

(Revised on February 14, 2019)

Summary of Consolidated Financial Results [IFRS] for the Third Quarter Ended December 31, 2017

January 31, 2018

Listed Company: **Hitachi Transport System, Ltd.** Stock Exchange: First Section of Tokyo
 Code Number: 9086 URL: <http://www.hitachi-transportssystem.com/en/>
 Representative: Yasuo Nakatani, President and Chief Executive Officer
 Person in Charge: Isao Takaoka, General Manager of Public Relations Department, Corporate Strategy Office
 Date of the Release of Quarterly Report (Schedule): February 14, 2018
 Date of the Start of Dividend Payment (Schedule): —
 Creates Supplementary Materials for Quarterly Summaries: Yes
 Briefing Held on Quarterly Settlement of Accounts: Yes (for analysts and institutional investors)

(Figures are rounded off to the nearest million yen)

1. Consolidated Financial Highlights for the Third Quarter Ended December 31, 2017 (April 1, 2017 to December 31, 2017)

(1) Consolidated Financial Results (Cumulative) (% indicates the percentage change over year)

	Revenues		Adjusted operating income ^{*1}		EBIT ^{*2}		Income before income taxes		Net income		Net income attributable to stockholders of the parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2017	525,863	6.1	21,902	(3.7)	25,203	(6.9)	24,566	(6.2)	16,364	(8.9)	15,466	(7.9)
December 31, 2016	495,547	(3.5)	22,739	12.5	27,076	32.6	26,187	32.3	17,954	42.7	16,786	46.6

	Basic earnings per share attributable to stockholders of the parent company
	Yen
December 31, 2017	138.65
December 31, 2016	150.48

*1. [Adjusted operating income] = [Revenues] - [Cost of sales] - [Selling, general and administrative expenses]

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

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to stockholders of the parent company	Total equity attributable to stockholders of the parent company ratio
	Million yen	Million yen	Million yen	%
December 31, 2017	555,774	<u>204,219</u>	<u>200,283</u>	<u>36.0</u>
March 31, 2017	549,924	<u>190,919</u>	<u>187,482</u>	<u>34.1</u>

2. Dividends

	Dividend per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-End	Total
	Yen	Yen	Yen	Yen	Yen
March 31, 2017	—	17.00	—	17.00	34.00
March 31, 2018	—	18.00	—	—	—
March 31, 2018 (Forecasts)	—	—	—	18.00	36.00

(Note) Revision of the latest dividends forecasts: None

3. Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2018 (April 1, 2017 to March 31, 2018)

(% indicates the percentage change over year)

	Revenues		Adjusted operating income		EBIT		Income before income taxes		Net income		Net income attributable to stockholders of the parent company		Basic earnings per share attributable to stockholders of the parent company
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	690,000	3.7	29,500	0.1	32,100	1.7	30,900	1.7	21,100	5.9	20,000	6.9	179.29

(Note) Revision of the latest consolidated financial forecasts: None

*** Notes**

- (1) Changes in significant subsidiaries during the term (Change in specified subsidiaries causing changes in scope of consolidation):
None
- (2) Changes in accounting policies and accounting estimates
- (a) Changes in accounting policies required by IFRS: None
 - (b) Changes other than (a) above: None
 - (c) Changes in accounting estimates: None
- (3) Number of Shares Issued (Common Stock)
- (a) Number of shares at the end of the term (Including treasury stock)
 - As of December 31, 2017: 111,776,714 shares,
 - As of March 31, 2017: 111,776,714 shares
 - (b) Number of treasury stock at the end of the term
 - As of December 31, 2017: 226,898 shares,
 - As of March 31, 2017: 226,728 shares
 - (c) Average number of shares during the term
 - Nine months ended December 31, 2017: 111,549,918 shares,
 - Nine months ended December 31, 2016: 111,550,225 shares

(Note) Quarterly financial results are outside the scope of quarterly review.

(Note) Explanation on the appropriate use of financial forecasts and other important items

- The financial forecasts shown on this report are estimated based on information available as of the issuing date of this report, and therefore the actual results for the future terms may differ from these forecasted figures due to various unknown factors. For the assumptions for forecasts and cautions regarding the use of the forecasts, please refer to “1. Qualitative Information on Quarterly Financial Results for the Period under Review, (3) Explanation of Future Forecast Information including Consolidated Financial Forecasts” on Page 3.
- The Company plans to post supplementary materials on quarterly financial results on the Company’s website promptly after the announcement of the quarterly financial results.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

For the third quarter ended December 31, 2017, consolidated financial results of the Hitachi Transport System Group (the “Group”) are as follows:

	(Million yen)		
	Nine Months Ended December 31, 2016	Nine Months Ended December 31, 2017	Y on Y change
Revenues	495,547	525,863	106%
Adjusted operating income	22,739	21,902	96%
EBIT	27,076	25,203	93%
Net income attributable to stockholders of the parent company	16,786	15,466	92%

Revenues increased by 6% year-on-year to ¥525,863 million, and adjusted operating income, EBIT, and net income attributable to stockholders of the parent company decreased by 4%, 7%, and 8% year-on-year, to ¥21,902 million, ¥25,203 million, and ¥15,466 million respectively.

Results by business segment during the period under review are as follows:

【Domestic logistics business】			(Million yen)
	Nine Months Ended December 31, 2016	Nine Months Ended December 31, 2017	Y on Y change
Revenues	308,003	311,866	101%
Segment profit (Adjusted operating income)	16,821	15,942	95%

Revenues of domestic logistics business increased by 1% year-on-year to ¥311,866 million due to full-scale operations of new projects launched in the previous fiscal year (retail products and foods, etc.) and the effects of collaborative innovation with business partners.

Segment profit decreased by 5% year-on-year to ¥15,942 million mainly due to upfront investments for the next generation/advanced technologies and working method transformation despite a revenue increase and the effects of productivity enhancements.

【Global logistics business】			(Million yen)
	Nine Months Ended December 31, 2016	Nine Months Ended December 31, 2017	Y on Y change
Revenues	171,556	197,951	115%
Segment profit (Adjusted operating income)	4,485	4,769	106%

Revenues of global logistics business increased by 15% year-on-year to ¥197,951 million due to the recovery in handling volume in forwarding business especially in overseas, full-scale operations of new projects launched in the previous fiscal year (automobile and apparel-related), and positive impact of foreign exchange rates.

Segment profit increased by 6% year-on-year to ¥4,769 million due to a revenues increase despite an increased share of company-wide expenses based on the review of its allocation.

【Other services (logistics related businesses)】			(Million yen)
	Nine Months Ended December 31, 2016	Nine Months Ended December 31, 2017	Y on Y change
Revenues	15,988	16,046	100%
Segment profit (Adjusted operating income)	1,433	1,191	83%

Revenues of other services remained flat year-on-year and were ¥16,046 million.

Segment profit decreased by 17% year-on-year to ¥1,191 million due to a decrease in volume of automobile maintenance business.

(2) Explanation of Financial Position

1) Assets, Liabilities and Net Assets

Total assets as of December 31, 2017 amounted to ¥555,774 million, an increase of ¥5,850 million compared with the end of the previous fiscal year. Current assets increased by ¥2,885 million due to an increase of ¥11,704 million in trade receivables despite a decrease of ¥7,473 million in cash and cash equivalents. Non-current assets increased by ¥2,965 million because of increases of ¥2,921 million in investments accounted for using the equity method and ¥2,426 million in other financial assets despite a decrease of ¥1,727 million in intangible assets.

Total liabilities as of December 31, 2017 amounted to ¥351,555 million, a decrease of ¥7,450 million compared with the end of the previous fiscal year. Current liabilities decreased by ¥10,165 million due to decreases of ¥16,120 million in other financial liabilities and ¥5,186 million in other current liabilities, despite an increase of ¥9,774 million in current portion of long-term debt. Non-current liabilities increased by ¥2,715 million due to increases of ¥1,019 million in retirement and severance benefits and ¥12,726 million in other financial liabilities despite a decrease of ¥11,282 million in long-term debt.

Total equity as of December 31, 2017 amounted to ¥204,219 million, an increase of ¥13,300 million compared with the end of the previous fiscal year. Total equity attributable to stockholders of the parent company ratio increased from 34.1% at the end of the previous fiscal year to 36.0%.

2) Cash flows

Cash and cash equivalents (herein called “cash”) as of December 31, 2017 was ¥50,010 million, a decrease of ¥7,473 million from March 31, 2017.

Cash flows from each activity for the nine months ended December 31, 2017 and their significant components are as follows:

Net cash provided by operating activities was ¥12,987 million, an increase of ¥2,279 million compared with the nine months ended December 31, 2016. This is mainly due to an increase in cash from net income of ¥16,364 million and depreciation and amortization of ¥14,211 million, partly offset by a decrease in cash from increase in trade receivables of ¥9,245 million and decrease in other assets and liabilities of ¥6,796 million.

Net cash used in investing activities was ¥6,751 million, a decrease of ¥61,741 million compared with the nine months ended December 31, 2016. This is mainly due to a decrease in cash from proceeds from sale of property, plant and equipment and intangible assets of ¥1,313 million, purchase of property, plant and equipment and intangible assets of ¥8,799 million.

Net cash used in financing activities was ¥15,205 million, a decrease of ¥73,136 million compared with the nine months ended December 31, 2016. This is mainly due to a decrease in cash from purchase of shares of consolidated subsidiaries from non-controlling interests of ¥7,484 million, dividends paid to stockholders of the parent company of ¥3,904 million, and repayments of lease obligations of ¥3,515 million.

(3) Explanation of Future Forecast Information including Consolidated Financial Forecasts

In the global economy, there is an increasing concern over a shift from the current policy to promote free trade to protectionism/block economies, and Japanese companies are also showing signs of future strategy shift.

In the Japanese economy, the business environment, especially for logistics industry, is becoming severe as changes in consumption behavior represented by expanding EC market in addition to continuing concerns over labor shortage led to increasing needs for high-frequency, high-mix, small-lot delivery and the resulting cost increase to secure labor force to handle such delivery.

Under these circumstances, the Group aims to achieve sustainable growth and improve the Group’s corporate value by ensuring the implementation of the basic strategies of Mid-term Management Plan: “Drive thorough enhancement of 3PL business and increase market share,” “Enhance forwarding business” and “Enhance Heavy Machinery and Plant Logistics.”

No revision is made to the consolidated financial forecasts for the fiscal year ending March 31, 2018 (April 1, 2017 through March 31, 2018), released on October 26, 2017.

2. Summary of Condensed Quarterly Consolidated Financial Statements and Major Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Million yen)

	As of March 31, 2017	As of December 31, 2017
(Assets)		
Current assets		
Cash and cash equivalents	57,483	50,010
Trade receivables	125,600	137,304
Inventories	1,466	1,473
Other financial assets	7,086	6,434
Other current assets	13,227	12,526
Total current assets	204,862	207,747
Non-current assets		
Investments accounted for using the equity method	71,518	74,439
Property, plant and equipment	177,520	176,982
Goodwill	28,067	28,593
Intangible assets	34,766	33,039
Deferred tax assets	8,193	8,070
Other financial assets	16,858	19,284
Other non-current assets	8,140	7,620
Total non-current assets	345,062	348,027
Total assets	549,924	555,774

(Million yen)

	As of March 31, 2017	As of December 31, 2017
(Liabilities)		
Current liabilities		
Trade payables	51,786	53,722
Short-term debt	8,557	10,544
Current portion of long-term debt	5,644	15,418
Income tax payable	7,253	4,697
Other financial liabilities	<u>46,523</u>	<u>30,403</u>
Other current liabilities	31,347	26,161
Total current liabilities	<u>151,110</u>	<u>140,945</u>
Non-current liabilities		
Long-term debt	149,914	138,632
Retirement and severance benefits	31,187	32,206
Deferred tax liabilities	11,481	11,578
Other financial liabilities	<u>12,741</u>	<u>25,467</u>
Other non-current liabilities	2,572	2,727
Total non-current liabilities	<u>207,895</u>	<u>210,610</u>
Total liabilities	<u>359,005</u>	<u>351,555</u>
(Equity)		
Equity attributable to stockholders of the parent company		
Common stock	16,803	16,803
Retained earnings	<u>171,633</u>	<u>179,298</u>
Accumulated other comprehensive income	(774)	<u>4,363</u>
Treasury stock, at cost	(180)	(181)
Total equity attributable to stockholders of the parent company	<u>187,482</u>	<u>200,283</u>
Non-controlling interests	<u>3,437</u>	<u>3,936</u>
Total equity	<u>190,919</u>	<u>204,219</u>
Total liabilities and equity	549,924	555,774

(2) Condensed Quarterly Consolidated Statement of Profit or Loss and Comprehensive Income

Condensed Quarterly Consolidated Statement of Profit or Loss

(Million yen)

	Nine Months Ended December 31, 2016 (April 1, 2016 to December 31, 2016)	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)
Revenues	495,547	525,863
Cost of sales	(439,232)	(466,562)
Gross profit	56,315	59,301
Selling, general and administrative expenses	(33,576)	(37,399)
Adjusted operating income	22,739	21,902
Other income	2,384	807
Other expenses	(1,027)	(1,417)
Operating income	24,096	21,292
Financial income	97	92
Financial expenses	(152)	(969)
Share of profits of investments accounted for using the equity method	3,035	4,788
Earnings before interest and taxes	27,076	25,203
Interest income	550	700
Interest expenses	(1,439)	(1,337)
Income before income taxes	26,187	24,566
Income taxes	(8,233)	(8,202)
Net income	17,954	16,364
Attributable to:		
Stockholders of the parent company	16,786	15,466
Non-controlling interests	1,168	898

	Nine Months Ended December 31, 2016 (April 1, 2016 to December 31, 2016)	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)
Earnings per share attributable to stockholders of the parent company		
Basic	¥150.48	¥138.65
Diluted	—	—

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Million yen)

	Nine Months Ended December 31, 2016 (April 1, 2016 to December 31, 2016)	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)
Net income	17,954	16,364
Other comprehensive income (OCI)		
Items not to be reclassified into net income		
Net changes in financial assets measured at fair value through OCI	(206)	471
Share of OCI of investments accounted for using the equity method	9	(19)
Total items not to be reclassified into net income	(197)	452
Items that can be reclassified into net income		
Foreign currency translation adjustments	(944)	4,936
Net changes in cash flow hedges	36	—
Share of OCI of investments accounted for using the equity method	(109)	8
Total items that can be reclassified into net income	(1,017)	4,944
Other comprehensive income	(1,214)	5,396
Comprehensive income	16,740	21,760
Attributable to:		
Stockholders of the parent company	15,930	19,799
Non-controlling interests	810	1,961

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

(Million yen)

Nine Months Ended December 31, 2016 (April 1, 2016 to December 31, 2016)							
					Total equity attributable to stockholders of the parent company	Non-controlling interests	Total equity
	Common stock	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost			
Balance at beginning of period	16,803	<u>157,362</u>	<u>1,558</u>	(180)	<u>175,543</u>	<u>3,009</u>	<u>178,552</u>
Changes in equity							
Net income	—	16,786	—	—	16,786	1,168	17,954
Other comprehensive income	—	—	(856)	—	(856)	(358)	(1,214)
Dividends	—	(3,569)	—	—	(3,569)	(77)	(3,646)
Acquisition and sales of treasury stock	—	—	—	(0)	(0)	—	(0)
<u>Changes in liabilities for written put options over non-controlling interests</u>	<u>—</u>	<u>1,147</u>	<u>(244)</u>	<u>—</u>	<u>903</u>	<u>(460)</u>	<u>443</u>
Total changes in equity	—	<u>14,364</u>	<u>(1,100)</u>	(0)	<u>13,264</u>	<u>273</u>	<u>13,537</u>
Balance at end of period	16,803	<u>171,726</u>	<u>458</u>	(180)	<u>188,807</u>	<u>3,282</u>	<u>192,089</u>

(Million yen)

Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)							
					Total equity attributable to stockholders of the parent company	Non-controlling interests	Total equity
	Common stock	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost			
Balance at beginning of period	16,803	<u>171,633</u>	<u>(774)</u>	(180)	<u>187,482</u>	<u>3,437</u>	<u>190,919</u>
Changes in equity							
Net income	—	15,466	—	—	15,466	898	16,364
Other comprehensive income	—	—	4,333	—	4,333	1,063	5,396
Transactions with non-controlling interests	—	2	—	—	2	(122)	(113)
Dividends	—	(3,904)	—	—	(3,904)	(90)	(3,994)
Transfer to retained earnings	—	10	(10)	—	—	—	—
Acquisition and sales of treasury stock	—	—	—	(1)	(1)	—	(1)
<u>Changes in liabilities for written put options over non-controlling interests</u>	<u>—</u>	<u>(3,916)</u>	<u>814</u>	<u>—</u>	<u>(3,102)</u>	<u>(1,250)</u>	<u>(4,352)</u>
Total changes in equity	—	<u>7,665</u>	<u>5,137</u>	(1)	<u>12,801</u>	<u>499</u>	<u>13,300</u>
Balance at end of period	16,803	<u>179,298</u>	<u>4,363</u>	(181)	<u>200,283</u>	<u>3,936</u>	<u>204,219</u>

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Million yen)

	Nine Months Ended December 31, 2016 (April 1, 2016 to December 31, 2016)	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)
Cash flows from operating activities		
Net income	17,954	16,364
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	13,994	14,211
Impairment losses	—	483
Reversals of impairment losses	(461)	—
Share of profits of investments accounted for using the equity method	(3,035)	(4,788)
Income taxes	8,233	8,202
Increase in retirement and severance benefits	260	950
Interest and dividend income	(635)	(785)
Interest expenses	1,439	1,337
Gain on sale of property, plant and equipment	(1,544)	(265)
Increase in trade receivables	(9,261)	(9,245)
(Increase) decrease in inventories	(315)	34
Increase in trade payables	843	524
Decrease in other assets and liabilities	(6,046)	(6,796)
Other	679	677
Subtotal	22,105	20,903
Interest and dividend received	846	2,594
Interest paid	(1,349)	(1,185)
Income taxes paid	(10,894)	(9,325)
Net cash provided by operating activities	10,708	12,987
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(10,468)	(8,799)
Proceeds from sale of property, plant and equipment, and intangible assets	4,393	1,313
Proceeds from withdrawal of deposits	3,500	—
Acquisition of investments accounted for using the equity method	(66,843)	—
Other	926	735
Net cash used in investing activities	(68,492)	(6,751)
Cash flows from financing activities		
Increase (decrease) in short-term debt, net	(484)	1,253
Proceeds from long-term debt	122,828	—
Repayments on long-term debt	(54,960)	(1,211)
Repayments of lease obligations	(3,612)	(3,515)
Purchase of shares of consolidated subsidiaries from non-controlling interests	(2,085)	(7,484)
Dividends paid to stockholders of the parent company	(3,569)	(3,904)
Dividends paid to holders of non-controlling interests	(86)	(107)
Other	(101)	(237)
Net cash provided by (used in) financing activities	57,931	(15,205)
Effect of exchange rate changes on cash and cash equivalents	(401)	1,496
Net decrease in cash and cash equivalents	(254)	(7,473)
Cash and cash equivalents at beginning of period	45,146	57,483
Cash and cash equivalents at end of period	44,892	50,010

(5) Summary of Notes to the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

None

(Segment information)

Nine Months Ended December 31, 2016 (April 1, 2016 to December 31, 2016)

(Million yen)

	Reporting segment			Other services ¹	Total	Adjustments and eliminations ²	Amount recorded in consolidated financial statements
	Domestic logistics	Global logistics	Subtotal				
Revenues							
Revenues from outside customers	308,003	171,556	479,559	15,988	495,547	—	495,547
Revenues from intersegment transactions or transfers	—	—	—	7,561	7,561	(7,561)	—
Total	308,003	171,556	479,559	23,549	503,108	(7,561)	495,547
Segment profit	16,821	4,485	21,306	1,433	22,739	—	22,739
Other income							2,384
Other expenses							(1,027)
Financial income							97
Financial expenses							(152)
Share of profits of investments accounted for using the equity method							3,035
Interest income							550
Interest expenses							(1,439)
Income before income taxes							26,187

Note: 1. "Other services" includes information system development, service, sale and maintenance of motor vehicles, and travel agency service, which are excluded in the reporting segments.

2. Company-wide expenses which do not belong to any business segment such as corporate general administration expenses incurred in the parent company are allocated to each business segment in accordance with a rational basis.

Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)

(Million yen)

	Reporting segment			Other services ¹	Total	Adjustments and eliminations ²	Amount recorded in consolidated financial statements
	Domestic logistics	Global logistics	Subtotal				
Revenues							
Revenues from outside customers	311,866	197,951	509,817	16,046	525,863	—	525,863
Revenues from intersegment transactions or transfers	—	—	—	7,628	7,628	(7,628)	—
Total	311,866	197,951	509,817	23,674	533,491	(7,628)	525,863
Segment profit	15,942	4,769	20,711	1,191	21,902	—	21,902
Other income							807
Other expenses							(1,417)
Financial income							92
Financial expenses							(969)
Share of profits of investments accounted for using the equity method							4,788
Interest income							700
Interest expenses							(1,337)
Income before income taxes							24,566

Note: 1. “Other services” includes information system development, service, sale and maintenance of motor vehicles, and travel agency service, which are excluded in the reporting segments.

2. Company-wide expenses which do not belong to any business segment such as corporate general administration expenses incurred in the parent company are allocated to each business segment in accordance with a rational basis.