**Evaluation of the Effectiveness of the Board of Directors of Hitachi Transport System, Ltd. for Fiscal Year 2017**

Hitachi Transport System, Ltd. (hereinafter referred to as "the Company") started in FY2015 a procedure to evaluate the effectiveness of its Board of Directors (BOD) by bringing all members of the board together in a meeting to review its performance for the year, and recording the comments and suggestions made at the meeting. In FY2016, we changed the method of evaluation to one in which we asked each member of the BOD to complete and sign a self-assessment before bringing them together in a meeting in which to review the results of the assessments and exchange ideas for improvement. Each of the self-assessments consisted of 18 items to be evaluated on a scale of one to five as well as the reason for giving that rating. We continued to use this format in FY2017. The following is a summary of the results of evaluations in three key areas for FY2017.

**1. Matters Selected for Deliberation at BOD Meetings**

Matters deliberated at BOD meetings during FY2017 comprised management strategies (38%), corporate governance (23%), and business operations and others (39%), which was in line with the annual plan formulated at the beginning of the fiscal year. The BOD also gave its blessings to taking risks associated with exploring new sources of competitive advantage. However, the BOD did not spend much time deliberating matters raised by the BOD in an evaluation for FY2016—namely, the direction of the Company's businesses for the next 10 years, its financial strategy, and its talent-development strategy, including a plan to build a next-generation leadership team. The BOD acknowledged the need to discuss in future BOD meetings ways to increase the Company's long-term corporate value tied to total shareholder return.

**2. The Composition of the BOD and the Effectiveness of the BOD by Role**

Four of the eight members of the BOD are independent outside directors, of whom two are women. The BOD comprises a certified public accountant, a lawyer, and other people with a wealth of professional expertise and experience in such a diverse range of fields as corporate management, corporate finance and accounting, and business administration study.

During FY2017, the Nominating Committee met six times, the Audit Committee met 16 times, and the Compensation Committee met four times. The BOD, the Nominating Committee, the Audit Committee, and the Compensation Committee were each chaired by a non-executive outside director to enhance their neutrality.

The results of the self-assessments of the effectiveness of each committee are as follows:

**(1) Nominating Committee**

The Nominating Committee carried out a Project to Develop and Implement a Succession Plan for the Leadership Team, in which it defined the job descriptions for the President and the Chief Financial Officer.

The Committee continued to develop candidates for a next-generation leadership team by assessing and coaching them with the assistance of an external consultant.

**(2) Audit Committee**

The Company's divisions and Group companies were quick to act upon recommendations that the Audit Committee made, which indicates that the effectiveness of the Committee was at a sufficient level.

The three auditing bodies—the Audit Committee, the Internal Auditing Office, and an independent accounting auditor that audits the Company and its overseas subsidiaries—worked together and shared information to identify risks across the Group and improve the quality of the audits they perform, which ensured the effectiveness and efficiency of the audits. The Audit Committee verified the effectiveness of the BOD, which governs the Company and 95 Group companies around the globe, by auditing them, and recommended that its divisions and Group companies take corrective actions based on those audits as well as on regular audit reports submitted by the corporate auditors of Group companies and audit reports submitted by the Internal Auditing Office.

With regard to the task of continuously increasing the corporate value as required by the Corporate Governance Code, the Audit Committee had found in an evaluation for FY2016 that effective management of capital cost was yet to be established in the Company's business lines. Based on the Committee's recommendation, the business lines took management of capital cost more seriously by establishing more detailed criteria for making investment decisions and incorporating into KPI planning and reporting the return on invested capital based on weighted average cost of capital.

**(3) Compensation Committee**

The Compensation Committee changed the method of calculating compensations for Executive Officers based on business performance so that they would pay more attention to business performance for the year against the previous year, rather than against the budget for the year.

The Committee also discussed a proposed plan to introduce medium- and long-term incentive packages for Executive Officers.

**3. Planning, Convening, and Administering BOD Meetings**

The BOD held 13 meetings during FY2017. The BOD believes that the frequency of the meetings was appropriate and that the annual plan for BOD meetings incorporated prior input from its members and covered all bases.

Prior to a BOD meeting, members of the board were adequately briefed on matters to be deliberated. Questions and comments that they had raised prior to the meeting were addressed at the meeting to their satisfaction. At each meeting, BOD members had ample time to deliberate on subject matters freely and openly.

The issue with the quality and volume of materials prepared for the meetings as well as of presentations made by the Company divisions, Group companies, and Executive Officers at the meetings, which had been raised by the BOD in an evaluation for FY2016, were resolved to their satisfaction; the format of the report was standardized, and a limit was established for the duration of each presentation made at the meetings.

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