

# Corporate Governance

## Basic Principle

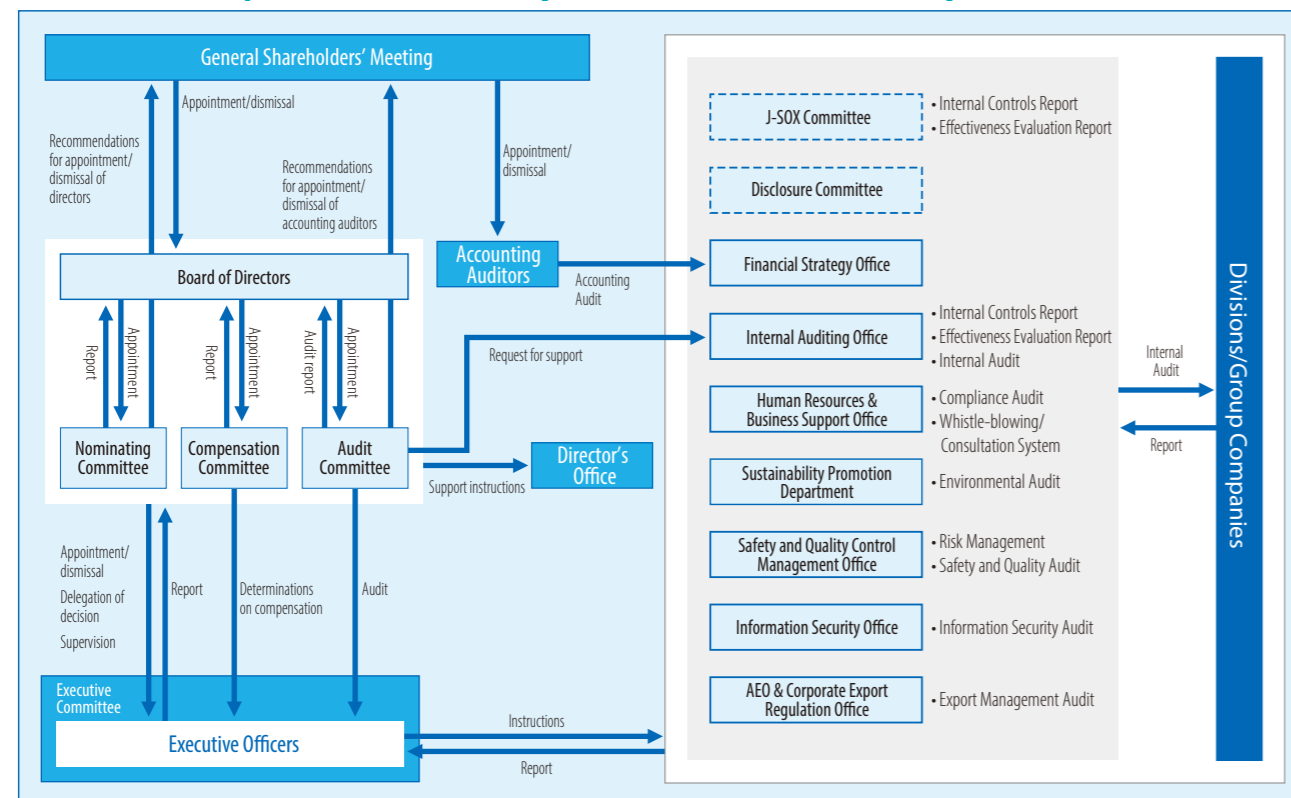
At the HTS group, we consider corporate governance to be key to realizing even greater management transparency and efficiency, as well as ensuring that our business is carried out with compliance and in accordance with correct corporate ethics. By extension, the crux of corporate governance lies in increasing 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 many 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
	Appointed an outside director as Chair of the Board of Directors	To strengthen functions of 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

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

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

### (3) Audit Committee

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

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.

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

### 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.



For the development of the next-generation management members, the Company regularly selects and develops candidates, and holds discussions at the Nominating Committee. For President and Chief Executive Officer, we select candidates from the next-generation management member candidates based on the president job description (JD), give each candidate different challenges appropriate to their respective issues which they need to overcome to grow, allow them to gain experience, and evaluate and develop them taking into account the advice, etc. from the Nominating Committee.

### Relationship between HTS and outside directors

There are no special interests involved between seven outside directors appointed at the HTS 62nd Regular General Shareholders' Meeting held on June 22, 2021 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 Criteria for Independence of 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 19 executive officers (as of April 1, 2021)

### 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

## Responded to the Corporate Governance Code

HTS complies with all principles of the Corporate Governance Code. The status of our cross-shareholdings are as follows:

### Policy on cross-shareholdings

#### • Policies regarding cross-shareholdings

HTS does not hold cross-shareholdings in principle, unless it is for a medium-to-long-term sustainable growth of the Company and increase of corporate value. Under such policy, of 26 issues held, we sold all shares of 14 issues in March 2016, one issue in October 2016 and one issue in June 2017, and we purchased one issue in March 2019; and as a result, we held 11 issues of shares as of March 31, 2021. As of March 31, 2021, the amount of cross-shareholdings accounted for less than 1% of total assets, which is insignificant on the balance sheet. In addition, the Board of Directors evaluates every year whether to continue

holding those shares from the viewpoint of the criteria for investment assessment (ROE, dividend payout ratio, and impairment risk, etc. of individual issues) and the criteria for business assessment (revenues from direct transactions with HTS, comparison with the capital cost of core businesses, credit information by third party agencies, and compliance, etc.).

#### • Exercise of voting rights

HTS exercises its voting rights from the perspective of its medium-to-long-term sustainable growth and increase of corporate value.



**Policy on cross-shareholdings**  
<https://www.hitachi-transportssystem.com/en/ir/stock/shareholdings/index.html>

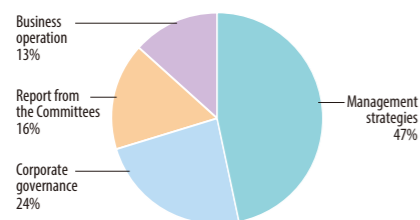
## Major Agenda Items and the Reports at the Board of Directors Meeting (FY2020)

### Major agenda items

Management strategies		Corporate governance	
<b>General management</b>	<ul style="list-style-type: none"> <li>Basic management policy</li> <li>Report on the progress of LOGISTEED 2021</li> <li>Report on Enterprise Risk Management (ERM)</li> <li>Report on business investments</li> <li>Report on IR initiatives</li> <li>Report on transition to TSE's new market segments</li> <li>Restructuring of Group companies</li> <li>Matters on business alliances, etc.</li> </ul>	<b>General Shareholders' Meeting</b>	<ul style="list-style-type: none"> <li>Proposed agenda for the General Shareholders' Meeting, etc.</li> </ul>
<b>Financial management</b>	<ul style="list-style-type: none"> <li>Financial results, etc.</li> <li>Funding plans (dividend policy, growth investment and borrowings, etc.)</li> <li>Dividends and method of surplus appropriation</li> <li>Making judgement on continuation of cross-shareholdings</li> <li>Acquisition of treasury shares</li> </ul>	<b>Directors, Executive Officers, Board of Directors</b>	<ul style="list-style-type: none"> <li>Appointment of Executive Officers</li> <li>Evaluation of the effectiveness of the Board of Directors</li> <li>Appointment of independent officers</li> <li>Corporate Governance Report</li> </ul>
<b>Others</b>	<ul style="list-style-type: none"> <li>Report on Digital Governance Code</li> <li>Report on working-style reform and diversity</li> <li>Report on human resource strategy</li> </ul>	<b>Other</b>	<ul style="list-style-type: none"> <li>Report on compliance</li> <li>Report on cybersecurity</li> <li>Report on quality assurance</li> <li>Report on SDGs initiatives and ESG management</li> <li>Annual Securities Report</li> </ul>
		<b>Business operation</b>	<ul style="list-style-type: none"> <li>Report on execution of duties by Executive Officers, etc.</li> </ul>
		<b>Report from the Committees</b>	<ul style="list-style-type: none"> <li>Reports from the Nominating, Audit, and Compensation Committees</li> </ul>

### Discussion status by agenda item (FY2020)

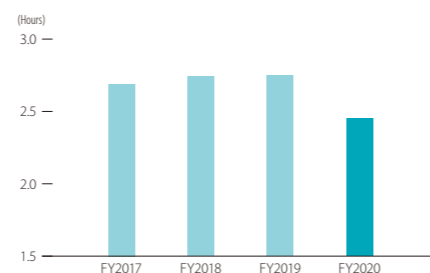
The proportion of the agenda items related to management strategies increased to 47% of the total items from the previous year's 39% as we reduced the proportion of items related to the determination of individual business executions and added those related to the essence of management.



### Average length of monthly regular meetings

In FY2020, we improved the efficiency of the Board of Directors meetings by providing sufficient explanations prior to the meetings\*

\*Change of presenters from the secretariat staff to executive officers and other measures



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

## Analysis and Evaluation of Effectiveness of the Entire Board of Directors, and the Result

The Company, pursuant to Article 4, Section 7 "Board Self-Evaluation" of its Corporate Governance Guidelines, evaluates the effectiveness of its Board of Directors (BOD) annually. To evaluate the BOD's effectiveness for FY2020, the Company first asked all its directors to complete a questionnaire survey and then reviewed the results, with a focus on addressing the identified issues and the need to improve the BOD's operation. For FY2019, the Company, in addition to conducting a self-assessment of the BOD, engaged Japan Board Review Co., Ltd., a third-party assessor, to conduct an impartial and objective evaluation of the BOD for the first time. The Company intends to retain an independent assessor to evaluate its BOD every third year.

### Self-Assessment by the BOD

Six of the nine BOD members are independent outside directors, two of whom are women. The BOD comprises a certified public accountant, a scholar, two lawyers, and other members with a wealth of professional expertise and experience in a diverse range of fields such as corporate management, finance, and accounting. BOD meetings convened during FY2020 were chaired by one of these independent outside directors. Matters to be deliberated at each BOD meeting were proposed by the Chair, based on an annual plan resolved by the BOD at the beginning of the fiscal year as well as on the results of each Executive Committee meeting that the Chair attended throughout the year. Matters deliberated at BOD meetings during FY2020 consisted of management strategies (47%), corporate governance (24%), and business operation and others (29%), which reflected the BOD's decision to spend less time making and approving decisions on specific business actions and spend more time discussing in depth the Company's fundamental management issues, based on the results of the BOD's self-assessment for FY2019. The BOD met 13 times during FY2020. 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.

Based on the results of the self-assessment for FY2019, the BOD took up the following two additional matters for deliberation:

(1) An initiative to meet the requirements of the Digital Governance Code, established by the Ministry of Economy, Trade and Industry: The BOD reviewed the DX\*1 strategy, including defining the Company's IT Governance Code, and asked the Company's executive officers to establish key performance indicators (KPIs) for the code that would drive the Company's corporate value.

(2) An initiative to meet the requirements of SDGs and implement ESG (environmental, social, and governance) management practices: The BOD reviewed the progress of the initiative and asked the executive officers to step up their efforts to bolster employee motivation through VC21\*2 activities and address climate change in the Company's operations.

BOD members held small meetings to discuss important management issues facing the Company, 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.

For FY2021 and beyond, the BOD intends to exchange ideas with external experts and have off-site meetings more often to discuss fundamental management issues, such as how to increase the Group's long-term corporate value, how to

implement initiatives for DX, sustainability, and groupwide governance, and how to expand the Group's global business.

\*1 Digital Transformation  
 \*2 Value Change & Creation 2021: Promotion of a sense of personal ownership through company-wide bottom-up initiatives

## Self-Assessments by the Three Committees

### (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 FY2021, upon deliberation based on the Process of Reappointing the President and Chief Executive Officer, which had been established by the Committee. In reviewing the composition of the BOD, the Committee created and used an executive skill matrix to define the requirements for professional expertise to be fulfilled by future BOD members. In reviewing a succession plan for directors, the Committee established a process for appointing an outside director, based on which the Committee would narrow down a long list of candidates for directors. 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's audit policy for FY2020 was to evaluate the effectiveness of the Company's reactive and proactive governance as well as its governance over ESG risks. Based on this policy, the Committee audited the legal compliance, appropriateness, and efficiency of the ways in which the Company's directors and executive officers performed their duties.

To meet the new regulatory requirements for disclosing key audit matters (KAMs) in the Company's financial statements for FY2020, the Committee agreed with an independent accounting auditor, following a two-year consultation, regarding the appropriateness and consistency of disclosing information necessary for investors' decision making.

Amid the COVID-19 pandemic, the Committee canceled on-site audits of Group companies outside Japan scheduled for FY2020. The Committee conducted on-site audits of the Company's two Area Management Headquarters for East Japan and West Japan as well as nine Group companies in Japan. The Committee and the two Area Management Headquarters jointly confirmed the effectiveness of their governance over their associates. In particular, the Committee evaluated the effectiveness of Enterprise Risk Management (ERM) programs implemented by these audited units to manage growing business risks brought about by fast-changing business environments. The Committee also evaluated the progress that these units were making in implementing LOGISTEED, the Company's medium-term business concept including DX initiatives, and ROIC-driven management practices to increase the Group's medium-to-long-term corporate value. From these evaluations, the Committee identified management issues with each of the units and offered recommendations for improvement, for which they submitted plans for proposed actions.

The Committee conducts on-site audits to evaluate the effectiveness of the BODs of 81 Group companies around the globe, which collectively play a central role in practicing groupwide governance. The Committee recommends 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 those submitted by the Company's Internal Auditing Office. Eight dedicated corporate auditors now exercise governance over major subsidiaries, which enables them to conduct internal audits more efficiently and effectively and, in turn, helped enhance the groupwide governance.

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 audits 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. The three auditing bodies have agreed to consider establishing an environment for digital audits to achieve greater efficiency and comprehensiveness of the audits they perform. For FY2021, the Committee intends to focus its audits on the following two areas: (1) verifying that the Group steps up its efforts to disclose information about its climate change initiatives and to promote greater diversity\*3 among employees, both as part of implementing ESG management practices; and (2) verifying that the Group takes steps to manage greater capital efficiency and allocate human resources strategically, both as part of its efforts to better manage capital cost, which is the basis for increasing the Group's corporate value. For FY2021, the

Committee plans to resume on-site audits of Group companies outside Japan, which were postponed in FY2020, if the COVID-19 pandemic subsides, and to audit the Global Business Management Headquarters, which oversees the Group's businesses in North America, Europe, China, and Asia.

\*3 Diversity in sociodemographic attributes including gender and age as well as in skill sets

### (3) Compensation Committee

The Compensation Committee resolved to introduce the performance-linked stock compensation plan for executive officers of the Company and started its operation from FY2020. The plan links compensation for executive officers more tightly to the Company's financial performance and equity value to motivate them to make a greater contribution to the Company's medium-to-long-term financial success and corporate value, as they share risks with shareholders arising from changes in the Company's stock price. For the compensation policy for FY2021, the Committee determines that the Company's compensation level and structure for its directors and executive officers are appropriate, based on a benchmark analysis of those offered by other companies of comparable size to their directors and executive officers, and that its compensation plan is administered appropriately and stringently.

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 FY2020

Name	Registration	Positions and assignments in the Company in FY2020	Number of attendances for the Board of Directors meetings during FY2020
<b>Independent Officer</b> Miho Aoki	2020	Outside Director Audit Committee 12/12	11/11
<b>Independent Officer</b> Sayoko Izumoto	2017	Outside Director Audit Committee 17/17 Compensation Committee Chair 6/6*3	13/13
<b>Independent Officer</b> Mitsudo Urano	2014	Outside Director Chair of the Board of Directors Nominating Committee Chair 6/6 Compensation Committee Chair 2/2*4	13/13
<b>Independent Officer</b> Takashi Nishijima	2020	Outside Director Nominating Committee 4/4 Compensation Committee 4/4	11/11
<b>Independent Officer</b> Tetsu Fusayama	2016	Outside Director Nominating Committee 6/6 Audit Committee 5/5*4	13/13
Hiroshi Maruta	2015	Outside Director Audit Committee Chair 17/17	13/13
<b>Independent Officer</b> Hajime Watanabe	2020	Outside Director Audit Committee 12/12	11/11
Takashi Jinguji	2016	Representative Executive Officer Executive Vice President and Executive Officer	13/13
Yasuo Nakatani	2013	Representative Executive Officer President and Chief Executive Officer Nominating Committee 6/6 Compensation Committee 6/6	13/13

\*1 Attendance record of the director whose term of office is one year is for the period after the appointment.  
 \*2 The colored frames indicate respective Committees with the upper part showing the name of the Committee to which a director belongs or chairs and the lower part showing his/her attendance records during FY2020.  
 \*3 Attended two Compensation Committee meetings held during the period from April 1, 2020 to the Regular General Shareholders' Meeting on June 23, 2020 as a Compensation Committee member and four meetings held after that as the Chair of the Compensation Committee.  
 \*4 Total number of meetings of each Committee held during the period from April 1, 2020 to the Regular General Shareholders' Meeting on June 23, 2020. On June 23, 2020, Mr. Urano, Director, retired from the Chair and a member of the Compensation Committee, and Mr. Fusayama, Director, retired from an Auditing Committee member.

## 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.

#### Compensation Governance

##### 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 stipulate rules on the Compensation Committee as follows.

##### Functions of the Compensation Committee

The Compensation Committee is responsible for determining details of compensation, etc. of each director and executive officer and shall have the authority of the followings:

- Determine the policies to determine the details of compensation of each director and executive officer
- Select the member of the Compensation Committee who can convene the Board of Directors
- Select the member of the Compensation Committee who reports on the execution of duties by the Committee to the Board of Directors
- Determine the matters delegated by the General Shareholders' Meeting to decide
- Other matters stipulated by laws and regulations

##### Size and composition of the Compensation Committee

The Compensation Committee consists of more than three members selected from directors by a resolution of the Board of Directors, with the majority being outside directors.

##### Operation of the Compensation Committee

- Details of compensation are determined at the level commensurate with the ability and responsibilities required of the Company's officers, taking into account the compensation level of other companies.
- The Compensation Committee reviews the above policy on a regular basis. 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. We hire Willis Towers Watson as the external compensation consultant.

##### Activity Status of the Compensation Committee in Determining the Compensation Amount for the Recent Fiscal Years

The composition of the Compensation Committee during the process to determine the compensation amount for the recent fiscal years is as follows:

Three members (including two outside directors)  
 Compensation Committee Chair (outside director) Ms. Izumoto, Director  
 Compensation Committee Member (outside) Mr. Nishijima, Director  
 Compensation Committee Member (inside) Mr. Nakatani, Director, Representative Executive Officer, President and Chief Executive Officer

The Compensation Committee meetings to determine the compensation amount for the recent fiscal years were held five times in December 2019, March, May, and June 2020 and May 2021, with the Chair and all members attending in all meetings (attendance rate: 100%).

For director compensation, etc. for FY2020, the Compensation Committee deliberated and determined compensation, etc. for each director on June 23, 2020 in accordance with the determination policy, established by the Compensation Committee on December 25, 2019.

For executive officer compensation, etc. for FY2020, the Compensation Committee deliberated and determined compensation, etc. for each executive officer on March 26, 2020 and performance-linked compensation for each executive officer on May 20, 2021 in accordance with the determination policy, established by the Compensation Committee on December 25, 2019.

#### Compensation Program

##### Basic policy on the compensation plan for officers

- Our basic policy on the compensation plan for officers is as follows:
- Ensure that the plan is designed to reflect the evaluation for the Company's social position while always keeping in mind the corporate philosophy "to deliver high-quality services that will help make the world a better place for people and nature for generations to come"
  - Ensure that the plan is designed to reflect the evaluation for aggressive challenges to create "new value" and realize "dynamic growth" based on Smart Logistics and collaborative innovation strategies under our business concept "LOGISTEED"
  - Ensure that the plan is designed to appropriately reward highly capable management personnel who can contribute to the Company's sustainable development and an increase in long-term corporate value
  - Ensure that the plan is designed to motivate officers to achieve performance targets, reflect potential risks associated with efforts for such achievement and function as a sound incentive toward the Company's sustainable growth
  - Ensure that the plan is designed to encourage the management to work together toward increasing corporate value and achieving the targets of the company-wide strategies

##### 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 monetary 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 and is paid at a certain time every month. Directors who also serve as executive officers do not receive additional compensation, etc. as directors.

**Executive officer compensation, etc.**

Executive officer compensation levels are comprised of a combination of basic compensation and performance-linked compensation (annual bonus and stock compensation) as shown below, and determined by reflecting executive's performance review in a base amount commensurate with his/her position. Basic compensation is paid at a certain time every month, and annual bonus is paid once a year at a certain time, and stock compensation is paid at a certain time after the evaluation period of three fiscal years.

**Overview of composition and payment method of compensation**

Composition of compensation	Basic compensation		Performance-linked compensation				Payment method
	Consolidated performance	Division missions	Annual bonus		Stock compensation		
			Individual missions	Relative TSR	ROE		
	Cash					Share + Cash	

The composition ratio of executive officers' compensation, etc. by type reflects the level of management responsibility with higher ratio of performance-linked compensation for senior officers.

The table below shows the ratio of each compensation element by position with basic compensation being 100. The ratio of performance-linked compensation is calculated using the standard amount assuming a 100% achievement of the Company's performance targets.

**Ratio of each compensation element**

	Basic compensation	Performance-linked compensation		Basic compensation: Performance-linked compensation
		Annual bonus	Stock compensation	
President	100	50	50	100:100
Executive vice president	100	40-41	40-41	100:80-82
Senior vice president/Vice president	100	30	30	100:60
Executive officer	100	34-38	14-16	100:48-54

The ratio of performance-linked compensation is calculated using the standard amount assuming an achievement of the performance targets.

**KPIs for performance-linked compensation, reasons for selecting KPIs, and method to determine the compensation amounts**

**Annual bonus**  
Annual bonus is linked to the achievement level of the consolidated performance targets, division missions, and individual missions for a single year. KPIs and reasons for selecting them are as follows. In evaluating the performance, the payment rate is

calculated based on the achievement level of the targets which are determined at the beginning of the fiscal year after the deliberation and verification for appropriateness by the Compensation Committee, and the amount calculated using such payment rate is assessed and finalized at the Compensation Committee held after the year-end. The payment rates based on the respective evaluation of the elements linked to consolidated performance, division missions, and individual missions fluctuate independently between 0 and 2 times, and the amount of annual bonus fluctuates between 0% to 200% of the standard amount determined for each position for a single year.

**Composition of annual bonus and KPIs**

Elements	Eligible officers	KPIs	Reasons for selection
Consolidated performance	All executive officers	Revenues for a single year	Because it is a financial indicator of the business scale
		Adjusted operating income for a single year*1	Because it is a financial indicator of the results from the main business activities
Division missions	Executive officers in charge of profit centers	Revenues of the division in charge for a single year	
		Adjusted operating income of the division in charge for a single year*1	
Individual missions	All executive officers	Indicators, etc. that do not show up on the financial results, etc.	Because they evaluate management efforts that do not show up on the financial results, such as improvement of the Company's social position

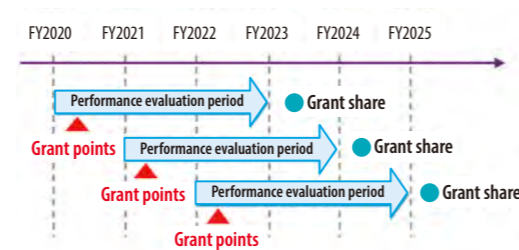
\*1 Calculated as "Adjusted operating income=Revenues - Cost of sales - Selling, general and administrative expenses"

**Stock compensation**

Stock compensation aims to raise executive officers' awareness to contribute to improving medium-to-long-term performance and corporate value by clarifying the relationship between their compensation and the Company's performance and equity value to let them share benefits and risks associated with stock price movements with shareholders.

For the evaluation period of three consecutive fiscal years from FY2020 to FY2022, officers are granted the base points (1 point = 1 share) calculated as the standard amount determined for each position divided by the Company's stock price in the trust before the start of the evaluation period (average of the closing prices in March), and such number of the Company's common stock as is calculated by multiplying the base points by the share grant ratio reflecting the performance evaluation (the "Company's Share") are granted after the evaluation period. When the Company's Share is granted, approx. 50% of them are sold at the stock market to secure cash for tax payment, and the proceeds will be paid.

**Evaluation period**



Performance evaluation indicators are the Company's TSR/TOPIX growth rate and consolidated ROE (ratio of net income to equity attributable to stockholders of the parent company). The reason for selecting these indicators is that the

Company's TSR/TOPIX growth rate directly reflects the result of our efforts to create corporate value, and consolidated ROE is one of our important indicators of our management strategies with the target of over 10% for FY2021 included in the Mid-term Management Plan "LOGISTEED 2021." For the evaluation based on consolidated ROE, a three-year average value is used to evaluate our corporate management which aims to maintain and improve efficiency continuously. A 50% evaluation weight is given to each of the Company's TSR/TOPIX growth rate and consolidated ROE for all positions.

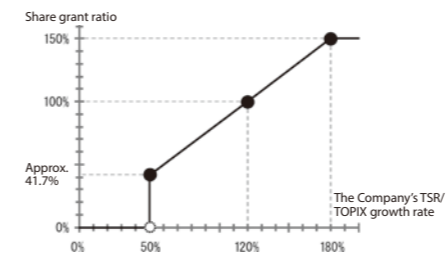
For performance evaluation, based on the incentive curve of each indicator determined by the Compensation Committee at the beginning of the evaluation period, the Compensation Committee evaluates and finalizes using the share grant ratio calculated based on the achieved results after the three-year evaluation period is over. For executive officers retired during the evaluation period, adjustments are made depending on the reason, considering their tenure during the evaluation period, subject to the deliberation at the Compensation Committee.

**The calculation methods for the Company's TSR/TOPIX growth rate and incentive curves**

The calculation methods for the Company's TSR/TOPIX growth rate and incentive curves are as follows:

The Company's TSR/TOPIX growth rate (%) = The Company's TSR (%)<sup>\*2</sup>/TOPIX growth rate (%)<sup>\*3</sup>  
(Rounded to the nearest percent)

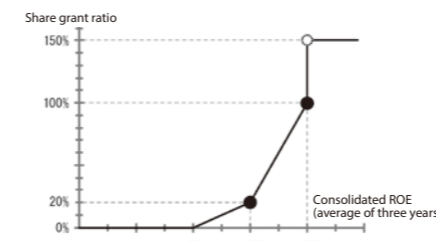
\*2 The Company's TSR (%) = (B+C)/A (rounded to the nearest percent)  
A: Average closing price of the Company's stock at TSE in May 2020 (rounded down to the nearest yen)  
B: Average closing price of the Company's stock at TSE in May 2023 (rounded down to the nearest yen)  
C: Total dividend amount per share of the Company's stock from April 1, 2020 to March 31, 2023  
\*3 TOPIX growth rate (%) = E/D (rounded to the nearest percent)  
D: Average closing value of TOPIX at TSE in May 2020 (rounded to the nearest point)  
E: Average closing value of TOPIX at TSE in May 2023 (rounded to the nearest point). For the purpose of this calculation, we will apply the criteria before the transition to the new market segments scheduled in 2022 to ensure consistency at the beginning and end of the evaluation period.



The performance target for the Company's TSR/TOPIX growth rate is set at 120%, and when it is achieved, the share grant ratio is 100%. If the Company's TSR/TOPIX growth rate is 180% or more, the share grant ratio is the maximum of 150%, and if less than 50%, the share grant ratio is 0%.

**Incentive curve of consolidated ROE (Average consolidated ROE for the period from FY2020 to FY2022)**

The incentive curve of consolidated ROE is as follows.



The performance target of consolidated ROE (average of three years) is set at 12%, and if it is achieved, the share grant ratio is 100%. If consolidated ROE (average of three years) is over 12%, the share grant ratio is the maximum of 150%, and if 8% or less, the share grant ratio is 0%.

**Compensation amount of directors and executive officers**  
**Relationship between actual compensation and performance**  
**Total compensation amount by officer category and total amount by type of compensation**

Total compensation amount by officer category and total amount by type of compensation for directors and executive officers are as follows:

Officer category	Total amount of compensation, etc. (Million yen)	Total amount by type of compensation, etc. (Million yen)				Number of eligible officers (person)
		Fixed compensation	Performance-linked compensation	Retirement benefits	Non-monetary compensation, etc. included in total	
Directors (excluding outside directors)	—	—	—	—	—	
Executive officers	674	462	212	—	31	
Outside directors	103	103	—	—	9	

(Note)  
1. The number of eligible officers for directors' compensation, etc. excludes two directors who serve concurrently as executive officers.  
2. The compensation is based on the resolution at the Compensation Committee for compensation for FY2020 of directors and executive officers who served from April 1, 2020 to March 31, 2021.  
3. There are no directors or executive officers with total consolidated compensation, etc. exceeding 100 million yen.  
4. The detail of total non-monetary compensation, etc. for executive officers is 31 million yen of performance-linked compensation.

**Targets and results of KPI related to performance-linked compensation of the recent fiscal years**

Performance-linked compensation of the recent fiscal years is comprised only of annual bonus.

The Compensation Committee deliberated and determined individual annual bonus amount based on the achievement level of FY2020 targets for revenues and adjusted operating income, which are consolidated performance indicators for annual bonus, in comprehensive consideration of the achievement level of division missions and individual missions. Targets and results of revenues and adjusted operating income for FY2020 are as follows:

**Targets (initial plan)**

Revenues: ¥651.0 billion (YoY -3%)  
Adjusted operating income: ¥31.5 billion (YoY -6%)

**Results**

Revenues: ¥652.38 billion (YoY -3%)  
Adjusted operating income: ¥36.711 billion (YoY +10%)

**The reason why the Compensation Committee concluded that the details of individual directors and executive officers' compensation for the recent fiscal years comply with the policy on the determination of compensation amount, etc. of directors and executive officers**

The Compensation Committee concluded that its decision is in compliance with the determination policy as the Committee assesses the compensation amount of individual directors and executive officers based on a comprehensive deliberation, including consistency with the determination policy.



# 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, including matters concerning anti-corruption, 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 and regulations, including anti-corruption laws and competition laws, but also to act in accordance with corporate ethics in order to meet trust and expectations of the society.

### Compliance education

To build a solid corporate culture that will not accept any compliance violations, we provide rank-based group trainings for compliance education targeting new employees, young employees, new assistant managers/managers, and new directors of domestic group companies, in addition to e-learning for all employees including officers, for the purpose of deepening understanding of anti-corruption laws, warehousing business law, etc. We also have training programs tailored to the business of group companies and the training sessions travelling around sites by the Legal Department.

### 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 (FY2020)

**Domestic: 19 companies**      **Overseas: 35 companies**

### Whistle-blowing system

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

#### Whistleblowing Compliance Management System (WCMS) certification



In June 2021, we became a registered company of "Whistleblowing Compliance Management System certification (self-declaration of conformity registration system)" under the jurisdiction of Consumer Affairs Agency of Japan. We will continue to strengthen our compliance system.

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

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

## 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. As part of our efforts to prevent information leakage and maintain a high-level security, 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 other relevant laws in other countries, 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 (FY2020)**      **100%**

Scope: HTS, domestic/overseas group companies

**Rate of targeted threat emails for simulation trainings opened (FY2020)**      **9.6%**

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 certain criteria.

**Privacy mark acquisition status at HTS and its domestic group companies (as of March 31, 2021)**      **12 companies**

**ISMS Certification\* (As of March 31, 2021)**      **26 departments**

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

### Customer privacy

In FY2020, 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/governance/riskmanagement/>

# 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
<b>Strategic risks</b>	<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>Pure risks</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	<b>Hedge risks to minimize potential losses</b>
<b>Group's policies</b>	<b>Prevent risks from occurring</b>	<b>Implement damage control assuming risks may occur</b>	

### The HTS Group's risk management system

The HTS Group manages risks by appointing a Risk owner\*1 and a Risk manager\*2 for each risk factor. When creating an annual budget, risk items are identified and their quantification and responses are discussed, and risk owners or risk managers report the status of relevant risk items to the Executive Committee and also to the Board of Directors and the Audit Committee when necessary, in order to ensure effectiveness of Enterprise Risk Management (ERM).

\*1 Risk owner: A person in charge of discussing risk responses and monitoring/supervising the implementation of measures.  
 \*2 Risk manager: A person in charge of addressing risks in cooperation with a Risk owner and promptly implementing relevant measures.

### Response to large-scale disasters

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.

**As for disaster preparedness measures and business continuity management/BCP promotion system, please visit our website.**  
<https://www.hitachi-transportssystem.com/en/profile/csr/governance/riskmanagement/>

# Risk Management

## Risk factors and the implementation status of our measures (priority risks)

### 1 Growth risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
<b>Concentration / dependence on specific customers</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Impact on business results and continued employment by losing projects</li> <li>Impact on the HTS Group business of customers' performance fluctuations and business reorganizations</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Efficient business expansion and able to take advantage of scale</li> </ul>	<ul style="list-style-type: none"> <li>Sharp drop of revenues and profit due to poor performance or bankruptcy of customers and a significant increase in liabilities due to uncollectible accounts receivable</li> <li>Downsizing of the business base</li> </ul>	<ul style="list-style-type: none"> <li>Account management through enhanced interdivisional collaboration</li> <li>Monitor customers' business condition</li> <li>Monitor the movements of peer companies</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>
<b>Changes in a business model (technological innovation, etc.)</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Obsolescence of existing services and business models due to rapid development of IT and other digital technologies</li> <li>Obsolescence of existing technologies due to failure to promptly deal with digitalization and introduce new technologies</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Acquisition of growth opportunities through the development of revolutionary technology</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>Develop new services and business models through collaborative innovation with business partners</li> <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</li> <li>Reinforce human resources with IT/digital skills</li> </ul>
<b>Securing human resources</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Difficulty in securing excellent human resources due to aging population combined with a declining birth rate and intensifying competition in the labor market</li> <li>Loss of momentum for promotion of diversity management which enables diverse employees to participate in the workplace</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Acquisition of new expertise and creation of new businesses</li> </ul>	<ul style="list-style-type: none"> <li>Stagnation of the business</li> <li>Decrease in market competitiveness</li> <li>Slowdown in corporate growth</li> </ul>	<ul style="list-style-type: none"> <li>Secure human resources with global, digital, and management capabilities according to the business strategy (Enhance recruiting and establish a compensation system)</li> <li>Enhance in-house training programs to foster and educate human resources</li> <li>Perform human resource retention control (Create a pleasant working environment)</li> </ul>
<b>Decrease in new orders received and failure to acquire orders in existing projects</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Difficulty in acquiring new orders due to intensifying competition and market shrinkage</li> <li>Failure to acquire orders in existing projects due to a bidding system, etc.</li> <li>Failure to launch a new project</li> <li>Business plan mistakes</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Business expansion with new orders, and acquisition of new expertise</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in market competitiveness</li> <li>Growth slowdown due to a decline in customer trust</li> <li>Decline in profit margin due to unprofitable businesses</li> </ul>	<ul style="list-style-type: none"> <li>Enhance monitoring through wider use of the phase-gate process management</li> <li>Visualize and share customers' risk information</li> <li>Visualize and share information on orders received and not received</li> <li>Understand trend, analyze potential impact on businesses, and develop/implement responsive plans</li> </ul>

### 2 Environmental change risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
<b>Sharp increase in cost</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Increase in procurement costs (fuel, car allocation expenses, and labor costs)</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Decrease in procurement costs</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> <p><b>Reference</b></p> <ul style="list-style-type: none"> <li>Outsourcing costs/labor costs in FY2020</li> <li>Outsourcing costs: 316.5 billion yen</li> <li>Labor costs: 157.5 billion yen</li> </ul>	<ul style="list-style-type: none"> <li>Build close relationships with partner companies</li> <li>Optimize fees based on the movements of competitors</li> <li>Efficient management by promoting digitalization</li> </ul>
<b>Sharp fluctuation of exchange rates</b>	<p><b>Risk</b></p> <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> <p><b>Opportunity</b></p> <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>	<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> <p><b>Reference</b></p> <ul style="list-style-type: none"> <li>Ratio of global business in revenues and adjusted operating income in FY2020: Revenues: 33%</li> <li>Adjusted operating income: 28%</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> <li>Maintain a balance of foreign currencies and continue investment in time deposits</li> </ul>
<b>Climate change</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Impact on realization of sustainable society</li> <li>Rise in greenhouse gas emissions price</li> <li>Increase in extreme weather events such as cyclones and flooding</li> <li>Increase in the average temperature</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Use of more efficient transportation modes and production and distribution processes</li> <li>Ability to diversify business activities</li> <li>Alternative/diversified resources</li> </ul>	<ul style="list-style-type: none"> <li>Increase in tax burden related to climate change and cost increase due to tightening or introduction of regulations on greenhouse gas emissions</li> <li>Stagnation of the logistics business due to intensifying extreme weather</li> </ul>	<ul style="list-style-type: none"> <li>Establish an environmental management system and promote relevant activities</li> <li>Strengthen alliance with collaborative innovation partners to achieve the medium-to-long-term environmental targets (procurement of renewable energy, introduction of advanced eco-friendly vehicles, energy-saving buildings and facilities, and recycling)</li> <li>Develop decarbonizing solutions (visualization of CO<sub>2</sub> emissions) and promote green logistics</li> </ul>

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
<b>Loss of human resources and diversified working-style</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Loss of human resources due to a mismatch between the personnel measures and employees' desire</li> <li>Loss of human resources due to delayed response to diversified working-style, and difficulty in securing human resources</li> <li>Increase in turnover due to the mobilization of human resources</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Secure diversified human resources including highly-skilled personnel and those from different industries, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Fall of governance and business operation ability due to loss of human resources</li> <li>Decrease in market competitiveness and slowdown of corporate growth due to loss of human resources</li> </ul>	<ul style="list-style-type: none"> <li>Realize diversity and inclusion and a work-life balance through use of a broad range of human resources</li> <li>Appoint human resources and provide career education based on a succession plan</li> <li>Improve moral/motivation through periodic interviews at workplace</li> <li>Support active participation of female, elderly, or disabled employees in the workplace</li> <li>Conduct employee surveys and strengthen employee engagement</li> <li>Secure excellent human resources by implementing group common in-house training programs</li> <li>Further promote teleworking</li> </ul> <p><b>Future consideration</b></p> <ul style="list-style-type: none"> <li>Develop a succession plan and appoint and foster human resources based on the plan</li> <li>Offer opportunities and occasions for growth (talent management and education)</li> <li>Introduce a job-oriented compensation system that reflects "roles/responsibilities" and "achievements"</li> </ul>

### 3 Operational risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
<b>Occurrence of incidents</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Occurrence of industrial accident, fire, vehicle or product accidents</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 (SSCV, etc.)</li> </ul>
<b>Compliance violations (violation of the labor law, bribery, infringement on human rights, etc.)</b>	<p><b>Risk</b></p> <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 low wage labor</li> <li>Infringement on intellectual property rights</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 the HTS Group Code of Conduct and educate all employees</li> <li>Introduce a whistle-blowing system</li> <li>Conduct investigation and education by legal divisions in each region</li> <li>Establish a structure to manage an attendance management system</li> <li>Clarify wage calculation method</li> <li>Establish a specialized IP division and educate all employees</li> </ul>
<b>Deterioration in service quality</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Loss of customer trust</li> <li>Deterioration in service quality and delays in delivery, etc.</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>
<b>System failure</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Significant delay in work or suspension of operations due to power outage or system failure caused by natural disasters</li> <li>Significant delay in work or suspension of operations due to system failure at external service providers</li> <li>Delay in operations due to deterioration of system response</li> </ul>	<ul style="list-style-type: none"> <li>Compensation or penalty for customers' opportunity loss due to delay in work</li> <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> <li>Expenses related to recovery or renovation</li> </ul>	<ul style="list-style-type: none"> <li>Introduce redundant system</li> <li>Prepare alternative means in case of failure</li> <li>Strengthen backup measures for system recovery and conduct on-site training</li> <li>Implement measures for each service used and BCP</li> </ul>

### 4 Hazard risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
<b>Severe disasters and global expansion of infectious disease (pandemic)</b>	<p><b>Risk</b></p> <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>	<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> <p><b>Reference</b></p> <ul style="list-style-type: none"> <li>COVID-19 impact in FY2020 (YoY)</li> <li>Revenues: -¥25.6 billion</li> <li>Adjusted operating income: -¥5 billion</li> </ul>	<ul style="list-style-type: none"> <li>Assess business interruption risk in each region</li> <li>Develop BCP (business continuity plan) for early business recovery (including prior consultation with customers and business partners)</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>
<b>Threat to capital</b>	<p><b>Risk</b></p> <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>	<ul style="list-style-type: none"> <li>Decline of initiative of the current management</li> <li>Impact on corporate value of material changes in capital structure</li> </ul>	<ul style="list-style-type: none"> <li>Increase corporate value to grow market capitalization</li> <li>Active communication with shareholders</li> <li>Invest in growth opportunities</li> <li>Increase shareholder returns</li> </ul>
<b>Loss/leakage of information</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Loss or leakage of data such as customer information due to an information security incident, cyberattack or large-scale system failure</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> <li>Restoration cost</li> <li>Claims for compensation damages from customers</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the information asset management through internal audit and in-house trainings, etc.</li> <li>Establish and disseminate information security rules</li> <li>Build a system to deal with cyberattacks and regularly update the technology</li> <li>Increase frequency of monitoring including audit</li> </ul>

As for risk factors other than priority risks, please visit our website.  
[https://www.hitachi-transportssystem.com/en/profile/csr/pdf/htsgroup\\_riskfactor.pdf](https://www.hitachi-transportssystem.com/en/profile/csr/pdf/htsgroup_riskfactor.pdf)