

Summary of Consolidated Financial Results [IFRS] for the Third Quarter Ended December 31, 2018

January 31, 2019

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, 2019
 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, 2018 (April 1, 2018 to December 31, 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	%
December 31, 2018	535,838	1.9	24,060	9.9	27,557	9.3	26,894	9.5	18,413	12.5	17,435	12.7
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)

	Basic earnings per share attributable to stockholders of the parent company
	Yen
December 31, 2018	156.30
December 31, 2017	138.65

*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, 2018	598,694	221,045	216,807	36.2
March 31, 2018	564,903	208,291	204,328	36.2

2. Dividends

	Dividend per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-End	Total
	Yen	Yen	Yen	Yen	Yen
March 31, 2018	—	18.00	—	18.00	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 December 31, 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 December 31, 2018: 227,152 shares,

As of March 31, 2018: 226,948 shares

(c) Average number of shares during the term

Nine months ended December 31, 2018: 111,549,690 shares,

Nine months ended December 31, 2017: 111,549,918 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 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, 2018, consolidated financial results of the Hitachi Transport System Group (the “Group”) are as follows:

	(Million yen)		
	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Y on Y change
Revenues	525,863	535,838	102%
Adjusted operating income	21,902	24,060	110%
EBIT	25,203	27,557	109%
Net income attributable to stockholders of the parent company	15,466	17,435	113%

Revenues increased by 2% year-on-year to ¥535,838 million, and adjusted operating income, EBIT, and net income attributable to stockholders of the parent company also increased by 10%, 9%, and 13% year-on-year, to ¥24,060 million, ¥27,557 million, and ¥17,435 million respectively.

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

【Domestic logistics business】			(Million yen)
	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Y on Y change
Revenues	311,866	324,520	104%
Segment profit (Adjusted operating income)	15,942	16,862	106%

Revenues of domestic logistics business increased by 4% year-on-year to ¥324,520 million due to a steady growth of medical-related and other 3PL projects.

Segment profit increased by 6% year-on-year to ¥16,862 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)
	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Y on Y change
Revenues	197,951	196,286	99%
Segment profit (Adjusted operating income)	4,769	5,722	120%

Revenues of global logistics business decreased by 1% year-on-year to ¥196,286 million due to a negative impact of foreign exchange rates.

Segment profit increased by 20% year-on-year to ¥5,722 million due to improved profitability of unprofitable projects.

【Other services (logistics related businesses)】			(Million yen)
	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Y on Y change
Revenues	16,046	15,032	94%
Segment profit (Adjusted operating income)	1,191	1,476	124%

Revenues of other services decreased by 6% year-on-year to ¥15,032 million.

Segment profit increased by 24% year-on-year to ¥1,476 million due to an increase in profit from vehicle and equipment sales and leasing business.

(2) Explanation of Financial Position

1) Assets, Liabilities and Net Assets

Total assets as of December 31, 2018 amounted to ¥598,694 million, an increase of ¥33,791 million compared with the end of the previous fiscal year. Current assets increased by ¥32,201 million due to an increase of ¥33,786 million in cash and cash equivalents despite a decrease of ¥3,382 million in trade receivables and contract assets. Non-current assets increased by ¥1,590 million because of an increase of ¥2,836 million in property, plant and equipment despite a decrease of ¥2,573 million in intangible assets.

Total liabilities as of December 31, 2018 amounted to ¥377,649 million, an increase of ¥21,037 million compared with the end of the previous fiscal year. Current liabilities decreased by ¥27,589 million due to decreases of ¥10,038 million in current portion of long-term debt, ¥6,787 million in other current liabilities and ¥5,073 million in income tax payable. Non-current liabilities increased by ¥48,626 million mainly due to an increase of ¥49,333 million in long-term debt.

Total equity as of December 31, 2018 amounted to ¥221,045 million, an increase of ¥12,754 million compared with the end of the previous fiscal year. Total equity attributable to stockholders of the parent company ratio was 36.2% same as the end of the previous fiscal year.

2) Cash flows

Cash and cash equivalents (herein called “cash”) as of December 31, 2018 was ¥98,674 million, an increase of ¥35,177 million from March 31, 2018.

Cash flows from each activity for the nine months ended December 31, 2018 and their significant components are as follows:

Net cash provided by operating activities was ¥21,955 million, an increase of ¥8,968 million compared with the nine months ended December 31, 2017. This is mainly due to an increase in cash from net income of ¥18,413 million and depreciation and amortization of ¥14,232 million, partly offset by a decrease in cash from decrease in other assets and liabilities of ¥6,855 million.

Net cash used in investing activities was ¥10,534 million, an increase of ¥3,783 million compared with the nine months ended December 31, 2017. This is mainly due to a decrease in cash from purchase of property, plant and equipment and intangible assets of ¥12,308 million.

Net cash provided by financing activities was ¥23,930 million, an increase of ¥39,135 million compared with the nine months ended December 31, 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 ¥11,286 million and purchase of shares of consolidated subsidiaries from non-controlling interests of ¥4,963 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 December 31, 2018
(Assets)		
Current assets		
Cash and cash equivalents	63,497	97,283
Trade receivables and contract assets	135,987	132,605
Inventories	1,711	1,352
Other financial assets	7,868	4,694
Other current assets	11,089	9,700
Subtotal	220,152	245,634
Assets held for sale	—	6,719
Total current assets	220,152	252,353
Non-current assets		
Investments accounted for using the equity method	75,349	77,721
Property, plant and equipment	175,015	177,851
Goodwill	27,869	27,958
Intangible assets	31,833	29,260
Deferred tax assets	8,466	8,284
Other financial assets	18,320	17,568
Other non-current assets	7,899	7,699
Total non-current assets	344,751	346,341
Total assets	564,903	598,694

(Million yen)

	As of March 31, 2018	As of December 31, 2018
(Liabilities)		
Current liabilities		
Trade payables	55,078	52,026
Short-term debt	10,747	9,502
Current portion of long-term debt	15,307	5,269
Income tax payable	6,782	1,709
Other financial liabilities	29,049	25,576
Other current liabilities	30,829	24,042
Subtotal	147,792	118,124
Liabilities directly associated with assets held for sale	—	2,079
Total current liabilities	147,792	120,203
Non-current liabilities		
Long-term debt	138,244	187,577
Retirement and severance benefits	32,077	32,205
Deferred tax liabilities	10,897	10,922
Other financial liabilities	23,721	23,002
Other non-current liabilities	3,881	3,740
Total non-current liabilities	208,820	257,446
Total liabilities	356,612	377,649
(Equity)		
Equity attributable to stockholders of the parent company		
Common stock	16,803	16,803
Retained earnings	186,373	200,408
Accumulated other comprehensive income	1,333	(222)
Treasury stock, at cost	(181)	(182)
Total equity attributable to stockholders of the parent company	204,328	216,807
Non-controlling interests	3,963	4,238
Total equity	208,291	221,045
Total liabilities and equity	564,903	598,694

(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, 2017 (April 1, 2017 to December 31, 2017)	Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)
Revenues	525,863	535,838
Cost of sales	(466,562)	(473,511)
Gross profit	59,301	62,327
Selling, general and administrative expenses	(37,399)	(38,267)
Adjusted operating income	21,902	24,060
Other income	807	475
Other expenses	(1,417)	(1,947)
Operating income	21,292	22,588
Financial income	92	449
Financial expenses	(969)	(988)
Share of profits of investments accounted for using the equity method	4,788	5,508
Earnings before interest and taxes	25,203	27,557
Interest income	700	815
Interest expenses	(1,337)	(1,478)
Income before income taxes	24,566	26,894
Income taxes	(8,202)	(8,481)
Net income	16,364	18,413
Attributable to:		
Stockholders of the parent company	15,466	17,435
Non-controlling interests	898	978

	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)
Earnings per share attributable to stockholders of the parent company		
Basic	¥138.65	¥156.30
Diluted	—	—

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Million yen)

	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)
Net income	16,364	18,413
Other comprehensive income (OCI)		
Items not to be reclassified into net income		
Net changes in financial assets measured at fair value through OCI	471	(358)
Share of OCI of investments accounted for using the equity method	(19)	(33)
Total items not to be reclassified into net income	452	(391)
Items that can be reclassified into net income		
Foreign currency translation adjustments	4,936	(1,247)
Net changes in cash flow hedges	—	(3)
Share of OCI of investments accounted for using the equity method	8	(18)
Total items that can be reclassified into net income	4,944	(1,268)
Other comprehensive income	5,396	(1,659)
Comprehensive income	21,760	16,754
Attributable to:		
Stockholders of the parent company	19,799	15,952
Non-controlling interests	1,961	802

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

(Million yen)

Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)							
	Common stock	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total equity attributable to stockholders of the parent company	Non-controlling interests	Total equity
Balance at beginning of period	16,803	171,633	(774)	(180)	187,482	3,437	190,919
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	—	9	—	—	9	(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)
Changes in liabilities for written put options over non-controlling interests	—	(3,916)	814	—	(3,102)	(1,250)	(4,352)
Total changes in equity	—	7,665	5,137	(1)	12,801	499	13,300
Balance at end of period	16,803	179,298	4,363	(181)	200,283	3,936	204,219

(Million yen)

Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)							
	Common stock	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total equity attributable to stockholders of the parent company	Non-controlling interests	Total equity
Balance at beginning of period	16,803	186,373	1,333	(181)	204,328	3,963	208,291
Cumulative effects of changes in accounting policies	—	25	—	—	25	—	25
Restated balance	16,803	186,398	1,333	(181)	204,353	3,963	208,316
Changes in equity							
Net income	—	17,435	—	—	17,435	978	18,413
Other comprehensive income	—	—	(1,483)	—	(1,483)	(176)	(1,659)
Dividends	—	(4,127)	—	—	(4,127)	(150)	(4,277)
Acquisition and sales of treasury stock	—	—	—	(1)	(1)	—	(1)
Changes in liabilities for written put options over non-controlling interests	—	702	(72)	—	630	(377)	253
Total changes in equity	—	14,010	(1,555)	(1)	12,454	275	12,729
Balance at end of period	16,803	200,408	(222)	(182)	216,807	4,238	221,045

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Million yen)

	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)
Cash flows from operating activities		
Net income	16,364	18,413
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	14,211	14,232
Impairment losses	483	29
Share of profits of investments accounted for using the equity method	(4,788)	(5,508)
Income taxes	8,202	8,481
Increase in retirement and severance benefits	950	149
Interest and dividends income	(785)	(1,221)
Interest expenses	1,337	1,478
Gain on sale of property, plant and equipment	(265)	(11)
(Increase) decrease in trade receivables and contract assets	(9,245)	3,068
Decrease in inventories	34	363
Increase (decrease) in trade payables	524	(2,807)
Decrease in other assets and liabilities	(6,796)	(6,855)
Other	677	386
Subtotal	20,903	30,197
Interest and dividends received	2,594	3,667
Interest paid	(1,185)	(1,279)
Income taxes paid	(9,325)	(10,630)
Net cash provided by operating activities	12,987	21,955
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(8,799)	(12,308)
Proceeds from sale of property, plant and equipment and intangible assets	1,313	1,079
Other	735	695
Net cash used in investing activities	(6,751)	(10,534)
Cash flows from financing activities		
Increase (decrease) in short-term debt, net	1,253	(1,138)
Proceeds from long-term debt	—	49,749
Repayments on long-term debt	(1,211)	(11,286)
Repayments of lease obligations	(3,515)	(3,608)
Purchase of shares of consolidated subsidiaries from non-controlling interests	(7,484)	(4,963)
Dividends paid to stockholders of the parent company	(3,904)	(4,127)
Dividends paid to non-controlling interests	(107)	(150)
Other	(237)	(547)
Net cash provided by (used in) financing activities	(15,205)	23,930
Effect of exchange rate changes on cash and cash equivalents	1,496	(174)
Net increase (decrease) in cash and cash equivalents	(7,473)	35,177
Cash and cash equivalents at beginning of period	57,483	63,497
Cash and cash equivalents at end of period	50,010	98,674

(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)

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 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.

Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 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	324,520	196,286	520,806	15,032	535,838	—	535,838
Revenues from intersegment transactions or transfers	—	—	—	8,741	8,741	(8,741)	—
Total	324,520	196,286	520,806	23,773	544,579	(8,741)	535,838
Segment profit	16,862	5,722	22,584	1,476	24,060	—	24,060
Other income							475
Other expenses							(1,947)
Financial income							449
Financial expenses							(988)
Share of profits of investments accounted for using the equity method							5,508
Interest income							815
Interest expenses							(1,478)
Income before income taxes							26,894

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.