

The HTS Group Environmental Management

Environmental Policy

The HTS Group is promoting "business activities with less environmental load" based on the following four policies. As for measures against global warming, we are working to enhance green logistics including collaborative logistics and modal shift together with our partner companies.

- 1. Reduce environmental load generated at all our places of business**
Reduce consumption of electricity, gasoline and LP gas and recycle waste, etc.
- 2. Provide logistics/services with less environmental load**
Contribute to customers through CO₂ emission reduction and resource recycling.
- 3. Improve Eco-Mind level and enhance Eco-Management system**
Increase global environmental awareness. Observe environmental laws/ordinances and company regulations.
- 4. Promote symbiosis with nature and environmental communications**
Promote symbiosis with nature and environmental communications. Preserve biodiversity and ecosystem. Maintain environmental collaboration with customers and local communities.

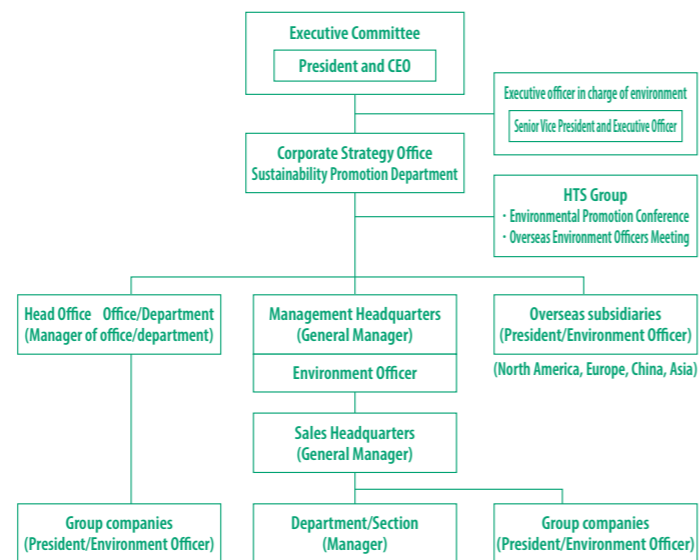
Material issues in the environmental field

Material issues identified in the environmental field are as follows.

- (1) Carbon (decarbonization)**
- (2) Stopping pollution**
- (3) Renewable energy**

Environmental Management Structure

Since the establishment of a department dedicated to environmental issues in the head office in August 1992, we have worked on reducing environmental load and are currently promoting group-wide activities toward the global "environment-conscious business operations." Under the supervision of the Board of Directors and the Executive Committee, Sustainability Promotion Department, Corporate Strategy Office chaired by Senior Vice President and Executive Officer in charge of environmental issues, is responsible for overall environmental management work and oversees the entire group.



Strengthen Environmental Management

We utilize management systems to understand and monitor actual data. In overseas, we conduct research on important environmental laws and regulations for the purpose of managing environmental load and legal compliance.

Holding Environmental Promotion Conference

We share environmental information in Japan and overseas to improve environmental awareness and the management level.

Number of environment conferences held (FY2020)
Domestic: Environmental Promotion Conference **2** times
Overseas: Environment Officers Meeting **2** times

Performance of internal environmental audit

We perform internal audit to prevent or promptly correct violations of the environmental compliance and improve the management level.

Number of sites subjected to internal environmental audits (Japan: FY2020)

84

Ensuring compliance in overseas offices

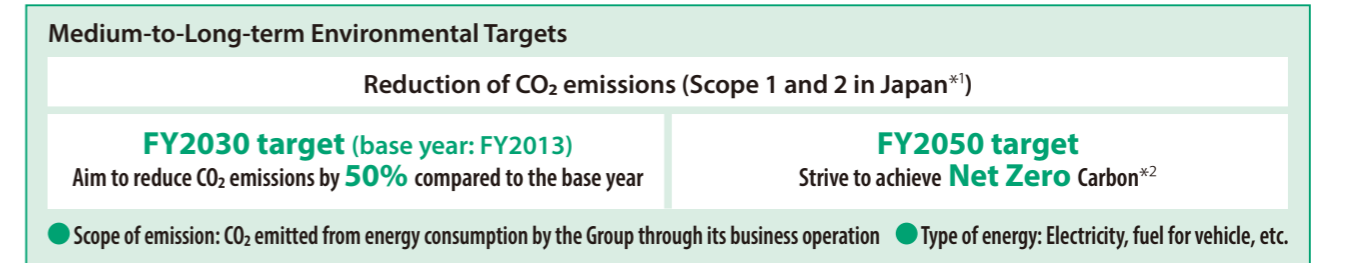
We identify important environmental laws and regulations related to "Transport and Warehouse Business" in overseas sites and conduct research on their outline in 29 countries and regions from FY2017 to ensure proper operations management in each site. In FY2020, we completed research on Australia, Philippines, Vietnam, and Hong Kong, bringing the total number of researched countries and regions to 18.

Third-party certification initiatives

The Group seeks third-party certification and Sustainability Promotion Department has acquired the "Eco Stage" certification. From FY2017, we have upgraded the certification level to "Eco Stage II" which is equivalent to ISO14001.

Update of the HTS Group Medium-to-Long-term Environmental Targets 2030/2050

The HTS Group developed the medium-to-long-term environmental targets 2030/2050 in FY2020 to contribute to the realization of sustainable society, and are striving to reduce CO₂ emissions. Movements to realize a decarbonized society are accelerating around the world, and the Japanese government revised its CO₂ emission reduction target to a more ambitious one last year. To work on the initiatives to realize a decarbonized society more proactively, we have updated our reduction targets.

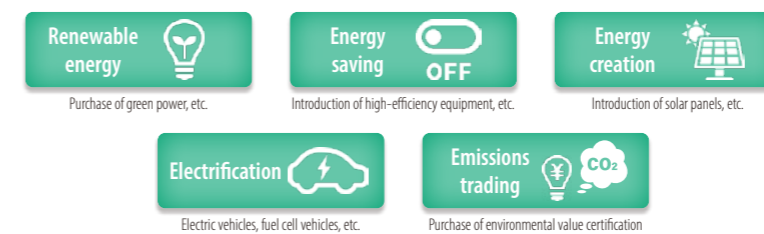


*1 Definition of scope
 Scope 1: Direct emissions from in-house energy (fuel, etc.) use (e.g. CO₂ released by company vehicles)
 Scope 2: Indirect emissions from the use of energy supplied by other companies (e.g. CO₂ released by a third party power plant due to electricity use in the company's facility)
 Scope 3: Indirect emissions by supply chain other than Scope 1 and 2 (total of 15 categories including transportation outsourcing and business trip of employees)
 *2 Net Zero Carbon: To balance emissions of CO₂, one of greenhouse gases, and its absorption/removal

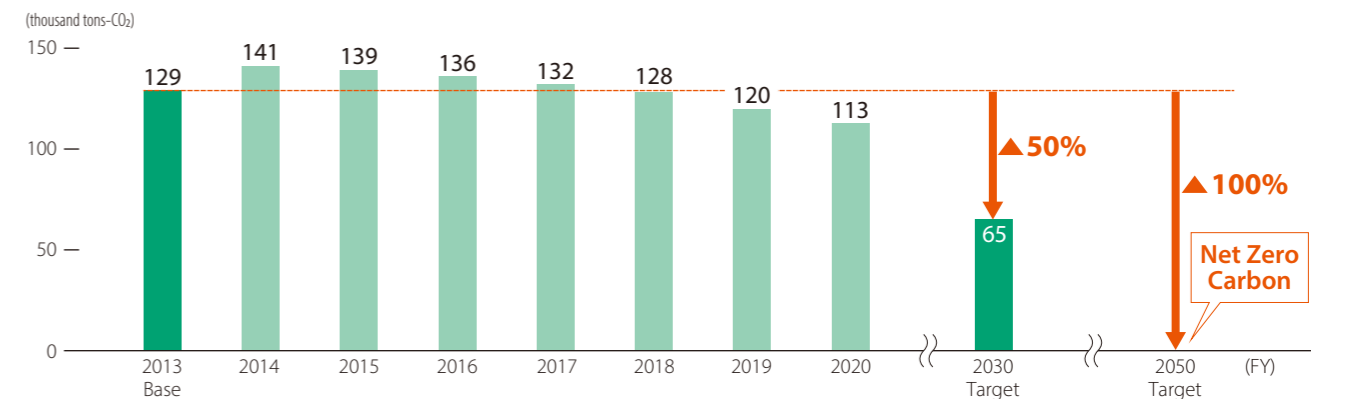
Approach toward the Achievement of the Medium-to-Long-term Environmental Targets

The HTS Group strives to reduce CO₂ emissions by average 2.94% annually in and after FY2022 through initiatives with five methods toward the achievement of its new medium-to-long-term environmental targets.

Five methods to reduce CO₂ emissions

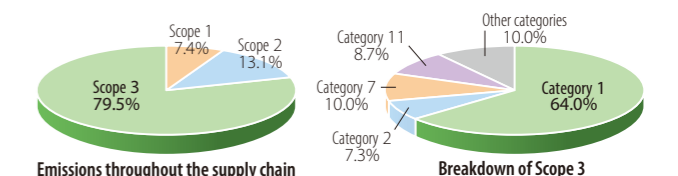


Trend of HTS Group CO₂ emissions*



CO₂ emissions throughout the supply chain

We started to calculate "Scope 3" from FY2017 to identify and reduce CO₂ emissions from the entire supply chain.



For details about environmental information, please visit our website.
<https://www.hitachi-transportssystem.com/en/profile/csr/environment/>

For details of the categories, please visit our website.
<https://www.hitachi-transportssystem.com/en/profile/csr/environment/plan.html>

Climate Change Initiatives – Response to Task Force on Climate-related Financial Disclosures (TCFD) –

Basic Policy on Climate Change

The HTS Group's corporate philosophy is "to deliver high-quality services that will help make the world a better place for people and nature for generations to come," and we position climate change response as one of our highest priority management issues. The Group is fully aware of the importance of initiatives to reduce CO₂ emissions required by both in Japan and overseas, including SDGs which are universal goals for the international community as well as targets set by the Paris Agreement and the Japanese government. Accordingly, we have announced our endorsement of TCFD recommendations in September 2021 and are responding to climate change based on the recommendations.

Governance

The Board of Directors provides guidance and supervises climate change initiatives included in the highest priority items of the Group's management such as management strategies and business plans by the President and CEO who is responsible for climate change initiatives. It also supervises the target setting for greenhouse gas (CO₂) emission reduction and the determination of specific climate change responses such as energy-saving investments and budget allocation for them.

The executive officer in charge reports to the Board of Directors the progress of the initiatives to address management issues related to climate change annually or as needed.

Sustainability Promotion Department, Corporate Strategy Office in the head office oversees overall environmental management work under the supervision of Chief Strategy Officer (CSO) who is responsible for sustainability strategy. The Environmental Promotion Conference comprised of the Group's environment officers including CSO is held semiannually to confirm the achievement level of climate change responses including reduction of energy consumption and CO₂ emissions, as well as determine necessary corrective measures and discuss measures to be taken in the future. Based on the decisions at the Environmental Promotion Conference with the CSO's approval, the status of initiatives to address climate change and the proposed strategy in the future are reported to the Executive Committee semiannually or as needed.

Meeting bodies/ Departments	Roles
Board of Directors	<ul style="list-style-type: none"> Provides guidance and supervises initiatives to address management issues related to climate change Approves reduction targets/ measures/budgets
Executive Officer	<ul style="list-style-type: none"> Understands the status of initiatives to address management issues related to climate change, and reports to the Board of Directors
Environmental Promotion Conference	<ul style="list-style-type: none"> Confirms the achievement level of measures related to climate change, determines corrective measures and discusses proposed measures
Sustainability Promotion Department	<ul style="list-style-type: none"> Oversees overall environmental management work Holds Sustainability Promotion Committee, reports/proposes to the Executive Committee based on decisions at the Committee

Risk management

The Group selected CSR material issues in consideration of all management risks identified. Sustainability Promotion Department, Corporate Strategy Office in the head office has selected risks and opportunities according to climate change response, one of the CSR material issues, and has identified items having large financial impacts as material risks and opportunities. Sustainability Promotion Department is responsible for incorporating responses to such risks and opportunities in each of the climate change-related plans and manages the execution with approval of the Executive Committee and supervision by the Board of Directors.

Metrics and targets

Reduction targets of medium-to-long-term greenhouse gas (CO₂) emissions

In July 2021, the Group reviewed the medium-to-long-term targets for CO₂ emission reduction to respond to risks and opportunities related to climate change. ➡ P.80

Area	Scope	Targets (Base year: FY2013)
Domestic	Scope 1+2	(1)FY2030: 50% reduction (2)FY2050: Net Zero Carbon

Greenhouse gas (CO₂) emissions

⇒ P.80 Trend of HTS Group CO₂ emissions/P.93 ESG Data

Strategy

The Group uses a scenario analysis to identify and assess climate-related risks and opportunities that are expected to affect our medium-to-long-term business activities and also assess resilience and examine response measures.

(1) Scenario analysis process

The Group has performed scenario analyses according to the following procedures. Under the scenario that assumes the goal of the Paris Agreement is achieved (2°C scenario) and the one that assumes that no new policies are implemented but each country's announced policies are achieved (4°C scenario), we have assessed financial impacts of identified climate-related risks and opportunities based on the information such as the trend of key parameters.



(2) Assessment of climate-related risks and opportunities and financial impacts

We performed scenario analysis for nine items identified as our material climate-related risks and opportunities and assessed potential quantitative/qualitative financial impacts. We also examined resilience of our current response measures and future measures. As the Group is examining and implementing response measures to reduce risks and seize opportunities that may have significant financial impacts, we have confirmed that they are sufficiently resilient at present.

Categories	Types	Potential risks/opportunities	Potential impacts on business and response measures
Transition risks	Policy and legal	· Risk of increasing tax burden (e.g. carbon tax, fuel tax) in relation to climate change and risk of rising cost due to tightening or introduction of regulations on CO ₂ emissions	Impact Cost increase due to carbon pricing (2°C scenario > 4°C scenario) Measures Develop and implement systematic environment strategies toward decarbonization (1. Introduce renewable energy, 2. Introduce non-fossil fuel vehicles (e.g. EV/FCV), 3. Procure green power, and 4. Introduce Internal Carbon Pricing (ICP))
	Technology	· Risk of increasing CO ₂ emission reduction cost and losing customers due to delay/failure in introducing environmental technology	Impact Medium-to-long-term cost increase or earnings decrease due to delay in introducing renewable energy and low carbon vehicles (2°C scenario > 4°C scenario) Measures Introduce advanced technologies toward decarbonization (1. Introduce renewable energy, 2. Introduce non-fossil fuel vehicles, and 3. Promote DX and IoT in warehouse operations)
	Market	· Risk of losing customers due to inadequate response to customers who emphasize low-carbon or carbon-neutral transportation	Impact Earnings decrease due to increase of customers who emphasize climate change initiatives (e.g. customers whose targets were certified by the Science Based Targets (SBT) initiative) (2°C scenario > 4°C scenario) Measures Promote decarbonization measures in logistics services and strengthen information disclosure to stakeholders
	Reputation	· Risk of losing corporate reputation due to insufficient climate change initiatives and information disclosure	Measures Promote decarbonization measures in logistics services and strengthen information disclosure to stakeholders
Physical risks	Acute	· Risk of logistics operation being suspended due to intensifying wind and flood damage caused by extreme weather	Impact Cost increase due to repair or recovery of facilities damaged by wind and flood (2°C scenario < 4°C scenario) Measures Strengthen BCP measures against hazard risks including wind and flood damage (1. Decentralize business sites, 2. Install solar power generation system /storage batteries, etc. and 3. Relocate sites to low-risk regions)
	Chronic	· Risk that deterioration of working environment due to a rise in average temperature makes it difficult to secure human resources	Impact Cost increase due to creation of a pleasant workplace (2°C scenario < 4°C scenario) Measures Promote worker-friendly logistics operation (1. Promote automated/labor-saving/unmanned operations and 2. Provide a pleasant working environment)
Opportunities	Resource efficiency	· Opportunity to reduce energy consumption by vehicles and CO ₂ emissions with advanced environmental technology · Opportunity to introduce efficient logistics operations using Smart Logistics and shared logistics services	Impact Decrease in energy cost due to efficiency improvement in logistics services (2°C scenario > 4°C scenario) Measures Reduce energy cost by promoting decarbonization measures (1. Promote energy-saving measures, 2. Introduce renewable energy, 3. Introduce non-fossil fuel vehicles, and 4. Promote modal shift)
	Products and services	· Opportunity associated with diversification of business activities	Impact Revenues increase due to diversification of business activities (2°C scenario > 4°C scenario) Measures Provide logistics services using the Company's unique Smart Logistics (1. Smart Warehouse, 2. SCDOS, and 3. SSCV)
	Resilience	· Opportunity associated with energy diversification	Impact Cost decrease due to introduction of solar power generation system (2°C scenario > 4°C scenario) Measures Reduce electricity procurement cost by introducing renewable energy and secure electric power source in case of emergency

* Reference scenario:
 2°C scenario: IEA's Sustainable Development Scenario/IPCC RCP2.6
 4°C scenario: IEA's Stated Policies Scenario/IPCC RCP8.5

Consideration for Disposal and Emission

Manufactured Capital Natural Capital Objective 3 Objective 4

KPI

- Ownership ratio of vehicles in compliance with environmental standards
- Recycling rate and others

We are working to reduce CO₂ emissions and wastes generated by supply chain, with an aim to offer the eco-friendly next-generation logistics solutions expected by society.

Energy Saving and Global Warming Countermeasures of Vehicles

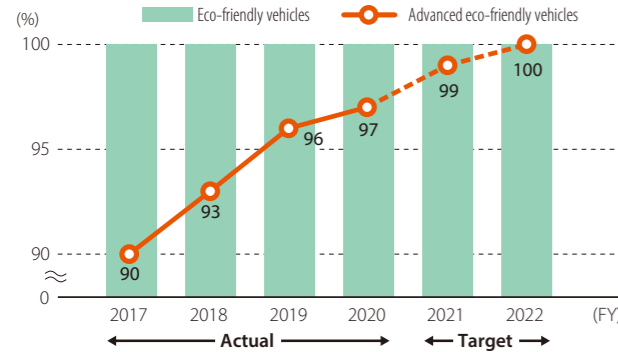
The HTS Group strives to reduce CO₂ emissions generated by vehicle fuel through such initiatives as the introduction of the advanced eco-friendly vehicles and improvement of transportation including promotion of eco-friendly driving.

■ Making the shift to eco-friendly vehicles and encouraging eco-friendly driving

We are promoting the shift to eco-friendly vehicles (highly fuel-efficient, low-pollution vehicles). We achieved the eco-friendly vehicle ownership ratio of 100% at the end of FY2016, except for certain special vehicles. We will further promote the shift to the advanced eco-friendly vehicles with better environmental performance in order to reduce air pollutant emissions and will also promote eco-friendly driving, etc. to reduce environmental load.



● HTS Group eco-friendly vehicle ownership ratio (domestic) (As of March 31, 2021)



*1: Totals shown are business and personal vehicles combined (excludes special vehicles)
*2: Eco-friendly vehicles are as follows: hybrid, natural gas, and electric, as well as highly fuel-efficient vehicles certified by the government (vehicles meeting a specified standard), and low emissions vehicles

● Vehicle fuel efficiency (domestic)

Increase of vehicle fuel efficiency by vehicle type (driving distance/fuel consumption) [FY2020 target and result for CO₂ emission reduction]

Target: compared to FY2018 **+2%**
Result: compared to FY2018 **-2.3%**

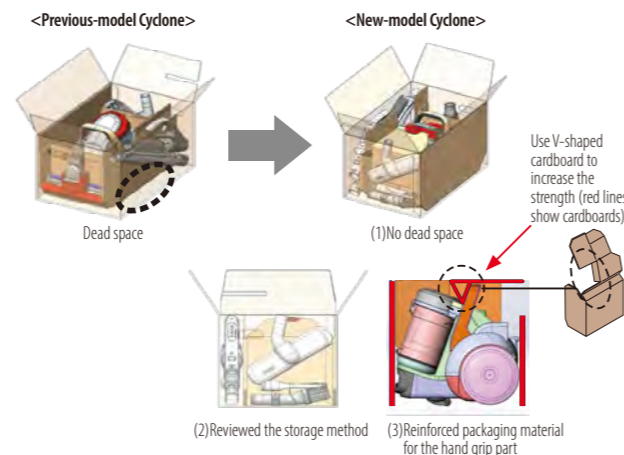
Financial Impacts (Example)

- Reduction in future environmental tax due to reduction in environmental load
- Rise in cost due to an introduction of advanced eco-friendly vehicles
- Rise in cost due to an introduction of environmental load data aggregation system

Effective Use of Resources

■ Design/development of eco-friendly packaging

We are working to improve packaging technology and to reduce environmental load including reduction of packaging-related materials and wastes while meeting customers' needs. In case of "Appropriate Packaging of a New-Model Cyclone Cleaner" which received "Appropriate Packaging Award" at the "Japan Packaging Contest 2020" hosted by Japan Packaging Institute, we reviewed the dead space in the box, storage and layout method and achieved a 20% reduction in packaging size compared to the traditional method. As a result, we were able to improve transport efficiency with an increase in the truckload quantity by 33% and reduce CO₂ emissions by 27%.



Received "Director-General, Manufacturing Industries Bureau, Ministry of Economy, Trade and Industry Award," "Appropriate Packaging Award," and "Large-sized Equipment Packaging Award" at the Japan Packaging Contest 2020
<https://www.hitachi-transportssystem.com/jp/news/20201014.html> (Japanese version only)

■ Recycling of plastic pallet

PALENET CO., LTD., our group company engaging in sales and rental of plastic pallets, provides returned pallets, that are broken and unusable, as materials for new pallets to a recycled plastic pallet manufacturing company in which the company holds a stake, instead of disposing them. In FY2020, the company sold approximately 22,000 waste pallets and contributed to the reduction of waste plastic.



Increase Energy Efficiency

Manufactured Capital Natural Capital Objective 4

KPI

- Reduction of electricity consumption per floor space in "buildings"
- Joint use of logistics and transportation equipment/facilities and others

We are steadily carrying out initiatives to improve energy/resource efficiency for the realization of decarbonized business processes.

Energy Saving and Global Warming Countermeasures Implemented in Buildings

The HTS Group is proactively installing LED lighting fixtures in new logistics centers and offices. We are also replacing existing fluorescent/mercury lights with LED lighting fixtures in the existing facilities and will continue until the replacement is completed in all facilities.

	FY2020
Number of sites with LED lighting fixtures	New site: 1 Existing sites: 23
CO ₂ emissions suppressed with LED lighting fixtures	1,471 t-CO ₂

Scope: HTS, domestic/overseas group companies

Reduction of Environmental Load of Vehicles

■ Introduction of electric truck

—Hitachi Transport System (China), Ltd. Beijing Branch—

In China, the "Law on the Prevention and Control of Air Pollution" was revised in 2018, and environment related regulations have been tightened including frequent car exhaust emission inspections on the road. Under such circumstances, Hitachi Transport System (China), Ltd., our group company, introduced a 3-ton electric truck in March 2021 and is using it to deliver imported goods in Beijing and collect discarded ATMs. As the driving range per charge of this truck is approximately 200 kilometers, and there are not yet sufficient charging stations in Beijing, we are now creating operation rules including checking the remaining battery charge and planning a round-trip route before driving. Going forward, we will encourage partner transport companies to purchase electric trucks by sharing operation expertise in an effort to expand the use of electric trucks and achieve decarbonized society with partner transport companies.



Received "Advanced Technology Award" at the 22nd Logistics Environment Awards
<https://www.hitachi-transportssystem.com/jp/news/20210705.html> (Japanese version only)

Financial Impacts (Example)

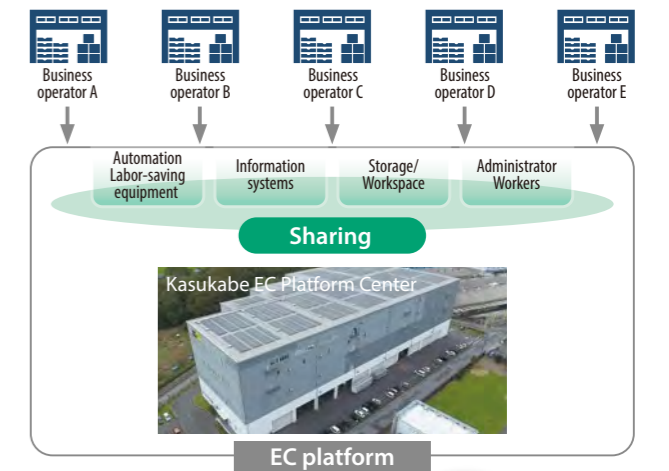
- Improvement in profitability due to a reduction in energy consumption
- Rise in cost due to an introduction of high efficiency facilities and renewable energy

Shared Use of Equipment/Facilities

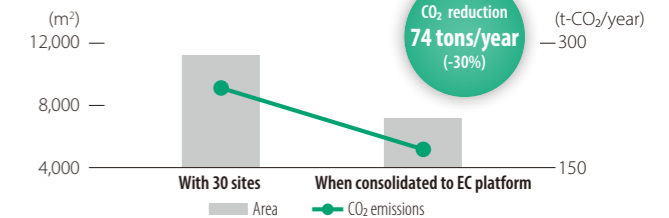
■ Operation of shared automated warehouse for EC logistics

HTS launched an EC platform center engaging in logistics services for EC operators in 2019. This center has achieved long hour operation, including at night, with standardized operation and automated equipment, allowing us to carry out logistics operations of multiple EC operators with one platform and to improve logistics efficiency and reduce environmental load by sharing facilities and equipment.

When comparing with the CO₂ emissions of the traditional logistics which uses multiple sites for each EC operator, although there are some increasing factors including a rise in electricity consumption due to expanded use of labor-saving and automated equipment, if we consolidate sites of up to 30 operators to the EC platform, we can expect an approximately 30% reduction in emissions in one year through improvement of energy efficiency. This initiative was recognized, and we received "Advanced Technology Award" in the "22nd Logistics Environment Awards."



Estimate of CO₂ reduction effect



■ Shared use of transport equipment

We also focus on improving transport efficiency through transport equipment sharing including delivery of multiple customers' cargoes with one truck.

