

(Japan only, as of March 31, 2017)

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<tr>
<td>Ratio (%)</td>
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<td>60</td>
<td>66</td>
<td>73</td>
<td>78</td>
<td>90</td>
<td>100</td>
</tr>
</tbody>
</table>

Note 1: Totals shown are personal and business vehicles combined (excludes special vehicles)

Note 2: Eco-friendly vehicles are as follows: hybrid, natural gas, electric, and LPG vehicles, as well as highly fuel-efficient vehicles certified by the government (vehicles meeting a specified standard), low-emissions vehicles, and electric vehicles.

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

![Photo of packaging specifications](image)

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

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

The modal shift to railway was the first attempt for this customer and there were concerns over damages on products due to vibration in loading/unloading and during transportation. After vibration tests in our Technical Center and test transports of real products by railway for approximately eight months from February 2016, we initiated railway transport in October.

Currently, most of the transport from Aichi Prefecture to operation centers in Hokkaido, Tohoku, and Kyushu regions, which is over 500km in distance, has been shifted to railway. This initiative has contributed to securing transport modes by coping with the driver shortage and CO2 reduction. We will expand such initiative into other precision instruments manufacturers.

![Diagram of modal shift to railway](image)

**Round-trip Use between Two Companies in Indonesia**

The HTS Group has implemented round-trip use\(^\text{*}\) of containers in overseas as well as in Japan. In January 2017, we initiated a round-trip use between a Japanese daily commodities related company and an automobile related company. Round-trip uses of containers between two companies in overseas have difficulties in process conditions including selection of shipping companies and import-export timing difference. However, this initiative successfully reduced CO2 emissions by 40%. The HTS Group actively works to implement round-trip uses of containers both in Japan and overseas to reduce CO2 emissions.

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

![Diagram of round-trip use in Indonesia](image)
Safety Initiatives
Business & Strategy
Environmental Initiatives
Working Together with Our Suppliers
Corporate Governance, etc.

HTS Group Procurement Policy

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

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

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

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

What HTS Gr. Ask Our Valued Suppliers to Promote

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

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

CSR Activities for Corporate Ethics
(1) Prohibition of corruption, bribes, etc.,
(2) Prohibition of abuse of a superior bargaining position,
(3) Prohibition of offering or accepting inappropriate profit and advantage,
(4) Prohibition of impediment to free competition,
(5) Prohibition of impediment to free competition,
(6) Using appropriate export procedures,
(7) Prompt detection of mistakes, wrongdoings and injustices.

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

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

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

CSR Activities for Human Rights and Labor
(1) Prohibition of forced labor,
(2) Prohibition of inhuman treatment,
(3) Prohibition of child labor,
(4) Prohibition of discrimination,
(5) Paying appropriate wages,
(6) Regulating working hours, and
(7) Respecting rights to freedom of association.
— Working together with our customers —

Transport of railway cars which orchestrates and expands global network
— Transport of monorail cars of Sentosa Express in Singapore —

Sentosa Island, a resort island located in the south of Singapore. Hitachi’s straddle-beam monorail plays a key role in the access connecting the island with an area of approximately 6.4 km² and the main island. In the project to deliver the seventh train of Sentosa Express (two cars), an order received by Hitachi, Ltd., our customer, the HTS Group mobilized all available resources to successfully accomplish the transport. Although we had to work within limited hours at night as cars were delivered during the operating period, we managed to complete the delivery as planned with careful work planning and close cooperation among relevant parties. We will continue to provide our customers with best suited transport services using our global network and engineering power.

Building a nationwide chilled network
— Opened a distribution center for a leading restaurant chain —

In July 2016, a distribution center (Chiba-chuo DC) started operations in Chiba City, Chiba Prefecture. This distribution center provides one-stop services to delivery destinations in Kanto and Koushinetsu regions in response to the customer’s business expansion. It has facilities to manage three temperature zones (normal, chilled and frozen) to accommodate a wide variety of customer’s food products and also has a bonded warehouse* within the center to accommodate imported products. Also, it has storage facilities using the high ceiling of the warehouse effectively and many loading docks, making it a large-scale distribution center enabling flexible and efficient operation.

We will achieve further sophistication of warehouse operation and distribution system to strengthen logistics functions of our customers, with a view to offering services unique to the HTS Group. We will continue to provide our customers with best suited transport services using our global network and engineering power.

Verify expanded application of new technology in a new “R&D Center”
— Automation and labor saving —

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

Automated & streamlined facilities

- "Racrew" and picking robot
  - We use storage shelf conveyance with "Racrew" new picking system which utilizes AGV*, and picking robots which pick up products from storage shelf and put it into shipping cases, to achieve automated picking.
- Depalletizing robot
  - We use depalletizing robots to move mixed cases loaded on a pallet to a conveyor to promote automation of physically straining cargo operations.
- Automated forklift and auto-tracking AGV
  - We use automated forklifts which automatically create an electronic map and auto-tracking AGVs which run following a person or a forklift, to achieve labor saving in conveyance. Automated forklifts can be used for unmanned operation under an unforgiving environment such as cold storage warehouse.

“Smart Logistics Configurator” (logistics network simulation)

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

Most of general simulators calculate based on the sum of distance from an operation center to delivery destination and transportation weight. “Smart Logistics Configurator” (logistics network simulation) uses actual shipping data to optimize delivery plans and use the result to determine the best site. Moreover, we include storage and labor cost in each region in consideration factors, enabling simulation based on the total cost. Accordingly, we can propose the best plan from vast amounts of options of warehouse locations and delivery plans in a short time and in a quantitative way.

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

* AGV: Automated Guided Vehicle
—Working together with our employees —

Diversity & Inclusion

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

Recognition from Outside the Company

In acknowledgement of the Center’s various initiatives and achievements, HTS was chosen by the Ministry of Economy, Trade and Industry (METI) as one of the nation’s “Diversity Management Selection 100” in March 2015, and also as “Semi-Nadeshiko Brand” in March 2017. HTS was also recognized again in FY2016, as in FY2014, by the Ministry of Health, Labour and Welfare as a company that supports child rearing with the logo that appear right.

Number of male workers taking childcare leave in the HTS Group

Promotion of Working Method Transformation

The “Employee Relations and HR Policy/Programs Group” was created in FY2016 to promote changes in awareness of employees and managers.

We believe that “Working Method Transformation” is critical for further active participation of female workers, and, based on discussion about correction of long working hours and flexible working method, introduced a “work-at-home system” in FY2016 as part of the initiative.

Boosting Understanding of Diversity

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

Encouraging Employment of Persons with Disabilities

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

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

Training upcoming generations of employees

The HTS Group has established the HTS College as an educational system for all of our employees, designed to draw out the strengths of each individual through practical and specialized training courses. In addition to training by rank, on-site operations, and manager-level training, we also institute general training for select employees including our Future Managers’ Course, which serves to train the next generation of managers, and our 3PL Professional Course, which works with backbone employees on 3PL projects. These personnel development programs are implemented to continuously solidify our business base.

Training in Japan for our Overseas Staff

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Managerial Personnel Training

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

Human Rights Education

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

HTS Group hire rate for women (new graduates)

In recent years, we are working to increase the hire rate for new graduate women and thereby secure more women personnel.

Promotion of Diversity, and also to my colleagues for all their support.

Interview

Voice of a Hitachi Transport Systems employee

Mai Nakaura

Corporate System Management & Integration Dept., Hitachi Transport Systems, Ltd.

I use the system about once a week. Because I work PC just like in the office, and I can concentrate more and get my work such as preparing materials done faster because it’s quicker. I am so grateful to the Company for letting me choose flexible working method such as working short hours or at home and also to my colleagues for all their support.

Human Resources Department, Hitachi Transport Systems, Ltd.

Yukihiro Motohashi

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

Voice of an employee at Hitachi Transport Systems, Ltd.

Yukihiro Motohashi

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

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

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

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

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

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

Track and Field Class
As our symbol sport, track and field holds special excitement. We teach them according to grades.

For Development of Next Generation
HTS promotes initiatives for development of young people who will bear the future.

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

Schools participated in FY2016

<table>
<thead>
<tr>
<th>June</th>
<th>November</th>
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<tbody>
<tr>
<td>2nd year students, Kao-no-hana Elementary School, Matsudo City</td>
<td>2nd year students, Noguchi (Elementary School), Matsudo City</td>
</tr>
</tbody>
</table>

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

Companies offering internships in FY2016
Hitachi Transport System, Ltd./Hitachi Transport System East Japan Co., Ltd./Hitachi Transport System Kanto Co., Ltd./Hitachi Transport System South Kanto Co., Ltd./Hitachi Transport System Central Japan Co., Ltd./Hitachi Transport System West Japan Co., Ltd./Hitachi Transport System Shikoku Co., Ltd./Hitachi Transport System Kyushu Co., Ltd./Hitachi Colabonext Transport System Co., Ltd./Hitachi Auto Service Co., Ltd./VANTEC WORLD TRANSPORT (NETHERLANDS) BV

Activities of overseas group companies

Activities through internal volunteer organization

Cooperation in SIRCAC® Science Day
(U.S.): VANTEC HITACHI TRANSPORT SYSTEM (USA), Inc./ James J. Boyle & Co.) The HTS Group cooperates in “Hitachi Celebrates Science Day,” an event with the purpose of getting children who need regional economic support interested in science and mathematics through anatomy and observation with microscope. At the sixth event in FY2016, more than 100 children attended the event and enjoyed learning.

Red Campaign Activity
(U.S.): Carrier Express Inc.) As a part of initiatives named “Red Campaign,” employees conducted blood drives and offered meals at homeless shelters.

Hosting logistics contest
(Turkey): Logistics Group Inc.) A logistics contest for university students is held every year and teams achieving excellent results in teamwork and project management capability are awarded.

Overview of the HTS Group Magokoro (Sincere Heart) Fund
HTS Group domestic companies participate in a social action program called the “Magokoro” (Sincere Heart) program, where our employees and executives can make charitable donations as they wish. Since 2008, the he program contributes to traffic safety, environmental preservation, and social action. Designed to foster and support generosity amongst our employees, the program employs a matching component where funds donated by employees are matched by the company.

FY2016 Initiatives

Traffic and Road Safety

<table>
<thead>
<tr>
<th>Gifts</th>
<th>Financial support</th>
<th>Regional Social Action/Social Welfare</th>
</tr>
</thead>
<tbody>
<tr>
<td>HTS donated 12 picture books with storyline Jennings on road safety to Association of Parents and Teachers of Kamatsu Prefecture</td>
<td>HTS donated road safety signboard to Kasado City, Act Prefecture</td>
<td>We presented 87Checks to 19 municipalities around the country</td>
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<tr>
<td>We donated road safety signboard to Kasado City, Act Prefecture</td>
<td>Traffic Orphans Association (a public interest incorporated association)</td>
<td>We contributed relief donation to Kumamoto City, Mahiki Town and Kumamoto Village, which were heavily damaged by Kumamoto Earthquakes</td>
</tr>
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Environmental Conservation

Afforestation support:
One hectare of land (“HTS Magokoro Fund” forest) afforested in the Khorchin Mongol region desert, China.

National Land Afforestation Promotion Organization (“Green Fund” for the Great East Japan Earthquake and Kumamoto Earthquakes Recovery Assistance) (public corporation)

Organization for Industrial, Spiritual and Cultural Advancement (KBCAS: “Kobun-ko-Mura”) (public interest incorporated foundation)

Member companies of the HTS Group Magokoro (Sincere Heart) Fund
—Working together with our shareholders and investors—

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

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

IR policy

Information Disclosure
HTS discloses information of information pertaining to operations and finances, in such publications as our summary of financial results, presentation material of financial results, annual securities reports, notice of convocation of the annual general meeting of shareholders and business reports, as well as annual reports. We have also set up an IR Information section on our Website to disclose investment information to our shareholders quickly and accurately with a view to facilitating investment decisions.

Investor Relations

Dividends

<table>
<thead>
<tr>
<th>Dividends</th>
<th>Interim</th>
<th>Year-end</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2016</td>
<td>¥17</td>
<td>¥17</td>
<td>¥34</td>
</tr>
<tr>
<td>FY2015</td>
<td>¥15</td>
<td>¥15</td>
<td>¥30</td>
</tr>
<tr>
<td>FY2014</td>
<td>¥14</td>
<td>¥14</td>
<td>¥28</td>
</tr>
</tbody>
</table>

FY2016 Initiatives

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

Communication with Shareholders and Investors

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

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

FY2016 IR schedule (results)

<table>
<thead>
<tr>
<th>IR activities</th>
<th>1st quarter</th>
<th>2nd quarter</th>
<th>3rd quarter</th>
<th>4th quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account settlements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Results briefings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone conferences</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small-scale meetings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual securities reports</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For foreign investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IR seminar for individual investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual meetings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tour</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Disclosed Information

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

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

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

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

Corporate Governance Guidelines

Relationship between HTS and outside directors

Amongst six outside directors appointed at the HTS 58th Regular General Shareholders Meeting held June 23th, 2017, were Shinjiro Iwata and Hiroshi Maruta, currently and originally of Hitachi, Ltd respectively. Business volume between HTS and Hitachi, Ltd. amounts to K8,524 billion (consolidated fiscal year transport and outsourcing). There are no special interests involved between these six outside directors and HTS, as stipulated under the Companies Act Clause 74, Section 2-3.

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

The independence standards for outside directors

Internal Controls

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

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

Policy on determining Director and Executive Officer Compensation

Decision-making on policy
In accordance with all Companies Act as pertains to a company with a Nominating Committee, etc. System, the Compensation Committee determines compensation levels for individual directors and executive officers.

Fundamental policy
In light of compensation criteria of other companies, HTS has in place compensation criteria in line with the level of responsibility required of HTS executives.

Director compensation
Director compensation levels are comprised of a combination of a monthly salary and an end-of-term bonus. The monthly salary reflects executive-level performance, and whether or not the individual is full or part-time. The end-of-term bonus, meanwhile, stands at approximately 10% of the individual’s annual income based on the monthly salary. Depending on company performance, however it may be less than this amount at certain times.

Directors who also serve as executive officers do not receive additional compensation as directors.

Executive officer compensation
Executive officer compensation levels are comprised of a combination of a monthly salary and an end-of-term bonus. The monthly salary is determined in consideration of a base amount fixed in accordance with position. Performance-based compensation is set at the level of roughly 30% to 40% of annual income. A portion of executive officer income is therefore determined in accordance with performance and category of work overseen.

Bolstering the Foundations of CSR Initiatives

Compliance
In order to ensure management in compliance with laws and regulations, the HTS Group has put in place a system to clarify compliance functions and set a compliance basic policy to be observed by all executives and employees, to ensure thorough compliance with laws and regulations, company rules, and corporate ethics. We have also established HTS Group Code of Conduct defining how all executives and employees should act in their daily operations as it is vital for us not only to comply with laws but also to act in accordance with corporate ethics in order to meet trust and expectations of the society. Furthermore, we ensure thorough compliance to foster a high-level corporate culture of ethics by taking a proactive approach on group-wide compliance trainings and awareness projects, including e-learning and other trainings targeting all of our employees.

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

The HTS Group has devised BCPs[1] in preparation for natural disasters, mainly on scenarios of large-scale earthquakes, floods, tsunami, and infectious disease, spanning information-gathering and dissemination systems as well as emergency contact networks. In Japan, our BCPs are mainly concerned with large earthquakes and pandemic influenza scenarios.

As an initiative to improve effectiveness of BCP, in FY2016, Headquarters worked with Nishinippon Area Management Headquarters to implement a desktop business continuity simulation assuming that Headquarters ceased to function due to a large earthquake with epicenter in the metropolitan region. “Disaster Response Card” was reviewed three years after it was first distributed in 2012, and the fully renewed second edition with updated contents and enhanced durability was distributed to all employees in domestic HTS Group companies in April 2016.

Overseas, the HTS Group has drawn up BCPs for our locations in North America, Europe, China, and other parts of Asia focusing on pandemic influenza. In addition, we gather information on developments such as large-scale-disasters, terrorism, etc., from information sources such as the Foreign Ministry as well as major communications companies, to alert our staff stationed or traveling overseas of eminent dangers. At the same time we have instituted emergency contact systems based at our overseas locations.

Boosting information security initiatives

In initiatives to boost information security initiatives, the HTS Group as a whole works to maintain and bolster security levels to protect both business information and personal information provided to us by customers. In FY2016, following the enactment of the Social Security and Tax Number Act, HTS revised its internal bylaws to confirm the management and operation status of social security and tax numbers and strengthen information control.

HTS also encourages its group companies to obtain the Privacy Mark[2] for enhancement of governance of the HTS Group as a whole.

Acquisition and maintenance of third-party certification

HTS has obtained and maintained third-party certification, specifically the Privacy Mark and ISO27001[3] (information security management system), to give our stakeholders a sense of security and peace of mind with regard to protection of personal information and information security. Our Privacy Mark certification was renewed for the fifth time in May 2017 and eight domestic group companies newly obtained the certification.

Third party certifications

(Including those expected in FY2017)

- Privacy mark: 13 group companies
- ISO27001: 34 departments and locations

Executive Officers

Board of Directors

Sayoko Izumoto
Outside Director
Shinjiro Iwata
Outside Director
Mitsudo Urano
Outside Director
Tetsu Fusayama
Outside Director
Emiko Magoshi
Outside Director
Hiroshi Maruta
Outside Director
Takashi Jinguij
Board Director
Yasuo Nakatani
Board Director

Yasuo Nakatani (*)
Representative Executive Officer
President and Chief Executive Officer

Kunio Iida
Senior Vice President and Executive Officer

Takashi Jinguij (*)
Senior Vice President and Executive Officer

Ichiro Iino
Vice President and Executive Officer

Seiki Sato
Vice President and Executive Officer

Kazushia Hatakeyama
Vice President and Executive Officer

Nobukazu Hayashi
Vice President and Executive Officer

Hidetoshi Maekawa
Vice President and Executive Officer

Katutoshi Kashimura
Executive Officer

Toshimi Tokieda
Executive Officer

Yasushi Hagiwara
Executive Officer

Fumio Komamura
Executive Officer

Hiromi Fujitani
Executive Officer

Himaki Takagi
Executive Officer

Kazuhiko Nishikawa
Executive Officer

(*) Concurrently serve as Board Director

(Listed in Japanese alphabetical order by title.)
### Financial Statements
#### Consolidated Statement of Financial Position

*Hitachi Transport System, Ltd. and subsidiaries*

#### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>As of March 31,</th>
<th>As of March 31,</th>
<th>As of March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>¥549,924</td>
<td>¥464,399</td>
<td>¥4,901,720</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥57,483</td>
<td>¥45,146</td>
<td>$512,372</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>125,600</td>
<td>118,908</td>
<td>1,119,529</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,466</td>
<td>1,114</td>
<td>13,067</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>7,086</td>
<td>10,352</td>
<td>63,161</td>
</tr>
<tr>
<td>Other current assets</td>
<td>13,227</td>
<td>9,330</td>
<td>117,898</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>204,862</td>
<td>184,850</td>
<td>1,826,027</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>71,518</td>
<td>1,179</td>
<td>637,472</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>177,520</td>
<td>177,153</td>
<td>1,582,316</td>
</tr>
<tr>
<td>Goodwill</td>
<td>28,067</td>
<td>29,542</td>
<td>250,174</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>34,766</td>
<td>39,038</td>
<td>309,885</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>8,193</td>
<td>7,900</td>
<td>73,028</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>18,858</td>
<td>16,504</td>
<td>150,263</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>8,140</td>
<td>8,233</td>
<td>72,555</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>345,062</td>
<td>279,549</td>
<td>3,075,693</td>
</tr>
</tbody>
</table>

#### Liabilities

<table>
<thead>
<tr>
<th></th>
<th>As of March 31,</th>
<th>As of March 31,</th>
<th>As of March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>¥336,005</td>
<td>¥262,107</td>
<td>¥2,994,964</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>¥51,786</td>
<td>¥48,892</td>
<td>$461,592</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>8,557</td>
<td>12,110</td>
<td>76,272</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>5,644</td>
<td>36,625</td>
<td>50,308</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>7,253</td>
<td>6,512</td>
<td>64,649</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>23,628</td>
<td>24,688</td>
<td>210,607</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>31,347</td>
<td>27,203</td>
<td>279,410</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>128,215</td>
<td>155,430</td>
<td>1,142,838</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>149,914</td>
<td>49,666</td>
<td>1,336,251</td>
</tr>
<tr>
<td>Retirement and severance benefits</td>
<td>31,187</td>
<td>31,254</td>
<td>277,984</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>11,481</td>
<td>12,542</td>
<td>102,335</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>12,636</td>
<td>11,332</td>
<td>112,630</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>2,572</td>
<td>2,083</td>
<td>22,925</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>207,790</td>
<td>106,677</td>
<td>1,852,126</td>
</tr>
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</table>

#### Equity

<table>
<thead>
<tr>
<th></th>
<th>As of March 31,</th>
<th>As of March 31,</th>
<th>As of March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td><strong>Equity attributable to stockholders of the parent company</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>¥16,803</td>
<td>¥16,803</td>
<td>$149,773</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>8,272</td>
<td>9,630</td>
<td>73,732</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>176,842</td>
<td>161,708</td>
<td>1,576,272</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>(301)</td>
<td>1,546</td>
<td>(2,683)</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(180)</td>
<td>(180)</td>
<td>(1,604)</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>213,919</td>
<td>202,292</td>
<td>1,906,756</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>¥549,924</td>
<td>¥464,399</td>
<td>¥4,901,720</td>
</tr>
</tbody>
</table>
Consolidated Statement of Profit or Loss
Hitachi Transport System, Ltd. and subsidiaries

For the years ended March 31, 2017 and 2016

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
</tr>
<tr>
<td>Revenues</td>
<td>¥ 665,377</td>
<td>¥ 680,354</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(590,126)</td>
<td>(608,408)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>75,251</td>
<td>71,946</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(45,785)</td>
<td>(41,626)</td>
</tr>
<tr>
<td>Adjusted operating income</td>
<td>29,466</td>
<td>28,320</td>
</tr>
<tr>
<td>Other income</td>
<td>3,118</td>
<td>5,215</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(4,377)</td>
<td>(5,201)</td>
</tr>
<tr>
<td>Operating income</td>
<td>28,207</td>
<td>28,334</td>
</tr>
<tr>
<td>Financial income</td>
<td>103</td>
<td>89</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(496)</td>
<td>(937)</td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td>3,741</td>
<td>299</td>
</tr>
<tr>
<td>EBIT (Earnings before interest and taxes)</td>
<td>31,555</td>
<td>27,785</td>
</tr>
<tr>
<td>Interest income</td>
<td>762</td>
<td>736</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>(1,932)</td>
<td>(1,611)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>30,385</td>
<td>26,910</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(10,466)</td>
<td>(11,408)</td>
</tr>
<tr>
<td>Net income</td>
<td>¥ 19,919</td>
<td>¥ 15,502</td>
</tr>
</tbody>
</table>

Net income attributable to:
- Stockholders of the parent company: ¥ 18,703 14,011 166,708
- Non-controlling interests: ¥ 1,216 1,491 10,839

Earnings per share attributable to stockholders of the parent company:
- Basic: ¥ 167.66 ¥ 125.60 ¥ 1,49
- Diluted: - - -

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

For the years ended March 31, 2017 and 2016

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
</tr>
<tr>
<td>Net income</td>
<td>¥ 19,919</td>
<td>¥ 15,502</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>(171)</td>
<td>190</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>374</td>
<td>(1,520)</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>(18)</td>
<td>2</td>
</tr>
<tr>
<td>Total items not to be reclassified into net income</td>
<td>185</td>
<td>(1,328)</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>(2,653)</td>
<td>(5,326)</td>
</tr>
<tr>
<td>Net changes in cash flow hedges</td>
<td>36</td>
<td>43</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>(58)</td>
<td>(63)</td>
</tr>
<tr>
<td>Total items that can be reclassified into net income</td>
<td>(2,675)</td>
<td>(5,386)</td>
</tr>
<tr>
<td>Other comprehensive income (OCI)</td>
<td>(2,490)</td>
<td>(6,674)</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>¥ 17,429</td>
<td>¥ 8,828</td>
</tr>
<tr>
<td>Comprehensive income attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stockholders of the parent company</td>
<td>16,846</td>
<td>8,192</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>583</td>
<td>636</td>
</tr>
</tbody>
</table>
## Consolidated Statement of Changes in Equity

### Hitachi Transport System, Ltd. and subsidiaries

**For the year ended March 31, 2017**

<table>
<thead>
<tr>
<th>Equity attributable to stockholders of the parent company</th>
<th>Millions of yen</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>16,803</td>
<td></td>
</tr>
<tr>
<td>Capital surplus</td>
<td>9,630</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>161,708</td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>1,346</td>
<td></td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(180)</td>
<td></td>
</tr>
<tr>
<td>Minority interests</td>
<td>189,507</td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>12,785</td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>202,292</td>
<td></td>
</tr>
</tbody>
</table>

**Balance at beginning of year**

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<tr>
<th>Equity attributable to stockholders of the parent company</th>
<th>Millions of yen</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>16,803</td>
<td></td>
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<td>Capital surplus</td>
<td>9,630</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>170,842</td>
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<td>7,424</td>
<td></td>
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<td></td>
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<td>184,830</td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>11,925</td>
<td></td>
</tr>
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<td>196,755</td>
<td></td>
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**Changes in equity**

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<tr>
<th>Equity attributable to stockholders of the parent company</th>
<th>Millions of yen</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>14,011</td>
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<td>5,819</td>
<td></td>
</tr>
<tr>
<td>Transactions with non-controlling interests</td>
<td>(225)</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>(3,235)</td>
<td></td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td>(5)</td>
<td></td>
</tr>
<tr>
<td>Acquisition and sales of treasury stock</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Total changes in equity</td>
<td>(225)</td>
<td></td>
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**Balance at end of year**

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<th>2017</th>
</tr>
</thead>
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<tr>
<td>Common stock</td>
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</table>

### Consolidated Statement of Cash Flows

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

**For the years ended March 31, 2017 and 2016**

<table>
<thead>
<tr>
<th>Cash flows from operating activities:</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
<th>2017</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>19,919</td>
<td>$177,547</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Adjustments to reconcile net income to net cash provided by operating activities:**

- Depreciation and amortization: 18,741, 19,125
- Impairment losses: 2,190, 2,117
- Reversal of impairment losses: (461) – (4,109)
- Share of profits of investments accounted for using the equity method: (3,741) – (299)
- Income taxes: 10,466 – 11,408
- Increase (decrease) in retirement and severance benefits: (43) – (383)
- Interest and dividends income: (849) – (817)
- Interest expenses: 1,932 – 1,611
- Gain (loss) on sale of property, plant and equipment: (2,151) – (3,965)
- Increase (decrease) in trade receivables: (7,942) – 6,152
- Increase (decrease) in inventories: (356) – (174)
- Increase (decrease) in trade payables: 3,620 – (5,688)
- Increase (decrease) in other assets and other liabilities: (1,840) – 1,713
- Other: 1,377 – (2,622)

**Net cash provided by operating activities:** 26,572, 38,820

**Cash flows from investing activities:**

- Purchase of property, plant and equipment and intangible assets: (12,517) – (17,614)
- Proceeds from sale of property, plant and equipment and intangible assets: 6,248 – 11,244
- Repayments of lease obligations: 47,456 – (55,325)
- Income taxes paid: (13,681) – (9,635)
- Other: 608 – 5,419

**Net cash used in investing activities:** (65,004) – (10,373)

**Cash flows from financing activities:**

- Increase (decrease) in short-term debt, net: (3,002) – 1,462
- Proceeds from long-term debt: 124,511 – 11,039
- Repayments of long-term debt: (55,325) – (21,371)
- Repayments of lease obligations: (4,672) – (4,128)
- Purchase of shares of consolidated subsidiaries from non-controlling interests: (2,137) – (57)
- Dividends paid to stockholders of the parent company: (3,569) – (3,233)
- Dividends paid to non-controlling interests: (810) – (784)
- Other: (126) – (361)
- Net cash provided by (used in) financing activities: 55,592 – (16,712)
- Effect of exchange rate changes on cash and cash equivalents: (623) – (1,133)
- Net increase in cash and cash equivalents: 12,337 – 10,965
- Cash and cash equivalents at beginning of year: 45,146 – 34,344
- Cash and cash equivalents at end of year: $57,483 – $51,272

**Balance at beginning of year:**

<table>
<thead>
<tr>
<th>Equity attributable to stockholders of the parent company</th>
<th>Millions of yen</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>149,773</td>
<td></td>
</tr>
<tr>
<td>Capital surplus</td>
<td>85,837</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,441,376</td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>13,780</td>
<td></td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(1,604)</td>
<td></td>
</tr>
<tr>
<td>Minority interests</td>
<td>1,689,161</td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>113,958</td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>1,803,120</td>
<td></td>
</tr>
</tbody>
</table>

**Balance at end of year:**

<table>
<thead>
<tr>
<th>Equity attributable to stockholders of the parent company</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>149,773</td>
<td></td>
</tr>
<tr>
<td>Capital surplus</td>
<td>73,732</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,378,272</td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>2,083</td>
<td></td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(1,604)</td>
<td></td>
</tr>
<tr>
<td>Minority interests</td>
<td>1,795,490</td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>111,287</td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>1,906,756</td>
<td></td>
</tr>
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**Consolidated Statement of Changes in Equity**

**For the year ended March 31, 2016**

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<td></td>
</tr>
<tr>
<td>Capital surplus</td>
<td>9,655</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>150,927</td>
<td></td>
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<tr>
<td>Accumulated other comprehensive income</td>
<td>7,424</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

### Notes to Consolidated Financial Statements

- [Additional notes and details related to the financial statements and their analysis.]

**For the year ended March 31, 2017**

- [Additional notes and details related to the financial statements and their analysis.]

**For the years ended March 31, 2017 and 2016**

- [Additional notes and details related to the financial statements and their analysis.]
Corporate Data/Group Network

Corporate Data

Corporate name: Hitachi Transport System, Ltd.
Head office: 2-9-2, Kyobashi, Chuo-ku, Tokyo, Japan
Founded: February 1950 (Established: August 1959)
Paid-in capital: ¥16,802 million

Main businesses:
• 3PL Business [integrated logistics services for corporate customers]
  (Logistics System Building, Information Control, Inventory Control, Orders Control, Processing for Distribution, Districtization 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 Truck Room Services
• Collection and Transportation of Industrial Waste
• Logistics Consulting, etc.

Stock Information (As of March 31, 2017)

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

Composition of shareholders

- Major shareholders (top 10)
  - Hitachi, Ltd. 33,471,301,240
  - SG Holdings Co., Ltd. 32,349,290
  - Japan Trustee Services Bank, Ltd. (Trust Account) 5,326,977
  - National Mutual Insurance Federation of Agricultural Co-operatives 2,783,250
  - The Master Trust Bank of Japan, Ltd. (Trust Account) 2,668,239
  - J.P. MORGAN CHASE BANK 380584 1,903,171
  - Hitachi Transport System, Ltd Employees’ Shareholding Association 1,426,128
  - Japan Trustee Services Bank, Ltd. (Trust Account) 1,292,116
  - GOVERNMENT OF NORWAY 1,088,98
  - KURUMINA TRANSPORTING CO., LTD. 1,038,93

- Other corporations 67,647,430 shares (185)
- Individuals and others 6,712,545 shares (5,184)
- Financial institutions, securities companies 17,608,552 shares (76)
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- Foreign shareholders 17,726,656 shares (62)

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

Domestic
- Hitachi Transport System East Japan Co., Ltd.
- Hitachi Transport System Kanto Co., Ltd.
- Hitachi Transport System Metropolitan Co., Ltd.
- Hitachi Transport System South Kantoo Co., Ltd.
- Hitachi Transport System Central Japan Co., Ltd.
- Hitachi Transport System West Japan Co., Ltd.
- Hitachi Transport System Kyushu Co., Ltd.
- Hitachi Transport Direx Co., Ltd.
- Hitachi Collaborate Transports System Co., Ltd.
- Hitachi Finehouse Transport System Co., Ltd.
- VANTEC CORPORATION
- VANTEC HTS FORWARDING, LTD.
- Nishin Transportan Co., Ltd.
- Project Cargo Japan, Inc.
- Hitachi Distribution Software Co., Ltd.
- Hitachi Auto Service Co., Ltd.
- Hitachi Travel Bureau, Ltd.

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

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

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