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 LPG gas and 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 improve environmental management level.

4. Promote symbiosis with nature and environmental communications
Promote symbiosis with nature and environmental communications. Preserve biodiversity and ecosystems. 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.

Medium-to-Long-term Environmental Targets

FY2030 target (base year: FY2013)
Reduce CO₂ emissions by 50% compared to the base year

FY2050 target
Strove to achieve Net Zero Carbon²

Scope of emission: CO₂ emitted from energy consumption by the Group through its business operations

<table>
<thead>
<tr>
<th>Type of energy: Electric, fuel for vehicle, etc.</th>
</tr>
</thead>
</table>

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

1. Reduce environmental load generated at all our places of business
Reduce consumption of electricity, gasoline and LP gas and 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 improve environmental management level.

4. Promote symbiosis with nature and environmental communications
Promote symbiosis with nature and environmental communications. Preserve biodiversity and ecosystems. Maintain environmental collaboration with customers and local communities.

5. 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.

For details about environmental information, please visit our website.
https://www.hi...
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.

Goverance

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 supervise 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 offices 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.

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.

- Greenhouse gas (CO2) emissions
  
  → P80 Trend of HTS Group CO2 emissions/P93 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.

**Meeting bodies/Departments**

<table>
<thead>
<tr>
<th>Roles</th>
<th>Board of Directors</th>
<th>Executive Officer</th>
<th>Environmental Promotion Conference</th>
<th>Sustainability Promotion Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide guidance and supervises initiatives to address management issues related to climate change</td>
<td>Understands the status of initiatives to address management issues related to climate change, and reports to the Board of Directors</td>
<td>Confirms the achievement level of measures related to climate change, determines corrective measures and discusses proposed measures</td>
<td>Oversees overall environmental management work. Heads Sustainability Promotion Committee, reports/proposals to the Executive Committee based on decisions at the Committee</td>
<td></td>
</tr>
</tbody>
</table>

**Categories**

<table>
<thead>
<tr>
<th>Types</th>
<th>Potential risks/opportunities</th>
<th>Potential impacts on business and response measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy/strategic</td>
<td>Risk of increasing tax burden (e.g. carbon tax, carbon fee) in relation to climate change and risks of financing costs due to tightening or introduction of regulations on CO2 emissions</td>
<td>Impact: Cost increase due to carbon pricing (2°C scenario &gt; 4°C scenario). Develop and implement systematic environmental strategies toward decarbonization (1. Introduction of renewable energy (e.g. renewable electricity), 3. Promote green power, and 4. Introduction of International Carbon Pricing (ICP))</td>
</tr>
<tr>
<td>Technology</td>
<td>Risk of increasing CO2 emission reduction cost and failing customers due to delay in future in introducing environmental technology</td>
<td>Impact: Medium-to-long term cost increase or earnings decrease due to delay in introducing renewable energy and low carbon vehicles (3°C scenario &gt; 4°C scenario). Introduce advanced technologies toward decarbonization (1. Introduction of renewable energy, 2. Promote FC and BT in warehouse operations)</td>
</tr>
<tr>
<td>Market</td>
<td>Risk of losing customers due to inadequate response to customers who emphasize low-carbon or carbon-neutral transportation</td>
<td>Impact: Earnings decrease due to decrease in customers who emphasize climate change initiatives (e.g. customers when sales targets are certified by the Science Based Targets (SBT) initiative) (2°C scenario &gt; 4°C scenario)</td>
</tr>
<tr>
<td>Reputation</td>
<td>Risk of losing corporate reputation due to insufficient climate change initiatives and defensive disclosure</td>
<td>Impact: Promote disclosure measures in logistics services and strengthen information disclosure to stakeholders</td>
</tr>
<tr>
<td>Physical</td>
<td>Risk of strategic operation being suspended due to extremely widespread and fixed damage caused by extreme weather</td>
<td>Impact: Cost increase due to dry-up of facilities damaged by wind and flood (2°C scenario &lt; 4°C scenario). Strengthen BCP measures against hazard risks including wind and flood damage (1. Develop business strategy, 2. Introduce risk management system, 3. Voxpo energy procurement system, 4. Relocate sites to low-risk areas)</td>
</tr>
<tr>
<td>Energy</td>
<td>Risk that deterioration of working environment due to excessive temperature rise makes it difficult to secure human resources</td>
<td>Impact: Cost increase due to creation of a pleasant workplace (2°C scenario &lt; 4°C scenario). Promote worker-friendly logistics operations (1. Promote automated/robotic/semi-automated operations and 2. Promote logistical working environment)</td>
</tr>
<tr>
<td>Resource efficiency</td>
<td>Opportunity to reduce energy consumption by vehicles and related equipment with advanced environmental technology</td>
<td>Impact: Increase cost due to efficiency improvement in logistics services (2°C scenario &lt; 4°C scenario). Reduce energy by promoting decarbonization measures (1. Promote energy-saving measures, 2. Introduce renewable energy, 3. Introduction of FC and BT in warehouse operations, 4. Promote medium-to-long term)</td>
</tr>
<tr>
<td>Emissions</td>
<td>Opportunity associated with diversification of business activities</td>
<td>Impact: Reduce energy cost due to efficiency improvement in logistics services (2°C scenario &lt; 4°C scenario). Reduce energy by promoting decarbonization measures (1. Promote energy-saving measures, 2. Introduce renewable energy, 3. Introduction of FC and BT in warehouse operations)</td>
</tr>
<tr>
<td>Products and services</td>
<td>Opportunity associated with the diversification of business activities</td>
<td>Impact: Reduce energy cost due to efficiency improvement in logistics services (2°C scenario &lt; 4°C scenario). Reduce energy by promoting decarbonization measures (1. Promote energy-saving measures, 2. Introduce renewable energy, 3. Introduction of FC and BT in warehouse operations)</td>
</tr>
<tr>
<td>Resilience</td>
<td>Opportunity associated with energy diversification</td>
<td>Impact: Reduce due to introduction of solar power generation system (2°C scenario &lt; 4°C scenario). Reduce electricity procurement cost by introducing renewable energy and secure electric power sources in case of emergency</td>
</tr>
</tbody>
</table>

**Strategic goals of climate-related risks and opportunities**

- **2°C scenario** (RCP 4.5 scenario): The HTS Group reduces greenhouse gas emissions by 2°C compared with the pre-industrial period by 2050, 2060, and 2100 in the three stages of the GHG reduction targets, and the cumulative emissions of greenhouse gases are reduced to 80%-90% compared to the 2010 baseline.
- **4°C scenario** (RCP 2.6 scenario): The HTS Group reduces greenhouse gas emissions by 4°C compared with the pre-industrial period by 2050, 2060, and 2100 in the three stages of the GHG reduction targets, and the cumulative emissions of greenhouse gases are reduced to 80%-90% compared to the 2010 baseline.

**Achievements**

- The HTS Group has set medium-to-long-term targets for CO2 emission reduction, and as of FY2021, it has achieved reduction targets related to climate change.
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 pollutants and also promote eco-friendly driving, etc. to reduce environmental load.

- **HTS Group eco-friendly vehicle ownership ratio (domestic)**
  
<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>91%</td>
<td>95%</td>
<td>97%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Target</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

- **Vehicles fuel efficiency (domestic)**

  **Increase of vehicle fuel efficiency by vehicle type (driving distance/fuel consumption)**
  
<table>
<thead>
<tr>
<th>FY2020 target and result for CO₂ emission reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target compared to FY2018</td>
</tr>
<tr>
<td>+2%</td>
</tr>
</tbody>
</table>

**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 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 3.3% and reduce CO₂ emissions by 27%.

- **Recycling of plastic pallet**
  PALNET 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.

- **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 mandating car exhaust emission inspections on the road. Under such circumstances, Hitachi Transport System (China), Ltd., our group company, introduced a 4-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.

**Reduction of Environmental Load of Vehicles**

- **Shared use of equipment/facilities**
  We are steadily carrying out initiatives to improve energy/resource efficiency for the realization of decarbonized business processes.

**Increase Energy Efficiency**

- **KPI**
  - Reduction of electricity consumption per floor space in “buildings”
  - Joint use of logistics and transportation equipment/facilities

- **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

**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.

<table>
<thead>
<tr>
<th>FY2020 number of sites with LED lighting fixtures</th>
<th>New site: 1</th>
<th>Existing site: 23</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO₂ emissions suppressed with LED lighting system</td>
<td>1,471 t-CO₂</td>
<td></td>
</tr>
</tbody>
</table>

Scope: HTS domestic/ocean group company.

**Achievements**

- **Labor-saving**
  - Automation of packaging systems
  - Automation of equipment

- **Rise in cost due to an introduction of high efficiency facilities and renewable energy**
  - Rising 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 operation 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 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 10% 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.”

**Reduce 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 mandating 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.

**Reduction of Environmental Load of Vehicles**

- **Shared use of equipment/facilities**
  We are steadily carrying out initiatives to improve energy/resource efficiency for the realization of decarbonized business processes.