Toward New Dimensions

LOGISTEED

Integrated Report 2021
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Editorial Policy
The HTS Group has published the Integrated Report from 2020 in lieu of the conventional Annual Reports. This report introduces the Group’s initiatives toward sustainable increase of corporate value to our stakeholders through the explanation of our value creation process and business model. This report has been compiled with reference to “the International Integrated Reporting Framework” published by the International Integrated Reporting Council (IIRC) and “Guidance for Collaborative Value Creation” published by the Ministry of Economy, Trade and Industry.

Reporting period
The fiscal year ended March 31, 2021 (April 1, 2020 – March 31, 2021) in general. However, recent activities are also reported in this report “FY” refers to a financial period ended or ending on March 31.

Companies covered in this report
This integrated report covers Hitachi Transport System and the HTS Group (81 consolidated subsidiaries and 16 associates accounted for using the equity method) in principle.

Forward-looking statements
This integrated report contains forward-looking statements that reflect Hitachi Transport System, Ltd. and its Group companies’ forecast, targets, plans, and strategies. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, and various other factors that may cause Hitachi Transport System, Ltd. and its Group companies’ actual results, performance, achievements, or financial position to be materially different from any future results, performance, achievements, or financial position expressed or implied by these forward-looking statements.

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Toward New Dimensions
LOGISTEED: A word that combines LOGISTICS with Exceed, Proceed, Succeed, and Speed. It represents our determination to lead businesses to a new domain beyond the conventional logistics.

Details are available at the Company’s website.

Hitachi Transport System aims for “LOGISTEED”

Management

Philosophy & Brand

Under 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,” the corporate vision of the Hitachi Transport System Group is to become the most preferred global supply chain solutions provider for all of our stakeholders, including customers, shareholders, and employees, in the sophisticated, diversified and wide-ranging global supply chain, and strives to achieve sustainable growth by solving issues and creating “values” through various “collaborative innovation.” In addition, we have organized the role and future direction of the Group as “HB WAY” with an aim to embody our Corporate Philosophy and Corporate Vision.

HB WAY

Shows the role and the “way” to move forward of the HTS Group and consists of “Corporate Philosophy,” “Corporate Vision,” “Guiding Principles,” and “Success Drivers.”

Corporate Philosophy

The Hitachi Transport System Group delivers high-quality services that will help make the world a better place for people and nature for generations to come.

Corporate Vision

The Most Preferred Global Supply Chain Solutions Provider

Guiding Principles

Compliance
We value “Basics and Ethics.”

Customer Focus
We deliver value to our customers.

Innovation and Excellence
We strive for service excellence through collaborative innovation.

Diversity and Inclusion
We leverage inclusive diversity for holistic growth.

Sustainability
We think and act responsibly as a global citizen.

Success Drivers

“Gemba” Power, multiplied by Visualization

3 Attributes
Customer Centricity, Teamwork, and Can Do Spirit

3 Disciplines
Attention to Detail, Uncovering Problems, and Strong Sense of Speed

3 Minutes
Customer Centricity, Teamwork, and Can Do Spirit

Taking on the Future

In a world of constant change, we are committed to pioneering new trails, always looking ahead and energizing our society.

We build true trust with our customers, working tenaciously and charting a collaborative future. We create and deliver innovative solutions, embracing cutting-edge technologies. And we keep moving forward as one team, fostering mutual respect and releasing individual potential.

Going beyond the conventional domain of logistics, we will bring innovation to the future of business and people’s lifestyles.
At a Glance

Capitalizing on our global network and abundant experiences, the Group meets customers’ various logistics needs with our one-stop services of Smart Logistics consisting of 3PL business, Heavy Machinery and Plant Logistics business, and Freight Forwarding business, and aims to become the most preferred global supply chain solutions provider.

Resources – Bases for Value Creation – (As of March 31, 2021)

Number of Companies**:5, Locations**:9

Locations

98 companies 752 sites

<Domestic: 26 companies 330 sites/Overseas: 72 companies 422 sites>

Human Resources

43,729

<Domestic: 28,671 employees/Overseas: 15,058 employees>

Vehicles

Total: 16,924

Truck**: 3,671

Forklift: 5,981

Trailer: 5,679

Other**: 1,593

Area of Logistics Center*2

7.53 Mm²

<Domestic: 5.27 Mm²/Overseas: 2.26 Mm²>

Warehouse

Total Personnel **

43,729

Warehouses

16,924

Total: 16,924

FY2020 Business Overview by Segment

Domestic logistics business (FY2020)

Revenues (¥ 100 million)

2018 2019 2020

4,328 4,353 4,212

Segment profit (¥ 100 million)

221 261 252

Global logistics business (FY2020)

Revenues (¥ 100 million)

2018 2019 2020

2,558 2,198 2,163

Segment profit (¥ 100 million)

71 65 103

Segment profit decreased by 3% year-on-year to ¥25,176 million due to a decrease in revenues despite improved productivity and a reduction in total costs.

Services – Businesses & Solutions –

3PL business

Value

We provide the optimal logistics services in supply chain. In automobile parts logistics, we meet the logistics-related needs of the automobile industry.

Heavy Machinery and Plant Logistics business

Value

We provide transportation, installation, and setting-up services, etc. for heavy machinery and precision instruments.

Freight Forwarding business

Value

We propose an optimal transportation plan from various transportation modes including aircraft, ship, rail, etc.

Other services (logistics related businesses) - Information system development business - Sale and maintenance of automobiles business
Our History

History of the HTS Group

Revenues

(100 million yen)

- Domestic logistics business
- Global logistics business
- Ratio of global logistics business (%)
- 3PL

Listed on TSE
First Section
in Sep. 1990

Moved to TSE
Second Section
in Jan. 1989

1950-
Became independent by integrating transportation divisions

1967-
Entered into large-scale 3PL businesses with own assets

1976-
Expanded overseas

1986-
Launched 3PL business

1990-
Ratio of global logistics business (%)

1995-
Entered into large-scale 3PL business with own assets

2000-
We entered into large-scale 3PL businesses with own assets by undertaking overall logistics operation of adidas Japan K.K. in 1998 and AEON Co., Ltd. in 2002. Especially, Kansai NDC completed in February 2003 had the largest-class capacity in the Company and cutting-edge equipment.

2003-
3PL
¥161.6 billion

2007-
Expansion strategy through M&As

2010-
With the aim of expanding the industry platform in Japan and overseas network, we expanded our business through a total of 18 M&As by 2013 including the acquisition of a logistics subsidiary of Shienko Company, Limited in 2007.

2015-
3PL
¥443.5 billion

2016-
Expansion strategy through collaborative innovation

2020-
Our Future

Foundation
Supporting
Value Creation
Achievements
Financial/Non-Financial
Information


1980
1985
1990
1995
2000
2005
2010
2015
2020

0 1,000 2,000 3,000 4,000 5,000 6,000 7,000 8,000

- 3PL
- Domestic logistics business
- Global logistics business

3PL
¥0.4 billion

3PL
¥161.6 billion

3PL
¥443.5 billion

HTS Group

3PL
¥0.4 billion

3PL
¥161.6 billion

3PL
¥443.5 billion

Our History

The Company was founded in February 1950 as a logistics subsidiary of Hitachi, Ltd. and commenced cargo transportation business. In 1967, the Company merged with Tokyo Monorail Co., Ltd. and another company, and changed its name to Hitachi Express & Tokyo Monorail Co., Ltd.

We entered into large-scale 3PL businesses with own assets by undertaking overall logistics operation of adidas Japan K.K. in 1998 and AEON Co., Ltd. in 2002. Especially, Kansai NDC completed in February 2003 had the largest-class capacity in the Company and cutting-edge equipment.


We have been promoting the expansion strategy through collaborative innovation and the creation of an ecosystem by forming alliances with SG Holdings Co., Ltd and SGAM EURES CO., LTD in March 2016, AIT Corporation in October 2016, Hitachi Capital Corporation (currently Mitsubishi HC Capital Co., Ltd) in December 2018, and A.P. Møller-Maersk in 2021.

Expansion strategy through collaborative innovation

Became independent by integrating transportation divisions

Expanded overseas

Launched 3PL business

Entered into large-scale 3PL business with own assets

Expansion strategy through M&As

With the aim of expanding the industry platform in Japan and overseas network, we expanded our business through a total of 18 M&As by 2013 including the acquisition of a logistics subsidiary of Shienko Company, Limited in 2007.

Launched 3PL business

Following the telecommunications liberalization in 1985, we launched TRINET service, the prototype of 3PL business, for customers in apparel industry in August 1986. Then we expanded the target fields to include building materials, medical supplies, and food, etc.

Expanded overseas

In 1976, our first overseas subsidiary was established in Singapore as the first step of the overseas strategy. In 1984, we entered into the air cargo business against the backdrop of increasing air freight volume.

Entered into large-scale 3PL business with own assets

We entered into large-scale 3PL businesses with own assets by undertaking overall logistics operation of adidas Japan K.K. in 1998 and AEON Co., Ltd. in 2002. Especially, Kansai NDC completed in February 2003 had the largest-class capacity in the Company and cutting-edge equipment.

3PL
¥0.4 billion

3PL
¥161.6 billion

3PL
¥443.5 billion

HTS Group

3PL
¥0.4 billion

3PL
¥161.6 billion

3PL
¥443.5 billion
Value Creation Process of the HTS Group

A business model to realize value creation of the HTS Group consists of a value chain comprising of task analysis, design for operation, operation and improvement of the customers’ supply chain and structure to support it such as collaborative innovation, R&D, human resource development, and VC21 activities, with the HB WAY indicating how the Group should be and a path to take as the source of all values.
The HTS Group has three strengths: “Ability to accomplish operation,” “Advanced logistics engineering capability,” and “Global network.” Drawing on our expertise and network accumulated over 70 years since our foundation as a logistics operator, we provide comprehensive logistics services with superior safety, quality, and productivity.

### The HTS Group’s Strengths

#### Value chain

- **Analysis**
  - Task analysis of the customers’ supply chain
  - Analyze supply chain issues based on data and interviews by communicating with customers

- **Design**
  - Design and proposal for advanced operation
  - Design and propose optimal site placement, delivery routes, transportation methods, and warehouse operations to customers based on analysis results

- **Operation**
  - Flexible and reliable operation
  - Accomplish operation based on well-designed workflows, and strictly manage safety, quality, and productivity

- **Improvement**
  - Ongoing improvement of productivity and quality
  - Improve the productivity and quality of the entire organization through improvement activities reflecting customers’ feedback and employees’ opinions

#### Related solutions, tools, etc.

- **SCDOS**
- Develop data analysis experts
  - *SCDOS: Supply Chain Design & Optimization Services

- **EC platform** (smart warehouse)
- **SLCC** (warehouse design support tool)
- *SLCC: Smart Logistics Configurator

- **SSCV** (transport digital platform)
- **SDF** (volume forecasting system with AI)
  - *SSCV: Smart & Safety Connected Vehicle
  - *SDF: Smart Demand Forecast

- **Operation analysis support tool**
  - RPA, AI-OCR
  - *AI-OCR: Optical Character Reader with AI

1. **Ability to Accomplish Operation**
   - Diverse human resources well-versed in logistics
   - Transportation assets to support society and people’s lives
   - Digital business platform underpinning LOGISTEED
   - Total personnel: 43,729
   - No. of vehicles (including leased vehicles): 16,924
   - No. of self-developed systems in operation: 499

2. **Advanced Logistics Engineering Capability**
   - Human resources specialized in logistics engineering
   - Approx. 250
   - Including cumulative 72 attendants of data scientist training course

3. **Global Network**
   - Business sites supporting global supply chain
   - Locations
   - Logistics centers
   - 752 sites in 29 countries and regions
   - Total 7,532 Mm²

For details, please visit our website.
SLC: [https://www.hitachi-transportsystem.com/jp/solution/smartlogistics/smart_movie01.html](https://www.hitachi-transportsystem.com/jp/solution/smartlogistics/smart_movie01.html) (Japanese version only)
Financial position

Total assets as of March 31, 2021 amounted to ¥787,936 million, a decrease of ¥91,208 million compared with the end of the previous fiscal year. Current assets decreased by ¥40,659 million mainly due to a decrease of ¥63,206 million in cash and cash equivalents, despite increases of ¥6,362 million in trade receivables and contract assets thanks to a sharp rise of volume in the freight forwarding business in the three months ended March 31, 2021 and of ¥6,592 million in other current assets mainly due to income tax refunds receivable associated with withholding tax on dividends between group companies. Non-current assets decreased by ¥7,149 million mainly due to a decrease of ¥8,899 million in investments accounted for using the equity method as SAGAWA EXPRESS CO., LTD. was excluded from the scope of the equity method after the Company transferred shares of the company to SG Holdings Co., Ltd., despite an increase of ¥1,174 million in property, plant and equipment mainly due to capital expenditures for East Japan I Medical DC and renewal of vehicles. Total liabilities as of March 31, 2021 amounted to ¥625,829 million, a decrease of ¥14,058 million compared with the end of the previous fiscal year. Current liabilities decreased by ¥11,106 million mainly due to a decrease of ¥13,684 million in other financial liabilities because of reclassification of liabilities for written put options over non-controlling interests to non-current liabilities as a result of the reclassification to current portion of long-term debt, despite an increase of ¥7,776 million in other financial liabilities mainly due to reclassification of liabilities for written put options over non-controlling interests from current liabilities as a result of the review of exercise date of the option and also because of exercise of the option. Non-current liabilities decreased by ¥2,952 million mainly due to a decrease of ¥10,199 million in long-term debt as a result of the reclassification to current portion of long-term debt, despite an increase of ¥7,776 million in other financial liabilities mainly due to reclassification of liabilities for written put options over non-controlling interests from current liabilities as a result of the review of exercise date of the option. Total equity as of March 31, 2021 amounted to ¥162,107 million, a decrease of ¥77,150 million in other financial liabilities mainly due to reclassification of liabilities for written put options over non-controlling interests from current liabilities as a result of the reclassification to current portion of long-term debt, despite an increase of ¥7,776 million in other financial liabilities mainly due to reclassification of liabilities for written put options over non-controlling interests from current liabilities as a result of the review of exercise date of the option.

Operating results

Revenues, adjusted operating income

For the fiscal year ended March 31, 2021, although there were some contributions from newly launched projects and the impact of COVID-19 was tapering off in each region, revenues did not return to the previous fiscal year level because of the effect of exchange fluctuation and decreased by 3% year-on-year to ¥652,380 million. Adjusted operating income increased by 10% year-on-year to ¥36,711 million mainly due to an increase in profitability of domestic and Chinese freight forwarding business between Japan and other countries and the effects of improved productivity and total cost reduction. Earnings before interest and taxes (EBIT) increased by 12% year-on-year to ¥44,429 million mainly due to an increase in operating income despite a decrease in share of profits of investments accounted for using the equity method mainly due to transfer of all shares of SAGAWA EXPRESS CO., LTD. Net income attributable to stockholders of the parent company increased by 6% year-on-year to ¥22,873 million mainly due to an increase in income before income taxes.

Earnings before interest and taxes (EBIT)

Net cash provided by operating activities was ¥55,309 million, a decrease of ¥22,885 million compared with the fiscal year ended March 31, 2020. This is mainly due to a decrease in cash from income taxes paid of ¥26,131 million due to increases in cash from depreciation and amortization of ¥52,159 million and recording net income of ¥23,954 million.

Cash flows

Cash flows from operating activities

Net cash provided by operating activities was ¥55,309 million, a decrease of ¥22,885 million compared with the fiscal year ended March 31, 2020. This is mainly due to a decrease in cash from income taxes paid of ¥26,131 million due to increases in cash from depreciation and amortization of ¥52,159 million and recording net income of ¥23,954 million.

Cash flows from investing activities

Net cash provided by investing activities was ¥69,779 million, an increase in cash of ¥70,041 million compared with the fiscal year ended March 31, 2020. This is mainly due to an increase in cash resulting from proceeds of sale of investments in associates of ¥87,183 million in relation to the partial amendment to the capital and business alliance with SG Holdings Co., Ltd. and SAGAWA EXPRESS CO., LTD., partly offset by a decrease in cash mainly due to purchase of property, plant and equipment and intangible assets of ¥19,792 million which consists mostly of capital expenditures for East Japan I Medical DC and renewal of vehicles, etc.

Cash flows from financing activities

Net cash used in financing activities was ¥161,056 million, an increase of ¥151,349 million compared with the fiscal year ended March 31, 2020. This is mainly due to a decrease in cash from acquisition of treasury stock of ¥99,633 million in relation to the partial amendment to the capital and business alliance with SG Holdings Co., Ltd. and SAGAWA EXPRESS CO., LTD. and repayments of lease liabilities of ¥36,648 million.

Outline of capital expenditures

The Group (HTS and its consolidated subsidiaries) carefully selected and executed investments to expand logistics sites and renewed vehicles as part of ordinary business operation. The details of capital expenditures (based on tangible and intangible assets acquired, amounts exclude consumption taxes, etc.) for the fiscal year ended March 31, 2021 are as follows:

- Domestic logistics: ¥188,512 million
- Global logistics: ¥74,115 million
- Other: ¥44,322 million
- Company-wide: ¥322,061 million
- Total: ¥681,998 million

Details of capital expenditures

<table>
<thead>
<tr>
<th>Details of capital expenditures</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic logistics</td>
<td>188,512</td>
<td>512,744</td>
</tr>
<tr>
<td>Global logistics</td>
<td>74,115</td>
<td>115,324</td>
</tr>
<tr>
<td>Other</td>
<td>44,322</td>
<td>32</td>
</tr>
<tr>
<td>Company-wide</td>
<td>322,061</td>
<td>681,998</td>
</tr>
<tr>
<td>Total</td>
<td>545,100</td>
<td>813,425</td>
</tr>
</tbody>
</table>

Tax policy

Recognizing that fulfilling tax obligations properly is one of our social responsibilities, the Group has established the "Rules of Global Tax Management."

1. Compliance with international standard of tax rules and tax regulations

Group companies observe international standards of tax rules, such as OECD Transfer Pricing Guidelines and Action Plan on Base Erosion and Profit Shifting (BEPS) and conduct operations in accordance with tax rules of each jurisdiction, all relevant laws and regulations in the territories in which they operate.

2. Managing its tax affairs efficiently, continuously, and proactively

Consistent with their roles as socially responsible organizations, the aims of Group companies are to manage their tax affairs efficiently, continuously, and proactively while maximizing shareholder value.

3. Building up a sincere and good relationship with tax authorities

Group companies develop and sustain good relations with tax authorities in countries where they operate.

4. Enhancement of risk management

Group companies have corresponded to the diversification of taxation issues and the tax audits carried out by authorities, and report to relevant departments as soon as such issues start.
Key Management Indicators: Financial and Non-Financial Highlights

**Financial Highlights**

**Revenues (100 million yen)**

Revenues showed positive growth since FY2017 but decreased in FY2019 due to a decrease in volume of automobile parts and freight forwarding business and in FY2020 due to the spread of COVID-19.

**Adjusted operating income (100 million yen)/Adjusted operating margin (%)**

Adjusted operating income has been increasing since FY2013 and also increased in FY2020 due to improved profitability of freight forwarding business and the effects of improved productivity and total cost reduction despite the impact of COVID-19.

**Total equity (100 million yen)/ROE (%)**

ROE remained flat since reaching 10% in FY2016 but increased in FY2020 due to a decrease in equity attributable to stockholders of the parent company as a result of the acquisition of approximately ¥98.8 billion of treasury stock.

**Capital expenditures/Purchased assets (100 million yen)**

Capital expenditures including lease** remained at around ¥20 billion to ¥30 billion and purchased assets** remained at around ¥13 billion to ¥20 billion. They increased in FY2020 due to an effort to expand business sites in Japan through capital expenditures including lease and purchased assets.

**Cash dividends per share (Yen)/Dividend payout ratio (%)**

We have continued to increase dividends every year since FY2010. We seek profit distribution linked to business performance while considering medium-to-long-term business expansion and securing internal reserves to strengthen corporate structure.

**Non-Financial Highlights**

**CO₂ emissions (thousand tons)/CO₂ intensity per revenues (ton-CO₂/100 million yen)**

CO₂ emissions and its intensity per revenues both decreased due to the introduction of the advanced eco-friendly vehicles, promotion of eco-friendly driving, and efforts to reduce the use of electricity and fuel.

**Workplace accident index:** Frequency rate/Severity rate*2

We started collecting data of the domestic group since FY2018.

In FY2020, the "severity rate" representing the severity of workplace accidents slightly increased, but the "frequency rate" representing the frequency of accidents decreased as a result of adopting safety technology.

**Ratio of female managers (%)**

The ratios of female managers and candidates for the next management are on the rise due to our systematic efforts to develop female employees.

**Number of compliance trainings and meetings conducted (times)**

We continue to implement measures to enhance compliance of the entire Group in Japan and overseas. Also, the number of reports/consultations has increased due to the appropriate development and operation of the whistle-blowing system.

**Directors and outside directors (persons)/Ratio of female directors (%)**

We started collecting data of the domestic group since FY2018.

We are promoting the systematic introduction of advanced eco-friendly vehicles. We have maintained 100% of the eco-friendly vehicle ownership ratio since FY2016.

**Number of whistle-blowing reports and consultations (cases)**

The Board of Directors, which is the supervisory body of management, invites outside directors in order to proactively incorporate outside opinions. Also, we have promoted female directors to ensure diversity.

**Integration of compliance meetings and whistle-blowing reports/consultations**

*1 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. Total of personal and business use vehicles excluding special vehicle. *2 A severity rate representing the frequency of accidents occurring in total workdays, expressed in terms of the number of injuries or deaths resulting from workplace accidents for each million total hours worked by employees. A severity rate representing the severity of accidents, is expressed in terms of the number of lost workdays for each 1,000 total hours worked by employees. *3 Compliance trainings and e-learning programs are provided to all employees of HTS and its domestics group companies. Number of whistle-blowing reports and consultations is the total for the entire HTS Group including overseas group companies. *4 Female directors are all independent officers.
Value Creation amid the COVID-19 Pandemic

Reacknowledged our “mission” and “purpose”

In FY2020, we were affected by COVID-19 throughout the year, and we also reacknowledged our purpose as a logistics service provider. The “mission” of logistics service is to create “value” by delivering products created by manufacturers to end users and society. The Group has consistently carried out this mission for over 70 years since its foundation. Recently, however, there has been a series of cases where supply chains were disrupted due to intensifying natural disasters by climate change in addition to the COVID-19 pandemic. The responsibility of the logistics service to maintain people’s lives and socioeconomic activities even in such emergency conditions is no longer limited to delivering values related to products but is changing to “preventing supply chain disruption in the world.” I believe this is the “purpose” of the logistics service in this modern age with increasing global risks and uncertain future prospects.

In FY2020, in order to fulfill a common mission of the Group and customers “not to stop logistics,” we focused on maintaining stable business operation by seeking the best and creative solutions. For example, we prevented infections and the spread of the virus within the Company by ensuring thorough health management of employees, introducing contactless operations early, launching new projects remotely, etc. We also addressed the imbalance of volumes caused by difference in levels of COVID-19 impacts among industries by flexibly shifting human resources within the Group. As a result, we were able to contribute to supporting customers’ supply chain and maintaining people’s lives and socioeconomic activities, and such efforts also led to our profitability improvement and record high profit*1. Although the uncertain business environment is expected to remain for a while, the Group will continue efforts to seek creative solutions, with “preventing supply chain disruption in the world” as our purpose.

*1: Adjusted operating income-basis

Recognition of External Environment

The logistics industry is becoming increasingly “borderless”

As I mentioned in the Integrated Report 2020, the logistics industry is becoming increasingly “borderless,”...
and we expect the growth of major EC platforms and the new entry by third parties into the logistics domain will continue. Accordingly, the Group will not limit our services to the conventional logistics domain but promote the business concept “LOGISTEED” which aims to create values beyond the logistics domain in order to strengthen the potential for the medium-to-long-term growth. Among others, our efforts to advance into the “manufacturing” domains, which are our roots and closely related to the logistics industry, are producing solid results, and we are expanding our business domain by offering services that have previously been handled by customers at their own factories such as just-in-time supply of parts collected from suppliers to assembly lines, painting, and placement of ingredient labels of cosmetics that require a permit or license. We plan to pursue the possibility of collaborative innovation in the “manufacturing” domain including the above-mentioned pre- and post-processes in overseas as well as to expand collaborative innovation that provides us with the stakeholders with the systems we have created for ourselves such as “SSCV” (a transport digital platform) to be discussed later. Through these initiatives, we aim to shift to a stage where we can say “The Group's business is not logistics but ‘LOGISTEED’.”

**Growth Strategy**

**Maintain strategic investment for the medium-to-long-term growth based on the steady profit growth**

Under the Mid-term Management Plan (LOGISTEED 2021), in order to change and evolve into a company represented by “LOGISTEED” and become the most preferred global supply chain solutions provider, we have focused on priority measures of “Implement portfolio strategy, including M&As and alliances, to build a solid core domain (Smart Logistics)”; “Implement collaborative innovation strategy aiming at enhancement of the core domain and further expansion of domains”; “Design supply chain based on and originating from logistics domain”; “Implement a top-line growth strategy,” “Originates and succeed operation (hands-on approach) toward the next-generation”, and “Environment, social and governance as well as corporate ethics”.

As a result, in FY2020, the second year of the Plan, we were able to achieve profit growth as mentioned above although top-line was sluggish mainly due to a drop in automobile-related transport affected by COVID-19, and accordingly we will make strategic investment with particular emphasis on the following three points in FY2021, the final year of the Plan.

*5 Top-line: Net sales (revenues) presented at the top of the statement of profit or loss.

**Enhance investment in digital transformation rooted in the improvement mindset at sites**

Firstly, we will increase investment in digital transformation (DX) and automation to further strengthen our business platform toward the medium-to-long-term growth and development. In specific, we will accelerate “Link warehouse and transport operations,” “Standardize and classify work/operating process,” and “Bring together wisdom” through digitalization and achieve “Sophistication of logistics” and “Connected supply chain.” The basic policy of DX is to implement a cycle of collecting digital data on sites (physical space), analyzing it on cyber space, adding analogue knowledge and giving feedback to the sites. I think digitalization cannot be achieved without improvement mindset and creative solutions, so we consider DX as an extension of “improvement mindset at logistics sites” and “visualization” including VC21. In order to improve operational efficiency and aggregate data in these DX efforts within the Company (internal DX), we plan to “visualize” warehouse operations, renew the core systems, and promote RPA.

Meanwhile, we also continue to refine our DX efforts outside the Company (external DX) including “SSCV,” “SCDOS,” and “Smart Warehouse” and provide the latest added value to all stakeholders including customers.

*6 SCDOS: Stands for “Supply Chain Design & Optimization Services” and services that centrally manage and visualize customers’ supply chain information.

**Expand collaborative innovation with partners for realization of “LOGISTEED” overseas**

The second point is overseas investment for further growth of the global business. While the domestic business continues to be our important management base, further enhancement of the global business is essential in the Group’s medium-to-long-term growth strategy. Although it was in the midst of the COVID-19 pandemic, in FY2020, we opened a logistics center in the suburbs of Chennai as part of the business expansion strategy in India. We are also making investments to open or reinforce sites in the U.S. and the Netherlands in FY2021 as well as in India, Malaysia, and Indonesia after FY2022. Through a series of these investments, a total of more than ¥12 billion will be invested in major projects from FY2021 to FY2023 to accelerate the global growth strategy. Since we established a subsidiary in Singapore in 1976, we have operated global business in various countries and regions, and in light of our past experiences of success and failure, most of our current overseas investments have been made through collaborative innovation with local partners under the “region-contained business model” under which local subsidiaries operate businesses at their discretion and we focus on the supervision. Going forward, we will take into account digitalization, automation, and labor-saving to pave the way to achieve “LOGISTEED” in the global business. As part of such efforts, we launched collaborative innovation activities with Maersk, a major international marine shipping company in Denmark, in FY2020. We will strive to accelerate business expansion of both partners through personnel exchanges to provide seamless logistics globally.

**Increase investment in “SSCV” with the view to create economic, social, and environmental values**

The third point is to create economic, social, and environmental values through an increase in investment in “SSCV” mentioned above. “SSCV” is a service contributing to health/Inabor management of drivers, accident prevention and resolutions of social issues such as reduction of CO2 emissions through efficient transportation and, as introduced in Special

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* A word that combines LOGISTICS with Exceed, Proceed, Succeed, and Succeed.
*6 Smart & Safety-Connected Vehicle
of the objective of “Enhance Occupational Safety and Productivity,” we are working to achieve the FY2023 target of “Ratio of female managers of 10% (HTS)” and there are quite a few female members in the top management in our overseas group companies, proving that our initiatives to encourage active participation of women have been going well in the Group as a whole. As for the promotion of active participation of human resources in each region, because logistics services vary significantly in different countries or regions, we will continue to promote active participation and growth of local employees using the region-contained model and also maintain a system whereby local employees learn new skills in foreign countries as necessary. In the future, around the time when overseas revenues account for approximately 50% of the total consolidated revenues, we will plan to introduce a system to appoint those engaged in the management in each region as members of the management team of the Company, regardless of their nationality.

For initiatives for governance (G), we will continue to enhance compliance and governance by ensuring to bear in mind the notion of “Basics and Ethics.” Especially for the governance in overseas sites, we will maintain the basic policy to closely monitor fund movement to eradicate the environment and opportunities that may lead to inadequate transactions. As COVID-19 has made it difficult to visit sites for internal audit, we will further enhance governance by using external resources such as local audit firms, renewing the core systems which is currently underway, using process mining and eventually creating a digital audit environment. In addition, the Board of Directors will deepen discussions on ESG and sustainability, treating them as themes related to the essence of management.

Support supply chains while securing health and safety of employees

While COVID-19 vaccination is making progress, new variants have been spreading and the end of the pandemic is still nowhere in sight. So, the age of “coexisting with COVID-19” could be more prolonged than expected. Under such circumstances, in order to fulfill our mission as a logistics service provider and support supply chains in the world, the Group will continue to focus on contactless operations and automation while securing health and safety of our employees, and strive to meet customer needs. In addition, we will address the imbalance of volumes caused by difference in levels of COVID-19 impacts among industries by, in principle, flexibly shifting human resources within the Group and intend to continue this basic policy as it will contribute to diversification of employees’ skills and maintenance of employment.

To Our Stakeholders

Increase investment for further development of “LOGISTEED” toward the next growth stage

As we go into the final year of the Mid-term Management Plan (LOGISTEED 2021), I feel that “LOGISTEED” contributed more than expected to various initiatives we have implemented so far as the concept that accelerates collaborative innovation beyond the logistics domain and creates ecosystems. In the last two years, the Group has created new values in various domains and produced successful results. Therefore, we will continue our efforts to achieve medium-to-long-term growth and increase corporate value under the concept of “LOGISTEED.” In addition, we will expand services representing “LOGISTEED,” including digitalization and SSCV, and make larger investments in various areas such as overseas development and ESG, with an aim to shift to the next growth stage. Through these efforts, we will establish and enhance a solid management base and realize further expansion of business domain and profit growth.

Also, there is no doubt that such increase in investment will further expand the ecosystem that we will create with our collaborative innovation partners and all other stakeholders and lead to the creation of larger social values. We will continue to share valuable information on “LOGISTEED” of the Group with our stakeholders, and we look forward to your continued support and understanding.

Our History

Our Stakeholders

Future Response against COVID-19

Accumulate on-site efforts with “Sharing” as a keyword

The Group will promote the ESG management toward the realization of sustainable society and increase of corporate value and enhance initiatives of four objectives that contribute to the achievement of SDGs. In doing so, what I want to focus on most is to link ESG and our business and accumulate efforts at sites, as well as the keyword “sharing.” To reduce CO₂ emissions toward “decarbonization” in environment (E), “sharing” which can improve loading and transportation efficiency by sharing trucks and warehouses with the industry peers, and EC platform, which reduces environmental load by allowing multiple EC business operators to share facilities and equipment, are very effective means. For example, Mito Transport Center, opened in February 2021, shares transportation resources including cargo and vehicle information, offices and garages in the region with our business partners, achieving efficient operation of the entire transportation ecosystem. In addition to these, our efforts to realize decarbonization in the business processes include establishment of “decarbonization model sites” to measure the effects and examine assessment methods, visualization of CO₂ emissions using SCDOs, and accumulation of on-site efforts such as “promoting a sense of personal ownership” for environmental activities through VC21.

As for “Promote diversity of the workplace,” the core of our initiatives for social (S) and one of the themes we continue to use “Collaborative Innovation” as a keyword for all these growth strategies, and there are two factors for this. The first one is the acceleration of declining birthrate and aging population in Japan. From the early 2000s to around 2010, the basic policy of the Group was to develop business mainly with our own management resources. However, we reviewed such policy as difficulty in securing workers at logistics centers or truck drivers became a serious issue, and shifted to a policy to secure resources by accumulating collaborative innovation activities on a daily basis. The second one is the effort to automate on-site operations. When we first started the automation initiatives as one of the measures to address the declining birthrate and aging population, there was strong resistance at sites. However, once we learned new skills in foreign countries as necessary. In these times of drastic change, the shortest way to solutions is to quickly realize “what we cannot do” instead of "what we can do" and find necessary partners to collaborate and deliver innovative solutions. Placing “Collaborative Innovation” at the base of all growth strategies, the Group ensures to pave the way for the expansion of ecosystem and the sustainable growth through “LOGISTEED” by continuing initiatives with various partners including start-ups, industry peers with strengths in international transportation, or material handling manufactures with deep insights in automation.

ESG Management and Feature (on pages 39 through 44), has already been commercialized through external sales, with the plan of expanding into other transporters (land, passenger, etc.) and creating new services and businesses with big data in the medium to long term. We will also continue to develop business models that create values for other businesses or the entire society through initiatives we have started for ourselves.

Place “Collaborative Innovation” at the base of all growth strategies

Our Future

Hitachi Transport System, Ltd. Integrated Report 2021

Hitachi Transport System, Ltd. Integrated Report 2021
I will evolve domestic and overseas initiatives in order to expand topline, achieve the targets under the Mid-term Management Plan, and realize medium-to-long-term growth.

**Execute Financial Strategy Supporting the Growth with Both “Offensive” and “Defensive” Approaches**

In FY2021, the final year of the Mid-term Management Plan “LOGISTEED 2021,” I am focusing on shifting the direction of the entire Company to the “expansion of topline” in my role as CFO to “serve as a ‘bridge’ between the management and sites” that I discussed in the Integrated Report 2020. Thanks to our recent initiatives to improve internal efficiency and profitability, the Group’s operating margin has been improving steadily. Meanwhile, our current issue is the sluggish growth of topline, and regrowth of topline efficiency and profitability, the Group’s operating margin.

**Accelerate DX in Execution of “Defensive” Financial Strategy**

Execution of “defensive” financial strategy involves active promotion of DX. For example, we digitalized approval documents, contracts, and seals and unified the data entry methods of the core system among the entire Group, which improved efficiency significantly. We also introduced the finger vein authentication system for working hours management of on-site employees including partner companies’ employees, promoting “visualization” of attendance and leave as well as work efficiency through digitalization.

Recently, we are working on the core system renewal to build a structure that centrally manages domestic and overseas data. This will accelerate DX in audit, which will reduce time and improve efficiency/precision of audit and also contribute to enhancing governance effectiveness.

**Focus on Strategic Investment and Value-added Service (VAS) Strategy toward Achievement of the Mid-term Management Plan and Medium-to-Long-term Growth**

In terms of the “offensive” initiative to expand topline, we will continue strategic investments aimed at emphasizing “HTS’s uniqueness” mentioned above. For example, we plan to continue to make strategic investments of around ¥3 trillion per annum in DX, including automation, labor-saving, and visualization at logistics sites and environmental investments. For “Smart Warehouse” initiative, we will enhance development and introduction of automated forklifts, AGV, and RPA, etc. while focusing on building a structure to combine and comprehensively control/manage them. In addition, we will work to further develop our transport digital platform “SSCV” and supply-chain optimization solution “SCDOS” with an aim to expand topline and create/expand an ecosystem with collaborative innovation partners. For overseas strategic investments, we will expand sites in the U.S., the Netherlands, India, Malaysia, and Indonesia (p.18). In opening and enhancing warehouses that are integral to 3PL business, we will mitigate risks by using “purchased assets” and “rental/leased properties” differently based on the assessment of political/economic trends in each area and customer needs.

Nobukazu Hayashi
Senior Vice President and Executive Officer General Manager, Financial Strategy Office

*1 Costs to be incurred in the consolidated statement of profit or loss

**To Deepen the ROIC Management**

Regarding initiatives for the ROIC management which started in FY2018, we provide e-learning to “spread” it and develop the ROIC tree budget reports to “deepen” it. In FY2020, we prepared/distributed/explained an English version of documents which clearly describe the ROIC concept to accelerate the spread in overseas sites. We also set specific action items including “Expand sales,” “Improve efficiency,” and “Collect trade receivables early”
in the ROIC tree budget report which we prepared in FY2021.
Going forward, we will strive to strengthen the concept of “ROIC revenue tree” which originates from sites and focuses on “what needs to be done at sites to improve ROIC” and aim to further spread it. We will also focus on improving ROIC through topline growth so as not to result in contracted equilibrium.
In addition, we are currently building a structure to centrally manage revenues and expenses by site such as logistics center with the core system toward introducing balance sheet management and ROIC by site for the logistics center with the core system toward introducing balance sheet management and ROIC by site for the

**Focus on Reducing Overseas Financial Risks and Strengthening Tax Governance in Anticipation of the Acceleration of Global Growth Strategy in the Future**

As for response to financial risks, we are focusing on overseas initiatives considering the growing geopolitical and country risks.
For example, we are accelerating refinancing efforts to reduce borrowings from overseas financial institutions and replace them with intra-group financing such as parent-subsidiary loans. Also, as an effort to reduce the impact of exchange fluctuation arising from exchange rate protection and negative interest rate policies in various countries, we make full use of the Group’s regional pooling and parent-subsidiary loans to minimize foreign exchange loss. Through a series of these initiatives, we ensure to link the future acceleration of the global growth strategy to earnings generation.
In addition, we recognize tax governance, which was set as an item of the GRI** standards in 2019, as one of our critical management issues and are working to strengthen the overseas tax governance as one of the “defensive” initiatives to accelerate the global growth strategy.
Corporate Tax Department established in 2017 plays the center role in enhancing ability to respond to tax issues including BEPS**, and we reduce risks by checking tax governance of local subsidiaries in collaboration with major audit firms in the respective regions.

### Aim for Stable Increase in Dividends While Securing Funds for the Growth

Going forward, our basic policy of dividends is to seek to maintain stable distribution linked to business performance, while considering medium-to-long-term business expansion and securing internal reserves to strengthen corporate structure. Under the policy, we aim to continue stable dividend payments (dividend increase) while securing funds for our growth.
The Company cancelled its treasury shares in June and September 2021 from the viewpoint of improving asset efficiency and shareholder value and now meets one of the continued listing criteria for the Prime Market, one of the new market segments of TSE, “tradable share ratio of at least 35%” in terms of future strategic investments, alliance, and M&As to achieve “LOGISTICS,” we will mainly consider the use of cash and borrowings from financial institutions.

### Accelerate the Development of Next-generation Finance Human Resources by Making Full Use of Remote Education and English

Previously, our basic policy on development of next-generation finance human resources in Japan and overseas was to provide offline education. In FY2020, however, we switched to remote education due to the COVID-19 pandemic, which turned out to be more effective than we expected. Therefore, to actively use this as one of the measures to “coexist with COVID-19,” we will provide remote education in North America, Europe, Asia, and China in FY2021. Recently, many employees in charge of finance in overseas sites and group companies are locally hired, and they are familiar with communications in English. Accordingly, in the future, we will accelerate the development of next-generation finance human resources by making full use of remote education and English.

### Place Emphasis on Interactive Dialogues with Our Shareholders and Investors

The Group has a policy to focus on a number of strategic investments including DX and decarbonization initiatives and will strive to provide our shareholders and investors with detailed explanations about ROIC, ROI, and our dividend policy through dialogues. In FY2021, as the use of remote communication increased, we were able to hold dialogues with more shareholders and investors than usual and also received lots of advice and suggestions on information we provide from shareholders who actually hold our shares, which helped us make improvement. We will endeavor to achieve sustainable increase of corporate value while placing importance on dialogues and maintaining relationships of trust with our shareholders and investors.
**Mid-term Management Plan –LOGISTEED 2021–**

**Outline of the Mid-term Management Plan**

With the aim to become the most preferred global supply chain solutions provider, the HTS Group promotes the Mid-term Management Plan and strives to achieve sustainable growth by solving issues and creating "values" through various "collaborative innovation." The HTS Group has grown to become a leading 3PL company providing services combining logistics and information, while "designing and creating" supply chain solutions. We view these changes as opportunities to continue expansion of our core logistics domain and further expansion of our domain. As the supply chain structure is changing significantly due to technological advancement and social changes, including "IoT," "Robots," "Fintech," "Sharing Economy," "AI," "Robotics," "Fintech," "Sharing Economy," and digitization, we promote digitalization of the Group and its collaborative innovation partners, and build open platform, in order to realize a supply chain based on and originating from our logistics domain.

**Mid-term Management Plan – LOGISTEED 2021–**

<table>
<thead>
<tr>
<th>Period</th>
<th>FY2019-FY2021</th>
</tr>
</thead>
</table>

**Basic policy**

- As the supply chain structure is changing significantly due to technological advancement and social changes, including "IoT," "Robots," "Fintech," "Sharing Economy," and digitization, we promote digitalization of the Group and its collaborative innovation partners, and build open platform, in order to realize a supply chain based on and originating from our logistics domain.

**Priority measures**

- Design supply chain based on and originating from our logistics domain
- Implement collaborative innovation strategy aiming at enhancement of the core domain and further expansion of domains
- Originate and succeed operation (hands-on approach) toward the next generation
- Environment, social and governance as well as corporate ethics

**Result and Plan**

| Revenues: Adjusted operating income | FY2018 Results | ¥708.8 billion | ¥36.2 billion | ¥31.2 billion | 10.7%
|------------------------------------|----------------|----------------|---------------|---------------|-------|
| EBIT: R&D:                          | FY2019 Results | ¥762.3 billion | ¥36.7 billion | ¥39.6 billion | 9.5%
|                                    | FY2020 Results | ¥752.4 billion | ¥44.4 billion | ¥36.7 billion | 11.8%
|                                    | FY2021 Plans   | ¥789.0 billion | ¥37.5 billion | ¥37.2 billion | 12.7%

**Response to Changes and Future Vision**

**Future Vision: The Most Preferred Global Supply Chain Solutions Provider**

*Integrate four flows for better supply chain*

The HTS Group has grown to become a leading 3PL company providing services combining logistics and information, while we expect an increase in customer needs for supply chain solutions. We view these changes as opportunities to continue sustainable growth, and strive to extend our domains to finance and commerce through digital transformation platform. And we will create new solutions and design optimal supply chain for customers based on and originating from logistics.

**Progress of the Mid-term Management Plan**

**FY2021 Plan**

- Revenues: ¥690 billion
- Adjusted operating income: ¥37.5 billion
- EBIT: ¥37.2 billion
- ROE: 12.7%

**Toward the next Mid-term Management Plan**

**To become a leading 3PL company in Asia**

- Establish a strong position in Japan and evolve into a regional leader in Asia
- Establish and enhance a solid management base (enhance funding capability and ecosystem)
- Next-generation logistics supporting Society 5.0

**Catch-up in FY2022**

**Shaping the Future of Global Logistics**

The HTS Group has formed alliance with partner companies in business areas where all companies can increase corporate value. Our aim is to achieve sustainable growth for all companies by enhancing competitiveness and profitability in our core logistics domain (Smart Logistics) and also by building a larger ecosystem group to expand the collaborative innovation domains beyond businesses and industries.
Progress of the Mid-term Management Plan

Collaborative Innovation Activities with SG Holdings Group and AIT Group

FY2020 Result
In FY2020, our collaborative innovation activities with SG Holdings Group and AIT Group generated additional contributions to revenues of approximately ¥3,300 million and operating income of approximately ¥480 million in total.

Collaborative innovation with SG Holdings Group
Under the capital and business alliance with SG Holdings Group since FY2016, we have been promoting cross-selling to take advantage of both companies' strengths (mutual complement between logistics and delivery business) and working on streamlining of business operation of both companies. In FY2020, we started operation of logistics centers for food, sporting goods, and industrial equipment manufacturers and collaborated in broad areas including integration/relocation of logistics centers. In September 2020, we partially amended the capital and business alliance with SG Holdings Group but maintain the alliance relationship with an aim to produce more benefits through collaborative innovation activities including sales tie-up and resource-sharing.

Collaborative innovation with AIT Group
In FY2019, we have launched full-scale activities based on the capital and business alliance with AIT Group, which has significant strengths in the freight forwarding business between Japan and China, and we are working to create new customer value through collaboration between freight forwarding and 3PL. In FY2020, we newly started operation of a logistics center for an eyeglass manufacturer in China, making steady progress in building global logistics services capitalizing strengths of both companies.

Collaborative Innovation Activities with Maersk
In FY2020, we newly started collaborative innovation activities with A.P. Moller-Maersk ("Maersk"), a leading marine shipping company in the world. We aim to build a service to seamlessly link customers' global supply chains by offering a one-stop service including global logistics services of Maersk centered on ocean transport and 3PL of the Group. We will also collaborate in import procedures for air cargo in Japan as well as jointly work on the verification in order to one-stop service including global logistics services of Maersk centered on ocean transport and 3PL of the Group.

We will also collaborate in import procedures for air cargo in Japan as well as jointly work on the verification in order to one-stop service including global logistics services of Maersk centered on ocean transport and 3PL of the Group.

Opened “LOGISTEED CAFÉ”
In December 2020, the Company opened “LOGISTEED CAFÉ,” our first open innovation facility, in the head office building. This was opened as part of the collaborative innovation strategy to “share and explore knowledge” with partners and “accelerate projects through collaboration” and has various spaces including “LxHUB,” a collaborative innovation space to hold workshops and other events, “Theatre S,” a 270-degree large screen for virtual tours of logistics sites, and “Exhibition” introducing our history and businesses.

Additional contributions generated by collaborative innovation activities in FY2020 (100 million yen)

<table>
<thead>
<tr>
<th>Area</th>
<th>Revenues</th>
<th>Operating income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>25</td>
<td>8.3</td>
</tr>
<tr>
<td>Global</td>
<td>6</td>
<td>1.3</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>0.2</td>
</tr>
<tr>
<td>Collaborative innovation effects</td>
<td>32</td>
<td>4.8</td>
</tr>
</tbody>
</table>

The table above includes collaborative innovation effects with SG Holdings Group and AIT Group.

Major new collaborative innovation projects

<table>
<thead>
<tr>
<th>Project Room</th>
<th>LxHUB</th>
<th>Theatre S</th>
<th>Exhibition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Space for meetings and discussions for collaborative innovation projects</td>
<td>Collaborative innovation space for seminars and workshops</td>
<td>A 270-degree theatre which offers the experience of the cutting-edge logistics sites with realistic videos</td>
<td>Introduction of the history and businesses of the Group</td>
</tr>
</tbody>
</table>

Online special site “LOGISTEED CAFÉ”
We share information related to events held in the facility on the special site. Such information includes advanced examples of our services, collaborative innovation activities with various partner companies beyond industries, interviews focusing on “individuals” engaging in these services and announcements of workshops and seminars.

Contents (as of September 2021)

- Facility information: About “LOGISTEED CAFÉ” in the head office building
- Co-Creation: About partner companies during passion for collaborative innovation with us
- Services: Overview of new materials including “logisteed SPACE” and “SCDOS”
- Event/Seminar: Information on events and seminars to be held by the Company and the registration for events
- Downloads: Materials about our advanced services available for download
- Insight: Latest information on logistics and interviews, etc.

Progress of the Mid-term Management Plan

**Promotion of Digital Transformation (DX)**

In order to enhance our new existence value and further increase corporate value by changing and evolving into a company represented by “LOGISTEED”, the HTS Group has formulated “DX Strategy” to realize the “LOGISTEED 2021”

- **Basic policy of DX strategy**
  - Value creation through collaborative innovation with various DX-related initiatives
  - Establishment of a PDCA cycle for DX by setting and managing KPIs
  - Enhancement of IT governance
  - Development of an organization and human resources to realize DX

- **Internal DX cases**
  - Centralize/Link/Utilize/Collect Big data/analysis
  - Utilize Collect
  - SCDOs*
  - SWH*
  - SSCV*
  - Cyber Physical System (CPS)

- **External DX cases**
  - In 2021, we added “function to visualize CO2 emissions” in SCDOS and corporate decarbonization at both customers and the Company
  - Our Future

- **External DX cases**
  - Supply chain and logistics companies

- **Internal DX cases**
  - We have promoted the standardization of WMS** and the core system renewal to aggregate data in a digital business platform

- **Message from the officer in charge**
  - We will promote DX by making full use of three core functions i.e. SCDOs, Smart Warehouse, and SSCV to contribute to the resolution of social issues in the logistics domain and promote LOGISTEED. Capitalizing on a wide range of data at sites (physical space) and the cutting-edge digital technologies, we will innovate open innovation with various collaborative innovation partners and use it to create new businesses and models with the view to further increasing corporate value.

For details about DX strategy, please visit our website: [https://www.hitachi-transportsystems.com/en/ir/corporate/vision/dx/](https://www.hitachi-transportsystems.com/en/ir/corporate/vision/dx/)
Progress of the Mid-term Management Plan

**Priority Measure: Design Supply Chain Based on and Originating from the Logistics Domain**

We are working to build a transport digital platform and enhance the transport business in order to solve transport issues faced by the Group and other transporters and to realize “sustainable transportation services” and “zero-accident society.”

**Building a Transport Digital Platform**

We are building a transport digital platform designed to solve transport issues using “viewpoints of a logistics company + power of technology” the Company provide. SSCV is a platform consisting of three solutions of SSCV-Smart, SSCV-Safety, and SSCV-Vehicle, through which we will share data with our collaborative innovation partners to create new services and businesses.

SSCV-Safety has already been installed to all vehicles of the Group. Going forward, we will introduce the service to our partner transport companies and transportation operations in a wide range of industries such as retail, bus, and taxi. Also, we will use big data obtained through SSCV to create new services and businesses including smart city/urban development business, data driven business for health, and a new compensation plan for non-life insurance companies.

**Enhancement of Transport Business**

**Launch of the Transport Business Enhancement Project**

In October 2020, we launched “Transport Business Enhancement Project” with an aim to provide high-quality, sustainable transportation services, and we are working on the following initiatives:

- Develop engineer drivers who can provide added values of “transportation plus something extra”
- Establish “centralized vehicle assignment centers” to establish a group-wide vehicle assignment and transport/delivery network
- Develop engineer drivers who can provide added values of “transportation plus something extra”
- Opened a joint terminal (Mito Transport Center)

**Start of external sales of SSCV-Safety**

After the use within the Group, we started selling SSCV-Safety to external customers through collaboration with Hitachi, Ltd. and Mitsubishi HC Capital Inc. in July 2021 as a SaaS-type* new service “SSCV-Safety on Hitachi Digital Solution for Logistics” targeting transportation operations in a wide range of industries including logistics, manufacturing, wholesale, retail, bus, and taxi. Amid growing demand for transportation operations in the New Normal era, we hope to contribute to driving management and improvement of drivers’ safety through the introduction and spread of this service.

**Start of Providing SSCV-Smart**

In October 2020, we started to provide SSCV-Smart, a SaaS-type service designed to solve issues faced by transporters including “driver shortage and improvement of working conditions” and “complicated slip management” by offering, as basic functions, estimate/order management, vehicle assignment/driver management, and billing management, which have traditionally been handled manually, in digital formats. We will support sustainable management of transporters with SSCV-Smart by assisting improvement of operational efficiency, enhancement of compliance, promotion of paperless operation, and strengthening of financial and administrative base.

For details of SSCV, please visit our website (Japanese version only). https://www.hitachi-transportsystem.com/jp/sscv/

* For SSCV initiatives, please refer to “Special Feature – Employee Roundtable Discussion” on pages 39 to 44.

For commercial use/sales
Progress of the Mid-term Management Plan

Promotion of VC21 Activities

**Outline of activities**

The HTS Group has been working on “VC21 Activities” as daily improvement activities to implement the HB WAY.

The aim of these activities is that the “Company continues to grow and employees find their work rewarding.”

We have been repeating a cycle where employees in each site and department exchange ideas under different themes, register initiatives in a dedicated system, and convey and follow-up the improvement activities systematically.

We share initiatives of all sites among the entire Group via the dedicated system and carry out and follow up the improvement activities systematically.

Each employee has been working on “VC 21 Activities” with a sense of “personal ownership,” and the accumulation of such efforts has taken root as the improvement culture and has become the foundation to support our business model and the source of value creation.

**Human-centered Deep Dialogue**

The HTS Group has been working on “VC21 Activities” as daily improvement activities to implement the HB WAY.

**Logistics OPEX**

Build a community where employees can repeat learning and improving through deep dialogue while enjoying them.

**Dialogue café**

Have deep dialogue in interview-style workshops.

**Workshop for generating ideas**

Generate improvement ideas by directly hearing the voices of employees working on-site.

In FY2020, most of our activities were held online due to COVID-19. Group companies have conducted various activities in addition to those listed below.

<table>
<thead>
<tr>
<th>Name of activity</th>
<th>Number of times</th>
</tr>
</thead>
<tbody>
<tr>
<td>VC21 Award</td>
<td>1</td>
</tr>
<tr>
<td>Workshop for generating ideas</td>
<td>17</td>
</tr>
<tr>
<td>Digital dialogue events</td>
<td>13</td>
</tr>
<tr>
<td>Improvement education</td>
<td>62</td>
</tr>
<tr>
<td>Logistics OPEX-related activities</td>
<td>27</td>
</tr>
<tr>
<td>VC21 activities steering committee meetings</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>133</td>
</tr>
</tbody>
</table>

**Improvement and Succeed Operation (Hands-on Approach) toward the Next-generation**

- Improvement at sites
  - Introduction of “Pictograms (notices)” at sites
  - Enjoy and challenge! Can we move a 300kg super heavy wagon easily?!
  - Development of one-way stacking jig

- Improvement by digitalization
  - Efforts to promote RPA
  - Promotion of paperless operation using digitalization tools and DX through introduction of AI-OCR
  - DX efforts using UCOS

**Digital dialogue session**

We held online “digital dialogue session” twice in a bid to promote communication beyond job positions with approximately 200 attendees from around the nation. We exchanged ideas under the theme of “let’s envision a digitalized future office” and actively discussed how to promote DX at workplace. We used to hold face-to-face dialogue session in the past, but the online session enabled employees around the nation to join at the same time over geographical distances. Participants learned how to come up with and sophisticate ideas through “deep dialogue” in this event and are using it in their daily improvement activities at their workplaces.

**Efforts to improve work environment and vitalize workplaces**

Workshop for generating ideas

Employees are striving to improve work environment and operating process by sharing what they think is unnecessary or inefficient and exchanging ideas about how to improve them.

Good Job cards

Employees exchange words of appreciation and cultivate the “culture of praise.”
In order to promote actions in consideration of environment, social, and governance as well as corporate ethics (ESG management) with an aim to realize sustainable society and increase corporate value, we developed “HTS Group’s Objectives” and are implementing activities to enhance our initiatives for four objectives that contribute to the achievement of SDGs.

**Four objectives**

1. **Pursue Next-generation Industries and Lifestyles**
   - With the power of logistics, we will develop businesses to support the realization of the next-generation sustainable industrial and social infrastructure in various areas across the globe.
   - Promote total optimization of supply chains by making full use of advanced technologies.
   - Respond to local logistics needs and issues while further boosting responsiveness and capability.

2. **Enhance Occupational Safety and Productivity**
   - We will work on realizing higher occupational safety and enhancing productivity in logistics sites across the globe.
   - Secure safety in operations and transportation.
   - Minimize workforce at logistics sites.
   - Promote diversity of the workforce.

3. **Ensure Excellent Quality and Resilience**
   - We will pursue quality of the next-generation logistics that meets the social expectation and resilience against environment and for future change.
   - Pursue high-quality logistics services.
   - Contribute to disaster prevention and recovery.
   - Contribute to disaster recovery assistance.

4. **Realize Decarbonized Business Processes**
   - We will work on decarbonizing to enhance efficiency and green technology.
   - Promote energy efficiency.
   - Introduce renewable energy.
   - Strengthen environmental management.

**ESG Initiatives**

It is important for companies’ management and growth to have consideration from the Environment, Social, and Governance perspectives and contribute to the achievement of SDGs by enhancing each initiative for “E,” “S,” and “G.”

**Initiatives from FY2021**

- **E: Environment**
  - Realize decarbonized business processes
    - Establish a model to measure the effects and examine how to assess (accumulating expertise).
    - Visualization of CO2 emissions using SDG, and promote a sense of personal ownership for environmental activities through VC21 Activities.
    - Adequate disclosure of the Company’s initiatives (endorsement of TCFD recommendations, Integrated Report).

- **S: Social**
  - Accelerate diversity & inclusion and working-style reform
    - Increase the ratio of female managers in the entire Group (FY2023 target: 10%*1)
    - Promote investment in human capital.
  - Ensure to keep in mind “Basics and Ethics”
    - Improve operational efficiency and enhance governance through core system renewal (Develop digital audit environment, etc.)
    - Appoint risk owners and risk response managers.
    - Conduct in-depth discussion on the essence of management at the Board of Directors (sustainability, ESG, etc.)

- **G: Governance**
  - Ensure to keep in mind “Basics and Ethics”
  - Perform high-quality logistics services.
  - Contribute to disaster prevention and recovery.
  - Contribute to disaster recovery assistance.

**Objectives from ESG perspectives**

<table>
<thead>
<tr>
<th>Relevant objectives</th>
<th>Pages for related information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental policy and its management structure, etc.</td>
<td>P.79-84</td>
</tr>
<tr>
<td>Secure safety in operation and transportation/Pursue next-generation industries and lifestyles/</td>
<td>P.85-88</td>
</tr>
<tr>
<td>Promote diversity of the workplaces/Social contribution/Enhancing ESG initiatives</td>
<td></td>
</tr>
</tbody>
</table>

**Toward the Realization of Sustainable Society**

- **Identified material issues**
  - Developed objectives (Prioritization to SDGs)
  - Examined KPIs of objectives

- **Started introduction of KPIs of objectives**
  - Stakeholder dialogue (Identification of Objectives)

- **Checked the progress of KPIs of objectives**
  - Disclosed and reported activities
  - Disclosed feedback from stakeholders

- **Reaffirm material issues**
  - Improve objectives (Items that need to be improved)

- **Evaluate and improve**
  - Conduct in-depth discussion on the essence of management at the Board of Directors (sustainability, ESG, etc.)


**Investment Plan**

**Investment Strategy for Change and Evolution into “LOGISTEED”**

The HTS Groups aims to expand collaborative innovation domains beyond businesses and industries and create new innovation beyond the conventional logistics domain while focusing on the enhancement of logistics as a function (Smart Logistics) as our core target. In order to achieve them, the Group has made business investments mainly to expand logistic sites and strategic investments to evolve into a company envisioned by LOGISTEED using mainly operating cash flows and cash and cash equivalents.

**Business Investments**

The HTS Group carefully selects business investments to build robust core domain (Smart Logistics). In specific, we have expanded logistics sites and renewed vehicles, etc.

**Major Investments in FY2020**

- Operations started June 2020: Oragadam Logistics Center (India)
  - P.47
- Operations started February 2021: East Japan II Medical DC (Saitama Prefecture)
  - P.46
- Operations started March 2021: Mito Transport Center (Ibaraki Prefecture)
  - P.32
- Renewal of vehicles, etc. (North America/Turkey and other areas)

**Strategic Investments**

Under the basic policy to make “investment to establish sustainable competitive advantage by building a structure no one can imitate,” we focus on investments in the cores of digital platform including supply chain solutions, Smart Warehouse, and transport digitalization, to strengthen core functions and expand customer services.

- “Link warehouse and transport operations,” “Standardize and classify work/operating process” and “Bring together wisdom” through digitalization
  - IoT x DX
  - 5G x AI
- “Safety and risk work environment,” “Environment that has no one accidents,” “Efficient and cost-effective operations,” “Safety and risk work environment,” “Environment that has no one accidents,” “Efficient and cost-effective operations,”
- Robotics/Group Control
- Reduce accidents
- Safe loading/unloading
- Safe driving/transportation environment
- Advanced quality
- Advanced technology
- Protection
- 3D Vision
- UV-C Disinfection
- Advanced information
- 5G
- AI
- IoT

**Cumulative investment during the current Mid-term Management Plan (Cash basis)**

<table>
<thead>
<tr>
<th>Strategic investments</th>
<th>860</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business investments: 345</td>
<td></td>
</tr>
<tr>
<td>Strategic investments: 284 (Including NIK)</td>
<td></td>
</tr>
<tr>
<td>Remaining funds: Over ¥703</td>
<td></td>
</tr>
</tbody>
</table>

**Future Plans to Expand Logistics Sites and Equipment**

We plan to expand domestic and overseas logistics sites and equipment to further enhance our mainstream 3PL business. In the domestic business, we will invest in logistics centers that serve as foundations to provide higher value-added services, such as coordination with customers’ production process and enhancement of handling of hazardous goods, and in automated/labor-saving equipment. In the overseas business, we will accelerate the global growth strategy mainly in Asia toward the next Mid-term Management Plan.
Contribute to the Solution of Social Issues through SSCV

SSCV-Safety

SSCV-Smart

have rolled out the following three services with an aim to solve social issues and create economic value.

With on-site data collection and industry-government-academia collaboration as the starting point, we provides to realize “sustainable transportation services” and “zero-accident society.”

Attendees in the discussion

General Manager, Smart & Safety Connected Vehicle Enhancement Project Team, Business Support Office

 unexpectedly encountered three rear-end collisions that happened in a row within just five months in 2015. I was a site manager. Trucks crashed into the rear of the cars in front without applying the brakes in all three cases. When we checked their dashboard camera footages, none of the drivers were dozing off, distracted or using a mobile phone while driving, but they crashed even though they were looking ahead. When the drivers were interviewed, it was found that they suffered from chronic mental exhaustion due to sickness of family members or caring of their parents. Based on these, it was suspected that mentally unstable drivers “are not seeing anything although their eyes are open,” causing an “absent-minded driving.” These factors were not identified in face-to-face roll Call before driving, and drivers themselves were not aware of it.

What do you think of it as a driver?

**Maeda:** We, drivers, have a sense of responsibility or mission that we will deliver cargoes we load. Therefore, we feel that we are responsible for delivering cargoes even if we are not feeling well or have some family problems. From the standpoint of a driving manager, because of the driver shortage at sites, we were not able to provide the environment where drivers could say at roll-call, “I can’t drive today.”

**Obinata:** Me neither. When I was working as a driver, I could never say, “I don’t want to drive because I am tired.” If I couldn’t deliver, I had to ask someone to cover for me. And I also didn’t want others to step in my delivery area.

**Nagumo:** Statistics of the Ministry of Land, Infrastructure, Transport and Tourism of Japan also showed a rapid increase in the number of transport accidents attributable to driver health problem since around 2015, which made us think that social environment may be the cause of these accidents. However, we had to do something because driver shortage and aging drivers were becoming serious issues. Those three successive accidents were just rear-end collisions as there happened to be cars in front of them, but they could have hit someone or the drivers could have lost their lives. If the cargoes are not delivered safely to their destination, the original mission of logistics service provider is not fulfilled.

So, safety management is not an easy job if you consider drivers’ feelings and on-site culture.

**Nagumo:** Yes. And keys to solve this issue are “quantification” and “visualization”. Previously, driving managers had no way of knowing the drivers’ situation while driving, so they had no choice but to leave safety management to drivers once vehicles left the office. But then we thought using AI and IoT devices might make it possible to completely visualize “fatigue” and “driving behavior” while driving in real time, and we could protect drivers as a company – that’s how we started the development of SSCV.

First, please tell us about your career and what you do in this team.

**Nagumo:** For the first around 10 years after I joined the company, I was engaged in the shipment and transport of ICT equipment of Hitachi, Ltd. For the next 10 years, I was in charge of launching a new business in the ICT solution business. It was a new business covering delivery/storage of ICT equipment, kitting, and installation and operation check at delivery destinations, which was great experience for me. After that, I oversaw the management of BPS solution business, and transport business as a General Manager of Keihan Sales Office and then worked at the Digital Business Development Department, etc. before joining the Smart & Safety Connected Vehicle Enhancement Department. And now, I am overseeing this project as a General Manager.

**Satoh:** After I joined Hitachi Distribution Software, I was seconded to HTS subsidiary in Singapore for around eight years, where I was engaged in the development and maintenance of warehouse management system of subsidiaries in Southeast Asia. Since the end of 2016, I was seconded to HTS, and in the SSCV project, I am in charge of the system development and system linkage by cooperating with academics and vendors.

**Maeda:** I joined Hitachi Transport System East Japan as a driver and was engaged in transportation of home appliances and hazardous products for the first two years and in the transportation planning for the next seven years. Since FY2011, I worked as a manager in transport sales offices in Mito and Hitachi, Ibaraki Prefecture. After transferred to the Planning Section of Transport Department, as it coincided with the renewal of existing systems in Hitachi Transport System East Japan, I worked with the SSCV Team in the development of SSCV-Smart. Now, I am promoting sales expansion of its partner companies.

**Goto:** After working as an asset manager in a real estate fund management company handling RETI, etc., I joined HTS in 2018. I was engaged in developing an overall real estate strategy and launching “LOGISTED CAFÉ” at Kyobashi Head Office. In SSCV, my mission is to expand and deepen CSR domains to be created by this business, in other words, Creating Shared Value (CSV).

**Obinata:** After working as a driver and a driving manager and I was in charge of the warehouse management, etc., in two logistics companies, I joined HTS in 2020 in the SSCV Team. I am in charge of sales and proposing installation of SSCV to customers and sale on approval.

**Suzuki:** Before I joined HTS in 2017, I was in charge of patent applications and infringement lawsuits in the intellectual property division of an electric and precision instruments manufacturer. In SSCV, I am responsible for protecting services that our team has developed and bringing the related applications, intellectual property right protection, and risk control, etc.

**Satoh:** The origin of SSCV was three rear-end collisions that happened in a row within just five months in 2015 when I was a site manager. Trucks crashed into the rear of the cars in front without applying the brakes in all three cases. When we checked their dashboard camera footages, none of the drivers were dozing off, distracted or using a mobile phone while driving, but they crashed even though they were looking ahead. When the drivers were interviewed, it was found that they suffered from chronic mental exhaustion due to sickness of family members or caring of their parents. Based on these, it was suspected that mentally unstable drivers “are not seeing anything although their eyes are open,” causing an “absent-minded driving.” These factors were not identified in face-to-face roll Call before driving, and drivers themselves were not aware of it.

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Next, please tell us about the services of SSCV.

Nagumo: SSCV consists of three services: SSCV-Smart, SSCV-Safety, and SSCV-Vehicle (“Smart,” “Safety,” and “Vehicle,” respectively). The transport business consists of three factors of “driving plans,” “drivers’ safety,” and “trucks” and SSCV supports them. Smart which supports “driving plans” helps transporters improve operational efficiency and enhance compliance by digitalizing order management, etc. “Safety” comprehensively supports the safe driving management through AI-based analysis of drivers’ vital signs and driving data. Vehicle is a solution that achieves failure prediction and preventive maintenance of vehicles by digitalizing the vehicle management and maintenance records and obtaining real-time driving data for statistical analysis.

First, please explain features of Safety, the origin of SSCV.

Nagumo: Heinrich’s law* states “for every accident that causes a major injury, there are 29 accidents that cause minor injuries and 300 accidents that cause near-misses (Hiyari-Hatto),” but Safety aims to achieve “zero-accident” by visualizing and eradicated not just accidents but near-misses. The most notable feature is that it incorporates a logic backed by fatigue science that sends a near-miss alert to drivers based on objective data including their physical conditions and fatigue levels on the basis of the research findings on the correlation between drivers’ vital signs and vehicles’ abnormal behaviors. During the initial stage of the project in 2016 and 2017, we collected all products that send a reminder to drivers from Japan on the correlation between drivers’ vital signs and vehicles’ abnormal behaviors. While a prototype was completed, we held regular meetings with executives twice a month and advanced the development with advice and wisdom from various people, but there were more than a few times that we had to make a course correction by scrapping what we built. Through these efforts, we were able to put logic of sophisticated academic research and on-site voices into the system, and that is the feature and safety point of Safety. Safety enables to prevent near-misses prediction while driving based on the objective data such as driver’s physical conditions and fatigue levels using a collision risk estimation algorithm backed by academic research. It is also equipped with functions that detect near-misses that may cause accidents in real time by obtaining vehicles’ status while driving and drivers’ stress levels using IoT-based dashboard cameras or wearable devices and issue a warning sound in case of reckless driving or dangerous situation.

How did drivers react when Safety was installed?

Maeda: Hitachi Transport System East Japan installed Safety in its all vehicles. Because one of the advantages of being a driver is that you can be alone while driving, there were a great deal of resistance from drivers to the idea of being watched through the camera all the time at first. So, driving managers patiently talked to each driver and managed to convince them that it was a tool to protect them, not to monitor.

Nagumo: We also explained our view carefully at workplace meetings that it is for protection and not for monitoring* and “we do not want any driver of the Group to become an assailant or victim.” And I think because we showed drivers some videos of the accidents we caused, they probably started thinking, “If Smart can prevent such accidents.” We completed the installation in all around 3,000 vehicles of our group companies, and in FY2021, we plan to install it in all around 3,600 vehicles in partner companies.

Please tell us about specific example of the effects of the installation of Safety.

Obinata: Since the installation in June 2019, there has been no accident due to absent-minded driving with Safety-installed vehicles. According to the fixed-point observation of one of our offices, the number of near-misses including sudden start, sudden braking, and sudden steering declined by 94%.

Nagumo: At this point, the number of accidents decreased approximately 60%, which contributed to a decline in accident-related expenses. Decreases in sudden start, sudden braking, and sudden steering, etc. are also helping us realize eco-driving. In one of our group companies, fuel efficiency improved by approximately 5% in full-year data, which shows that Safety is contributing not only to safety but also a reduction of CO2 emissions and decarbonization.

Maeda: As a qualitative effect, drivers and driving managers previously used to exchange only a few words after drivers return to offices, but now the communications between them are invigorated because they review the SSCV data together.

Nagumo: It is because driving managers can give advice by watching the camera footage of actual driving of that day. For example, a driver who tends to make sudden steering frequently may not be aware of it, but because it is in real-time on the video, the driver can correct it. Safety education was only a generalization beforehand, but now we can give guidance according to driving habit of each driver.

Maeda: The following distance between vehicles which is important for safety driving tends to be closer with experienced drivers. Drivers may disagree when we simply point it out, but when we show the data showing that “their distance is closer” than others, they agree.

Nagumo: In addition, because the system shows a two-week average value of the drivers’ vital signs, drivers pay attention to the scores and are becoming health-conscious.

Satoh: It also helps us to prevent the spread of COVID-19. It shows the body temperature with the difference from the average over the last 30 days and saves data of blood oxygen levels, which is very helpful in providing drivers’ information to customers and also giving reassurance to drivers themselves.

I understand that Safety has various advantages. Please tell us about an intellectual property strategy to protect such value in business.

Suzuki: In 2017 when we started to prepare for patent application of Safety, the Company’s patents were mainly related to warehouse management and operation support systems. So, I was really surprised when I was told the Company aimed to apply for patents related to the transport business, and I wasn’t sure if it was possible at first. After we spent six months to carefully examine the details of the applications, we applied for two patents of “accident risk notification” and “notification with dashboard camera video clip” for the system which predicts accident risk and notifies driving managers when it determines an accident risk is really high and dangerous, and they were registered. In addition, we have around 10 patents pending mainly related to Safety. We also have several pending applications for trademark registration. While “Hitachi Transport System” and “LOGISTED” were registered in five areas, we applied for and obtained registration of SSCV in eight areas to expand the scope of services. We believe that the Company has an advantage that it can provide services and value needed at the sites because its primary business is logistics. We will ensure to incorporate such advantage in our intellectual property strategy to proceed with patent application and acquisition of rights.

Next, please tell us about Smart.

Nagumo: We have developed Smart by focusing on improving transportation/delivery efficiency and enhancing compliance. One of the hidden priority issues in the transport industry is that many operations are performed manually. Needless to say, it is inefficient,
Lastly, please tell us briefly about your future plans and challenges.

Nagumo: SSCV first started for the purpose of enhancing safety and elucidating accidents in the Group, but I believe it can also contribute to the solving of issues faced by the entire logistics industry. In order “not to stop” logistics that is essential social infrastructure or in order to realize “sustainable logistics,” we will focus on further enhancement and development of SSCV functions. I will continue to take issues and opinions of transporters seriously and work to add and extend functions and services with higher added value.

Satoh: I recognize that SSCV is a solution that takes a step forward from the conventional logistics business and that is also quite important and meaningful in promoting the Group’s DX. As a system developer, I will continue to cooperate with various collaborative innovation partners including academics, and support the development of services that will offer values to stakeholders including the Group and other transporters.

Maeda: Driver shortage, safety management, and streamlining of transport operation will continue to be issues for the entire domestic logistics industry including us, and I think what’s really important is how we can help small and medium-sized transporters with SSCV. I will continue to focus on expanding SSCV sales to partner companies and also enhance support for transporters who do not have sufficient resources to promote DX, with an aim to reach the level where transporters think “all we need for the transport business is SSCV.” I will continue to work with my team toward that aim.

Goto: I will work to expand and deepen CSV initiatives through SSCV. I hope to enhance our capability to create values not only for the Company but also for SSCV users, and will strive to create shared value in the entire transport industry through the use of SSCV. In addition, I will cherish a network with a wide variety of industries in hopes to spread the use of SSCV to a wide range of sectors and industries other than logistics.

Obinata: I will continue to introduce and share various features of SSCV to the world, and I think it would be great if we could add other functions that offer compliment on safe driving. The current labor standard for drivers sets a uniform limit on work hours and consecutive driving hours regardless of their attributes or form of transport. By monitoring drivers’ fatigue levels in real time using SSCV, we may be able to contribute to the realization of flexible working style according to the drivers’ fatigue levels and an improvement of transport efficiency.

Suzuki: Originally, the focus of patient is to protect the business by seeking patents for R&D results. Recently, however, there is a movement that considers what is required for sustainable development of society and seeks patents for such ideas. I believe that is what the Group should do, so I will continue to acquire patents for various ideas to be generated by enhanced functions of SSCV, and I’d like to develop many personnel who will underpin the Company’s future from the viewpoint of intellectual property.

### SSCV Initiatives in Each ESG Area

#### Environment (E)
- Reduce greenhouse gas emissions by improving transportation/delivery efficiency (by sharing or increasing loading ratio)

#### Social (S)
- Coach and educate based on individual driving data to improve safe driving skill

#### Governance (G)
- Develop and implement health-conscious measures to keep aging drivers safe and healthy

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Hitachi Transport System, Ltd.
Integrated Report 2021

Hitachi Transport System, Ltd.
Integrated Report 2021
3PL Business (Domestic)

For logistics operation at any stage of customer’s supply chain and in peripheral operations, we provide a comprehensive outsourcing service and excellent IT/technological capabilities to support it to improve service quality and logistics efficiency. As a leading 3PL company, we provide the best logistics solution by drawing on our abundant experience and consulting capabilities and comprehensive infrastructure, as well as always lead the industry evolution by continuing to work with customers and partners to promote collaborative innovation through installation of the next-generation logistics technology using the latest technology.

Positioning of the HTS Group in the Market

As a market leader in the ever-expanding domestic 3PL market, the HTS Group comprehensively undertakes logistics operations of customers in a wide range of sectors and industries (see chart on the right). We are a pioneer of 3PL and have been providing service since the 1980s. We support supply chains in Japan with our proposal capabilities backed by abundant experience and management capabilities offered by professionals with deep customer knowledge.

Major Services

- Procurement logistics: We provide a comprehensive service from picking up purchased products to acceptance inspection, storage, and supply. Our high value-added services include VIM**, assembly/painting of parts, and delivering to production lines.
- Production logistics: We undertake various logistics operations in the manufacturing process including management, packaging, and shipping of materials and products. Our packaging professionals provide optimal packaging solutions according to product features and logistics conditions.
- Distribution logistics: We provide comprehensive support from the supply chain design stage, including a review of site allocation and inventory level. We support customers to expand orders, received and sales through high-quality and highly efficient logistics design and operation making full use of the latest technology.
- Solutions: We provide a number of high value-added solutions such as services integrating logistics and CE**’s skills for ICT equipment (see chart on the right).

R&D of the Next-generation Logistics Technology through Collaborative Innovation

Sophisticate logistics using 5G (collaborative initiative with KDDI CORPORATION)

The Company and KDDI CORPORATION are jointly working on the initiatives to sophisticate logistics using 5G in FY2022, we built a 5G environment inside the Group’s logistics center in the Tokyo Metropolitan area to conduct verification experiments. We use 5G for real-time AI analysis of on-site 4K camera footage, problem detection/notification aiming to sophisticate human judgment and behaviors including preventing accidents such as collision/klap and improving work efficiency.

Development of AI forklift (collaborative initiative with Hitachi, Ltd.)

The Group has introduced automated forklifts in some sites, but there are certain restrictions in their operations at logistics sites such that the area must be segregated from the environment where people work from a safety perspective and that they can handle preset simple tasks only. The Company and Hitachi, Ltd. are undertaking a joint development aimed at realization of collaborative work between automated forklifts and workers by incorporating AI into automated forklifts and connecting them with logistics management systems such as RIMs and other equipment to control them as a group in an integrated way.

Value Creation Achievements

- 46% of annual sales growth rate of total materials and equipment sales (FY2019)
- 33.2% of compound annual growth rate of profit at sales (FY2019)
- 14.4% of market share in FY2019

FY2020 Result

- Results (round amount): ¥368.2 billion (YoY -¥8.4 billion)
- Operating income: ¥23.13 billion (YoY +¥0.52 billion)

- New orders/new startups
  - New Orders: 16 projects
  - New startups: 17 projects

East Japan II Medical DC

- A GDP*-compliant logistics center that strictly control quality through temperature and security management, etc.
- Accommodate the need of medical supply companies to enhance BCP by adopting quake-absorbing structure and installing in-house power generator
- Installed advanced technologies including Automated Guided Vehicle (AGV) and automated forklift to realize the next-generation labor-saving center

* GDP: Good Distribution Practice: “Appropriate distribution standard for medical supply”

FY2020 Topics

- February 2021: Opened East Japan II Medical DC
- Strengthened pharmaceutical logistics business
- February 2021: Opened为客户提供“Recovicer”服务
- Provide integrated services including systems and logistics, etc.
- Necessary for rental and sharing business and deliver new values accommodating changes in consumer trends

ESG Topics

- HTS’s initiatives
  - Reduce CO2 emissions through a review of transport routes, improvement of transportation efficiencies, and joint delivery
  - Reduce waste through a review of packaging and reduce CO2 emissions through an improvement of shipping efficiency

- FY2020 Topics
  - July 2020: Received "Logistics Environment Special Award’ in the "21st Logistics Environment Awards"
  - October 2020: Received three awards of "Director General, Ministry of Economy, Trade and Industry Awards", "Appropriate Packaging Award", and "Large-scale Equipment Packaging Award" at the Japan Packaging Contest 2020
  - November 2020: Received "EoC2020 Excellent Business Entities Working on Modul Shift" effective use category** for 1 item.

Message from the officer in charge

In FY2020, while overall volume dropped due to COVID-19, demand for foods, hygiene products, and EC, etc., increased and the Group focused on maintaining stable logistics operation as a social lifeline. With the economic recovery, cargo volume is on a recovery trend, and there is an increasing momentum among customers to review their supply chains and introduce automated labor-saving equipment. So, the Group will further demonstrate its strengths of proposal/management capabilities and advanced IT/technological capabilities in order to deliver values to customers and society.
As of March 31, 2021, the HTS Group has established a global network of 422 sites in 28 countries and regions outside of Japan, since expanding into Singapore in 1976. In order to support our customers’ increasingly large and complicated global supply chain, we offer a wide range of services including 3PL and Auto Parts Logistics.

**FY2020 Result**

- **Results**
  - Revenues: ¥ 186.2 billion (YoY +4.8 billion)
  - Operating income: ¥ 9.6 billion (YoY +3.35 billion)

- **FY2020 Topics**
  - Asia: Built a new logistics center through own investment in Chennai, further accelerating investments in India

**Oragadam Logistics Center**

Flyjac Logistics Pvt. Ltd., which operates 3PL and freight forwarding services mainly in India, has opened a new modern logistics center in Oragadam, near Chennai in June 2020. Oragadam is the nerve center of industrial activities in Chennai and home to many companies including six global automobile manufacturers. This new facility, conveniently located just one hour away by car from the Port of Chennai, helps providing one-stop logistics services to customers as a base for handling import and export cargoes and JIT (Just In Time) delivery.

**Concept of 4 Logistics HUBs**

The logistics and supply chain market in India is forecast to grow at a CAGR of 10.5% between 2019 and 2025. The HTS Group will continue to aggressively invest in India, which is one of the fastest growing markets. As a part of strategy for expanding its footprint in India, HTS is creating large multi-purpose logistics centers in four metros, to start with Mumbai and Chennai in FY2022, to be followed by Delhi and Bangalore. Our objective is to be a partner of our customers in creating value through optimizing supply chain by integrating the entire activities including international and domestic movements by air/ocean/land, support in export/import compliance, as well as providing storage solutions for raw materials and finished goods including temperature controlled cargoes.

Message from local leadership

While Flyjac has been one of the largest freight forwarding companies in India, our current focus as an integrated logistics solution partner is on developing a world-class infrastructure with multi-purpose logistics centers and modernized transportation, to enable the supply chain optimization for our 5,000 plus customers. We have upgraded our entire IT system in August 2020, to improve efficiency, speed, accuracy, and real-time visibility on a single platform.

**ESG Topics**

- October 2021: Carter Express in the U.S. was awarded as a 2020 “Top Company for Women to Work for in Transportation”
  - The award was established in 2018 to promote the accomplishments of companies that are focused on the employment of women in the trucking industry.
  - Nearly 11,000 votes were cast to determine the winners. Carter was selected as one of the top companies for women to work for in transportation.
  - Active involvement of women in various types of job, including executives, truck drivers, and mechanics, was highly evaluated.

- Mars Logistics Group in Turkey has started a project in the field of Gender Equality
  - Mars is starting “Equality Has No Gender” project since January 2020.
  - Employees selected as ambassadors organize monthly events in cooperation with various NGOs on topics such as employment and education.
  - This initiative will contribute to the achievement of Gender Equality target, which is one of the Sustainable Development Goals.
Freight Forwarding Business

The HTS Group makes full use of its global network and seamlessly connects various transport modes including ocean, air, truck, and rail to provide optimal transport services to customers. We meet a wide range of global logistics needs of customers including one-stop logistics service integrating freight forwarding, truck, and rail to provide optimal transport services to customers.

Business outline by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Major export products</th>
<th>Ocean transportation</th>
<th>Air transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>For China/Asean: Hygiene products, electronic parts For North America/Europe: Automobile parts</td>
<td>49 thousand TEUs</td>
<td>9 thousand tons</td>
</tr>
<tr>
<td>Asia</td>
<td>For Japan: Furniture, tens For China: Hygiene products, for Asia/North America: Food products</td>
<td>23 thousand TEUs</td>
<td>3 thousand tons</td>
</tr>
<tr>
<td>North America</td>
<td>For Japan: Electronic parts, for China/Europe: Hygiene products, automobile parts</td>
<td>34 thousand TEUs</td>
<td>2 thousand tons</td>
</tr>
<tr>
<td>China</td>
<td>For Japan: Automobile parts,</td>
<td>23 thousand TEUs</td>
<td>2 thousand tons</td>
</tr>
</tbody>
</table>

FY2020 Result

- Revenues (round amount): ¥101.1 billion
- Freight forwarding volume (round amount): Ocean transportation 441 thousand TEUs, Air transportation 148 thousand tons

Enhance Cross-border EC-related Services

We are enhancing freight forwarding services related to the growing cross-border EC market. In FY2020, we have tied up with a leading overseas EC platformer and provide one-stop delivery of EC cargo exported from Japan to local sellers mainly in Asia with efficient consolidated transport service. We support our customers in expanding their sales opportunities through logistics by optimizing costs and shortening lead time.

Launched Full-scale Freight Forwarding Service in Eastern Europe

ESA s.r.o., our group company headquartered in the Czech Republic, operates a comprehensive logistics business mainly in three Eastern European countries of the Czech Republic, Poland, and Slovakia. The company had been engaged in cross-border transport across Europe using its truck transportation capacity and recently launched full-scale freight forwarding service including ocean, as well as rail, to provide one-stop logistics service in combination with 3PL and heavy machinery and plant logistics.

Message from the officer in charge

Yuuichi Kuroume

Also drastically changing environment due to COVID-19 including a disruption of global transport network and surging cost in FY2020, the Group has made an all-out effort to maintain our customers' global supply chains. We expect the global transport market to become more diversified and complicated, and the Group will ensure to promote the expansion of collaborative innovation with partners and DX and support global business activities of our customers by providing more seamless and higher value-added freight forwarding services.
Heavy Machinery and Plant Logistics Business

Since its foundation in 1950, we have supported the foundation of society and industries and strived to improve transport technology by providing one-stop logistics services covering from shipping to transportation and installation of heavy products, including power plant, industrial machinery, railway cars, and precision equipment and medical equipment requiring careful handling in Japan and overseas. We will provide total logistics solutions capitalizing on our experiences and expertise we have cultivated over the years to meet a wide range of customer needs and contribute to the development of society.

Positioning of the HTS Group in the Market

The HTS Group is one of a few domestic logistics operators who can offer various engineering services with dedicated staff and transport services using own assets in large-scale projects to transport and install heavy cargoes. In the heavy machinery relocation and installation and reverse logistics*, we have been developing a wide variety of businesses including services using the Group’s domestic network and the development of unique equipment.

Major Services

Build Social Foundation

Services for power plant and industrial project cargoes

With regard to power and industrial plant facilities delivered to various locations around the world, our professional team having abundant experience and high level of expertise plans and executes the optimal transportation according to customer requirements. In addition, with the Group’s network, we provide safety-first transport service, from shipment to delivery, for products ranging from small parts to chemical plant facilities weighing over 2,000 tons under fine-tuned management both in Japan and overseas.

Connect Regions

Services for rail and other transport system project cargoes

We meet various logistics needs including transportation of train cars of bullet trains and other high-speed railways, city trains, and monorails, as well as related equipment such as signal systems and platform barriers, procured parts to manufacture train cars, and maintenance parts. In addition to delivery of finished products, we also provide a broad range of services for maintenance after equipment is put into operation by making full use of our 3PL expertise and transportation capacity, supporting the development of transport infrastructure.

Contribute to the Realization of Sustainable Society

Services for renewable energy

We provide transportation and installation services for renewable energy facilities used for solar and wind power generation. Our engineers having abundant expertise take the lead in examining energy facilities used for solar and wind power generation, including transportation as well as the development of special container with higher transport efficiency.

FY2020 Result

Revenues (round amount included in the reportable segments: Domestic logistics and Global logistics)

¥35.2 billion (YoY - ¥4.4 billion)

FY2020 Topics

Completion of transport of super large chemical plant module to overseas

Transport related to the renewable energy business including biomass, offshore wind power, and solar power

Continued transport of toroidal field coil for International Thermonuclear Experimental Reactor (ITER)

Continued projects of constructing coal-fired power plants in Japan and overseas

Transport of temporary facilities for international sporting events

ESG Topics

Transport of railway cars to various locations around the world

Contribute to the reduction of environmental load and development of society and economy

Countries and regions where population has been rapidly increasing face growing problems including traffic jam and air pollution, and such problems are expected to be mitigated by developing a public transportation system. The Group, as an expert of railway car transport, has been engaged in many transport projects in various locations around the world and supporting the realization of a sustainable society in terms of logistics.

FY2020 Result

Started work of Line 1 in the Ho Chi Minh City Metro Rail System

Transport period: From 2020 to 2022

No. of cars to be transported: Total of 51 (17 organizations)

Message from the officer in charge

The Company’s heavy machinery and plant logistics businesses have been growing, along with the technological capabilities we have cultivated since the foundation as well as approximately 1,000 employees of the Group. Transport routes have diversified, and service domains needed by customers are also expanding globally and widely. We will strive to deliver customers’ important products safely and securely and provide total solutions taking into account the entire supply chain to support customers’ business activities and contribute to the establishment of a better social and industrial foundation.
Response to COVID-19

The HTS Group plays a key role as one of the players that are critical to maintain society and industry by providing logistics service to customers in a wide range of industries, including delivery of food products, daily commodities, and medicines. In order to maintain this role stably even during the COVID-19 pandemic, we set up “COVID-19 Prevention Headquarters” to prevent the spread of infection among group employees.

### COVID-19 Prevention Headquarters Structure

- General/Manage Officer in charge of Safety and Quality / Chief Management Division Officer in charge of Human Resources & Business Support Office
- Operation divisions: Hitachi Global Logistics Headquarters
- Corporate divisions: Public Relations/Facilities Management/Administration/Procurement Support

### HTS Group’s Basic Policy (Excerpt)

- Give the highest priority to health and safety of our customers, partners, employees and their family members
- Prevent the spread of infection within and outside the Group and minimize impacts on the business
- Fulfill accountability to stakeholders and disclose information on a timely and appropriate basis

### In Order “Not to Stop logistics”

In order “not to stop logistics” while giving the highest priority to health and safety of the Group employees, we take necessary measures to maintain stable business operation, including contactless/non-face-to-face operations and securing of a structure to execute operations.

#### When coming to work

- All employees are required to measure their body temperature and check their health condition before coming to work and refrain from coming to work if they are in poor health condition.
- All employees are required to notify before coming to work if any of their family members living together is in poor health condition.
- Avoid commingling during short hours of public transportation by using various alternatives including staggered commuting, shift work, flextime, and working from home.

#### In workplace

- **Logistics centers/OFFICES**
  - Ensure to wear a mask
  - Ensure to wash and dry hands frequently when coming to work and during breaks
  - Provide frequent ventilation
  - Permit non-essential and non-urgent business trips/leavings
  - Hold meetings and training, etc. together limit the number of attendees, ensure social distancing and keep a record of attendees when holding face-to-face meetings, etc.
  - Arrange works to work area: apart from each other to ensure social distancing and install partitions or glass sheets to prevent direct infections
  - Frequently disinfect common facilities: such as doors, handrails, control panels of elevators, and tables and chairs in meeting rooms
  - Put alcohol-based sanitizers in0 in restrooms and break rooms, etc. and disinfect these areas regularly
  - Introduce indoor air purifiers and CO2 monitors

- **Logistics centers**
  - Disinfect worktables and roll box pallets, etc. regularly
  - Secure a structure to execute operations by measures such as flexibly shifting human resources
  - Develop a scenario assuming that someone is tested positive for COVID-19
  - Conduct simulation drills or in the event that someone is tested positive for COVID-19

#### Response to infections or suspected infections

- Report to Prevention Headquarters symptoms of employees absence from work due to poor health condition and prepare for an event that someone is tested positive for COVID-19 (preparation for disinfection and securing of a structure to execute operations)
- Instruct employees confirmed infected to stay at home for a certain period and determine whether to allow them to return to work based on their health maintaining when they return to work

### Response to Customers and Suppliers

We develop a scenario assuming that someone is tested positive for COVID-19 from the viewpoint of BCP and strive to provide stable logistics services by closely sharing information with customers.

- Implement infection prevention measures according to guidelines of customers or the Company
- Share our prevention measures with customers
- Promptly notify our customers if someone is tested positive or identified as a close contact
- Develop and share a scenario assuming that someone is tested positive for COVID-19
- Secure an operating structure to accommodate a sharp increase in shipment of food products, daily commodities, and hygiene products
- Assist the review of supply chains including a support for shortage of warehouse storage space and a shift to an alternative transportation mode in global logistics

### Examples of Our Response to COVID-19

#### Transport of medical supplies

In March 2020, when Hokkaido issued its own state of emergency, the first in Japan, Guangzhou City, China, sent masks and thermometers as relief supplies to its friendship city Noboribetsu City, Hokkaido. The Group undertook the import/export operation, and SAGAWA EXPRESS CO., LTD. took charge of the domestic transport, achieving quick transport through collaborative relationship. Also, to support frontline medical workers, the Hitachi Group started a production of face shields in May 2020 and has donated them to designated medical institutions for infectious diseases. The HTS Group undertook their shipment/delivery and packaging design.

#### Infection prevention measures at offices

We have in place various infection prevention measures, including body temperature screening when entering/exiting office by installing contactless temperature sensors, regular disinfection of roll box pallets, etc., installation of vinyl sheets on the reception counter, installation of partitions in offices and canteens, with an aim to create environment where employees can work with a sense of security and to maintain stable business operation. We also share excellent cases of prevention measures in our offices through VC21 activities (P33-34) and implement them across the Group.

#### Remote launch of new projects via online meetings

We launch new projects remotely by connecting logistics centers and the head office via online meeting system which enables us to verify operations and hold pre-launch trainings while looking at the sites via PC camera.

#### Online global meetings

Amid international travel restrictions, the Group held its first large-scale global online meeting, with approximately 300 attendees from 17 countries.

#### Provide infection prevention education using videos

Certain overseas group companies have prepared videos for their employees to ensure thorough implementation of infection prevention measures.

#### Online seminars

We hold online seminars for EC business operators, etc. to provide information on a non-face-to-face basis.
North America

Reasons for the Appointment of Directors

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Position</th>
<th>Reasons for the appointment</th>
<th>Age*</th>
<th>Registration</th>
<th>Independent Officer</th>
<th>Nominating Committee</th>
<th>Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Miho Aoki</td>
<td>Outside Director</td>
<td>Ms. Miho Aoki served as an executive officer in Deloitte Tohmatsu Consulting Co., Ltd. (formerly known as Morris Consulting Ltd.) and held executive positions at several other firms. Based on her abundant experience in company management, she currently works as an associate professor at a university. The Company determines that she has the knowledge and experience, as well as the necessary business experience, to supervise the Company's management and thus contribute to enhancing the function of the Board of Directors.</td>
<td>60</td>
<td>2020</td>
<td>◯</td>
<td>◯</td>
<td>◯</td>
</tr>
<tr>
<td>2</td>
<td>Sayoko Izumoto</td>
<td>Outside Director</td>
<td>Ms. Sayoko Izumoto has a long career in corporate accounting at many audit corporations and has served in various public posts. All companies have a skilled knowledge and experience in the field of audit and supervision of business operations. The Company determines that she has the knowledge and experience necessary for directing the Company's management and thus contribute to enhancing the function of the Board of Directors.</td>
<td>67</td>
<td>2017</td>
<td>◯</td>
<td>◯</td>
<td>◯**</td>
</tr>
<tr>
<td>3</td>
<td>Mitsudo Urano</td>
<td>Outside Director</td>
<td>Mr. Mitsudo Urano has worked in enhancement management efficiency as a top executive in manufacturing and logistics businesses and has experienced in a number of positions as an outside director of various enterprises. As the chair of the Company's Board of Directors, as an independent officer, he is working to integrate the Board and reinforce the quality of discussions. He also worked as the introduction of the performance-related stock compensation plan for executive officers, which will be introduced in future years. As the chair of the Compensation Committee, the Company determines that his excellent business sense and familiarity with various management issues make him qualified to supervise the Company's management and can be of help in enhancing the function of the Board of Directors.</td>
<td>73</td>
<td>2014</td>
<td>◯</td>
<td>◯</td>
<td>◯</td>
</tr>
<tr>
<td>4</td>
<td>Takashi Nishijima</td>
<td>Outside Director</td>
<td>After serving as the president at Yokogawa Electric Corporation and holding various executive positions in the Yokogawa group, Mr. Takashi Nishijima currently serves as the chairman of Yokogawa Electric Corporation. The Company determines that his managerial experience and profound understanding of various management issues make him qualified to supervise the Company's management, which will surely contribute to enhancing the function of the Board of Directors.</td>
<td>63</td>
<td>2020</td>
<td>◯</td>
<td>◯</td>
<td>◯</td>
</tr>
<tr>
<td>5</td>
<td>Tetsu Fusayama</td>
<td>Outside Director</td>
<td>After his tenure as a public prosecutor, Mr. Tetsu Fusayama has worked as an attorney at law, with a wealth of expertise and experience in legal and compliance issues. The Company determines that his knowledge and experience are continuously helpful for the Company's management and can contribute to enhancing the function of the Board of Directors.</td>
<td>69</td>
<td>2016</td>
<td>◯</td>
<td>◯</td>
<td>◯</td>
</tr>
<tr>
<td>6</td>
<td>Hiroshi Maruta</td>
<td>Outside Director</td>
<td>Mr. Hiroshi Maruta has deep insights in the field of finance and accounting and has extensive experience working overseas. The Company determines that he is expected to leverage his knowledge and experience for supervising the Company's management and contribute to enhancing the function of the Board of Directors.</td>
<td>67</td>
<td>2015</td>
<td>◯</td>
<td>◯</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Hajime Watanabe</td>
<td>Outside Director</td>
<td>Mr. Hajime Watanabe is an attorney at law, who is a savvy about international business and trust law. The Company determines that his special knowledge and experience are appropriate for supervising the Company's management. It believes that the function of the Board of Directors will be enriched by his appointment.</td>
<td>61</td>
<td>2020</td>
<td>◯</td>
<td>◯</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Takashi Jingui</td>
<td>Director</td>
<td>Since joining the Company, Mr. Takashi Jingui has been engaged in a variety of operations including personnel management, labor management, marketing, strategy making, and operations in Japan. Since he became Representative Executive Officer, Executive Vice President and Executive Officer at the Board of Directors, for his talents and outstanding contributions to the Company's growth strategy through relationship building and negotiations with various collaborative innovation participants, the Company has determined that he is a core business experience and knowledge make him qualified as a director who can contribute to the enhancement of the Company's corporate value.</td>
<td>65</td>
<td>2016</td>
<td>◯</td>
<td>◯</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Yasuo Nakatani</td>
<td>Director</td>
<td>Since his assumption of office as Representative Executive Officer, President and Chief Executive Officer and Board Director of the Company, Mr. Yasuo Nakatani has been exercise strong leadership as building the Group's value creation process as well as enhancing the economic, social, and environmental values. The pursuit of our vision to become &quot;the most pertained global supply chain solution provider&quot; the Company has determined that Mr. Nakatani has the competence to promote the Company's global business management and ensure continued increase of the corporate value.</td>
<td>65</td>
<td>2013</td>
<td>◯</td>
<td>◯</td>
<td></td>
</tr>
</tbody>
</table>

*1. As of June 22, 2021 *2. Outside Director

Summary of Skillsets of Directors

<table>
<thead>
<tr>
<th>Field</th>
<th>Number of directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate management</td>
<td>(1, 2, 3)</td>
</tr>
<tr>
<td>Financial accounting</td>
<td>(1, 2, 3)</td>
</tr>
<tr>
<td>Law/compliance</td>
<td>(1, 2, 3)</td>
</tr>
<tr>
<td>Society/environment</td>
<td>(1, 2, 3)</td>
</tr>
<tr>
<td>Global business</td>
<td>(1, 2, 3)</td>
</tr>
<tr>
<td>Technology</td>
<td>(1, 2, 3)</td>
</tr>
<tr>
<td>Human Resources/ Human Resource Development</td>
<td>(1, 2, 3)</td>
</tr>
</tbody>
</table>

The details provided reflect the Company's expectations and determinations regarding the qualifications and contributions of each director, emphasizing their role in enhancing the function and oversight of the Board of Directors.

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**Note:** The text above outlines the reasons for the appointment of each director, highlighting their qualifications and specific expertise that make them suitable for their roles within the Board of Directors. The summaries of skill sets further categorize these qualifications to reflect the diverse areas in which the directors contribute to the Company's management and oversight.
Board of Directors and Executive Officers/Executive Officers

Yasu Nakatani*  
Representative Executive Officer/President and Chief Executive Officer
General Manager, Global Business Management Headquarters
General Manager, AEO & Corporate Export Regulation Office

Takashi Jinguii*  
Executive Vice President and Executive Officer
In charge of IT/logistics solution

Yoshitaka Tsuda  
Executive Vice President and Executive Officer

Kenji Abe  
Vice President and Executive Officer
Deputy General Manager, Business Management Headquarters
General Manager, Business Development Headquarters, Business Management Headquarters

Kazuhisa Sakaguchi  
Vice President and Executive Officer
Executive, Nihonbashi Area Management Headquarters
Executive, Nihonbashi Area Headquarters, Nihonbashi Area Management Headquarters (President, Hitachi Transport System (China) Ltd.)

Hiroaki Takagi  
Vice President and Executive Officer
Chief Executive for China (President, Hitachi Transport System (China) Ltd.)

Kiyoshi Nagao  
Vice President and Executive Officer
General Manager, Business Management Headquarters
General Manager, Logistics Solution Business Development Headquarters, Business Management Headquarters

Seiki Sato  
Senior Vice President and Executive Officer
General Manager, Corporate Strategy Office
Deputy General Manager, Business Enhancement Project Team, Business Management Headquarters

Kazuhisa Hatakeyama  
Senior Vice President and Executive Officer
General Manager, Safety and Quality Control Management Office

Yasushi Hagiwara  
Senior Vice President and Executive Officer
General Manager, Human Resources & Business Support Office

Yuichi Kuroume  
Executive Officer
General Manager, Global Business Management Headquarters, Transportation & Logistics Business Development Project Team, Business Management Headquarters (President, Wii JEI EBMK BBO, Ltd.)

Kazuhiro Nishikawa  
Executive Officer
Executive, Metropolitan Area Headquarters, Nihonbashi Area Management Headquarters
Deputy General Manager, Corporate Strategy Office

Riichiro Hirano  
Executive Officer
Chief Executive for Europe (President, Hitachi Transport System (Europe) B.V.)

Nobukazu Hayashi  
Senior Vice President and Executive Officer
General Manager, Financial Strategy Office
General Manager, Project Management Office

Toru Watanabe  
Senior Vice President and Executive Officer
Executive, Higashinippon Area Management Headquarters

Hitoshi Honda  
Executive Officer
Deputy General Manager, Financial Strategy Office

Ryuichi Honda  
Executive Officer
Chief Executive for Asia (President, Hitachi Transport System (Asia) Ltd.)

Tetsuji Mimura  
Executive Officer
Executive, Higashinippon Area Headquarters, Higashinippon Area Management Headquarters (President, Hitachi Transport System South Kanto Co., Ltd.)

Shunsuke Yonekura  
Executive Officer

Vice President and Executive Officer

* Concurrently serve as Board Director (Listed in Japanese alphabetical order by title.)
Independent Director Dialogue

"Future" of Governance toward the Next Growth Stage

Amid the drastic change in business environment due to the expansion of infectious disease risk and climate change risk, the HTS Group has realized profit growth creating economic and social values through its business and evolved corporate governance that supports such growth. What should the Group focus on next in terms of governance to prepare for the shift to the next growth stage? Two independent outside directors held a dialogue.

Please tell us about the roles you played in the Company’s corporate governance in FY2020. As it was the first year for Mr. Nishijima as a director of HTS, would you also tell us your impression about the Company’s governance and the Board of Directors? Urano: In FY2020 when the entire world was facing the threat of COVID-19, I reacknowledged the logistics industry has very important mission no matter what the social situation is. The Group supports people’s lives by providing logistics services to customers in a wide range of sectors including daily necessities such as foods, daily commodities, and medical supplies. If our operation is suspended, it could stop the flows of the supply chain in the world. The Board of Directors has monitored operation by strongly recognizing such importance and focused on maintaining stable business operation even amid the COVID-19 pandemic. In addition, under the new business concept of ‘LOGISTEED’, we could share with the entire transport industry the values of "securing safety" and "improving efficiency" created by SSCV. Nishijima: I became an outside director about a year ago in the midst of the COVID-19 pandemic, and what came to mind first was that logistics services are really essential to people's lives. In addition, I saw executive officers paying close attention to every detail of daily on-site operations and taking actions timely and appropriately, and I was impressed by the strengths of "Gemba" Power deeply rooted in the Company. I also highly value the fact that the Board of Directors not only focuses on not only manufacturing products but also providing solutions in addition to delivering products. So, I will use my experience and insight that I have accumulated through management of the manufacturing company to support HTS's management.

What do you think the features and strengths of the Company's current governance are? Nishijima: The most notable feature is that the Board of Directors is highly independent*, and it is composed of outside directors with very diversified backgrounds and careers. I recognize this ensures sufficient monitoring functions. One of the strengths is that the management shares a sense of purpose to "establish good governance for good management," with executive officers and outside directors having very active and open discussions. Under such atmosphere, outside directors sometimes ask sharp questions and give tough feedback, which I felt helps maintain a good balance of sound tension and unity. Urano: I value that the Company's governance has evolved significantly in recent years. After it shifted to a Company with Committees in 2003, the Company was not able to take advantage of the system for a while. But now, all three committees are made up of a majority of independent outside directors and are operated with a smaller number of members, which makes them possible to conduct high-quality discussions and activities. For example, the Nominating Committee evaluates activities of each officer during the year and has an honest discussion on the structure of the next year. The Compensation Committee has introduced a completely new type of performance-linked stock compensation plan in consideration of all stakeholders in FY2020. Also, the Audit Committee functions effectively as members actually visit sites for audit in addition to reviewing documents. As for the issue that I pointed out in last year’s dialogue saying "outside directors cannot know in advance what was discussed in the Executive Committee" now outside directors can listen to the Executive Committee meetings online, which eliminated a large part of information gap. In addition, depending on the agenda item, the Board of Directors also discusses the same items that have been discussed by the Executive Committee, which makes me think that the Company now has a "very open relationship between the Board of Directors and the Executive Committee". I have served as an outside director in many companies, and I am proud that HTS’s current governance is in a very good condition.

About the issues to improve effectiveness of governance, could you tell us the progress, etc. of the items pointed out in last year’s dialogue? Please start with "an improvement of capital efficiency." Urano: An improvement of capital efficiency has been one of the key themes in governance for the past few years, and the Board of Directors including me has been dedicated to it.
The Company has focused on on-site education and initiatives related to ROIC tree (Message from the CEO [P.22-23]), and as a result, I think the concept is starting to take root. It’s not 100% yet, but capital economy is now discussed at an early stage of the examination of investment projects, and I think we are certainly laying the groundwork for a culture to discuss capital efficiency routinely, for example, in the VC21 activities and as part of daily operations. I think this is wonderful.

How about “catch-up of IT infrastructure with DX in society”? Nishijima: One of our DX issues is that because we have been making full use of IT for a long time to develop 3PL businesses at full scale, there are “legacy assets” in “facilities,” “culture” and how to “use.” To advance transformation, replacement of legacy assets should take place in stages, not all at once. The management fully recognizes that, and it has almost completed “identifying issues” and “developing a roadmap for improvement and transformation.” In addition, the management has a strong recognition of IT governance issues and is developing a cross-sectional framework and systems, including domestic and overseas group companies. As we have already developed a basic framework for catch-up and started to move toward the solutions of identified issues, I think our transformation is moving in the right direction.

However, DX should not be considered simply as an improvement or renewal of IT infrastructure. We should also consider transformation of corporate culture and climate, business model, and creation of innovation, so it requires quite extensive and deep efforts. Also, because IT is a “moving target” which is constantly evolving, we can’t just proceed according to the framework once it is developed but need to be prepared to “keep transforming.” In addition, if we run into an issue after starting the developed plan, we have to deal with it nimbly, and, in some cases, we may need to adjust or change the plan flexibly. The Company needs to enhance IT human resources who are the key to all of these initiatives. So, I think the Company’s future task is to enhance skill sets and abilities required to keep up with the moving targets through both recruiting and development of human resources.

The effectiveness evaluation of the Board of Directors in FY2019 pointed out the issue of “whether the discussions by the Board of Directors really consider all stakeholders.” Please tell us what progress has been made in FY2020 in this regard.

Urano: Partly because the major premise of the business concept “LOGISTEED” is a creation of an ecosystem with stakeholders in the first place, discussions at the Board of Directors have significantly changed to give due consideration to all stakeholders over the past year. For example, we have discussed a dividend payout ratio with TSR, which is a KPI shared with shareholders and investors, in mind. We also introduced a compensation plan for officers that is closely linked to TSR and ROE. As for the businesses that solve social issues including SDGs I mentioned earlier, we have discussed how to solve issues as HFS closely paying attention to business partners and local communities. Also, when discussing new proposals for customers or new investments, we always emphasize “customer benefits.” For employees, as VC21 activities make progress, we have more opportunities to discuss how to improve their work-life balance and satisfaction.

And for business partners, the Board of Directors has discussed communication and other approaches to build win-win relationships with them.

Next, please tell us about the progress in addressing management issues pointed out in last year’s dialogue. Please start with “acceleration of DX and enhancement of IT infrastructure.”

Nishijima: I already talked about internal DX earlier, and as for external DX, we have started the implementation of core solutions including SSCV, Smart Warehouse, and SDQOS and their business development. They are making steady progress as projected in the Mid-term Management Plan “LOGISTEED” [2021]. But I think the aim of “LOGISTEED” is even higher and more comprehensive, that is “optimization of supply chain management” and “integration of a wider range of systems (“system of systems,” etc.)”. So, I think they will be our major challenges in the future. For example, the Group aims to realize new innovation beyond conventional logistics domain, and we need to clarify to stakeholders what economic and social values will be generated through the innovation and how it will be implemented through our business. By doing so, our ecosystem-driven growth strategy should be successfully embodied, and I am participating in various discussions for that purpose.

How about “change of the business portfolio”? Urano: In the Mid-term Management Plan, the Company presented the amounts to be spent for M&As and capital policy, etc. in the future and clarified its intention to promote M&As to change the business portfolio. While executive officers have been deliberating on its details, I think there are a number of possibilities in both existing and new businesses. First, the existing 3PL businesses have been actively promoting new initiatives such as DC platform center, but it may be difficult to find a high growth potential in Japan in the future as it is basically in the stage of cash cow (mature) of the domestic leading company. Freight forwarding business is recently posting strong performance partly due to external conditions, but it is unknown whether it’s going to last in the long run. Heavy Machinery and Plant Logistics business currently has many domestic projects, while a high growth may be expected in emerging countries in the future.

In new businesses under the keywords “Finance, Commerce, Information, and Logistics,” a business covering “finance” and “commerce” domains has already been launched. Although the business scale is still very small, it is possible that it may even grow to the level that it undertakes procurement and payment functions of customers.

Anyway, we need to constantly change the business portfolio to realize sustainable growth, and sticking to the basic policy to explore growing sectors while maintaining cash cows and withdraw from unprofitable businesses should eventually improve capital efficiency. In addition, a key in developing new businesses to explore growing sectors is how much risk we are willing to take. In the procurement undertaking business for customers I mentioned earlier, for example, we should expect a considerable risk at an early stage. While we continue the ROC management, we, outside directors, might encourage executive officers to take a risk by changing WACC at a crucial moment when we think it’s worth it.

Then, please tell us about the “enhancement of group governance.” Urano: So far, the Company has expanded global logistics through M&As, and I understand that the Group networks the concept “integrative governance” in last year’s dialogue. But we will need to have much discussion on group governance from a global perspective, including a fundamental question such as “Is an integrated governance what we need?” For example, there are successful cases of an integrated governance such as global companies with a single product under a single brand. However, in case of a company running its overseas businesses with a region-contained business model like the Group, I think whether an integrated governance is the best choice should be discussed as a management issue.

Nishijima: This is just my impression that I got from discussions and reports from the Audit Committee in one year since I became a director, but considering our global logistics business is comprised of companies with different environment, business, and strengths that were grouped together through M&As, I think the Group needs to make further efforts to visualize such differences and identify distinguish items that should be standardized and integrated. Having said that, I also have experience in managing a global company focusing on service business just like HFS with more than 100 group companies, so I know it is difficult to implement an integrated governance in all group companies around the world. I will seek an optimal solution for group-governance taking into account business environment, strengths, and characteristics of customers in each region in discussions at the Board of Directors.

Thank you. And lastly, would you please tell us about issues related to the Group’s ESG and SDGs initiatives?

Urano: In order to actively promote ESG and SDGs initiatives, it is important that all members of the Group “fully understand” these concepts. From this viewpoint, for “Environment (E)”, the Company has focused on reducing CO2 emissions from truck transport from early on and steadily produced results. For “Governance (G)”, as I mentioned earlier, our initiatives have been evolving in the right direction. For SDGs initiatives, however, we may be able to further deepen our understanding if we become more aware that “Human beings are also a part of the Earth system” when we think of 17 goals.

Nishijima: I think the Group should focus on “creating value” through these initiatives. For example, if employees “fully understand” them, their motivation and productivity may improve further. By setting lofty vision or high goals, we may be able to attract even more human resources. In addition, if we make further progress with initiatives for “E” and “G”, we can increase the number of customers, which then increases economic value. And I think it is very important to make a full effort to appeal all such “values” to stakeholders.
Corporate Governance

Basic Principle

At the HTS group, we consider corporate governance to be key to realizing even greater 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 success of corporate governance lies in increasing corporate value and sustainable development. Relying on 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Measure</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>Transferred to a Company with Committees (established Nominating Committee, Audit Committee and Compensation Committee)</td>
<td>To strengthen management supervision function of the Board of Directors</td>
</tr>
<tr>
<td>2014</td>
<td>Developed Criteria for Independence of Outside Directors</td>
<td>To secure independence of directors</td>
</tr>
<tr>
<td>2015</td>
<td>Transferred to a Company with a Nominating Committee, etc. System</td>
<td>To comply with the amended Companies Act</td>
</tr>
<tr>
<td>2016</td>
<td>Evaluated the effectiveness of the Board of Directors</td>
<td>To strengthen functions of the Board of Directors</td>
</tr>
<tr>
<td>2017</td>
<td>Appointed the second female director</td>
<td>To diversify the Board of Directors</td>
</tr>
<tr>
<td>2019</td>
<td>Evaluated the effectiveness of the Board of Directors by a third-party assessor</td>
<td>Ensured the neutrality and objectivity of the evaluation of the Board of Directors’ effectiveness</td>
</tr>
<tr>
<td>2020</td>
<td>Appointed the third female director (accumulated)</td>
<td>To diversify the Board of Directors</td>
</tr>
<tr>
<td></td>
<td>Appointed an outside director as Chair of the Board of Directors</td>
<td>To strengthen functions of the Board of Directors</td>
</tr>
</tbody>
</table>

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 issues 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 pursues 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

Evaluates candidates for directors (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 CEOs and the composition of the Board of Directors and indepenedence of outside directors are to be considered in selecting candidates for directors, specified in the Corporate Governance Guidelines of the Company.

Corporate Governance Guidelines


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.

Criteria for Independence of Outside Directors


Executive Committee

- Deliberates on important issues related to business implementation
- Comprises entire 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 ensure 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 reports 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 is 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 as of March 31, 2021. As of March 31, 2021, the amount of cross-shareholdings accounted for less than 7% of total assets, which is insignificant on the balance sheet.

  - **Exercised 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**

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

<table>
<thead>
<tr>
<th>Management strategies</th>
<th>Corporate governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>General management</td>
<td>General Shareholders Meeting, etc.</td>
</tr>
<tr>
<td></td>
<td>Policy on the progress of LEGITEST 2021</td>
</tr>
<tr>
<td></td>
<td>Report on corporate governance</td>
</tr>
<tr>
<td>Financial management</td>
<td>Report on the capital cost of core businesses, credit information by third parties, and compliance, etc.</td>
</tr>
<tr>
<td></td>
<td>Dividends and methods of surplus appropriation</td>
</tr>
<tr>
<td>Others</td>
<td>Making judgment on continuation of cross-shareholdings</td>
</tr>
<tr>
<td></td>
<td>Acquisition of treasury shares</td>
</tr>
</tbody>
</table>

**Report from the Committees**

- **from the Nominating, Audit, and Compensation Committees**

**Discussion status by agenda item (FY2020)**

The proportion of the agenda items related to management strategies increased to 67% 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 holding those shares from the viewpoint of the criteria for investment assessment (ROI, dividend payout rate, and impairment risk, etc.)

**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.*1

<table>
<thead>
<tr>
<th><strong>Average length of monthly regular meetings</strong></th>
<th><strong>Discussion status by agenda item (FY2020)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><a href="#">Image: A pie chart showing the breakdown of meeting types, with the majority being discussions on corporate governance strategies.</a></td>
<td></td>
</tr>
</tbody>
</table>

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

**Corporative Governance (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 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 advisor, to conduct an impartial and objective evaluation of the BOD for the first time. The Company intends to retain an independent assessor to evaluate the BOD every third year.

**Self-Assessments by the Three Committees (1) Nominating Committee**

The Nominating Committee discussed candidates for the independent 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 considered and used an executive skill matrix to determine 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 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 enhancing the role 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 risk management and corporate governance as well as its governance over ESG risks. Based on this policy, the Committee audited the legal compliance, appropriateness, and efficacy 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 audit 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 LEGITEST, 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 HT Group companies around the globe, which collectively play a central role in practicing groupwide governance. The Committee recommends that executives...
officers of each Group company take corrective actions based on the results of those audits, as well as in regular audit reports submitted by their corporate audit and the Audit Office, as suggested by the 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, help enhance the groupwide governance.

The Committee acknowledges that the Group’s corporate executives 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 resources strategically, both as part of its efforts to better manage capital cost, and, in turn, help enhance the groupwide governance.

The Committee plans to review one-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) 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 is adequate, 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 the directors and executive officers, and that its compensation plan is administrated appropriately and soundly. 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.

The Committee acknowledges that the Group companies’ executive officers were paid compensation levels and, in turn, helped enhance the groupwide governance.

In determining details of compensation, etc. for each director and executive officer, the Compensation 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 administrated appropriately and soundly.

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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

<table>
<thead>
<tr>
<th>Compensation Elements</th>
<th>Eligible Officers</th>
<th>Components</th>
<th>Eligible Persons</th>
<th>KPIs</th>
<th>Reasons for selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated performance</td>
<td>Executive officers</td>
<td>Revenue for a single year</td>
<td>Executives/Officers in charge of profit centers</td>
<td>EPS</td>
<td>Because it is a financial indicator of the business results</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adjusted operating income for a single year</td>
<td>Executives/Officers in charge of profit centers</td>
<td>Adjusted operating income</td>
<td>Because it is a financial indicator of the results from the main business activities</td>
</tr>
<tr>
<td>Device-related compensation</td>
<td>Executive officers</td>
<td>Revenue of the device or change in the device-related compensation for a single year</td>
<td>Executives/Officers in charge of profit centers</td>
<td>Adjusted operating income</td>
<td>Because it is a financial indicator of the results from the main business activities</td>
</tr>
<tr>
<td></td>
<td>Individual officers</td>
<td>Indicators, etc. that do not show up on the financial results, etc.</td>
<td>Executives/Officers in charge of profit centers</td>
<td>Adjusted operating income</td>
<td>Because these are management effects that do not show up on the financial results, etc., such as improvement of the Company’s social position</td>
</tr>
</tbody>
</table>

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 list 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 basic points (I = 1) calculated in 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 is calculated by multiplying the base points by the share grant ratio reflecting the performance evaluation (the “Company’s Share”). The grant share ratio is 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 “GOSSTEED” 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. 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 determination at the Compensation Committee.

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

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

The performance target for the Company’s TSR/TOPIX growth rate is set at 12%, 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 155%, and if it is below 8%, the share grant ratio is 0%.

Compensation amount of directors and executive officers

<table>
<thead>
<tr>
<th>Officer category</th>
<th>Total amount by type of compensation (Million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount</td>
<td>Total amount of performance-linked compensation</td>
</tr>
<tr>
<td>Salary</td>
<td>Compensation for directors and executive officers</td>
</tr>
<tr>
<td>Performance-linked compensation</td>
<td>2022</td>
</tr>
<tr>
<td>Director compensation</td>
<td>¥31 18</td>
</tr>
</tbody>
</table>

*1 The number of eligible officers for director compensation, etc. excludes directors who serve concurrently as executive officers.
*2 The compensation is based on the evaluation at the Compensation Committee for FY2021 for directors and executive officers who were served from April 1, 2020 to March 31, 2021.
*3 The calculation of total non-monetary compensation, etc. for executive officers includes 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 amounts based on the achievement level of FY2020 targets for revenue 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 FY2022 are as follows:

<table>
<thead>
<tr>
<th>Targets (initial plan)</th>
<th>Revenues</th>
<th>Adjusted operating income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results</td>
<td>¥651.0 billion (¥1.0% - 3%)</td>
<td>¥36.711 billion (¥8% - 10%)</td>
</tr>
</tbody>
</table>

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*2 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 valid 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)


For details of compliance information, please visit our website.

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 review 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*1 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.

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)

- Scope: HTS, domestic group companies
- 100%

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

- Scope: HTS, domestic group company
- 9.6%

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
- 26 departments

For details of information security, please visit our website.

Customer privacy

In FY2020, there were no complaints filed for the violation of customer privacy.

Hitachi Transport System, Ltd. Integrated Report 2021

Compliance/Information Security

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 risks” that are highly likely to occur and have material impact and focus on discussing countermeasures against them.

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

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).

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.
## Risk Management

### Growth risk

<table>
<thead>
<tr>
<th>Risk factors</th>
<th>Description of risk/opportunity</th>
<th>Impacts when risk occurs</th>
<th>Group's measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Concentration on specific customers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Impact on business results and continued sustainability by losing large customers</td>
<td>Sharp drop in revenues and profit due to poor performance or functionality of customers</td>
<td>A cost reduction through efficient utilize distribution centers and other core business opportunities</td>
</tr>
<tr>
<td><strong>Opportunity</strong></td>
<td>Business expansion and ability to take advantage of scale economies</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Change in a business model (technological innovation, etc.)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Dependence on existing services and business models due to capital development of others and digital technologies</td>
<td>Loss of competitiveness in the logistic industry</td>
<td>Develop new business models through collaboration with business partners</td>
</tr>
<tr>
<td><strong>Opportunity</strong></td>
<td>Creation of new business models including service opportunities and IT/digital technologies</td>
<td>Improved competitiveness due to delayed response in digitalization</td>
<td></td>
</tr>
<tr>
<td><strong>Securing human resources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Difficulty in acquiring new talents due to increasing competition and market trend</td>
<td>Decrease in market competitiveness</td>
<td>Develop a structured training program for employees and social responsibility programs</td>
</tr>
<tr>
<td><strong>Opportunity</strong></td>
<td>Business expansion with new orders, and acquisitions of new expertise</td>
<td>Increase in market competitiveness</td>
<td></td>
</tr>
</tbody>
</table>

### Environmental change risk

<table>
<thead>
<tr>
<th>Risk factors</th>
<th>Description of risk/opportunity</th>
<th>Impacts when risk occurs</th>
<th>Group's measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sharp increase in cost</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Inflation, costs of raw materials, etc. (such as allocation expenses, labor costs)</td>
<td>Cost increase due to inflation</td>
<td>Establish a process for controlling labor costs and raw material costs</td>
</tr>
<tr>
<td><strong>Opportunity</strong></td>
<td>Decrease in procurement costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sharp fluctuations of exchange rates</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Exchange fluctuation</td>
<td>Exchange rate fluctuation due to business expansion into foreign countries</td>
<td>Establish a facility maintenance plan and develop the exchange rate forecasting system</td>
</tr>
<tr>
<td><strong>Reference</strong></td>
<td>Exchange rate fluctuations due to foreign currency exchanges</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Climate change</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Dependence on renewable society</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Opportunity</strong></td>
<td>Increase in the value of green logistics</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Operational risk

<table>
<thead>
<tr>
<th>Risk factors</th>
<th>Description of risk/opportunity</th>
<th>Impacts when risk occurs</th>
<th>Group's measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compliance violations (relatives of the labor laws, etc.)</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Violation of overtime regulations, etc.</td>
<td>Loss of compensation</td>
<td>Establish a facility maintenance plan and develop the exchange rate forecasting system</td>
</tr>
<tr>
<td><strong>Opportunity</strong></td>
<td>No compliance</td>
<td></td>
<td></td>
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</tbody>
</table>

### Hazard risk

<table>
<thead>
<tr>
<th>Risk factors</th>
<th>Description of risk/opportunity</th>
<th>Impacts when risk occurs</th>
<th>Group's measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unavoidable loss and leakage of information</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Loss of information due to data storage failures</td>
<td>Loss of data due to data storage failures</td>
<td></td>
</tr>
</tbody>
</table>
HTS Group Sustainability

At the HTS Group, we are all about treating people and nature with great respect. In this connection, our fundamental policy is to do our part to help create an affluent society through fair business practices, as we boost our value for all of our stakeholders.

HTS Group’s Stakeholders

The HTS Group manages and maintains its business activities through interaction with our broad array of stakeholders including customers, shareholders, local communities, and local administrations.

Basic CSR Policy

Under the corporate philosophy, the HTS Group promotes activities in line with the Basic CSR Policy with an aim to realize a sustainable society through communication with our various stakeholders and integrate sustainability and management. As part of this cycle, we will also promote active disclosure of ESG (Environment, Social and Governance) information and contribute to achievement of SDGs in cooperation with our various stakeholders.

Sustainability Promotion Structure

In order to promote sustainability on a group-wide level, the Group has set up the “Sustainability Promotion Committee,” chaired by Senior Vice President and Executive Officer, General Manager of Corporate Strategy Office, and holds meetings regularly.

Recognition of Social Responsibility: Material Issues

Taking into consideration opinions of external experts, we understood and prioritized social/environmental issues and expectations to identify material issues in 2017 after assessment and examination for adequacy by CSR Promotion Committee (predecessor of the Sustainability Promotion Committee) and the management, as well as approval of the Executive Committee. With the recognition of the identified material issues as the social responsibility that the HTS Group should fulfill, we promote effective activities toward solving social issues.

Identification process

Step 1: Understood issues

With reference to global common standards including Global Reporting Initiative (GRI) guidelines, ISO26000, UN Global Compact, SDGs, and priority issues in transportation sector by ESG rating agencies, we created a list of 73 items of relevant environmental/social and economic issues.

Step 2: Prioritized issues

We evaluated “Impact on society” and “Impact on the HTS Group” of the 73 issues on the list on a scale of one to five through workshops with external experts and mapped them in a matrix. Then, we categorized items with high impact into 15 proposed material issues.

Step 3: Validated and identified

After those 15 proposed material issues were assessed and examined for adequacy by CSR Promotion Committee and the management, taking into consideration opinions of external experts, they were identified as the Group’s material issues with an approval of the Executive Committee.

SDGs closely related to four objectives

To decide specific activities for the issues that we should address with priority, we developed four objectives based on the material issues with CSV viewpoint. In FY2018, the HTS Group set specific themes and relevant KPIs for each objective, based on which we are strengthening our initiatives using PDCA cycle since FY2019.

Corporate Activities: Four Objectives

Four objectives

Objective 1: Pursue Next-generation Industries and Lifecycles

Objective 2: Enhance Occupational Safety and Productivity

Objective 3: Ensure Excellent Quality and Resilience

Objective 4: Realize Decarbonized Business Processes

Material issues

- Social
  - Safe and healthy work environment (occupational Health and Safety)
  - Social and environmental responsibility in supply chains (socially responsible procurement)/New technologies creating/using innovations and cutting-edge technologies/Diversity and employee development/Job creation (promoting employment in the local community)/Utilizing soft employees/Editor management relations, collective bargaining/Respect for human rights (addressing global human rights issues)/Quality and safety (service quality and safety)/Environmentally and socially responsible logistics services

- Governance
  - Compliance/governance/RCI (including climate change adaptation)/Information disclosure (operational transparency)

SDGs closely related to four objectives

SDGs are 17 universal goals for the international community to be attained by 2030, and the HTS Group is fully aware of the importance of achieving the SDGs. Among 17 goals of SDGs, the following eight goals are especially relevant to our objectives. We will work to do our part in achieving these SDGs as we move into high gear to reach our objectives.

Contribution to SDGs

SDGs are closely related to the four objectives.

SDGs closely related to the four objectives

Review and Improvement: Information Disclosure and Communication

We review and improve our activities through disclosure of ESG information and dialogues with stakeholders based on objectives. By repeating a cycle of Basic CSR Policy, we will promote effective activities toward a resolution of social issues and facilitate integration of sustainability and management.

Participation in International Initiatives

In 2020, the HTS Group signed the “UN Global Compact (‘UNGC’)” advocated by the United Nations. The UNGC is a voluntary initiative to participate in creating a global framework for the sustainable growth. Participating companies and organizations are required to support the ten principles related to protection of human rights, elimination of unfair labour, response to environmental issues and anti-corruption, and take actions in their business activities. To contribute to the realization of a sustainable society, the Group strives to comply with the ten principles by using various insights and good practice by participants for the implementation through Global Compact Network Japan, the local network of UNGC.

For details on sustainability, please visit our website.

## Four Objectives of the HTS Group and Key Performance Indicators (KPIs)

<table>
<thead>
<tr>
<th>Objective</th>
<th>Themes</th>
<th>Initiatives</th>
<th>KPIs</th>
<th>Comments</th>
<th>Reference</th>
</tr>
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<tbody>
<tr>
<td>Enhance Occupational Safety and Livelihoods</td>
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<tr>
<td>Ensures Excellent Quality and Reliability</td>
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<td>Enhance Quality and Reliability</td>
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<td>Realize Democratic and Business Practices</td>
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<tr>
<td>Foundation Supporting Value Creation</td>
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<tr>
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</tbody>
</table>
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 places of business
   Reduce consumption of electricity, petroleum 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 regulations.

4. Promote symposiums with similar environmental communications
   Promote symposiums with similar 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 towards 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.

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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

<table>
<thead>
<tr>
<th>FY2030 target (base year: FY2013)</th>
<th>Aim to reduce CO₂ emissions by 50% compared to the base year</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2050 target</td>
<td>Strive to achieve Net Zero Carbon</td>
</tr>
</tbody>
</table>

#### Reduction of CO₂ emissions (Scope 1 and 2 in Japan)*1

<table>
<thead>
<tr>
<th>Category</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2030</td>
<td>14%</td>
</tr>
<tr>
<td>FY2050</td>
<td>0%</td>
</tr>
</tbody>
</table>

#### Net Zero Carbon

- CO₂ emissions from energy consumption by the Group through its business operations
- Type of energy: Electricity, fuel for vehicle, etc.

#### 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

- FY2011: 129,000 tCO₂
- FY2020: 113,000 tCO₂
- FY2025: 100,000 tCO₂

#### 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-transportsystem.com/en/profile/csr/environment/

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 TFCF 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 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 semianually 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 oversees overall environmental management work under the supervision of Chief Strategy Officer (CSO) who is responsible for sustainability strategy.

Sustainability Promotion Department is responsible for incorporating risks and opportunities in each of the climate change-related plans and manages the risk assessment process 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.
  - **P80**

- **Greenhouse gas (CO2) emissions**
  - **P80 Trend of HTS Group CO2 emissions/P93 ESG Data**

### Integrated Report

**Step 1**

- Identified material climate-related risks and opportunities

**Step 2**

- Set climate-related scenarios (2°C scenario/4°C scenario)*

**Step 3**

- Assessed the financial impacts under each scenario

**Step 4**

- Assessed strategic resilience for climate-related risks and opportunities and examined additional response measures

### 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 (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 significantly impact financial impacts, we have confirmed that they are sufficiently present at present.
Consideration for Disposal and Emission

KPI

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

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.

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 3.3% and reduce CO₂ emissions by 27%.

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%

Increase Energy Efficiency

KPI

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

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

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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.

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 FY2021, the company sold approximately 22,000 waste pallets and contributed to the reduction of waste plastic.

Recycled “Advanced Technology Award” at the 22nd Logistics Environmental Awards

Secure Safety in Operation and Transportation

KPI

- Frequency rate/severity rate of workplace accidents and others

Financial Impacts (Example)

- Maintain profitability through stable operation
- Realize cost due to introduction of new equipment to prevent accidents

Under the policy that “Safety is our number one priority” and the safety slogan based on the policy, the HTS Group ensures that each employee carries on the safety cultures and strives to provide safe and secure services.

Safety Slogan
“Safety First”

Safety Priority Policy
The HTS Group establishes a unified priority policy every year and works on activities based on the policy and the safety slogan.

Safety Promotion Structure
HTS assigns an officer in charge of safety appointed by the president and establishes a top-down safety promotion structure to promote group-wide safety activities. Monthly Executive Committee deliberates and receives reports on accident occurrence and the Audit Committee also receives reports on the progress of safety activities and accident occurrence, in order to implement improvement activities. To ensure thorough health and safety management, we developed regulations on health and safety, assigned safety supervisor in the Company and group companies to provide safety instruction, and set up a “Health and Safety Committee” in each office to promote various safety activities. We also recognize that safety activities in full coordination with our partner companies are essential, and accordingly each group company holds a top seminar semiannually and invites representatives of partner companies to share information about good safety examples and preventive maintenance. Due to the spread of COVID-19, we decided not to hold these seminars in FY2020, but we will consider resuming them in light of the situation.

Safety Initiatives
- Boosting safety knowledge and driving and operating skill
- Sending contents to non-NTS forklift and trucking competition
- Each year, we send contents in the National Forklift Driving Contest* and the National Truck Driver Contest* for the purpose of acquiring specialized knowledge, improving operating skill and inspection skills, and boosting awareness of safety issues. In FY2020, both contests were cancelled due to the spread of COVID-19, but are continuing to work on the initiatives to improve our skills, technology, and safety awareness in preparation for the next contest.

Adoption of safety technology
- Installation of SSCV-Safety (safety operation management solution)
In order to protect drivers as an organization and not to become either the victim or assailant, we are promoting the installation of “SSCV-Safety’s” solution to prevent accidents due to absent-minded driving. In Japan, we have completed the installation of SSCV-Safety in the Group’s all business vehicles including 1,272 trucks and 37 personal vehicles by FY2020. The installation of “SSCV-Safety” has allowed us to provide drivers with guidance based on the daily review, reducing the number of incidents by 80% in one year after the installation. It has also contributed to enhancing compliance by raising drivers’ safety awareness and realizing stable and systematic vehicle assignment by raising awareness on health management. P39-44

Installation target of SSCV-Safety Commercial trucks and personal vehicles of all domestic group companies as well as trucks of partner transport companies Approx. 6,000 by FY2023

- Adoption of safety technology to forklifts
The HTS Group has installed dashcam cameras not only in trucks but also in forklifts owned in Japan for daily safety activities such as confirmation with finger pointing and calling during operation. We are also installing dashboard cameras in overseas group companies. In FY2020, we have completed its installation in all forklifts owned by the HTS Group, achieving a year-on-year decrease in the number of forklift accidents by 40% in western Japan.

Forklift equipped with dashboard camera (as of March 31, 2021) Approx. 4,600

Workplace accident index of the HTS Group (Domestic results in FY2020)
Frequency rate: Inside the premises are non-consolidated figures 0.78 (O) Severity rate: Inside the premises are non-consolidated figures 0.019 (O)

For details of our safety initiatives, please visit our website. https://www.hitachi-transportsystem.com/en/profile/csr/social/safety/

Pursue Next-generation Industries and Lifestyles

KPI

- Storage and transportation/delivery conforming to GDP
- Transportation of social infrastructure-related equipment
- On-site implementation of RFID system
- Utilize artificial intelligence and develop supply chain solutions and others

With the power of logistics, we will develop businesses to support the realization of the next-generation sustainable industries and social infrastructure in various areas across the globe.

Respond to Local Logistics Needs and Issues While Further Boosting Response Capability

- Adequate storage and transportation/delivery of medical supplies
The HTS Group has enhanced medical DCs across the country and provides storage and shipping services specialized in pharmaceutical logistics. In order to enhance intangible aspects of GDP, we are working to strengthen quality assurance system in the pharmaceutical logistics. For example, we set up an organization dedicated to promoting GDP, which is developing a quality management system for GDP management and also conducting verification experiments such as for the next-generation temperature sensor to monitor temperature during transportation. In FY2020, East Japan I Medical DC, a cutting-edge medical DC, began operation in Kawasaki City, Satsuma Prefecture, to expand the scope of our services P46

- Transportation of social infrastructure-related equipment/One-stop car transportation from factory to site -Transport of finished railway cars for the Ho Chi Minh City Metro Rail System- Ho Chi Minh City, the largest city in Vietnam, is facing issues such as traffic jams and air pollution due to an increase in cars and motorcycles associated with the country’s economic development and fast-growing population. To cope with these issues, the Vietnamese government, with the cooperation of Japan International Cooperation Agency (JICA), developed a plan for infrastructure development aimed at mitigating traffic jams and launched the construction of the country’s first underground rail system in 2012. Under such circumstances, HTS was engaged in the one-stop transportation covering from shipment of 51 railway cars that have been manufactured in Kasado Works, Hitachi, Ltd. since 2000 to ocean transportation and delivery to the local site. These railway cars will be used for an approx. 19.7 kilometer-long line that will be completed in late 2017. In FY2020, we completed the installation of SSCV-Safety in the Group’s all business vehicles including 1,272 trucks and 37 personal vehicles by FY2020. The installation of “SSCV-Safety” has allowed us to provide drivers with guidance based on the daily review, reducing the number of incidents by 80% in one year after the installation. It has also contributed to enhancing compliance by raising drivers’ safety awareness and realizing stable and systematic vehicle assignment by raising awareness on health management. P39-44

P39-44

P46

P51-52

For details of initiatives described on this page, please visit our website. https://www.hitachi-transportsystem.com/en/profile/csr/social/customer
Promote Diversity of the Workplace

- **KPI**
  - Rate of female managers
  - Rate of childcare leave taken by male employees
  - Acquisition of new expertise and creation of new businesses by securing diversified human resources
  - Reduction of recruiting cost by increasing the employee retention rate
  - Cost increase due to creation of a pleasant workplace

**Rate of childcare leave taken by male employees (FY2020)**

Scope: HTS

2.2%

Creating a Workplace Where Employees Can Work in Good Health with a Sense of Security

- **Initiatives for working-style reform**
  - The HTS Group complies with local laws and regulations on working hours and overtime work in countries and regions where we operate. To reduce overtime hours in Japan, we are encouraging employees and managers to change their mindsets by managing objective records such as computer log management and biometric recognition, and also actively encouraging employees to take annual paid leave. In addition, we are also encouraging to improve work efficiency through operational reform such as office digitization using RPA, etc.

- **Human right education**
  - “Human Rights: Equality and Dignity of the Human Person” is included in the HTS Group Code of Conduct, which incorporates “Respect for human rights” into basic behavioral guideline, as a manual.

- **Support for balancing work and childrearing/nursing care**
  - The HTS Group believes that it is essential to establish a workplace where employees can maintain a work-life balance even when they face a serious life event. We strive to develop such an environment and workplace that allow diversified working-style by, for example, establishing a system to provide more support for employees' work-life balance than the legal requirements to ensure employees can continue working with a sense of security while raising their children or caring for their family members and also trying to raise the profile of the system by actively providing employees with relevant information.

- **Promotion of women’s participation in the workplace**
  - The HTS Group aims to be a good corporate citizen by supporting various activities in such fields as “traffic and road safety,” training a new generation of people “Innovation,” “environmental protection,” and “contribution to local community” both in Japan and overseas under the basic principle of “Objectives of Social Contribution Activities.”

- **Scope of HTS**

- **Objective 2**

**Return to table of contents**

Social Contribution/Strengthening of BCP

- **KPI**
  - Activities based on the social contribution activity guideline
  - Implement disaster prevention training
  - Stable operation as a result of earning local community’s trust
  - Increase in disaster and infection prevention costs

We strive to create a community where diverse people have stronger connection and feel affluent, safe and secure, by collaborating with a variety of organizations.

**Financial Impacts (Example)**

- Stable operation as a result of earning local community’s trust
  - Increase in disaster and infection prevention costs

**Disaster Preparedness Measures**

- **Promotion of BCP**
  - Natural disasters and infectious diseases which occur often in recent years have significant impacts on corporate activities as well as threaten our daily life. Amid such circumstances, we believe the BCP in the logistics business is not just a plan to continue our business but a preparation to make contributions by delivering medical supplies and foods to the affected regions and restoring social infrastructure to protect people’s lives, which is our social mission.

- **Strengthening of BCP system**
  - For prompt restoration and continuation of our business at the time of a large-scale disaster, we conduct trainings to enhance coordination between disaster prevention headquarters of the head office, management headquarters, and group companies with the regular basis, and we are also establishing emergency contact systems with overseas group companies.

- **Disaster prevention training in Japan**
  - In Japan, we have BCPs mainly aiming at natural disasters that threaten our business continuity. To enhance BCP’s effectiveness, we had conducted a disaster prevention headquarters training (desktop simulation) systematically in several sites every year, assuming a large-scale earthquake hit, but we had to postpone it in FY2020 to prevent the spread of COVID-19. Under such circumstances, in March 2021, a site in Ishikawa Prefecture conducted the training safely by thorough infection prevention measures and using online tools. We will share the training expertise amid the pandemic across the entire Group to further improve the effectiveness of BCP.

- **Strengthening risk management system in overseas**
  - In overseas, we send BCP Caravan from Japan to our major sites in North America, Europe, China, and other parts of Asia to establish and develop risk management system. In FY2020, we postponed BCP caravan to prevent the spread of COVID-19. In FY2021, we will plan to conduct the caravan while considering the situation.

For more information about BCPs, please visit our website.


**For details of social contribution activities, please visit our website.**

Stakeholder Engagement

Responsible Dialogue with Stakeholders

The HTS Group manages and maintains its business activities through interaction with our broad array of stakeholders including customers, shareholders, local communities, and local administrations. We provide various stakeholders with information and promote communication activities such as direct dialogue to deepen the understanding of the Group by stakeholders, and we also reflect their feedback and requests in our corporate activities to maintain and enhance trust relationships, with an aim to increase corporate value.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Purpose</th>
<th>Communication channels/methods</th>
<th>No. of conduct or frequency</th>
</tr>
</thead>
</table>
| Customers             | Improve customer satisfaction  
                      | Raise corporate brand value                                             | Web seminars/briefings  
                      |                                                                       | 17 times, 522 attendees   |
|                       |                                                                       | EE platform tours  
                      |                                                                       | 406 visitors*4           |
|                       |                                                                       | Networking events using LOGISTEED CAFÉ  
                      |                                                                       | 40 times, 42 companies attended*4 |
|                       |                                                                       | Participation in large-scale exhibition  
                      |                                                                       | Annually                  |
|                       |                                                                       | Customer survey  
                      |                                                                       | As needed                 |
| Employees             | Enhance employee motivation  
                      | Create a workplace full of value and sense of achievement               | Presentation and commendation of excellent improvement cases (VC21 Award)  
                      |                                                                       | Annually                  |
|                       |                                                                       | Roundtable discussion with the management and stakeholders (dialogue session)  
                      |                                                                       | 3 times, 230 attendees in total |
|                       |                                                                       | Setting up of intranet site for improvement assistance (VC JUMPI)  
                      |                                                                       | Regularly                |
|                       |                                                                       | Health and Safety Committee  
                      |                                                                       | Monthly                  |
|                       |                                                                       | Employee engagement survey  
                      |                                                                       | Annually                  |
| Business partners     | Build good relationships with partners beyond the logistics domain       | EE platform tours  
                      |                                                                       | 406 visitors*4           |
|                       | Maintain long-term, stable, and effective relationships with partner transport companies | Networking events using LOGISTEED CAFÉ  
                      |                                                                       | 40 times, 42 companies attended*4 |
|                       |                                                                       | Seminars for partner transport companies  
                      |                                                                       | Seminars in various locations*3 |
|                       |                                                                       | Setting up of inquiry contact for suppliers  
                      |                                                                       | Regularly                |
|                       |                                                                       | Setting up of adulated inquiry contact for existing suppliers  
                      |                                                                       | Regularly                |
| Shareholders/Investors| Achieve sustainable growth and increase corporate value over the medium-to-long-term with active dialogue through fair and highly transparent information disclosure in a timely and appropriate manner | Results briefings  
                      |                                                                       | 4 times                  |
|                       |                                                                       | Small-scale meetings  
                      |                                                                       | 3 times                  |
|                       |                                                                       | Individual meetings by executives (including overseas investors and ESG investment interviews)  
                      |                                                                       | 17 times                 |
|                       |                                                                       | IR seminars for individual investors  
                      |                                                                       | Once                     |
|                       |                                                                       | Regular General Shareholders’ Meeting  
                      |                                                                       | Annually                 |
|                       |                                                                       | Exercise of voting rights  
                      |                                                                       | 93.78%*4                |
| Local administration/Industry associations | Share recognition of cross-sectoral issues related to logistics | Participation in committees/conferees/meetings  
                      |                                                                       | As needed                |
|                       | Contribute to solving issues through collaboration and solidarity and realize sustainable logistics | Participation in economic associations/industry groups  
                      |                                                                       | As needed                |
| Local community       | Contribute to sustainable lifestyle and society through support for logistics innovation, etc. | Individual dialogues with NGOs/MPOs, etc.  
                      |                                                                       | 30 times                 |
|                       | Raise awareness on social role of logistics toward the next generation | Support for holding sporting events/sports promotion  
                      |                                                                       | As needed of establishment of Track and Field Club  |
|                       |                                                                       | Dialogue with local governments  
                      |                                                                       | 21 times                 |
|                       |                                                                       | Participation in volunteer activities  
                      |                                                                       | As needed                |

*1: Counted as of March 31, 2021  
*2: The number of visitors and companies is the total of customers and business partners  
*3: We refrained from holding seminars in FY2020 to prevent the spread of COVID-19  
*4: Ratio of exercise of voting rights at the Regular General Shareholders’ Meeting held on June 22, 2021.

Efforts for Constructive Dialogues with Shareholders and Investors

The Group actively holds financial results briefings, small-scale meetings, and individual meetings targeting analysts and institutional investors to enhance constructive dialogues with shareholders and investors. In FY2020, in light of the spread of COVID-19, we held individual meetings, financial results briefings, and small-scale meetings with investors including shareholders online.

We also participated in the IR seminar for individual investors held in Osaka by taking thorough measures against infectious diseases.

In addition, we strived to promote dialogues with shareholders and investors and improved information disclosure through Shareholder Relations (SR) interviews and posting of Q&A’s at the small-scale meetings on our IR site.

Financial results briefing (online)
Individual meeting (online)
IR seminar for individual investors (Osaka)

External Evaluation

Commeminations/recognition from outside the Company

<table>
<thead>
<tr>
<th>Year</th>
<th>Recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td></td>
</tr>
</tbody>
</table>
| July | Received “Logistics Environment Special Award” at the 21st Logistics Environment Awards  
| October | Received "Director-General, Manufacturing Industries Bureau, Ministry of Economy, Trade and Industry Award", “Appropriate Packaging Award”, and “Large-sized Equipment Package Award” at the Japan Packaging Contest 2020  
| November | Two companies received “2020 Excellent Business Entities Working on Modal Shift (effective use category)”  
| 2021 |  
| January | Our “Investor Relations” site received awards in major IR website evaluations  

For other external evaluations, please visit our website.
**Highlights**  
— Financial Highlights: The Track Record of 10 Years —

We will create values to meet all of our stakeholders' expectations through steady implementation of growth strategy and continuous self-transformation.

### Financial Data

#### [As of March 31, 2021](#)

<table>
<thead>
<tr>
<th>(FY)</th>
<th>J-GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For the year:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues (Service Revenues)*1</td>
<td>¥553,934</td>
<td>¥547,517</td>
</tr>
<tr>
<td>Domestic logistics</td>
<td>386,448</td>
<td>375,560</td>
</tr>
<tr>
<td>Global logistics</td>
<td>148,610</td>
<td>152,485</td>
</tr>
<tr>
<td>Operating income*5</td>
<td>23,131</td>
<td>19,535</td>
</tr>
<tr>
<td>Domestic logistics</td>
<td>29,146</td>
<td>27,452</td>
</tr>
<tr>
<td>Global logistics</td>
<td>2,763</td>
<td>1,123</td>
</tr>
<tr>
<td>Other services (logistics related businesses)</td>
<td>2,246</td>
<td>2,619</td>
</tr>
<tr>
<td>Elimination or company-wide expenses*2</td>
<td>(11,024)</td>
<td>(11,659)</td>
</tr>
<tr>
<td>Net income attributable to stockholders of the parent company (Net income)*1</td>
<td>12,563</td>
<td>11,156</td>
</tr>
<tr>
<td>At year-end:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥365,013</td>
<td>¥374,206</td>
</tr>
<tr>
<td>Total equity (Net assets)*1</td>
<td>164,640</td>
<td>174,904</td>
</tr>
<tr>
<td>Equity attributable to stockholders of the parent company (Stockholders' equity)</td>
<td>156,622</td>
<td>169,327</td>
</tr>
<tr>
<td>Consolidated Cash Flows:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>¥26,020</td>
<td>¥24,689</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(58,948)</td>
<td>(16,759)</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>37,215</td>
<td>(7,522)</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>31,081</td>
<td>33,052</td>
</tr>
<tr>
<td>Per share data (Yen):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income attributable to stockholders of the parent company (Net income)*1</td>
<td>¥112.62</td>
<td>¥100.01</td>
</tr>
<tr>
<td>Equity attributable to stockholders of the parent company (Net assets)*1</td>
<td>1,404.03</td>
<td>1,517.93</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>24.00</td>
<td>25.00</td>
</tr>
<tr>
<td>Share price at year-end</td>
<td>1,505</td>
<td>1,500</td>
</tr>
<tr>
<td>Capital expenditures:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditures*3</td>
<td>¥16,857</td>
<td>¥17,854</td>
</tr>
<tr>
<td>Purchased assets*4</td>
<td>14,664</td>
<td>15,187</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>14,003</td>
<td>14,958</td>
</tr>
<tr>
<td>Financial ratios:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating margin (%)*5</td>
<td>4.2</td>
<td>3.6</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>8.3</td>
<td>8.3</td>
</tr>
<tr>
<td>Other data:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of employees (excluding senior employees, part-time or temporary employees)</td>
<td>21,104</td>
<td>22,793</td>
</tr>
<tr>
<td>Total floor space of warehouse (Ten-thousand square meters)*6</td>
<td>516</td>
<td>564</td>
</tr>
<tr>
<td>Domestic</td>
<td>394</td>
<td>426</td>
</tr>
<tr>
<td>Overseas</td>
<td>122</td>
<td>138</td>
</tr>
</tbody>
</table>

*1 Terms in parentheses are used for J-GAAP. *2 From the FY2015 (IFRS), the Group allowed to allocate company-wide expenses to each business segment. The segment information of the FY2014 (IFRS) had also reflected the alteration above. *3 Based on tangible and intangible assets accepted. *4 Based on non-current assets recorded. *5 In order to present business conditions more appropriately, the HTS Group started to use “Adjusted operating income” as a major indicator from FY2016 and also presented “Adjusted operating income” for FY2015. *6 Excluding AIT Group. *7 Effective April 1, 2019, the Group adopted IFRS 16 Leases.
## Environmental Management

### Coverage of environmental management systems (ISO 14001, etc.) *1,2,3%
<table>
<thead>
<tr>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

### Percentage of revenue allocated to environmental management activities *4%
<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>96.0%</td>
<td>94.8%</td>
<td>93.9%</td>
<td>90.9%</td>
<td>95.3%</td>
<td></td>
</tr>
</tbody>
</table>

### Emissions of NOx, SOx and other significant air emissions

### Number of employees (excluding senior employees, part-time or temporary employees)

### Social

#### Turnover rate (full-time employees only, No. of employees left/No. of employees at the beginning of FY x 100)

#### Number of employee turnover (full-time employee only, excluding those retired or transferred to group companies) (persons)

#### Social Contribution

- **Eco-friendly vehicle ownership ratio**
- **Actual recycling rate [waste reduction]**
- **Ratio of re-employment of the elderly (only those who requested)**
- **Input of water resources (m³)**

### Value Creation

#### Number of employees who obtained third-party certificates for information security

### Risk Management

#### Areas which conducted BCP simulation trainings and number of attendees

#### Number of employees who obtained third-party certificates for information security

### Information Security

#### Number of staff liaisons to foreign banks

### Intellectual Properties

#### Number of patents applied

#### Number of patents filed

---

*1: Large, Medium, and Small: Size (Net sales [billion yen])
*2: CO2 emission reduction target was changed from “Reduction of CO2 emission intensity until FY2015” to “Improvement of total energy efficiency” from FY2016.
*3: Specific cases
*4: Please refer to page 26 of Annual Report 2017 for details.
*5: Please refer to page 26 of Annual Report 2018 for details.
*7: Please refer to page 30 of Annual Report 2019 for details.
*8: Please refer to page 30 of Annual Report 2018 for details.
## Consolidated Statement of Financial Position

**Hitachi Transport System, Ltd. and subsidiaries**

### Assets

<table>
<thead>
<tr>
<th></th>
<th>As of March 31, 2021</th>
<th>As of March 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥ 104,815</td>
<td>¥ 139,021</td>
</tr>
<tr>
<td>Trade receivables and contract assets</td>
<td>123,681</td>
<td>115,419</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,083</td>
<td>1,066</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>4,378</td>
<td>5,102</td>
</tr>
<tr>
<td>Other current assets</td>
<td>13,393</td>
<td>6,801</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>247,350</td>
<td>267,409</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>6,372</td>
<td>89,271</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>159,981</td>
<td>148,232</td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>288,030</td>
<td>288,441</td>
</tr>
<tr>
<td>Goodwill</td>
<td>25,228</td>
<td>24,112</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>23,824</td>
<td>24,397</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>11,732</td>
<td>10,123</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>18,459</td>
<td>21,274</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>6,960</td>
<td>5,885</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>540,586</td>
<td>611,735</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>¥ 787,936</td>
<td>¥ 879,144</td>
</tr>
</tbody>
</table>

### Liabilities

<table>
<thead>
<tr>
<th></th>
<th>As of March 31, 2021</th>
<th>As of March 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>¥ 51,733</td>
<td>¥ 45,410</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>2,152</td>
<td>3,546</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>10,320</td>
<td>10,416</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>30,600</td>
<td>33,209</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>6,089</td>
<td>8,232</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>24,202</td>
<td>37,886</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>31,559</td>
<td>29,062</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>156,655</td>
<td>167,761</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>140,303</td>
<td>150,502</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>261,220</td>
<td>261,031</td>
</tr>
<tr>
<td>Retirement and severance benefits</td>
<td>37,071</td>
<td>34,825</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>7,467</td>
<td>10,123</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>20,075</td>
<td>12,299</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>3,038</td>
<td>3,346</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>469,174</td>
<td>472,126</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>625,829</td>
<td>639,887</td>
</tr>
</tbody>
</table>

### Equity

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity attributable to stockholders of the parent company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>16,803</td>
<td>16,803</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>236,311</td>
<td>220,629</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>1,861</td>
<td>(4,587)</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(99,817)</td>
<td>(184)</td>
</tr>
<tr>
<td><strong>Total equity attributable to stockholders of the parent company</strong></td>
<td>155,158</td>
<td>232,861</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>6,949</td>
<td>6,396</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>162,107</td>
<td>239,257</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>¥ 787,936</td>
<td>¥ 879,144</td>
</tr>
</tbody>
</table>
### Consolidated Statement of Profit or Loss

**Hitachi Transport System, Ltd. and subsidiaries**

<table>
<thead>
<tr>
<th>Items</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>¥ 652,380</td>
<td>¥ 672,286</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(¥566,582)</td>
<td>(¥588,078)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>85,798</td>
<td>84,208</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(49,087)</td>
<td>(50,725)</td>
</tr>
<tr>
<td>Adjusted operating income</td>
<td>36,711</td>
<td>33,483</td>
</tr>
<tr>
<td>Other income</td>
<td>10,787</td>
<td>10,579</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(6,448)</td>
<td>(9,706)</td>
</tr>
<tr>
<td>Operating income</td>
<td>23,829</td>
<td>20,902</td>
</tr>
<tr>
<td>Financial income</td>
<td>413</td>
<td>88</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(44)</td>
<td>(1,701)</td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td>3,010</td>
<td>6,864</td>
</tr>
<tr>
<td>EBT (Earnings before interest and taxes)</td>
<td>44,849</td>
<td>39,607</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,197</td>
<td>1,186</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>(6,492)</td>
<td>(6,964)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>39,134</td>
<td>33,629</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(15,180)</td>
<td>(11,344)</td>
</tr>
<tr>
<td>Net income</td>
<td>¥ 23,954</td>
<td>¥ 22,485</td>
</tr>
</tbody>
</table>

**Net income attributable to:**

- Stockholders of the parent company: ¥ 22,873 (21,614)
- Non-controlling interests: 1,081 (871)

**Earnings per share attributable to stockholders of the parent company:**

<table>
<thead>
<tr>
<th>Items</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>¥ 240.02</td>
<td>¥ 193.76</td>
</tr>
<tr>
<td>Diluted</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

### Consolidated Statement of Comprehensive Income

**Hitachi Transport System, Ltd. and subsidiaries**

<table>
<thead>
<tr>
<th>Items</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>¥ 23,954</td>
<td>¥ 22,485</td>
</tr>
<tr>
<td>Other comprehensive income (OCI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items not to be reclassified into net income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net changes in financial assets measured at fair value through OCI</td>
<td>475</td>
<td>(49)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>213</td>
<td>284</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>18</td>
<td>(93)</td>
</tr>
<tr>
<td>Total items not to be reclassified into net income</td>
<td>706</td>
<td>142</td>
</tr>
<tr>
<td>Items that can be reclassified into net income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>6,274</td>
<td>(4,344)</td>
</tr>
<tr>
<td>Net changes in cash flow hedges</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>20</td>
<td>(21)</td>
</tr>
<tr>
<td>Total items that can be reclassified into net income</td>
<td>6,296</td>
<td>(4,361)</td>
</tr>
<tr>
<td>Other comprehensive income (OCI)</td>
<td>7,002</td>
<td>(4,219)</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>¥ 30,956</td>
<td>¥ 18,266</td>
</tr>
<tr>
<td>Comprehensive income attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stockholders of the parent company</td>
<td>29,211</td>
<td>17,878</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>1,745</td>
<td>388</td>
</tr>
</tbody>
</table>

### Consolidated Statement of Cash Flows

**Hitachi Transport System, Ltd. and subsidiaries**

#### Cash flows from operating activities:

<table>
<thead>
<tr>
<th>Items</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>¥ 23,954</td>
<td>¥ 22,485</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>52,159</td>
<td>52,815</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>1,339</td>
<td>4,169</td>
</tr>
<tr>
<td>Income taxes</td>
<td>15,180</td>
<td>11,344</td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td>(3,010)</td>
<td>(6,864)</td>
</tr>
<tr>
<td>Gain on sale of investments in associates</td>
<td>(4,945)</td>
<td>–</td>
</tr>
<tr>
<td>Gain on business reorganization</td>
<td>(1,244)</td>
<td>–</td>
</tr>
<tr>
<td>Gain on disposal of property, plant and equipment</td>
<td>(2,769)</td>
<td>(8,371)</td>
</tr>
<tr>
<td>Interest and dividends income</td>
<td>(1,270)</td>
<td>(1,267)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>6,492</td>
<td>6,964</td>
</tr>
<tr>
<td>(Increase) decrease in trade receivables and contract assets</td>
<td>(4,366)</td>
<td>16,692</td>
</tr>
<tr>
<td>Decrease in inventories</td>
<td>77</td>
<td>60</td>
</tr>
<tr>
<td>Increase (decrease) in trade payables</td>
<td>3,084</td>
<td>(8,303)</td>
</tr>
<tr>
<td>Increase in retirement and severance benefits</td>
<td>1,976</td>
<td>2,741</td>
</tr>
<tr>
<td>Changes in other assets and other liabilities</td>
<td>(5,203)</td>
<td>(3,256)</td>
</tr>
<tr>
<td>Other</td>
<td>996</td>
<td>1,145</td>
</tr>
<tr>
<td>Subtotal</td>
<td>83,694</td>
<td>89,110</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>4,145</td>
<td>3,896</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(6,399)</td>
<td>(6,880)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(26,131)</td>
<td>(7,922)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>55,309</td>
<td>78,204</td>
</tr>
</tbody>
</table>

#### Cash flows from investing activities:

<table>
<thead>
<tr>
<th>Items</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of property, plant and equipment and intangible assets</td>
<td>(19,792)</td>
<td>(12,709)</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment and intangible assets</td>
<td>3,814</td>
<td>13,105</td>
</tr>
<tr>
<td>Proceeds from sale of investments in associates</td>
<td>87,183</td>
<td>–</td>
</tr>
<tr>
<td>Purchase of subsidiaries’ shares</td>
<td>(1,476)</td>
<td>(666)</td>
</tr>
<tr>
<td>Decrease due to a loss of control of subsidiaries</td>
<td>–</td>
<td>(384)</td>
</tr>
<tr>
<td>Other</td>
<td>50</td>
<td>(508)</td>
</tr>
<tr>
<td>Net cash provided by (used in) investing activities</td>
<td>69,779</td>
<td>(1,162)</td>
</tr>
</tbody>
</table>

#### Cash flows from financing activities:

<table>
<thead>
<tr>
<th>Items</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in short-term debt, net</td>
<td>(1,575)</td>
<td>(2,075)</td>
</tr>
<tr>
<td>Repayments of long-term debt</td>
<td>(10,409)</td>
<td>(739)</td>
</tr>
<tr>
<td>Repayments of lease liabilities</td>
<td>(36,648)</td>
<td>(37,103)</td>
</tr>
<tr>
<td>Proceeds from sale of shares of consolidated subsidiaries to non-controlling interests</td>
<td>114</td>
<td>–</td>
</tr>
<tr>
<td>Acquisition of shares of consolidated subsidiaries from non-controlling interests</td>
<td>(7,541)</td>
<td>(199)</td>
</tr>
<tr>
<td>Dividends paid to stockholders of the parent company</td>
<td>(4,299)</td>
<td>(4,686)</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td>(121)</td>
<td>(180)</td>
</tr>
<tr>
<td>Acquisition of treasury stock</td>
<td>(99,633)</td>
<td>(2)</td>
</tr>
<tr>
<td>Other</td>
<td>(944)</td>
<td>(723)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(161,056)</td>
<td>(45,707)</td>
</tr>
</tbody>
</table>

#### Effect of exchange rate changes on cash and cash equivalents:

<table>
<thead>
<tr>
<th>Items</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,762</td>
<td>(726)</td>
<td></td>
</tr>
</tbody>
</table>

#### Net (decrease) increase in cash and cash equivalents:

<table>
<thead>
<tr>
<th>Items</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net (decrease) increase in cash and cash equivalents</td>
<td>34,206</td>
<td>30,609</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>130,021</td>
<td>108,412</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>¥ 164,215</td>
<td>¥ 139,021</td>
</tr>
<tr>
<td>Glossary</td>
<td>Definition</td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>------------</td>
<td></td>
</tr>
<tr>
<td><strong>Intermodal transportation</strong></td>
<td>Multimodal transportation combining different transport modes such as railroad, truck, aircraft, and ship, which enables to deliver cargoes in containers all the way to the final destination. Combining rail and ocean transportation for the trunk line transport is also expected to reduce environmental load.</td>
<td></td>
</tr>
<tr>
<td><strong>UN Global Compact</strong></td>
<td>A global framework aimed at realizing sustainable growth by encouraging companies/organizations to exercise responsible and creative leadership and act as good members of society. It sets ten principles related to protection of human rights, elimination of unfair labour, response to environmental issues, and anti-corruption.</td>
<td></td>
</tr>
<tr>
<td><strong>Reverse logistics</strong></td>
<td>Logistics related to disposal of used products as well as return/collection of unneeded products to be reused, resold, and recycled.</td>
<td></td>
</tr>
<tr>
<td><strong>Palletizer/Depalletizer</strong></td>
<td>Equipment to automatically load cargoes on pallets or roll box pallets. Depalletizer is equipment to automatically remove loaded cargoes.</td>
<td></td>
</tr>
<tr>
<td><strong>Milkrun</strong></td>
<td>Transportation method whereby one truck visits bases of multiple suppliers to collect production parts and deliver them to a production plant. It can not only improve transport efficiency and streamline the management of shipment receiving process at production plants but also contribute to solving environmental issues such as emissions of CO2 and air pollutants.</td>
<td></td>
</tr>
<tr>
<td><strong>AGV</strong></td>
<td>Stands for Automated Guided Vehicle. It is equipment that automatically drives and delivers pallets/roll box pallets mainly in logistics centers and factories.</td>
<td></td>
</tr>
<tr>
<td><strong>CDP</strong></td>
<td>An NGO established in 2000 and managed by a U.K. charitable organization, which runs the global disclosure system for investors, companies, nations, regions, and cities to manage their environmental impacts. It discloses information on global leading companies’ initiatives on a universal scale by gathering information on CO2 emissions and climate change initiatives through questionnaires and analyzing/scoring their responses, with an aim to improve engagement in environmental issues.</td>
<td></td>
</tr>
<tr>
<td><strong>CEIV Pharma</strong></td>
<td>Stands for the Center of Excellence for Independent Validators in Pharmaceutical Logistics. It is a uniform international standard of quality certification for air transport of pharmaceutical products at controlled temperatures developed by International Air Transport Association (IATA).</td>
<td></td>
</tr>
<tr>
<td><strong>CSV</strong></td>
<td>Stands for Creating Shared Value, a concept advocated by Michael Porter, an American scholar in business management specializing in corporate competitive strategy. It refers to practices that balance activities to create economic benefits with solutions to social issues, or management strategies to achieve them.</td>
<td></td>
</tr>
<tr>
<td><strong>DX</strong></td>
<td>Refers to Digital Transformation: “The Guidelines for Promotion of Digital Transformations” by the Ministry of Economy, Trade and Industry of Japan define DX as “a situation where a company deals with dramatic changes in business environments, changes its products, services and business models so as to meet the demands of customers and society by taking advantage of data and digital technologies and changes its services per se, organizations, processes, corporate and business culture so that it can establish competitive advantages.”</td>
<td></td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>Stands for Good Distribution Practice and refers to appropriate distribution standard for medical supplies to ensure strict quality control. It is applied to the procurement, storage, and distribution processes of medical supplies after they are shipped to the market until they reach pharmacies, pharmaceutical distributors, and medical institutions.</td>
<td></td>
</tr>
<tr>
<td><strong>RFID</strong></td>
<td>Stands for Radio Frequency Identification and refers to contactless automatic recognition technology that reads information via radio waves. The use of RFID technology is expected to improve efficiency of merchandise management, expiration check at stores, and inventory management, etc. at logistics centers.</td>
<td></td>
</tr>
<tr>
<td><strong>RPA</strong></td>
<td>Stands for Robotic Process Automation and refers to software robotics technology that automates administrative work performed by a person using a personal computer. By registering operating procedures in advance, RPA can operate and run multiple systems just like a person does.</td>
<td></td>
</tr>
<tr>
<td><strong>SCDOS</strong></td>
<td>Stands for Supply Chain Design &amp; Optimization Services and refers to the HTS Group’s supply chain optimization services. They centrally manage and visualize customers’ various supply chain data to support solving issues and strategy planning.</td>
<td></td>
</tr>
<tr>
<td><strong>SSCV</strong></td>
<td>Stands for Smart &amp; Safety Connected Vehicle and refers to a transport digital platform that the HTS Group develops and provides to realize “sustainable transportation services” and “zero-accident society.” It consists of three solutions of SSCV-Smart (order management, vehicle assignment management, and driving management), SSCV-Safety (safe driving management), and SSCV-Vehicle (optimization of vehicle management, failure prediction and preventive maintenance).</td>
<td></td>
</tr>
<tr>
<td><strong>SWH</strong></td>
<td>Stands for Smart Warehouse and refers to the HTS Group’s logistics center equipped with advanced technologies to pursue efficiency and flexibility. The EC Platform Center in Kasukabe, Saitama Prefecture, a shared automated warehouse for EC logistics, started operation in September 2019. We will combine automation/labor-saving expertise with digital technologies to provide services standardized for each industry in addition to EC industry.</td>
<td></td>
</tr>
<tr>
<td><strong>TCFD</strong></td>
<td>Stands for Task Force on Climate-related Financial Disclosures. It recommends that companies, etc. disclose relevant information on their climate change initiatives that could have financial impacts on them under the four thematic areas of Governance, Strategy, Risk Management, and Metrics/Targets.</td>
<td></td>
</tr>
<tr>
<td><strong>TEU</strong></td>
<td>Stands for Twenty-Foot Equivalent Unit and refers to a unit of volume converted into the number of 20-foot-long marine containers.</td>
<td></td>
</tr>
<tr>
<td><strong>TMS</strong></td>
<td>Stands for Transportation Management System. It mainly consists of functions to support delivery planning, management and driving, and record management.</td>
<td></td>
</tr>
<tr>
<td><strong>VC21 Activities</strong></td>
<td>Stands for Value Change &amp; Creation 2021 and refers to daily improvement activities to implement the H8 WAY. Its aim is that “the Company continues to grow and employees find their work rewarding.” We are establishing an improvement culture through “visualization of procedures in advance, RPA can operate and run multiple systems just like a person does.”</td>
<td></td>
</tr>
<tr>
<td><strong>WMS</strong></td>
<td>Stands for Warehouse Management System. It manages processes from receiving products in a warehouse to shipping them with functions such as management of receipt/inventory/shipment/operational progress/inventory, and preparation of slips.</td>
<td></td>
</tr>
</tbody>
</table>

* Listed in Japanese or English alphabetical order
Corporate Data

Corporate name: Hitachi Transport System, Ltd.
Head office: 2-9-2, Kyobashi, Chuo-ku, Tokyo, Japan
Founded: February 1950 (Established: August 1959)
Paid-in capital: ¥16,802 million
Total personnel: 43,729

Stock Information

Stock Exchange
First Section of Tokyo
Securities Code: TSE-9086

Number of shares outstanding
111,776,714 shares

Number of shares per unit
100 shares

Composition of shareholders

- Other corporations: 47,903,368 shares (42.85%)
- Financial institutions, securities companies: 14,666,301 shares (13.09%)
- Individuals, and others: 33,413,670 shares (30.52%)

Number of shares outstanding: 111,776,714 shares

Changes in share price (as of the end of the month) and volume

- Number of shares outstanding: 111,776,714 shares
- Number of shares per unit: 100 shares

Website/SNS Account Information

Various information including the corporate information and IR information is available on our website and SNS.

- Website: https://www.hitachi-transportsystem.com/en/
- LOGISTEED CAFÉ: Home page > LOGISTEED CAFÉ
- Investor Relations: Home page > Investor Relations
- CSR/ESG: Home page > CSR/ESG