

# Corporate Governance

## Basic Views

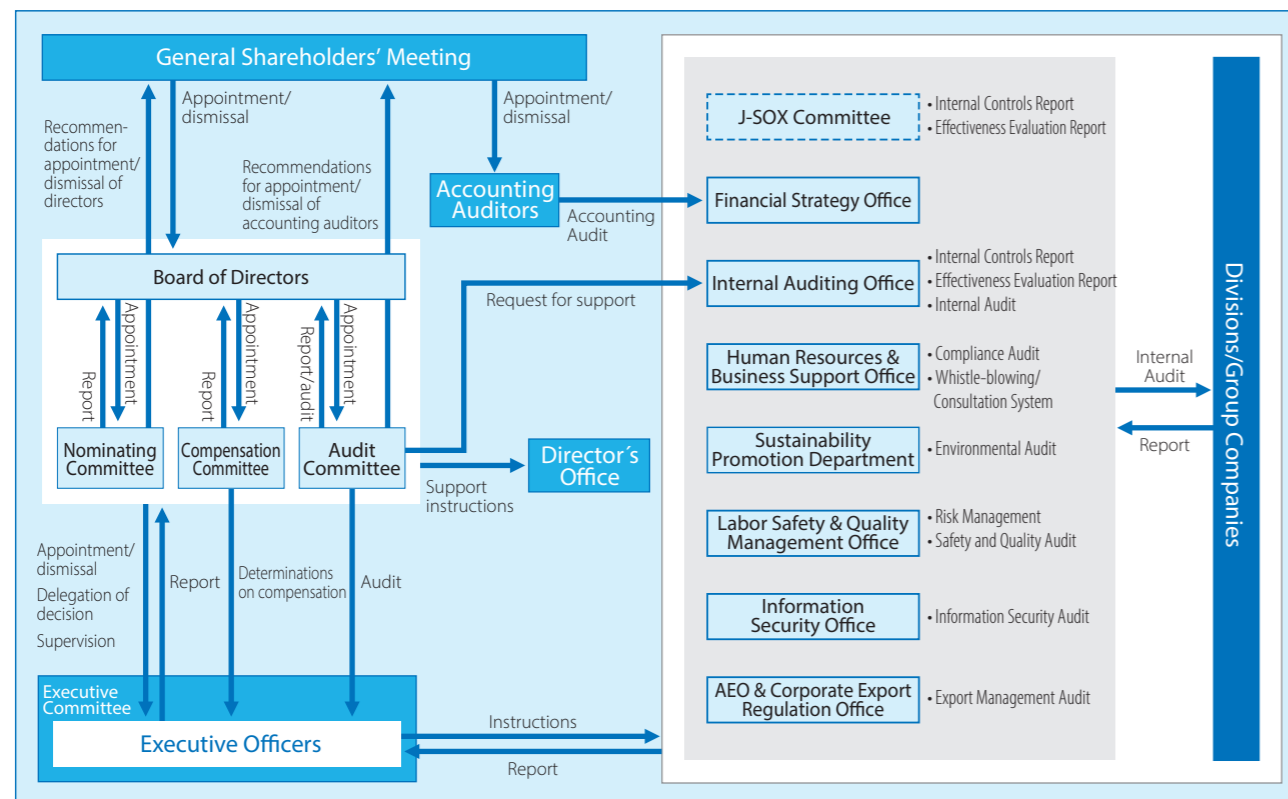
At the HTS group, we consider corporate governance to be key to realizing even greater management transparency and efficiency, as well as ensuring that our business is carried out with compliancy and in accordance with correct corporate ethics. By extension, the crux of corporate governance lies in boosting 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 implementation—a setup 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

Year	Measures	Purpose
2003	Transitioned to a Company with Committees (established Nominating Committee, Audit Committee and Compensation Committee)	To strengthen management supervision function of the Board of Directors
2014	Developed Criteria for Independence of Outside Directors	To secure independence of directors
	Appointed a female director	To diversify the Board of Directors
2015	Transitioned to a Company with a Nominating Committee, etc. System	To comply with the amended Companies Act
	Responded to the Corporate Governance Code Established Corporate Governance Guidelines of Hitachi Transport System	To strengthen governance
2016	Evaluated the effectiveness of the Board of Directors	To strengthen functions of the Board of Directors
2017	Appointed the second female director	To diversify the Board of Directors
2019	Evaluated the effectiveness of the Board of Directors by a third-party assessor	Ensured the neutrality and objectivity of the evaluation of the Board of Directors' effectiveness
2020	Appointed the third female director (accumulated)	To diversify the Board of Directors

## The Current Corporate Governance System and Internal Control System



## HTS's Organization Design

By using a Company with a Nominating Committee, etc. System, substantial authorities related to business execution 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.

### Primary roles of the Board of Directors and the Committees

#### (1) Board of Directors

- Primary role: Determines the Company's basic management policy and supervises execution of duties by directors and executive officers (also passes a resolution by focusing on specific discussions on the Mid-term Management Plan and fiscal budget in addition to matters to be resolved stipulated by laws and regulations, the Articles of Incorporation and the Board of Directors regulations)

#### (2) Nominating Committee

- Primary role: Elects candidates for director (elects appropriate candidates, considering all relevant factors including their past performance and personality)

#### (3) Audit Committee

- Primary role: Performs audit of execution of duties by directors and executive officers and prepares an audit report (performs audit of execution of duties by directors and executive officers from the viewpoint of legal compliance and appropriate performance of duties in cooperation with independent auditors and internal audit department, with an aim of establishing a high-quality corporate governance system to maintain social trust)

#### (4) Compensation Committee

- Primary role: Determines compensation, etc. of directors and executive officers (determines the compensation level, etc. for each position commensurate with the ability and responsibilities required of the Company's directors and executive officers and the Company's performance, taking into consideration the compensation level of other companies)

### Appointment and dismissal of officers

Candidates for directors are selected at the Nominating Committee and appointed at the General Shareholders' Meeting. Regarding candidates for senior management members (executive officers), the Nominating Committee prepares a list of candidates and submits it to the Board of Directors for appointment. The policy of appointment and dismissal of CEO and the composition of the Board of Directors and independence of outside directors to be considered in selecting candidates for directors are specified in the Corporate Governance Guidelines of the Company.

### 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, Mitsudo Urano, Takashi Nishijima, Tetsu Fusayama, and Hajime Watanabe are registered as independent officers in accordance with Tokyo Stock Exchange regulations.) The criteria for independence of outside directors are noted on the HTS Website.

**Criteria for Independence of Outside Directors**  
<https://www.hitachi-transportssystem.com/en/profile/csr/governance/cg/>

### Executive Committee

- 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**  
<https://www.hitachi-transportssystem.com/en/profile/csr/governance/cg/>

# 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 ensure the impartiality and objectivity of evaluation, the Company, in addition to conducting a self-assessment of the BOD, asked Japan Board Review 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 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, chairs of the Three Committees, and the President and Chief Executive Officer, and asked all directors and three executive officers 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—as well as recommendations for improvement—at a BOD meeting in March 2020. The BOD used 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 they should to continually improve their effectiveness, and that the Company was in transition to make its 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:

- 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 recommends that a smaller group of BOD members hold off-site meetings to have fundamental discussions of important management issues prior to deliberation by the full BOD.
- JBR acknowledged that the composition of the BOD was in good order. JBR recommends that the Company bring in—as outside directors—former business executives from outside the Company who have experience in managing global businesses, overhauling 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.
- JBR acknowledged that the Three Committees were performing as 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 share 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:

### 1. Self-Assessment by the BOD

Four of the eight members of the BOD are independent outside directors, two of whom are

women. The BOD comprises 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 studies. BOD meetings are chaired by one of the outside directors. Matters deliberated at BOD meetings during FY2019 consisted of management strategies (39%), corporate governance (23%), and business operations and others (38%), which was in line with the annual plan formulated at the beginning of the fiscal year. The BOD held 14 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 that the Company was making in implementing its Mid-term Management Plan "LOGISTEED 2021" and discussing the Company's risk management policy and practices. In reviewing the progress of "LOGISTEED 2021," 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. It was timely that a complete picture of the Company's Enterprise Risk Management (ERM) program—which the BOD had requested—was presented to the BOD. The BOD asked the executive officers to appoint a risk owner for each identified risk, quantify each risk, and determine how to respond effectively to a tail risk. The independent outside directors met to have a brainstorming session as they had done in the previous fiscal year, and BOD members held small meetings with executive officers and external experts to discuss important management issues, including defining the direction and approach that the Company should take to ensure its sustainable growth and increase its medium- to long-term corporate value.

The BOD acknowledged the need to update the composition of its outside directors to be able to respond more effectively to profound changes anticipated in business environments as well as the need to focus its deliberations on fundamental management issues, such as the restructuring of the Group's business portfolio and the allocation of available resources. More specifically, the BOD intends to discuss the following issues intensively at future BOD meetings in order to provide clear guidance:

- The trends in innovation and digital transformation in the logistics industry
- The "To-Be" business portfolio with medium- to long-term implications
- Initiatives to meet SDGs requirements and implement ESG management practices

## 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 next-generation 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 fulfill its responsibilities more actively by discussing intensively the composition of the BOD and succession 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—audited the legal compliance,

appropriateness, and efficiency of the ways in which the Company's directors and executive officers performed their duties. During FY2019, the Committee conducted on-site audits of the Company's four corporate divisions and eight Group companies outside Japan considered to pose high potential governance risks, identified management issues with each of the units, and offered recommendations for improvement, for which each of them submitted a plan of proposed actions. The Committee verified the effectiveness of the BODs of 81 group companies around the globe, which collectively play a central role in practicing groupwide governance, by auditing them. The Committee recommended that executive officers of each Group company take corrective actions based on the results of those audits, as well as on regular audit reports submitted by their corporate auditors and audit reports submitted by the Internal Auditing Office. Group companies, acting on the recommendations offered by the Committee, added more dedicated corporate auditors to their staff during FY2019, which has helped enhance the groupwide governance in cooperation with the Committee. The Committee acknowledges that the Group companies' executive officers were quick to act upon the recommendations offered by the Committee, which indicates that the effectiveness of the Committee was at an adequate level. The three auditing bodies—the Audit Committee, the Internal Auditing Office, and an independent accounting auditor—worked together and shared information at regularly scheduled meetings to identify risks across the Group and improve the quality of the audits they perform, which ensured the effectiveness and efficiency of the audits based on the division of roles among the three bodies.

With regard to the task of continuously increasing the Group's corporate value as required by the Corporate Governance Code, the Committee acknowledges that the system for evaluating the performance of a business unit against the ROIC\*1—established as a KPI\*2 based on WACC\*3, which the Committee had recommended—has taken hold in the Group, indicating that the Group has stepped up its efforts for management to pursue greater capital efficiency.

In FY2020 and beyond, the Committee intends to focus its audits on the following two areas:

- Verifying that the ERM program is working in the Group from the perspective of loss management
- Verifying that the Group takes environmental and social considerations into account in

its management decisions. As the Committee has already spent much time auditing the Group's corporate governance (G) aspect of ESG management practices in line with meeting SDGs requirements, it will focus on the environmental (E) and social (S) aspects of ESG management practices.

### (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 base 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 need 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
- KPIs to be used to determine the amount of performance-linked compensation

From this discussion, the Committee weighed up approaches to motivating executive officers to achieve their individual medium- to long-term goals and determining the amount of executive 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.

\*1 ROIC (Return on Invested Capital)  
\*2 KPI (Key Performance Indicator)  
\*3 WACC (Weighted Average Cost of Capital)

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

Name	Registration	Positions and assignments in the Company* in FY2019	Number of attendances for the Board of Directors meetings during FY2019
<b>Independent Officer</b> Sayoko Izumoto	2017	Outside Director Audit Committee 16/16 Compensation Committee 8/8	14/14
<b>Independent Officer</b> Mitsudo Urano	2014	Outside Director Nominating Committee Chair 7/7 Compensation Committee Chair 8/8	14/14
Koji Tanaka	2018	Chair of the Board, Outside Director	14/14
<b>Independent Officer</b> Tetsu Fusayama	2016	Outside Director Nominating Committee 7/7 Audit Committee 16/16	14/14
<b>Independent Officer</b> Emiko Magoshi	2014	Outside Director Nominating Committee 7/7	14/14
Hiroshi Maruta	2015	Outside Director Audit Committee Chair 16/16	14/14
Takashi Jinguji	2016	Representative Executive Officer Executive Vice President and Executive Officer	14/14
Yasuo Nakatani	2013	Representative Executive Officer President and Chief Executive Officer Nominating Committee 7/7 Compensation Committee 8/8	14/14

\*The colored frames indicate respective Committees with the upper part showing the name of the Committee to which a director belongs and the lower part showing his/her attendance records.

## 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 agendas to improve the effectiveness of deliberation in the Committee, and we do not draw their recommendations on consensus building or the appropriateness of the decisions made. We hire Willis 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 increase corporate value by further clarifying the relationship between the executive officers' compensation and the Company's performance and stock value and sharing returns and risks associated with stock price movements with shareholders.

#### ■ Policy on the Determination of the Composition Ratio of Performance-Linked Compensation and Other Compensation

We determine the composition ratio of performance-linked compensation and other compensation in accordance with the basic policy on the compensation plan for officers. In determining the composition ratio of performance-linked compensation and other compensation, we benchmark our compensation levels against those of peer companies with similar business size based on the "management compensation database" compiled by the external compensation consultant every year to verify the appropriateness of our compensation levels and then determine the compensation levels, etc. for officers commensurate with the ability and responsibilities, etc. required for each position.

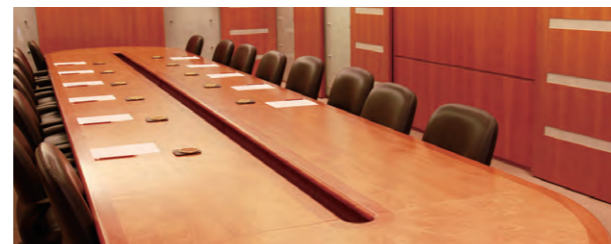
##### <Director compensation, etc.>

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 position and 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's 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 mission, and individual mission 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 method to determine the compensation amounts, please refer to "Compensation, etc. of Officers" in the 61st Annual Securities Report (Yuka Shoken Hokokusho) of the Company (Japanese version only).

 **The 61st Annual Securities Report (Japanese version only)**  
[https://www.hitachi-transportssystem.com/jp/ir/library/securities/pdf/61st\\_yuho.pdf](https://www.hitachi-transportssystem.com/jp/ir/library/securities/pdf/61st_yuho.pdf)



## 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 e-learning 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)** **555**

#### ■ Procurement compliance education

To ensure fair procurement activities, we provide e-learning for procurement compliance 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 whistle-blowing 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.

 **HTS Group Code of Conduct (Japanese version only)**  
<https://www.hitachi-transportssystem.com/jp/profile/policy/pdf/koudoukohan.pdf>

 **For details of compliance information, please visit our website.**  
<https://www.hitachi-transportssystem.com/en/profile/csr/management/compliance.html>

### 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 overseas trend regarding 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.

\* GDPR (General Data Protection Regulation): A regulation established by EU to protect personal data and privacy, which imposes severe restrictions on the handling of personal data (processing and transfer) by companies and organizations

#### ■ 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)** **100%**

Scope: HTS, domestic/overseas group companies

**Rate of targeted threat emails for simulation trainings opened (FY2019)** **5.0%**

Scope: HTS, domestic group companies

#### ■ 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 ISO/IEC 27001 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)** **12 companies**

**ISMS Certification\* (As of March 31, 2020)** **36 departments**

\*Scope: Sales, design, development and logistics center operation in 3PL business (medical, medicine, pesticide, document management, information communication equipment)

#### ■ Customer privacy

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

 **For details of information security, please visit our website.**  
<https://www.hitachi-transportssystem.com/en/profile/csr/management/riskmanagement.html>

# 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 highly likely to occur and have material impact and focus on discussing countermeasures against them.

	Internal factors	External factors	Group's policies
Strategic risks	<b>(1) Growth risk</b> Risk factors that may impede implementation of the growth strategy that takes into account customer and business environment (human resources and assets)	<b>(2) Environmental change risk</b> 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	<b>Aggressively take risks to pursue growth</b>
	<b>(3) Operational risk</b> Risk factors that result from inadequate or failure of internal process, human resources or systems	<b>(4) Hazard risk</b> Risk factors beyond our control that result from external events and may impede business continuity by causing damage or harm	
Pure risks			<b>Hedge risks to minimize potential losses</b>
Group's policies	<b>Prevent risks from occurring</b>	<b>Implement damage control assuming risks may occur</b>	

## TOPICS

### 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 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 four sites on the assumption that some employees were infected with COVID-19 at the office.

### Initiatives to Strengthen BCP (Business Continuity Plan) System

With respect to the risks associated with natural disasters and infectious diseases which occur frequently in recent years, the Group has implemented countermeasures to fulfill its responsibilities in dealing 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.

## Risk factors and the implementation status of our measures

Risk	Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
Growth risk	Concentration/dependence on specific customers	<ul style="list-style-type: none"> <li><b>Risk</b> <ul style="list-style-type: none"> <li>Impact on business results and continued employment of losing projects</li> <li>Impact on the HTS Group business of the fluctuation in customers' business results</li> <li>Loss of ability to negotiate better prices</li> <li>Decrease in incentive to develop new customers</li> </ul> </li> <li><b>Opportunity</b> <ul style="list-style-type: none"> <li>Efficient business expansion and able to take advantage of scale</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Sharp drop of revenues and profit due to poor business results of customers</li> <li>Downsizing of the business base</li> <li>Failure to collect accounts receivable due to customers' bankruptcy</li> </ul>	<ul style="list-style-type: none"> <li>Account management through enhanced interdivisional collaboration</li> <li>Monitor customers' business condition</li> <li>Establish and monitor credit limit</li> <li>Perform periodic review of customer dependency</li> <li>Allocate management resources to non-core businesses</li> </ul>
	Changes in a business model (technological innovation, etc.)	<ul style="list-style-type: none"> <li><b>Risk</b> <ul style="list-style-type: none"> <li>Changes in customer needs</li> <li>Technological obsolescence</li> </ul> </li> <li><b>Opportunity</b> <ul style="list-style-type: none"> <li>Acquisition of growth opportunities through the development of revolutionary technology</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Loss of competitive advantages in the logistics industry</li> <li>Decrease in competitiveness due to delayed response to digitalization</li> </ul>	<ul style="list-style-type: none"> <li>Collect information on new business models including new technologies and different industries as well as benchmark other companies</li> <li>Promote cooperation among industry, government, and academia as well as open innovation (refer to pages 27 to 28)</li> <li>Reinforce human resources with IT/digital skills</li> </ul>
	Securing human resources	<ul style="list-style-type: none"> <li><b>Risk</b> <ul style="list-style-type: none"> <li>Difficulty in securing excellent human resources due to intensified competition in the labor market</li> </ul> </li> <li><b>Opportunity</b> <ul style="list-style-type: none"> <li>Acquisition of new know-how and creation of new businesses</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Stagnation of the business</li> <li>Decrease in competitiveness</li> <li>Slowdown in growth</li> </ul>	<ul style="list-style-type: none"> <li>Secure human resources with global, digital, and management capabilities according to the business strategy</li> <li>Enhance in-house training programs to foster and educate human resources</li> <li>Perform human resource retention control (refer to page 67)</li> </ul>
Environmental change risk	Increase in cost	<ul style="list-style-type: none"> <li><b>Risk</b> <ul style="list-style-type: none"> <li>Increase in procurement costs (fuel, car allocation expenses, and labor costs)</li> </ul> </li> <li><b>Opportunity</b> <ul style="list-style-type: none"> <li>Improvement of business profitability due to a decrease in procurement costs</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Deterioration in profitability due to failure to collect adequate fee corresponding to the increase in cost</li> <li>Negative impact on business continuity due to shortage of human resources and vehicles, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Build close relationships with partner companies</li> <li>Optimize fees based on the movements of peer companies</li> <li>Efficient management by promoting digitalization</li> </ul>
	Sharp fluctuation of exchange rates	<ul style="list-style-type: none"> <li><b>Risk</b> <ul style="list-style-type: none"> <li>Exchange loss</li> <li>Negative impact of translation of business results of overseas subsidiaries into Japanese yen due to sharp fluctuation of exchange rates</li> </ul> </li> <li><b>Opportunity</b> <ul style="list-style-type: none"> <li>Exchange gain</li> <li>Positive impact of translation of business results of overseas subsidiaries into Japanese yen due to sharp fluctuation of exchange rates</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Decrease in profit due to exchange loss (items below EBIT in the income statement)</li> <li>Decrease in revenues and profit due to negative impact of translation of business results of overseas subsidiaries into Japanese yen</li> </ul>	<ul style="list-style-type: none"> <li>Concentrate exchange risks (centralize transactions such as forward exchange contracts and currency options in the head office)</li> <li>Enter into hedge transactions including forward exchange contracts with financial institutions</li> </ul>
Operational risk	Compliance violations (violation of the labor law, bribery, infringement on human rights, etc.)	<ul style="list-style-type: none"> <li><b>Risk</b> <ul style="list-style-type: none"> <li>Violation of overtime regulations, etc.</li> <li>Disagreement with the authority on the interpretation of equal pay for equal work</li> <li>Violations of laws and regulations such as bribery and competition law</li> <li>Deviation from social norms</li> <li>Information leakage</li> <li>Infringement on human rights including harassments, child labor, and cheap labor</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Impairment of corporate value due to decline in social trust</li> <li>Decrease in revenues and profit due to decline in customer and social trust</li> </ul>	<ul style="list-style-type: none"> <li>Establish and educate the HTS Group Code of Conduct</li> <li>Conduct investigation and education by legal divisions in each region (refer to page 54)</li> <li>Establish a structure to manage an attendance management system</li> <li>Clarify wage calculation method</li> </ul>
	Occurrence of incidents	<ul style="list-style-type: none"> <li><b>Risk</b> <ul style="list-style-type: none"> <li>Occurrence of occupational, fire, vehicle or product accidents</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Compensation for losses caused by accidents or fire to products or the affected people, and payment of damage compensation to the affected people</li> <li>Decrease in revenues and profit due to decline in customer and social trust</li> </ul>	<ul style="list-style-type: none"> <li>Develop and implement a facility maintenance plan</li> <li>Establish an initial response and reporting system in case of an accident, and conduct drills</li> <li>Share lessons, insights, and good examples within the Company</li> <li>Create safety workplaces by introducing safety technology (refer to page 65)</li> </ul>
	Deterioration in service quality	<ul style="list-style-type: none"> <li><b>Risk</b> <ul style="list-style-type: none"> <li>Deterioration in service quality and delays in delivery, etc.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Decrease in revenues and profit due to decline in customer and social trust</li> <li>Compensation for losses such as reimbursement due to the incidents</li> </ul>	<ul style="list-style-type: none"> <li>Manage KPIs by quality control divisions</li> <li>Quality control through process management</li> <li>Conduct monitoring based on the internal control system, perform audit, and enhance support</li> </ul>
Hazard risk	Severe disasters and global expansion of infectious disease (pandemic)	<ul style="list-style-type: none"> <li><b>Risk</b> <ul style="list-style-type: none"> <li>Damage to employees</li> <li>Disruption of logistics network</li> <li>Damage to the Group's assets (e.g. buildings and facilities) and customers' products</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Decrease in revenues and profit due to impacts on business (e.g. shutdown)</li> <li>Restoration cost and impairment of assets</li> </ul>	<ul style="list-style-type: none"> <li>Assess business interruption risk in each region and develop BCP (business continuity plan) for early business recovery (refer to page 68)</li> <li>Establish rules for information collection and work regulations as a global organization in case of pandemic</li> <li>Carry out BCM (business continuity management)</li> </ul>
	Threat to capital	<ul style="list-style-type: none"> <li><b>Risk</b> <ul style="list-style-type: none"> <li>Changes in capital policies of major shareholders</li> <li>Change of control as a result of acquisition of large number of the Company's shares by a specific investor</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Confusion in the management</li> <li>Decline of initiative of the current management</li> <li>Business disruption</li> </ul>	<ul style="list-style-type: none"> <li>Increase corporate value to grow market capitalization</li> <li>Invest in growth opportunities</li> <li>Increase shareholder returns</li> </ul>



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

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