## Corporate Governance

### Basic Views
At the HTS group, we consider corporate governance to be key to realizing management transparency and efficiency, as well as ensuring that our business is carried out with compliance and in accordance with correct corporate ethics. By extension, the crux of corporate governance lies in boosting corporate value and sustainable development. Rooted in this basic policy, we have adopted a corporate governance structure capable of responding deftly to changes in the business environment as well as boosting soundness and transparency— namely a company with a Nominating Committee, etc. System. This means that we have effectively separated our corporate management and our business operation—an arrangement that largely transfers business decision-making rights from our Board of Directors to our Executive Committee. The result is rapid decision making and implementation on initiatives such as restructuring and strategic investment. In addition, because we believe that considering the subjective opinions of outside directors facilitates both monitoring and transparency of management, we have also established three committees overseeing nomination, auditing, and compensation respectively.

### Measures to Enhance Corporate Governance Implemented in the Past

<table>
<thead>
<tr>
<th>Measures</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>Transitioned to a Company with Committees (established Nominating Committee, Audit Committee and Compensation Committee)</td>
</tr>
<tr>
<td>2014</td>
<td>Developed Criteria for Independence of Outside Directors</td>
</tr>
<tr>
<td>2015</td>
<td>Transitioned to a Company with a Nominating Committee, etc. System</td>
</tr>
<tr>
<td>2016</td>
<td>Evaluated the effectiveness of the Board of Directors</td>
</tr>
<tr>
<td>2017</td>
<td>Appointed the second female director</td>
</tr>
<tr>
<td>2019</td>
<td>Evaluated the effectiveness of the Board of Directors by a third-party assessor</td>
</tr>
<tr>
<td>2020</td>
<td>Appointed the third female director (accumulated)</td>
</tr>
</tbody>
</table>

### The Current Corporate Governance System and Internal Control System

The governance system and internal control system at HTS is established under principles including the Nominating Committee, Board of Directors, and Audit Committee. In our governance system, 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. (Miho Aoki, Sayoko Izumoto, Mitudo Urano, Takashi Nishijima, Tetsu Fuyazuma, and Hajime Watanabe are registered as independent officers in accordance with Tokyo Stock Exchange regulations.)

### HTS’s Organization Design
By using a Company with a Nominating Committee, etc. System, substantial authorities related to business strategy decision-making are delegated from the Board of Directors to executive officers, who make prompt decision making about business restructuring and strategic investments. Executive Committee meeting consisting of all executive officers is held once a month in general to discuss material subjects which have impacts on the Company and the entire Group and clarify responsibilities and authorities of the executive officers.

### Succession plan
The company has had in-depth discussions about a succession plan at the Nominating Committee and the Board of Directors. Appropriate supervision is conducted through decisions by President and Chief Executive Officer and business reporting and evaluation by executive officers at the Board of Directors.

### Relationship between HTS and outside directors
There are no special interests involved between seven outside directors appointed at the HTS 61st Regular General Shareholders’ Meeting held June 23rd, 2020 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 independent 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. (Miho Aoki, Sayoko Izumoto, Mitudo Urano, Takashi Nishijima, Tetsu Fuyazuma, and Hajime Watanabe are registered as independent officers in accordance with Tokyo Stock Exchange regulations.)

### Criteria for Independence of Outside Directors


### Executive Controls
Deliberates on important issues related to business implementation
Comprised entirely of executive officers or individuals appointed by the company president
Executive Committee meeting held once a month (in principle, additional sessions held as necessary)
Total of 18 executive officers (as of April 1, 2020)

### 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.

### Corporate Governance Guidelines

Corporate Governance

(Analysis and Evaluation of Effectiveness of the Entire Board of Directors, and the Result)

Started the Evaluation of the Effectiveness of the Board of Directors by a Third-party Assessor

Five years have passed since the Company started evaluating the effectiveness of its Board of Directors (BOD). To maintain the impartiality and objectivity of evaluation, the Company, in addition to conducting a self-assessment of the BOD, asked Japan Board Reserve Co., Ltd. (JBR), a third-party institution specializing in assessing various companies’ boards of directors, to evaluate the effectiveness of the BOD for FY2019 (from June 2019 to May 2020). As a part of the evaluation, JBR reviewed documents prepared for the BOD, Nominating Committee, Audit Committee, and Compensation Committee (the Three Committees), as well as the minutes of their meetings and observed BOD meetings in addition. JBR prepared a questionnaire in consultation with the Chair of the Board, chair of the Three Committees, the President and Chief Executive Officer, and asked all directors and those executives who regularly attended BOD meetings to complete it. JBR followed up the questionnaire by interviewing each respondent and compiling an evaluation report on the BOD, including a list of identified issues related to its effectiveness. JBR submitted the report—along with the evaluation report and recommendations offered by JBR—as a basis for discussion of how to address the identified issues and conduct future BOD meetings.

A Summary of the Evaluation Results Provided by a Third-Party Assessor

JBR acknowledged that the Company’s BOD and Three Committees were performing as expected, and that the Company was in transition to make the BOD more effective in responding to profound changes in business environments. JBR also found that the Company’s Audit Committee was making every effort to conduct audits from a management perspective. JBR recommended that the Company take the following actions to further improve the effectiveness of its BOD and Three Committees:

1. JBR acknowledged that the Company’s outside directors were actively participating in deliberations at the BOD meetings by providing advice and opinions from broad perspectives, based on their professional expertise and experience. JBR recommended that smaller groups of BOD members hold off-site meetings to have fundamental discussions of important management issues prior to deliberation by the full BOD.

2. JBR acknowledged that the composition of the BOD was good. JBR recommended that the Company have in- and outside directors—former business executives from outside the Company who have experience in managing global businesses, overseas and transforming companies’ business portfolios, or launching and running new businesses. This will assist the BOD in having more animated discussions of fundamental issues related to corporate management.

3. JBR acknowledged that the Three Committees were performing well as expected. JBR recommends that the Nominating Committee more vigorously review a succession plan for the CEO position and the composition of outside directors, and then the results with the BOD. JBR also recommends that the Audit Committee formulate a long-term succession plan to maintain its effective auditing capabilities.

Results of the Self-Assessments by the BOD and the Three Committees

Results of the self-assessments by the BOD and the Three Committees for FY2019 are as follows:

- Four of the eight members of the BOD are independent outside directors, two of whom are women. The BOD consists of a certified public accountant, a lawyer, and other members with a wealth of professional expertise and experience across a diverse range of fields such as corporate management, corporate finance and accounting, and business management. BOD meetings are chaired by one of the outside directors. Matters deliberated at BOD meetings during FY2019 consisted of management strategies (59%), corporate governance (22%), and business operations and others (18%), which was consistent with the annual plan formalized at the beginning of the fiscal year. The BOD held 16 meetings during FY2019. The principle of holding a BOD meeting every month was appropriate, and the annual plan for BOD meetings incorporated prior input from its members and covered all bases.

- During FY2019, much time was spent in BOD meetings reviewing the progress the Company was making in implementing its Mid-Term Management Plan (2020-2023) and the BOD’s risk management policy and practices. In reviewing the progress of implementing the Mid-Term Management Plan (2020-2023), the BOD acknowledged that the plan covers the entire supply chain operations, and provides implementation details for each proposed solution. The BOD asked the Company’s executive officers to clarify how proposed solutions are related to each other and to consider developing business models that use external data.

- JBR also found that the Company’s internal and external auditors had continued to work together and share information at regularly scheduled meetings to identify risks across the Group and improve the quality of the audits they perform. Thus, this ensured effectiveness and efficiency of the audits based on the division of roles among the three bodies. With regard to the stockholders’ intentionally increasing the Group’s corporate value as required by the Corporate Governance Code, the Committee acknowledged that the system the Company had established, including the Audit Committee, had been established as an “IRP” based on the “IR Code”.

Self-Assessments by the Three Committees

During FY2019, the nominating Committee met seven times, the Audit Committee 16 times, and the Compensation Committee eight times. Each committee meeting was chaired by an outside director.

Results of the self-assessments by the Three Committees for FY2019 are as follows:

1. Nominating Committee

The Nominating Committee discussed candidates for new-generations of members of the management team and executive officers. The committee had no objections to reappointing the current President and Chief Executive Officer for another term for FY2020, upon deliberation based on the Process of Reappointing the President and Chief Executive Officer, which was established by the Committee. The Committee intends to develop a position and role structure for both the BOD and the successions plans for the CEO and directors and sharing the outcome of deliberation with the BOD.

2. Audit Committee

The Audit Committee—based on its audit policy—assessed the Company’s management activities to ensure the Company’s management decisions are consistent with the Group’s corporate governance (CG) rules. In the audit committee meetings, it focused on the key issues of the external data, ESG governance (ESG). In the audit committee meetings, it focused on the key issues of the external data, ESG governance (ESG) and the Group’s achievements in expanding the Group’s business portfolio and introducing new businesses. This assisted the BOD in having more animated discussions of fundamental management issues, such as the restructuring of the Group’s business portfolio and the management of the Group’s new businesses. This assisted the BOD in having more animated discussions of fundamental management issues, such as the restructuring of the Group’s business portfolio and the management of the Group’s new businesses.

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3. Compensation Committee

The Compensation Committee reviewed the current compensation scheme for the Company’s executive officers, which comprises monthly salary and performance-linked compensation. To establish a new scheme with a clear focus on motivating executive officers to contribute more to the Company’s sustainable growth, the Committee reviewed their current compensation levels and weighed the pros and cons of proposed revisions to the executive compensation scheme to include basic salary, performance-linked compensation and long-term incentives. The Committee engaged Willis Towers Watson, a consulting firm specializing in executive compensation, to conduct an extensive benchmark analysis of the Company’s executive compensation plan against those of other companies of varying sizes across a diverse range of industries. Based on the findings of the analysis, the Committee discussed that following needs to be determined:

* The right balance between the fixed and variable portions of compensation and between the cash and non-cash (shares) portions of compensation.
* A compensation scheme based on the medium- to long-term business performance of the Company.
* If to be used to determine the amount of performance-linked compensation.

It is noted that the Committee’s process is intended to motivate executive officers to achieve their individual and group goals and determine the amount of effective compensation to reward them based on the accomplishment of those goals. The Committee intends to achieve greater objectivity and transparency based on the policy and procedure for determining the amount of compensation for the Company’s directors and executive officers.

Attendance record of Board of Directors meetings and Committee meetings in FY2019

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Number of attendances</th>
<th>Number of meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sayoko Izumoto</td>
<td>Outside Director</td>
<td>14/14</td>
<td>16/16</td>
</tr>
<tr>
<td>Mitsudo Urano</td>
<td>Outside Director</td>
<td>14/14</td>
<td>16/16</td>
</tr>
<tr>
<td>Koji Tanaka</td>
<td>Chair of the Board, Outside Director</td>
<td>14/14</td>
<td>16/16</td>
</tr>
<tr>
<td>Tetsu Fusayama</td>
<td>Outside Director</td>
<td>14/14</td>
<td>16/16</td>
</tr>
<tr>
<td>Emiko Magoshi</td>
<td>Outside Director</td>
<td>14/14</td>
<td>16/16</td>
</tr>
<tr>
<td>Hiroshi Maruta</td>
<td>Outside Director</td>
<td>14/14</td>
<td>16/16</td>
</tr>
<tr>
<td>Takashi Jingushi</td>
<td>Representative Executive Officer</td>
<td>14/14</td>
<td>16/16</td>
</tr>
<tr>
<td>Yasuo Nakatani</td>
<td>Representative Executive Officer, President and Chief Executive Officer</td>
<td>14/14</td>
<td>16/16</td>
</tr>
</tbody>
</table>

* The colored themes indicate a representative of the Committee which is a director belongs and the lower part showing his/her attendance record.
Corporate Governance (Officers’ Compensation, etc.)

Compensation Committee’s Policy and Process for Determining the Amount of Compensation, etc. of Directors and Executive Officers

As the HTS Group positions officers’ compensation, etc. as one of the important pillars underpinning corporate governance, we have in place the following compensation governance to ensure that our officers will work toward our brand slogan “Taking on the Future” and our business concept “LOGISTEED” under our corporate philosophy and operate the compensation program according to our basic policy on the compensation plan for officers to deliberate and decide their compensation, etc.

■ Operation Policy, etc. for the Compensation Committee

We are in compliance with the Companies Act pertaining to a company with a Nominating Committee, etc. and define the function, size and composition, and operation of the Compensation Committee in the Corporate Governance Guidelines of the Company, etc. In determining details of compensation, etc. for each director and executive officer of the Company, the Compensation Committee deliberates appropriately based on objective, necessary and sufficient information including recent status of the officers’ compensation, point of discussion, and other companies’ plans while collecting information and seeking advice from external compensation consultants on the basic policy, compensation structure, performance-linked compensation scheme, and individual payments, etc. of our compensation plan for officers. The involvement and participation by external compensation consultants in the Compensation Committee is limited to advice on establishing/impainting the compensation structure and the deliberation in the Compensation Committee, and we do not delegate their recommendations on consensus building or the appropriateness of the decisions made. We hire Wilks Towers Watson as the external compensation consultant.

■ Activity Status of the Compensation Committee in Determining Compensation, etc. of Last Business Year

For director compensation, etc. for FY2019, the Compensation Committee deliberated and determined compensation, etc. for each director on June 18, 2019 and the-end-of-term bonus for each director on May 22, 2020 in accordance with the policy for determining compensation, established by the Compensation Committee on December 26, 2018. For executive officer compensation, etc. for FY2019, the Compensation Committee deliberated and determined compensation, etc. for each executive officer on March 29, 2019 and performance-linked compensation for each executive officer on May 22, 2020 in accordance with the policy for determining compensation, established by the Compensation Committee on December 26, 2018. In the meetings held from October 2019 to April 2020, the Compensation Committee carefully deliberated mainly on the revision of the compensation plan for executive officers. The Compensation Committee has decided to introduce a performance-linked stock compensation plan for the Company’s executive officers from FY2020 with the aim of raising their awareness to improve medium-to-long-term performance and executive officers from FY2020, with the aim of raising their performance-linked stock compensation plan for the Company’s policy for determining compensation, established by the Compensation Committee and the former compensation committee every year to verify the appropriateness of our compensation levels and then determine the compensation levels, etc. for officers compensate with the ability and responsibilities, etc. required for each position.

<Director compensation, etc.>

Director compensation levels are comprised of basic compensation which is fixed compensation. Basic compensation reflects factors such as full-time or part-time service and an officer is determined based on the deliberation at the Compensation Committee. Directors who also serve as executive officers do not receive additional compensation as directors.

<Executive officer compensation, etc.>

Executive officer compensation levels are comprised of a combination of basic compensation and performance-linked compensation, and determined by reflecting executive performance review in a base amount commensurate with his/her position. The performance-linked compensation levels are comprised of annual bonus linking to the achievement level of the targets for consolidated performance, division, individual performance level, and individual performance in a single year, and stock compensation linking to the achievement level of the Company’s performance target for three business years. The composition ratio of officers’ compensation by type reflects the level of management responsibility with higher ratio of performance-linked compensation for senior officers. For the ratio of each compensation element by position with the basic compensation as 100, KPIs for performance-linked compensation and reasons for selecting them, and the medical treatment the compensation amounts, please refer to “Compensation, etc. of Officers” in the 61st Annual Securities Report (44a, Shaken Hokokusya) of the Company (Japanese version only).

The 61st Annual Securities Report (Japanese version only)

Compliance/Information Security

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 officers 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 officers and employees should act in their daily operations as it is vital for the entire group 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.

Compliance education

In addition to education for all employees including officers, we provide rank-based group trainings for compliance education targeting new employees, young employees, new assistant managers/managers, new directors of domestic group companies. The Legal Department also implements training sessions travelling around sites.

Number of attendees of compliance education excluding e-learning (FY2019)

- Domestic: 19 companies
- Overseas: 36 companies

■ Procurement compliance education

To ensure fair procurement activities, we provide e-learning for procurement targeting all employees, as well as special e-learning and group trainings on a regular basis for those engaging in procurement in domestic and overseas group companies

Number of companies implementing education for those engaging in procurement (FY2019)

- Domestic: 19 companies
- Overseas: 36 companies

Whistle-blowing system

The Group has established a whistleblowing system with internal and external points of contact for reporting, which allows employees to report illegal and/or inappropriate actions without hesitation in order to detect and correct them early on.

Poster for dissemination of whistle-blowing system

To further improve internal awareness of “HTS Group In-company Compliance Reporting System,” posters for dissemination were prepared in 20 languages and posted in each office.

Non-compliance with laws and regulations

In FY2019, there were no incidents in which HTS violated or was penalized under laws or regulations regarding bribery or corrupt practices and competition.

■ Information Security

We recognize that the highest priority is to properly manage and protect information assets of customers and the HTS Group, and accordingly the entire Group has been promoting the preparation of internal rules as well as education and awareness activities for employees.

We revise the internal rules in keeping with changes in social conditions and the standard concerning personal information protection and confirm the management and operation status of personal information protection and information security. We are also enhancing governance across the entire Group and working on education and simulation trainings for targeted threat emails for employees, responses to GDPR* in EU, and personal information protection in Japan and overseas, in an effort to maintain and bolster security levels to provide safe and secure logistics services to customers.

■ Education and training for personal information protection/information security

In addition to e-learning for all employees, we provide rank-based group trainings for information security education targeting new employees, mid-career employees, and assistant managers/managers. Simulation trainings to cope with targeted threat emails are also conducted every year.

Attendance rate of information security training course (FY2019)

- Scope HTS, domestic/overseas group companies
- Domestic: 100%
- Overseas: 5.0%

■ Acquisition and maintenance of third-party certification

Privacy mark/Information Security Management System (ISMS)

HTS and its domestic group companies have acquired the Privacy Mark certification which certifies that a business operator has established a system to take appropriate measures to protect personal information. We have also acquired ISO27001* which is an international standard certifying that an information security management system satisfies a certain criteria.

Privacy mark acquisition status at HTS and its domestic group companies (as of March 31, 2020)

- Number of companies: 36
- Departments: 12 companies

Information Security Management System (ISMS) Certification* (As of March 31, 2020)

- Number of companies: 36
- Departments: 12 companies

■ Customer privacy

In FY2019, there were no complaints filed for the violation of customer privacy.

For details of information security, please visit our website.
Risk Management

The HTS Group strives to manage risks that are difficult to foresee and require company-wide countermeasures by sharing risk recognition, visualizing risks, selecting priority risks and examining relevant measures, with an aim to increase corporate value and achieve sustainable growth.

Definition and classification of risks

The HTS Group defines risk as "the influence of uncertainty about our objectives and the possibility to influence the achievement of our strategy and business goals when an event occurs." We classify recognized risks as follows based on their type (strategic or pure) and factor (internal or external) to select "priority risk" that are likely to occur and have material impact and focus on discussing countermeasures against them.

<table>
<thead>
<tr>
<th>Internal factors</th>
<th>External factors</th>
<th>Group's policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Growth risk</td>
<td>Risk factors that may impede implementation of the growth strategy that takes into account customer and business environment (human resources and assets)</td>
<td>Aggressively take risks to pursue growth</td>
</tr>
<tr>
<td>(2) Environmental change risk</td>
<td>Risk factors that result from changes in external environment (politics, economy, laws and regulations, technological innovation, and climate change) and may impede the growth strategy.</td>
<td></td>
</tr>
<tr>
<td>(3) Operational risk</td>
<td>Risk factors that result from inadequate or failure of internal process, human resources or systems</td>
<td>Hedge risks to minimize potential losses</td>
</tr>
<tr>
<td>(4) Hazard risk</td>
<td>Risk factors beyond our control that result from external events and may impede business continuity by causing damage or harm</td>
<td></td>
</tr>
</tbody>
</table>

Strategic risks

- Pure risks
  - Risk factors that result from inadequate or failure of internal process, human resources or systems
  - Risk factors beyond our control that result from external events and may impede business continuity by causing damage or harm

Group's policies

- Prevent risks from occurring
- Implement damage control assuming risks may occur

Response to COVID-19

The HTS Group has a responsibility for logistics, a part of social infrastructure, and is required to maintain stable business operation. As a measure against the recent outbreak of the COVID-19, we set up "COVID-19 Response Headquarters" to prevent the infection among group employees and continue business operation in cooperation with business divisions, etc.

- As basic infection prevention measures to be strictly implemented, employees are required to measure their body temperature before coming to work and refrain from coming to work if they have a fever or cold like symptoms, etc. We also urge employees to wash and disinfect their hands frequently, for example when entering offices and during breaks, disinfect worktables and doorknobs with disinfectant cleaners, and wear a mask. In addition, the HTS Group has implemented thorough group-wide preventive measures to prevent the infection of our stakeholders including employees and their family members.

- In terms of business continuity, the administrative division (the head office function) has identified key operations to be maintained, appointed responsible persons for those operations and their deputies, arranged for teleworking and determined alternate offices. For business divisions, simulation drills were conducted at major sites on the assumption that some employees were infected with COVID-19 at the office.

- For teleworking and determined alternate offices.
- For business divisions, simulation drills were conducted at

Initiatives to Strengthen BCP (Business Continuity Plan) System

With respect to the measures associated with natural disasters and infectious diseases which occur frequently in recent years, the Group has implemented countermeasures to facilitate its responsibilities in cooperation with them based on the BCP policies and measures determined by the Business Continuity Management Committee (BCM), chaired by the President and CEO, with an aim to continue its business operation and provide high-quality services to our customers even when faced with these risks.

- In cooperation with business divisions, etc.

Risk factors and the implementation status of our measures

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description of risk/opportunity</th>
<th>Impacts when risk occurs</th>
<th>Group’s measures</th>
</tr>
</thead>
</table>
| Concentrational dependency on specific customers | Risk - Impact on business results and continued employment of key projects. Impairment of the HTS Group business if the fluctuation in customer business results is large. | Sharp drops of revenues and earnings due to poor business results of customers. 
- Failure to meet the earnings target. | Reduce the impact of individual business results. |
| Hedge risks | Prevent risks from occurring | | |
| Pure risks | Pure risks | Hedge risks to minimize potential losses | | |
| Group's policies | Prevent risks from occurring | | |
| Group’s policies | Implement damage control assuming risks may occur | | |

TOPICS

As for risk factors other than priority risks, please visit our website.