

(Revised on February 14, 2019)

Summary of Consolidated Financial Results [IFRS] for the Second Quarter Ended September 30, 2018

October 26, 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): November 14, 2018
 Date of the Start of Dividend Payment (Schedule): November 26, 2018
 Creates Supplementary Materials for Quarterly Summaries: Yes
 Briefing Held on Quarterly Settlement of Accounts: Yes (for analysts, institutional investors and press)

(Figures are rounded off to the nearest million yen)

1. Consolidated Financial Highlights for the Second Quarter Ended September 30, 2018 (April 1, 2018 to September 30, 2018)

(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	%
September 30, 2018	352,385	2.5	14,849	5.7	14,824	(5.5)	14,421	(5.5)	8,711	(13.1)	8,324	(10.8)
September 30, 2017	343,662	5.9	14,049	(3.1)	15,693	5.4	15,267	6.3	10,028	4.1	9,334	5.4

	Basic earnings per share attributable to stockholders of the parent company
September 30, 2018	Yen 74.62
September 30, 2017	83.68

*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
September 30, 2018	Million yen 604,815	Million yen <u>215,816</u>	Million yen <u>211,607</u>	% <u>35.0</u>
March 31, 2018	564,903	<u>208,291</u>	<u>204,328</u>	<u>36.2</u>

2. Dividends

	Dividend per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-End	Total
March 31, 2018	—	Yen 18.00	Yen —	Yen 18.00	Yen 36.00
March 31, 2019	—	19.00	—	—	—
March 31, 2019 (Forecasts)	—	—	—	20.00	39.00

(Note) Revision of the latest dividends forecasts: None

3. Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(% 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	710,000	1.4	31,000	4.0	34,700	4.9	33,600	4.1	22,900	3.6	21,500	2.8	192.74

(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: Yes

(b) Changes other than (a) above: None

(c) Changes in accounting estimates: None

(Note) For details, please refer to "2. Summary of Condensed Quarterly Consolidated Financial Statements and Major Notes (5) Summary of Notes to the Quarterly Consolidated Financial Statements (Changes in Accounting Policies)" on Page 10.

(3) Number of Shares Issued (Common Stock)

(a) Number of shares at the end of the term (Including treasury stock)

As of September 30, 2018: 111,776,714 shares,

As of March 31, 2018: 111,776,714 shares

(b) Number of treasury stock at the end of the term

As of September 30, 2018: 227,038 shares,

As of March 31, 2018: 226,948 shares

(c) Average number of shares during the term

Six months ended September 30, 2018: 111,549,724 shares,

Six months ended September 30, 2017: 111,549,928 shares

(Note) Quarterly financial results are outside the scope of quarterly review by certified public accountants or an audit corporation.

(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 the supplementary material and the presentation material on quarterly financial results on the Company's website promptly after the quarterly financial results briefing.

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

(1) Explanation of Operating Results

For the second quarter ended September 30, 2018, consolidated financial results of the Hitachi Transport System Group (the “Group”) are as follows:

	(Million yen)		
	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018	Y on Y change
Revenues	343,662	352,385	103%
Adjusted operating income	14,049	14,849	106%
EBIT	15,693	14,824	94%
Net income attributable to stockholders of the parent company	9,334	8,324	89%

Revenues increased by 3% year-on-year to ¥352,385 million. Adjusted operating income increased by 6% year-on-year to ¥14,849 million, and EBIT and net income attributable to stockholders of the parent company both decreased by 6% and 11% year-on-year to ¥14,824 million and ¥8,324 million, respectively.

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

【Domestic logistics business】			(Million yen)
	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018	Y on Y change
Revenues	205,425	212,847	104%
Segment profit (Adjusted operating income)	10,172	10,514	103%

Revenues of domestic logistics business increased by 4% year-on-year to ¥212,847 million due to full-scale operation of medical-related projects and a steady increase in handling volume.

Segment profit increased by 3% year-on-year to ¥10,514 million due to an increase in revenues and improved productivity despite an increase in work costs and the impact of natural disasters.

【Global logistics business】			(Million yen)
	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018	Y on Y change
Revenues	127,706	129,347	101%
Segment profit (Adjusted operating income)	3,056	3,584	117%

Revenues of global logistics business increased by 1% year-on-year to ¥129,347 million due to a steady growth of overseas 3PL projects and other projects.

Segment profit increased by 17% year-on-year to ¥3,584 million due to an increase in revenues and improved profitability of unprofitable projects.

【Other services (logistics related businesses)】			(Million yen)
	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018	Y on Y change
Revenues	10,531	10,191	97%
Segment profit (Adjusted operating income)	821	751	91%

Revenues of other services decreased by 3% year-on-year to ¥10,191 million.

Segment profit decreased by 9% year-on-year to ¥751 million.

(2) Explanation of Financial Position

1) Assets, Liabilities and Net Assets

Total assets as of September 30, 2018 amounted to ¥604,815 million, an increase of ¥39,912 million compared with the end of the previous fiscal year. Current assets increased by ¥38,501 million due to an increase of ¥42,272 million in cash and cash equivalents despite a decrease of ¥2,423 million in other financial assets. Non-current assets increased by ¥1,411 million because of an increase of ¥1,943 million in property, plant and equipment despite a decrease of ¥454 million in intangible assets.

Total liabilities as of September 30, 2018 amounted to ¥388,999 million, an increase of ¥32,387 million compared with the end of the previous fiscal year. Current liabilities decreased by ¥16,894 million due to decreases of ¥9,966 million in current portion of long-term debt and ¥3,262 million in income tax payable. Non-current liabilities increased by ¥49,281 million mainly due to an increase of ¥49,604 million in long-term debt.

Total equity as of September 30, 2018 amounted to ¥215,816 million, an increase of ¥7,525 million compared with the end of the previous fiscal year. Total equity attributable to stockholders of the parent company ratio decreased from 36.2% at the end of the previous fiscal year to 35.0%.

2) Cash flows

Cash and cash equivalents (herein called “cash”) as of September 30, 2018 was ¥105,769 million, an increase of ¥42,272 million from March 31, 2018.

Cash flows from each activity for the six months ended September 30, 2018 and their significant components are as follows:

Net cash provided by operating activities was ¥15,289 million, an increase of ¥5,244 million compared with the six months ended September 30, 2017. This is mainly due to an increase in cash from depreciation and amortization of ¥9,483 million and net income of ¥8,711 million, partly offset by a decrease in cash from share of profits of investments accounted for using the equity method of ¥2,280 million.

Net cash used in investing activities was ¥6,811 million, an increase of ¥2,393 million compared with the six months ended September 30, 2017. This is mainly due to a decrease in cash from purchase of property, plant and equipment and intangible assets of ¥7,449 million.

Net cash provided by financing activities was ¥33,386 million, an increase of ¥45,374 million compared with the six months ended September 30, 2017. This is mainly due to an increase in cash from proceeds from long-term debt of ¥49,749 million, partly offset by a decrease in cash from repayments on long-term debt of ¥10,602 million, repayments of lease obligations of ¥2,237 million, and dividends paid to stockholders of the parent company of ¥2,008 million.

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

While the global economy continues to show a growth trend, attention must still be paid to the impact of protectionism and trade friction as well as geopolitical risks and the impact of natural disasters, etc. In Japan, especially in the logistics industry, the business environment is becoming severe due to intensifying competitions across industries caused by labor shortage and expansion of EC market.

Under these circumstances, the Group 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, 2019 (April 1, 2018 through March 31, 2019), released on April 27, 2018.

The Hitachi Transport System Group will exceed the domain of Smart Logistics and has started our new business concept “LOGISTEED” which reflects the Group’s commitment toward our brand slogan “Taking on the Future.”

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

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, 2018	As of September 30, 2018
(Assets)		
Current assets		
Cash and cash equivalents	63,497	105,769
Trade receivables and contract assets	135,987	135,904
Inventories	1,711	1,542
Other financial assets	7,868	5,445
Other current assets	11,089	9,993
Total current assets	220,152	258,653
Non-current assets		
Investments accounted for using the equity method	75,349	75,022
Property, plant and equipment	175,015	176,958
Goodwill	27,869	28,266
Intangible assets	31,833	31,379
Deferred tax assets	8,466	8,346
Other financial assets	18,320	18,265
Other non-current assets	7,899	7,926
Total non-current assets	344,751	346,162
Total assets	564,903	604,815

(Million yen)

	As of March 31, 2018	As of September 30, 2018
(Liabilities)		
Current liabilities		
Trade payables	55,078	53,274
Short-term debt	10,747	11,119
Current portion of long-term debt	15,307	5,341
Income tax payable	6,782	3,520
Other financial liabilities	<u>29,049</u>	<u>28,273</u>
Other current liabilities	30,829	29,371
Total current liabilities	<u>147,792</u>	<u>130,898</u>
Non-current liabilities		
Long-term debt	138,244	187,848
Retirement and severance benefits	32,077	32,449
Deferred tax liabilities	10,897	10,939
Other financial liabilities	<u>23,721</u>	<u>23,064</u>
Other non-current liabilities	3,881	3,801
Total non-current liabilities	<u>208,820</u>	<u>258,101</u>
Total liabilities	<u>356,612</u>	<u>388,999</u>
(Equity)		
Equity attributable to stockholders of the parent company		
Common stock	16,803	16,803
Retained earnings	<u>186,373</u>	<u>192,635</u>
Accumulated other comprehensive income	<u>1,333</u>	<u>2,350</u>
Treasury stock, at cost	(181)	(181)
Total equity attributable to stockholders of the parent company	<u>204,328</u>	<u>211,607</u>
Non-controlling interests	<u>3,963</u>	<u>4,209</u>
Total equity	<u>208,291</u>	<u>215,816</u>
Total liabilities and equity	564,903	604,815

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

Condensed Quarterly Consolidated Statement of Profit or Loss

(Million yen)

	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Six Months Ended September 30, 2018 (April 1, 2018 to September 30, 2018)
Revenues	343,662	352,385
Cost of sales	(304,965)	(312,166)
Gross profit	38,697	40,219
Selling, general and administrative expenses	(24,648)	(25,370)
Adjusted operating income	14,049	14,849
Other income	438	308
Other expenses	(668)	(1,119)
Operating income	13,819	14,038
Financial income	72	57
Financial expenses	(417)	(1,551)
Share of profits of investments accounted for using the equity method	2,219	2,280
Earnings before interest and taxes	15,693	14,824
Interest income	450	533
Interest expenses	(876)	(936)
Income before income taxes	15,267	14,421
Income taxes	(5,239)	(5,710)
Net income	10,028	8,711
Attributable to:		
Stockholders of the parent company	9,334	8,324
Non-controlling interests	694	387

	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Six Months Ended September 30, 2018 (April 1, 2018 to September 30, 2018)
Earnings per share attributable to stockholders of the parent company		
Basic	¥83.68	¥74.62
Diluted	—	—

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Million yen)

	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Six Months Ended September 30, 2018 (April 1, 2018 to September 30, 2018)
Net income	10,028	8,711
Other comprehensive income (OCI)		
Items not to be reclassified into net income		
Net changes in financial assets measured at fair value through OCI	226	110
Share of OCI of investments accounted for using the equity method	(21)	3
Total items not to be reclassified into net income	205	113
Items that can be reclassified into net income		
Foreign currency translation adjustments	3,758	954
Net changes in cash flow hedges	—	1
Share of OCI of investments accounted for using the equity method	(13)	(19)
Total items that can be reclassified into net income	3,745	936
Other comprehensive income	3,950	1,049
Comprehensive income	13,978	9,760
Attributable to:		
Stockholders of the parent company	12,434	9,190
Non-controlling interests	1,544	570

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

(Million yen)

Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 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>	(774)	(180)	<u>187,482</u>	<u>3,437</u>	<u>190,919</u>
Changes in equity							
Net income	—	9,334	—	—	9,334	694	10,028
Other comprehensive income	—	—	3,100	—	3,100	850	3,950
Transactions with non-controlling interests	—	9	—	—	9	(122)	(113)
Dividends	—	(1,896)	—	—	(1,896)	(78)	(1,974)
Transfer to retained earnings	—	4	(4)	—	—	—	—
Acquisition and sales of treasury stock	—	—	—	(1)	(1)	—	(1)
Changes in liabilities for written put options over non-controlling interests	—	(3,642)	716	—	(2,926)	(1,141)	(4,067)
Total changes in equity	—	<u>3,809</u>	<u>3,812</u>	(1)	<u>7,620</u>	<u>203</u>	<u>7,823</u>
Balance at end of period	16,803	<u>175,442</u>	<u>3,038</u>	(181)	<u>195,102</u>	<u>3,640</u>	<u>198,742</u>

(Million yen)

Six Months Ended September 30, 2018 (April 1, 2018 to September 30, 2018)							
					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>186,373</u>	<u>1,333</u>	(181)	<u>204,328</u>	<u>3,963</u>	<u>208,291</u>
Cumulative effects of changes in accounting policies	—	25	—	—	25	—	25
Restated balance	16,803	<u>186,398</u>	<u>1,333</u>	(181)	<u>204,353</u>	<u>3,963</u>	<u>208,316</u>
Changes in equity							
Net income	—	8,324	—	—	8,324	387	8,711
Other comprehensive income	—	—	866	—	866	183	1,049
Dividends	—	(2,008)	—	—	(2,008)	(138)	(2,146)
Acquisition and sales of treasury stock	—	—	—	(0)	(0)	—	(0)
Changes in liabilities for written put options over non-controlling interests	—	(79)	151	—	72	(186)	(114)
Total changes in equity	—	<u>6,237</u>	<u>1,017</u>	(0)	<u>7,254</u>	<u>246</u>	<u>7,500</u>
Balance at end of period	16,803	<u>192,635</u>	<u>2,350</u>	(181)	<u>211,607</u>	<u>4,209</u>	<u>215,816</u>

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Million yen)

	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Six Months Ended September 30, 2018 (April 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Net income	10,028	8,711
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	9,425	9,483
Impairment losses	—	29
Share of profits of investments accounted for using the equity method	(2,219)	(2,280)
Income taxes	5,239	5,710
Increase in retirement and severance benefits	655	365
Interest and dividends income	(516)	(589)
Interest expenses	876	936
Gain on sale of property, plant and equipment	(110)	(43)
(Increase) decrease in trade receivables and contract assets	(5,676)	836
(Increase) decrease in inventories	(17)	194
Decrease in trade payables	(1,066)	(2,120)
Decrease in other assets and liabilities	(4,168)	(2,768)
Other	464	155
Subtotal	12,915	18,619
Interest and dividends received	2,214	3,024
Interest paid	(842)	(904)
Income taxes paid	(4,242)	(5,450)
Net cash provided by operating activities	10,045	15,289
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(5,140)	(7,449)
Proceeds from sale of property, plant and equipment and intangible assets	549	323
Other	173	315
Net cash used in investing activities	(4,418)	(6,811)
Cash flows from financing activities		
Increase in short-term debt, net	770	118
Proceeds from long-term debt	—	49,749
Repayments on long-term debt	(814)	(10,602)
Repayments of lease obligations	(2,324)	(2,237)
Purchase of shares of consolidated subsidiaries from non-controlling interests	(7,484)	(1,099)
Dividends paid to stockholders of the parent company	(1,896)	(2,008)
Dividends paid to non-controlling interests	(95)	(138)
Other	(145)	(397)
Net cash provided by (used in) financing activities	(11,988)	33,386
Effect of exchange rate changes on cash and cash equivalents	1,093	408
Net decrease in cash and cash equivalents	(5,268)	42,272
Cash and cash equivalents at beginning of period	57,483	63,497
Cash and cash equivalents at end of period	52,215	105,769

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

(Notes on Going Concern Assumptions)

None

(Changes in Accounting Policies)

1. Adoption of IFRS 9 “Financial Instruments” (amended in July 2014)

Effective April 1, 2018, the Group adopted IFRS 9 “Financial Instruments” (amended in July 2014). The Group adopted IFRS 9 in accordance with the transition method and recognized the cumulative effect of initial adoption of the standard as an adjustment to the balance of retained earnings as of April 1, 2018. The adoption of this standard has no material impact on the Group’s financial position and operating results.

2. Adoption of IFRS 15 “Revenue from Contracts with Customers”

Effective April 1, 2018, the Group adopted IFRS 15 “Revenue from Contracts with Customers.” The Group adopted IFRS 15 retrospectively in accordance with the transition method and recognized the cumulative effect of initial adoption of the standard as an adjustment to the balance of retained earnings as of April 1, 2018. The adoption of this standard has no material impact on the Group’s financial position and operating results.

(Segment Information)

Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 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	205,425	127,706	333,131	10,531	343,662	—	343,662
Revenues from intersegment transactions or transfers	—	—	—	5,120	5,120	(5,120)	—
Total	205,425	127,706	333,131	15,651	348,782	(5,120)	343,662
Segment profit	10,172	3,056	13,228	821	14,049	—	14,049
Other income							438
Other expenses							(668)
Financial income							72
Financial expenses							(417)
Share of profits of investments accounted for using the equity method							2,219
Interest income							450
Interest expenses							(876)
Income before income taxes							15,267

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

Six Months Ended September 30, 2018 (April 1, 2018 to September 30, 2018)

(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	212,847	129,347	342,194	10,191	352,385	—	352,385
Revenues from intersegment transactions or transfers	—	—	—	5,782	5,782	(5,782)	—
Total	212,847	129,347	342,194	15,973	358,167	(5,782)	352,385
Segment profit	10,514	3,584	14,098	751	14,849	—	14,849
Other income							308
Other expenses							(1,119)
Financial income							57
Financial expenses							(1,551)
Share of profits of investments accounted for using the equity method							2,280
Interest income							533
Interest expenses							(936)
Income before income taxes							14,421

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