Toward New Dimensions
LOGISTEED
Integrated Report 2022
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.

Sustainability

We think and act responsibly as a global citizen.

Success Drivers

“Gembá” Power, multiplied by Visualization

3 Key Goals

Safety, Quality, and Productivity

3 Disciplines

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

3 Virtues

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.
Becoming the Most Preferred Global Supply Chain Solutions Provider

The HTS Group announced a new Mid-term Management Plan “LOGISTEED2024” in April 2022. Under the slogan “To become a global supply chain strategic partner with DX, LT, and ‘Gemba’ Power,” we will aim to become a “leading 3PL company in Asia.”

Recognition of business environment
We are facing various changes in business environment including labor shortages amid declining birthrate and aging population in Japan, the spread of COVID-19, realization of geopolitical risks, climate change, and intensifying competition beyond industry boundaries.

Material Issues to be Addressed to Increase Corporate Value

Objectives → P29
- Contribute to decarbonized/recycling-oriented society
- Establish resilient, sustainable logistics services
- Create new values through collaborative innovation (Supportive foundation for the objectives)

Direction
To address changes in business environment, we will maintain resilient global supply chain by solving issues through innovation with IoT/AI/robotics/DX and work to realize sustainable society and increase corporate value.

Mid-term Management Plan LOGISTEED2024

Becoming a Leading 3PL Company in Asia

Priority Measures → P29–38
- Reinforce/Expand Overseas Business
  (Becoming a leading 3PL company in Asia)
- Expand Business Domains with New Added Value
  (Accelerate LOGISTEED)
- Evolve Smart Logistics
- Solidify ESG Management Base

By implementing priority measures, we will strengthen our business and promote global development to become a “leading 3PL company in Asia” and then aim for the next goal to become the most preferred global supply chain solutions provider.
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, 2022)

<table>
<thead>
<tr>
<th>Resources</th>
<th>Domestic: 26 companies 328 sites/Overseas: 69 companies 415 sites</th>
<th>Overseas: 69 companies 415 sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Companies*1</td>
<td>95 companies 763 sites</td>
<td></td>
</tr>
<tr>
<td>Locations</td>
<td>859 sites</td>
<td></td>
</tr>
<tr>
<td>Area of Logistics Center*2</td>
<td>7.55 Mm²</td>
<td>2.19 Mm²</td>
</tr>
<tr>
<td>Total Personnel*3</td>
<td>45,681 employees</td>
<td>15,813 employees</td>
</tr>
<tr>
<td>Human Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td>17,825 vehicles</td>
<td></td>
</tr>
<tr>
<td>Number of Vehicles (Including Leased Vehicles)</td>
<td>3,813 Truck, 6,224 Trailer, 6,181 Forklift, 1,607 Other*5</td>
<td></td>
</tr>
</tbody>
</table>

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

FY2021 Performance Overview

<table>
<thead>
<tr>
<th>Revenues</th>
<th>¥ 743.6 billion Y o Y +14%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Operating Income</td>
<td>¥ 38.7 billion Y o Y +5%</td>
</tr>
</tbody>
</table>

FY2021 Business Overview by Segment

Domestic logistics business (FY2021)

- Revenues: ¥ 4,172 million Y o Y -1%
  - Revenues of domestic logistics business decreased by 1% year-on-year to ¥4,172 million.
- Segment profit: ¥ 237 million Y o Y -6%
  - Segment profit decreased by 6% year-on-year to ¥23,678 million due to the fire at a logistics center in Maishima Sales Office of our group company, Hitachi Transport System West Japan Co., Ltd., despite the improvement in productivity.

Global logistics business (FY2021)

- Revenues: ¥ 3,135 million Y o Y +45%
  - Revenues of global logistics business increased by 45% year-on-year to ¥3,135 million due to an increase in handling volume mainly in the freight forwarding business and automobile related business.
- Segment profit: ¥ 150 million Y o Y +32%
  - Segment profit increased by 32% year-on-year to ¥150 million due to an increase in revenues and improved profitability in the freight forwarding business.
To Our Stakeholders — Message from the Chairman —

LOGISTEED

We will accelerate LOGISTEED under a new partnership and aim to become a ‘leading global 3PL company.’

Review of the Mid-term Management Plan “LOGISTEED2021”

Posted record high revenues and operating income*, achieving the targets set in the Mid-term Management Plan

Under the Mid-term Management Plan “LOGISTEED2021” which started in FY2019, aiming to become the most preferred global supply chain solutions provider, we worked on six 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 topline** growth strategy;" "Originate and succeed operation (hands-on approach) toward the next generation;" and "Environment, social and governance as well as corporate ethics;" and were committed to changing and evolving into a company represented by "LOGISTEED***.

As a result, in FY2021, the final year of the Plan, we were able to post record high consolidated revenues and operating income**, achieving the targets set in the Plan.

Issues in the Development of Overseas Business

Looking at each measure, as for "implement portfolio strategy, including M&As and alliances, to build a solid core domain (Smart Logistics)," we transferred shares of Hitachi Auto Service Co., Ltd. and Hitachi Travel Bureau Ltd. (currently, HTB-BCD Travel Ltd.), but we added new sources of value creation through acquisition of shares of PALENET CO., LTD. and the distribution service business of Hitachi Life, Ltd. (currently, Hitachi Real Estate Partners, Ltd.), achieving some progress in the enhancement of core domain. The portfolio strategy in global logistics lost momentum partly due to the impact of COVID-19 despite a share exchange between Nisshin Transportation Co., Ltd. and ATC Corporation. I recognize this as the biggest issue that was carried over to the new Mid-term Management Plan.

Recognition and Response to External Environment

Accelerate the “region-contained” overseas business in light of the fact that the world has become more VUCA* than ever and various risks are increasing

We recognize that the recent business environment has
become increasingly more "VUCA" as represented by the infectious disease risk such as COVID-19 and rising geopolitical risks such as the U.S.-China feud and the recent Ukraine crisis. In fact, COVID-19 and the Ukraine crisis caused disruptions in global supply chains mainly in the manufacturing industry, and its impact on the logistics sector is becoming bigger and bigger. For example, in the fiscal year ended March 31, 2022, the Group’s business for automobile-related customers showed relatively steady growth in the U.S. where region-contained supply chains are well established but the volume decreased in Asia due to production cut caused by the disruption in supply chains.

Also, in the freight forwarding business operating across multiple regions, the sea and air freight costs which are rising and hovering at a high level are contributing to revenue growth of the Group at the moment but will weigh on our customers’ business in the medium-to-long term and become a risk factor.

In addition, because the sustainability/ESG initiatives on a global scale are prompting calls for respect for human rights in supply chains, the conventional global procurement networks giving top priority to cost efficiency must be reviewed.

Based on these trends, I think it is likely that the global supply chain in the future will be simplified and restructured toward the direction of "local production for local consumption". The Group has developed most of its overseas business through collaborative innovation with local partners under the "region-contained business model" whereby local subcompanies operate businesses at their discretion and we focus on the supervision. We will further promote this model and also accelerate new business development in North America, Europe, India, Thailand, and Malaysia, etc.

Take advantage of changes in industrial structure due to the expansion of EC markets by further evolving DX

Another point in the business environment is a significant change in the industrial structure in Japan and overseas due to the expansion of EC markets. Major EC platforms are beginning to take over a number of functions which used to be undertaken by wholesalers and retailers such as procurement, shipping, sales, and service. As the logistics industry has become even more "borderless", which has been discussed in the Integrated Reports, the Group will continue to expand the initiatives to integrate four flows of “Finance,” “Commerce,” “Information,” and “Logistics”, one of the concepts under “LOGISTEED”, to take advantage of this change.

Specifically, we will evolve automation in 3PL, our core business, using WMS*11 and RCS*12, optimize the entire supply chain through visualization, and focus on further enhancement of the system development infrastructure to promote external sales of IT systems enhanced by these DX.

Recognize “labor shortages” as “constant facts” and evolve “automation” and “sharing”

We recognize “labor shortages” deeply related to the expansion of EC markets and the "2024 problem"*13 in Japan as "constant facts", rather than changes, and continue to implement measures while evolving existing initiatives. Specifically, in addition to evolving various automation mentioned above, we will share resources, including human capital, with peer companies and stakeholders in other sectors and also apply the results of these efforts implemented in Japan as a "country facing many social issues" such as declining birthrate and aging population to Asian countries which are expected to face the same issue.

Specifically, we will enhance transport business to cope with the "2024 problem" mentioned above by implementing physical and digital measures.

To "solidify ESG management base", we will work on decarbonization as part of our efforts to address the new material issues mentioned above to achieve the medium-to-long-term environmental targets, and also realize centralized control for fire prevention and security at logistics centers through "safety cockpit" using AI and sensing technologies. To reinforce human capital to carry out priority measures in the new Mid-term Management Plan, we will develop and develop global and DX human resources to accelerate "LOGISTEED".

Revision to Material Issues

Identified new material issues incorporating the business perspective prior to the development of the new Mid-term Management Plan

Based on the recognition of the business environment described above, the Group will continue to focus on further business growth and enhancement of corporate value under the corporate philosophy and corporate vision. Before developing the new Mid-term Management Plan to achieve that goal, we reviewed material issues to re-recognize social and environmental issues we must address and social responsibilities we must fulfill. We incorporated the business perspective in addition to the ESG perspective to the new material issues and, based on DX, will work on 12 material issues linked to three objectives of "contribute to decarbonized/ recycling-oriented society", "build and evolve resilient, sustainable logistics services", and "create new values through collaborative innovation" and supportive foundation for the objectives.

And we developed the new Mid-term Management Plan "LOGISTEED2024" in consideration of the achievements under the previous Mid-term Management Plan "LOGISTEED2021" and the new material issues with an aim to further solidify business and develop global business.

Mid-term Management Plan “LOGISTEED2024”

Promote four priority measures to become a “leading 3PL company in Asia”

Under the new Mid-term Management Plan "LOGISTEED2024" which started from FY2022, we will promote four priority measures consisting of "reinforce/expand overseas business," "expand business domains with new added value," "evolve Smart Logistics," and "solidify ESG management base" under the slogan of "becoming a global supply chain strategic partner with DX, LT** and "Gemba Power" with an aim to become a "leading 3PL company in Asia.”

Specifically, to "reinforce/expand overseas business," we aim to become a "leading 3PL company in Asia" by expanding in-plant logistics at customers’ factories in North America, expanding regional 3PL business in Europe, accelerating introduction of automated/labor-saving facilities in China and expanding investments" businesses in growing markets including India, Thailand, Indonesia, and Malaysia, under the "region-contained business model" mentioned above.

To "expand business domains with new added value," we will offer "VAS"*16 in logistics related domains, including boundary domain between manufacturing and logistics, of customers’ value chain, such as solving customers’ supply chain issues through DX and optimizing the entire supply chain by directly connecting procurement, manufacturing, and logistics.

To "evolve Smart Logistics," we will enhance warehouse business through automation/labor-saving and DX and enhance and expand warehouse functions by building and enhancing three-temperature zone warehouses*** and hazardous substances warehouses. In addition, we will enhance transport business to cope with the "2024 problem" mentioned above by implementing both physical and digital measures.

To "solidify ESG management base," we will work on decarbonization as part of our efforts to address the new material issues mentioned above to achieve the medium-to-long-term environmental targets, and also realize centralized control for fire prevention and security at logistics centers through “safety cockpit" using AI and sensing technologies. To reinforce human capital to carry out priority measures in the new Mid-term Management Plan, we will develop and develop global and DX human resources to accelerate "LOGISTEED".

Medium-to-Long-term Vision “LOGISTEED2030”

Aim to become a leading global 3PL company

When we developed the Mid-term Management Plan “LOGISTEED2024”, we also indicated our medium-to-long-
New Partnership to Realize LOGISTEED

Move forward with reforms toward “Future Vision” with KKR

As indicated in the news release dated April 28, 2022 and in the chart on the right, the Group resolved at its Board of Directors’ meeting held on that day to express an opinion supporting the tender offer made by HTSK Co., Ltd. for the Company’s shares and recommend the Company’s shareholders to tender their shares. This resolution was adopted on the assumption that the tender offeror intends to acquire all of the Company’s shares and that the Company’s shares will be delisted. The Group determined that, in order to promptly realize “Future Vision” of “LOGISTEED2030,” it needs collaborative innovation with partners who supplement organizational capabilities to increase our competitiveness by, for example, speeding up decision making process, acquiring investment funds to enable flexible business investment and bringing in external insights, and it considered various options to promote prompt management and reforms that are not restricted by the current capital structure. We have had a series of discussions with multiple companies and investment funds about our growth strategy including potential capital transactions, and in particular, we have continually discussed with KKR over the last five years about the competitive advantages to accelerate business growth and achieve future growth, including potential M&As between the Company and business partners. As a result, we shared with KKR the direction toward the six management issues in “LOGISTEED2030” mentioned above, and we believe that we were able to build trust relationship as partners to increase corporate value in the future. Also, based on KKR’s various support capabilities and remarkable past achievements, we determined that, to realize the Group’s LOGISTEED, it would be best to delist our shares and promote reforms without being restricted by the current capital structure through a partnership with KKR who has an understanding of our business as well as insights, resources, strong commitment to the Japanese market and remarkable past achievements to support the enhancement of corporate value in the medium-to-long term.

Overview of the tender offer for the Company’s shares

To Our Stakeholders

Start the new structure with CEO and COO

To ensure to carry out the above-mentioned strategies and realize the concept “to lead businesses to a new domain beyond the conventional logistics,” it is necessary to carry out a number of measures, including M&As, speedily and simultaneously. Accordingly, from April 2022, we started a new structure, with me as Chairman and CEO and Mr. Takagi as President and COO. Under the structure whereby CEO will be responsible for developing and finalizing management strategies including portfolio and capital strategies and monitoring of execution status, and COO will be focusing on execution of strategies and maintaining and expanding the existing business which are the base for sustainable growth, we will ensure to further grow our business and increase corporate value. We express our sincere apologies for causing a great deal of inconvenience and concern to our stakeholders because of the fire which occurred at a logistics center of our group company in November, 2021. We will devote our best efforts toward preventing any similar incidents from occurring by using DX such as “safety cockpit” mentioned above and establishing a resilient center that centrally controls safety, quality, productivity, fire prevention, and security through “visualization.” The group will be an unlisted company but will sustainably grow our business as well as insights, resources, strong commitment to the Japanese market and remarkable past achievements to support the enhancement of corporate value in the medium-to-long term.

Our future vision

LOGISTEED2030

Realizing our Future Vision by way of solid partnership

Collaborative innovation with partners to enhance capability
1. High value-added solutions to optimize the entire SCM
2. Improve customer convenience and efficiency through DX
3. Enhance overseas value chain with a consistent approach
4. Engage in projects to make advance investment
5. Promote strategic M&A
6. Solidify position as a platform provider

And go further

LOGISTEED 2030

Becoming a leading global 3PL company

Overview of the tender offer for the Company’s shares


Hitachi Transport System, Ltd.  Integrated Report 2022

Hitachi Transport System, Ltd.  Integrated Report 2022
To Our Stakeholders - Message from the President -

Action Is the First Step Toward Success

I will lead “LOGISTEED2024” to a successful conclusion by drawing on my hands-on experience in Japan and overseas and demonstrating leadership in taking action.

Accumulated hands-on Experience

Learned the essence of “manufacturing” logistics during the 24 years in Ibaraki

I am Hiroaki Takagi, have been appointed President and COO effective April 1, 2022. Today’s business environment is rapidly changing, but I am committed to achieving “LOGISTEED2024/2030” by responding to changes promptly and flexibly. I would like to take this opportunity to introduce myself to all stakeholders.

It has been 38 years since I joined the Group, but I believe the first 24 years that I spent challenging various work at the logistics sites in Ibaraki have made the basis of what I am today. For example, I was able to learn the essence of “manufacturing” logistics by engaging in factory logistics and packaging design. Large precision instruments that I handled in logistics operations such as semiconductor manufacturing equipment, electron microscope, and medical equipment, require upstream operations, such as they need to be disassembled before transportation, as well as plant logistics work including strict impact control and temperature/air pressure control during the transportation and special loading/unloading and installation. I acquired expertise in W&W and packaging design while I exerted myself to complete them. As for VMI, I expanded business by providing procurement service in addition to parts inventory management and further developed it, which led to launch of a parts sales business with a Chinese company.

In addition, when one of my customers set up a branch factory in China, I often visited there to offer support. These deep involvements in China-related businesses led to my assignment in China later.

Fostered International Awareness in China

Requested the transfer to China because I was attracted by “untapped market”

After leaving Ibaraki, I was engaged mainly in 3PL business in the head office and South Kanto area engaging with customers in the ICT and distribution sectors as a sales general manager. I was able to acquire hands-on experience in all business domains of the Group, except the heavy machinery and plant logistics, through my work in Ibaraki and the Tokyo Metropolitan area. From 2015, I was focusing on increasing our share in the 3PL market as president of a group land transportation company in Japan, but meanwhile, I saw China, where I used to visit frequently, shifting from “being the world’s factory” to “expanding domestic demand” which made me have a strong desire to tap the “untapped market” in inland China. Thus, I made a direct appeal to then President Mr. Nakatani and was assigned as Chief Executive in China region in 2016. However, my first task there was to liquidate and downsize the business due to a decline in performance and non-performing receivables at the local company we acquired.

Amid such circumstances, it was incredibly difficult to cultivate from scratch the inland area where no HTS Group sites existed, but the situation gradually got better as I tenaciously practiced the principle in China that “business is based on communication between people” which I learned while working in Ibaraki. Eventually, I was able to cultivate a number of inland markets, including Xian, Chongqing, Chengdu, and Hefei, and also introduce automated/labor-saving equipment to improve productivity. I also learned firsthand in China that the success of business depends on communication between people that transcends nationality. I intend to draw on my “international awareness” that I fostered through my own experience to execute “LOGISTEED2024/2030” which drastically changed direction toward expansion of overseas business.

Action Is the First Step Toward Success

Pass on the “HB Way” as corporate culture

As I had accumulated hands-on experience in Japan and overseas, I came to realize that we as a group have been able to achieve our sustainable growth because we have consistently followed the “Gemba-oriented principle.” I also believe that the concept of the “Gemba-oriented principle” has become clearer after “HB Way” was developed in 2016.

*1 VMI: Vendor Managed Inventory
Specifically, the “HB Way (P2)” clearly defined the what the “Gemba-oriented principle” is, and it was communicated to employees clearly as “Success Drivers,” which facilitated the spread of “Corporate Philosophy,” “Corporate Vision,” and “Guiding Principles” among sites, deepening ties between management and sites. The Group will realize sustainable value creation by continuing to pass on the “HB Way” as the most important corporate culture.

My management philosophy “Action is the first step toward success”

I also believe that we can gain customer trust and realize sustainable growth by consistently following Success Drivers of the “HB Way”: “3 Key Goal Indicators,” “3 Disciplines,” and “3 Attributes” and by constantly providing the best logistics services. We will aim to get in the same boat with customers by sharing joys and sorrows, and we can impress customers precisely because we are in the same boat, which will make us more trustworthy and lead to the growth of our business.

If I were to reinterpret “Success Drivers” based on the recognition, they would be “Be a company/person that can constantly impress customers;” “Be a company/person that can always come up with ideas;” “Be a company/person that can act faster than others;” and “Be a company/person that can prevent accidents.”

I think “action” is the source of value creation that supports all of these Success Drivers. Because “action” is what makes us take the first step toward success, we cannot impress anyone if we don’t “take action.” Also, ideas mean nothing if we don’t “take action” and use it. We can’t demonstrate speediness if we don’t “take action.” And it takes many “actions” to prevent accidents. All value creation in business is based on “action,” and there is no success without “action.” This is why I believe that “Action is the first step toward success” as a management philosophy.

“Action” leads to new value creation

I came to believe in this management philosophy while I spent lots of time with a person whom I looked up to as my mentor when I was in Ibaraki. As I mentioned earlier, I launched a number of new businesses in Ibaraki including procurement logistics and parts sales business with a Chinese company, and all of them were possible only because he told me, “Nothing will change if we keep doing the same thing. Let’s take an action.” I was so inspired that, after consultations with the customer, I persuaded our top management to launch the aforementioned business with a Chinese company because it was not possible under the internal rule of the time. Because the parts sales business was approved, we were able to create new value.

The Group will transition to a new value creation stage through a partnership with KKR, and I intend to demonstrate leadership under the motto that “Action is the first step toward success” in order to make our partnership successful.

Points of Priority Measures in “LOGISTEED2024”

Expand sites in the four key management areas to “reinforce/expand overseas business”

To achieve “Reinforce/expand overseas business,” which is the most important measure in “LOGISTEED2024,” we will expand business sites in the four key management areas (Asia, China, North America, and Europe) with an eye to achieving the future vision in FY2030 to become a “leading global 3PL company.” Especially, considering that the center of supply chains is shifting from China to Asia, we will focus on enhancing resources in Asia. In addition, we intend to add potential markets other than the four key management areas including Africa and Middle East to key areas as they are starting to show full-scale economic growth.

Further expand value creation domains through VAS to “expand business domains with new added value”

As I mentioned earlier, I have been working on VAS since my younger days. And because there are full of business opportunities in “manufacturing” sector, including industrial products as well as food and apparel, I intend to seize them aggressively. We aim to acquire new customers by offering services not only in manufacturing and procurement but also in all domains of customer’s value chain such as shipping, sales, and services.

Build a platform linking WMS/RCS/ERP in DX toward “Evolve Smart Logistics”

To “Evolve Smart Logistics,” we will further enhance DX. Specifically, DX in transportation has made a significant progress thanks to SSCV, and we will be able to offer value to many more customers since the labor management function for drives, which is currently under development, is completed. As for DX to enhance the warehouse business, we will focus on establishing a platform enabling to provide optimal logistics services by closely linking WMS, RCS, and customers/ERP.

Enhance decarbonization initiatives to “solidify ESG management base” including overseas

As the definition of “corporate value” has changed drastically to include social contribution and non-financial indicators in addition to business performance and financial indicators, I am fully aware that ESG is an important factor that is essential for the corporates’ development and sustainable growth. Especially in terms of the decarbonization initiatives, while we will steadily carry out initiatives including a shift to EVs and FCVs and establishment of solar power generation facilities in logistics centers to achieve the medium-to-long-term environmental targets to reduce CO2 emissions by 50% by FY2030 and achieve net zero carbon by FY2050, we also intend to enhance overseas initiatives.

Keep enhancing three “strengths”

We will ensure to achieve “LOGISTEED2024” by further enhancing the Group’s three strengths (P25) that are indispensable to promote the four priority measures described above. As for the “ability to accomplish operation,” the Group’s greatest strength which has been enhanced for 72 years since its foundation, we will maintain flexibility in responding to customer needs, environmental changes, and a wide variety of product lines, as well as maintain and improve high quality and cost competitiveness to develop/strengthen site managers and global/DX human resources.

For another strength of “advanced logistics engineering capability,” as mentioned earlier, we will accelerate DX in transportation and warehouse operations to sophisticate and optimize customers’ supply chains and also enhance the development of digital talents and cooperation with collaborative innovation partners.

For the third strength of “global network,” while we pursue the “region-contained business model” as mentioned in the message from Mr. Nakatani, CEO (P9), we will open sites in many countries through initiatives explained in the section on the priority measure “Reinforce/expand overseas business.”

To Our Stakeholders

We will carry out multiple initiatives speedily and simultaneously

The Group will first aim to become a “leading 3PL company in Asia” by steadily executing “LOGISTEED2024” and then aim to become a “leading global 3PL company” through “LOGISTEED2030.” On the other hand, some initiatives with an eye on FY2030 are already underway in “LOGISTEED2024” such as those aimed at proactively enhancing and expanding businesses in Europe and the U.S. in addition to Asia. Mr. Nakatani, Chairman, and I will carry out multiple initiatives speedily and simultaneously to further grow the Group’s business and increase corporate value. We look forward to your continued support.
Overview of the fire
1. When
Around 8:50 AM on November 29, 2021
The fire was put out at 5:00 PM on December 4, 2021.
2. Where
Site name: Nankou Sales Office of Hitachi Transport System West Japan Co., Ltd. (G.P. Nankou No.1 logistics facility of G.P. Japan Inc.)
Location: 2-19, Nankoukyokucho, Nankonoo-ku, Osaka City, Osaka Prefecture
Main items handled: Pharmaceutical products, medical supplies, foods, tools, etc.
3. Cause
The cause is currently under investigation by the fire department and police. An employee of a staffing agency under contract with Hitachi Transport System West Japan Co., Ltd. was arrested on suspicion of arson on January 15, 2022.
4. Damage
Personal damage: All employees were confirmed safe. The Osaka City Fire Department reported one person was injured (mild case).
Property damage: Of the total floor area of 53,000m², approx. 38,700m² were burned.
5. Impact on shipping, etc.
Alternative locations have been secured in our sites in neighboring regions and other regions to continue operation. The impact on consolidated financial results for the consolidated fiscal year ended March 31, 2022 was the recognition of other expenses (loss by fire) of 7.3 billion yen.
6. Environmental survey results in the surrounding area conducted in connection with the fire
1. Data analysis of the constant monitoring system installed by the Ministry of the Environment of Japan
In order to check the impact of the fire on the atmosphere before and after the fire, we analyzed the constant observation data of “Soramametru (Atmospheric Environmental Regional Observation System: AEROS)” of the Ministry of the Environment.

<table>
<thead>
<tr>
<th>Data period</th>
<th>November 28 - December 11, 2021 (From the day before the fire broke out to one week after the fire was extinguished)</th>
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</thead>
<tbody>
<tr>
<td>Monitoring station</td>
<td>Nankou Ward Office, Hamako, Nanko Chuo Park, Deki Elementary School</td>
</tr>
<tr>
<td>Items to be analyzed</td>
<td>(1) Nitrogen dioxide (2) Suspended Particulate Matter (SPM)</td>
</tr>
<tr>
<td>Analysis results</td>
<td>It was confirmed that both (1) and (2) were within the environmental criteria.</td>
</tr>
</tbody>
</table>

2. Atmospheric investigation
Since we were not able to conduct the investigation during the fire, we collected and investigated air immediately after the fire was extinguished on December 4, 2021.

<table>
<thead>
<tr>
<th>Date of investigation</th>
<th>December 5, 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection site</td>
<td>(1) East side of Nankou Sales Office of Hitachi Transport System West Japan Co., Ltd (2) North side of Nankou Sales Office of Hitachi Transport System West Japan Co., Ltd.</td>
</tr>
<tr>
<td>Investigation item</td>
<td>Flammable air pollutants, etc. (2) Items in total, including benzene, toluene, and acrylonitrile, which are substances requiring priority action designated by the Ministry of the Environment</td>
</tr>
<tr>
<td>Investigation results</td>
<td>All of the investigation items in (1) and (2) were confirmed to be below the threshold of the environmental criteria.</td>
</tr>
</tbody>
</table>

BCP initiatives at alternative sites
We established a task force in our neighboring site to secure alternative sites in the Kanto and Kansai areas and continue operations. In addition to the nearby Kansai site, the Group opened a new Kumiyama Sales Office of Hitachi Transport System West Japan Co., Ltd. in Kumiyama-cho, Kuse-ku, Kyoto Prefecture in May 2022, and we are working to respond to customer requests.

Future plan
In light of the fire, the Group conducted a comprehensive inspection of the fire prevention status in December 2021 and checked firefighting equipment in the workplace. In addition, we reviewed measures and education, etc. related to firefighting evacuation and began considering the use of firefighting robot equipment in the second half of FY2021. As a future initiative, we are considering introducing firefighting assistive devices to enhance firefighting capacity in terms of tangible aspects. In terms of intangible aspects, we will require all employees to participate in disaster prevention trainings to repeatedly learn how to use firefighting equipment. In addition, we will update the “Disaster Prevention Training Manual,” share it within the Group, incorporate essential knowledge of fire prevention into education by rank, visualize the status of trainings/fire inspections, and implement POCA cycle for disaster prevention. We will thoroughly implement fire prevention measures and share them across the Group with an aim to raise disaster prevention awareness of the organization and each employee.

Disaster prevention measures

<table>
<thead>
<tr>
<th>Tangible aspects</th>
<th>Introduce firefighting assistive devices (fire extinguisher, large fire extinguisher, etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible aspects</td>
<td>Consider the use of firefighting robots/equipment in cooperation with manufacturers</td>
</tr>
</tbody>
</table>

Roadmap for the introduction of firefighting robot equipment

<table>
<thead>
<tr>
<th>Item</th>
<th>Details</th>
<th>Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early detection</td>
<td>Detect smoke and flames with sensors/cameras</td>
<td>FY2022 Test</td>
</tr>
<tr>
<td>Location identification</td>
<td>Automatically identify the point of origin (shown on the map)</td>
<td>FY2023 Test</td>
</tr>
<tr>
<td>Automatic fire extinguishing</td>
<td>Extinguish fire using autonomous robots</td>
<td>FY2024 Test</td>
</tr>
</tbody>
</table>
Value Creation Story of the HTS Group

Based on the HB Way indicating how the HTS Group should be and a path to take, we have been promoting VC activities, daily operational improvement activities, by making use of our strengths cultivated over the years. To embody the corporate philosophy, we have identified material issues that need to be addressed to realize that goal and are promoting the specific strategy set forth in the Mid-term Management Plan “LOGISTEED2024” through our unique business model and flexibly responding to changes in business environment.

To realize the Mid-term Management Plan, we are promoting VC activities, daily operational improvement activities, by using our strengths cultivated over the years, through value creation process based on the HB Way indicating how the HTS Group should be and a path to take.

To embody the corporate philosophy, we will address material issues identified from perspectives of ESG as well as business. We will work on the Mid-term Management Plan “LOGISTEED2024” as specific measures to address material issues.
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.

1967 - Became independent by integrating transportation divisions

1976 - 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.

1986 - Launched 3PL business
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.

1998 - 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 AEDN Co., Ltd. in 2002. Especially, Kansai NDC completed in February 2003 had the largest-class capacity in the Company and cutting-edge equipment.

2007 - 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 Shiseido Company, Limited in 2007.

2016 - Collaborative innovation strategy/Promotion of LOGISTEED
We expanded the collaborative innovation domains through the alliance with SG Holdings Co., Ltd. in 2016 and AIT Corporation in 2018. After forming an alliance with Hitachi Capital Corporation (currently Mitsubishi HC Capital Inc.) in 2018, we have been promoting development and utilization of a transport digital platform “SSCV” aimed at realizing sustainable logistics.
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 VC activities, with the HB Way indicating how the Group should be and a path to take as the source of all values.

Using our strengths of “Ability to accomplish operation,” “Advanced logistics engineering capability,” and “Global network” as key drivers, we strive to reinforce our value chain to sustainably create economic, social, and environmental values to our stakeholders. We will contribute to SDGs through sustainable increase of corporate value.
### Our History

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**

<table>
<thead>
<tr>
<th>Task analysis of the customers’ supply chain</th>
<th>Design and proposal for advanced operation</th>
<th>Flexible and reliable operation</th>
<th>Ongoing improvement of productivity and quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analyze supply chain issues based on data and interviews by communicating with customers</td>
<td>Design and propose optimal site placement, delivery routes, transportation methods, and warehouse operations to customers based on analysis results</td>
<td>Accomplish operation based on well-designed workflows, and strictly manage safety, quality, and productivity</td>
<td>Improve the productivity and quality of the entire organization through improvement activities reflecting customers’ feedback and employees’ opinions</td>
</tr>
</tbody>
</table>

**The HTS Group’s strengths**

- Conduct realistic analysis and identify issues, leveraging abundant experience in logistics operations including 3PL as a domestic market leader
- Close collaboration between sales representatives and logistics engineers familiar with the relevant industries
- Understand customer needs accurately through communication with customers
- Support customers’ supply chain reforms by using “SCDOS” which enable central management of customers’ supply chain information, visualization, analysis, and simulation
- Unique training program to develop data analysis experts

**Related solutions, tools, etc.**

- SCDOS* (Supply Chain Optimization Service)
- EC platform (smart warehouse)
- SLC* (warehouse design support tool)
- SSCV (transport digital platform)
- RCS (resource control system)

<table>
<thead>
<tr>
<th>1 Ability to Accomplish Operation</th>
<th>2 Advanced Logistics Engineering Capability</th>
<th>3 Global Network</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diverse human resources well-versed in logistics</td>
<td>A group of professionals of data analysis, operation management design, package design, and introduction of advanced technologies</td>
<td>Business sites supporting global supply chain</td>
</tr>
<tr>
<td>Total personnel 45,681</td>
<td>Human resources specialized in logistics engineering Approx. 300</td>
<td>Locations Total 7.55 Mm²</td>
</tr>
<tr>
<td>Transportation assets to support society and people’s lives No. of vehicles (including leased vehicles) 17,825</td>
<td>Including cumulative 83 attendees of data scientist training course</td>
<td>Logistics centers 763 sites in 29 countries and regions</td>
</tr>
<tr>
<td>Digital business platform underpinning LOISTED No. of self-developed systems in operation 499</td>
<td>Introduced a wide variety of technologies including AI, 5G, and automation with No. of AGV installed within the Group Approx. 2,200</td>
<td><strong>For details, please visit our website:</strong>  SCDOS, SSCV, SMART WAREHOUSE  <a href="https://www.hitachi-transportsystem.com/en/logisteed-cafe/service.html">https://www.hitachi-transportsystem.com/en/logisteed-cafe/service.html</a></td>
</tr>
</tbody>
</table>

**Manufactured Capital**

- Intellectual Capital
- Organizational Capital

**Human and Organizational Capital**

- Social and Relationship Capital

**P33**

- SCDOS: Supply Chain Design & Optimization System
- SSCV: Smart & Safety Connected Vehicle

**P35**

- SLC: Smart Logistics Configurator

**RPA, AI-OCR**

- RPA: Robotic Process Automation
- AI-OCR: Optical Character Reader with AI

**SSCV-Safety**

- SSCV-Safety (safety operation management solution)

**AGV**

- AGV: Automated Guided Vehicle
Review of LOGISTEED2021

Under the Mid-term Management Plan *LOGISTEED2021,* the HTS Group had worked to solve issues and create “values” through various “collaborative innovation” with an aim to become the most preferred global supply chain solutions provider. As a result, the Group achieved record high revenues and operating income for FY2021.

### Mid-term Management Plan -LOGISTEED2021-

<table>
<thead>
<tr>
<th>Period</th>
<th>FY2019-FY2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority Measures</td>
<td></td>
</tr>
<tr>
<td>- Implement portfolio strategy, including M&amp;As and alliances, to build a solid core domain (Smart Logistics)</td>
<td></td>
</tr>
<tr>
<td>- Implement collaborative innovation strategy aiming at enhancement of the core domain and further expansion of domains</td>
<td></td>
</tr>
<tr>
<td>- Design supply chain based on and originating from the logistics domain</td>
<td></td>
</tr>
<tr>
<td>- Implement a top-line growth strategy</td>
<td></td>
</tr>
<tr>
<td>- Originate and succeed operation (hands-on approach) toward the next generation</td>
<td></td>
</tr>
<tr>
<td>- Environment, social and governance as well as corporate ethics</td>
<td></td>
</tr>
</tbody>
</table>

### Financial results

- **Revenues:** ¥743.6 billion
- **Adjusted operating income:** ¥38.7 billion
- **EBIT:** ¥29.4 billion
- **ROE:** 8.3%

### Implementation Status of Priority Measures

1. Implemented portfolio strategy, including M&As and alliances, to build a solid core domain (Smart Logistics)
   - Realized innovations through “Finance, Commerce, Logistics, and Information”
   - Strengthened freight forwarding business to expand 3PL
   - Reviewed portfolio
   - Launched service for logistics equipment
   - Reinforced the system to centralize undertaking of logistics operations of cargo owners
   - Partially amended strategic and capital and business alliance with SG Holdings Group (Sep. 2020)

2. Implemented collaborative innovation strategy aiming at enhancement of the core domain and further expansion of domains
   - Collaborative innovation strategy
     - Created values through collaboration between freight forwarding and 3PL
     - Commercialized transport digital platform
     - Established DX strategy
     - Acquired distribution service business of Hitachi Life, Ltd. (currently, Hitachi Real Estate Partners, Ltd.) (Apr. 2020)
     - Acquired 70% shares of PALENET CO., LTD. from Hitachi Automotive Systems, Ltd. (currently, Hitachi Astemo, Ltd.) (Aug. 2019)
     - Exchanged 100% shares of Nisshin Transportation Co., Ltd. for 20% shares of AIT Corporation (Mar. 2019)

3. Designed supply chain based on and originating from the logistics domain
   - Developed DX strategy (Jan. 2021)
   - Selected as a “DX Certified Operator” (May 2021) and “DX Stock 2022” (Jun. 2022)
   - Implemented collaborative innovation strategy aiming at further expansion of domains
   - Commercialized solutions
     - Digital transport platform
     - Supply chain digital platform
   - Implemented collaborative innovation strategy aiming at further expansion of domains
   - Started verification experiments for logistics sophistication using 5G (Oct. 2019)

4. Originated and succeeded operation (hands-on approach) toward the next generation
   - Promoted VC activities*
     - The HTS Group has been working on “VC activities” as daily improvement activities to implement the 8W Way. 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 carry out and follow up the improvement activities systematically. Approximately 38,000 new improvement initiatives were registered during the period covered by the Mid-term Management Plan.
   - Achieved a TSR of HTS*²** (FY2020) 106.7
   - Endorsed TCFD recommendations (Sep. 2021)

5. Environment, social, governance and corporate ethics
   - Updated the HTS Group Medium-to-Long-term Environmental Targets (FY2020)
   - Signed the UN Global Compact (May 2020)
   - Participated in “My Link Declaration (Declaration of Human Rights)” project (Jul. 2021)
   - Received “A” in CDP Climate Change Report (2nd straight year) (Dec. 2021)

### Results

- FY2019: Revenue ¥7,358 billion, Adjusted operating income ¥33.8 billion, EBIT ¥25.5 billion, ROE 9.6%
- FY2020: Revenue ¥7,436 billion, Adjusted operating income ¥38.7 billion, EBIT ¥29.4 billion, ROE 8.3%
- FY2021: Revenue ¥7,436 billion, Adjusted operating income ¥38.7 billion, EBIT ¥29.4 billion, ROE 8.3%

### Non-financial indicators results

- FY 2019 2020 2021
  - CO₂ emissions (thousand tons-CO₂eq)
    - 120 113 111
  - Eco-friendly vehicle ownership ratio (%)*4
    - 100 100 100
  - Frequency of workplace accidents
    - 0.93 0.78 0.88
  - Severity of workplace accidents
    - 0.013 0.019 0.017
  - Ratio of female managers (%)*5
    - 4.7 4.9 5.5
  - Number of compliance trainings conducted
    - 30 25 19

### Trend of dividend per share

- FY 2019 2020 2021
  - Dividends
    - 43 50 56
  - Dividend payout ratio(%)*1
    - 22.2 20.8 26.7

### TSR (Total Shareholder Return) outperformed TOPIX

- TSR of HTS*²** (FY2020) 106.7
- TOPIX incl. dividend 99.6
- Topix incl. dividend 141.5

### Remaining challenge

- Established solid global management base
Mid-term Management Plan –LOGISTEED2024–

We newly developed the Mid-term Management Plan “LOGISTEED2024” in light of the external environment which had drastically changed since the time when “LOGISTEED2021” was developed and the material issues that need to be addressed in the new Mid-term Management Plan. We will solidify business and develop global business with an aim to evolve into a “leading 3PL company in Asia.”

Corporate Vision

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.”

Environmental Recognition and Direction

Recognizing declining birthrate and aging population/labor shortages in Japan, unstable global situation, and supply chain vulnerability risk as changes in the external environment, we defined the direction to take as follows.

Material Issues

We reviewed the material issues identified in 2017 as follows to re-recognize social and environmental issues, expectations, and social responsibilities. The new Mid-term Management Plan has been developed based on these material issues, and we will promote measures to solve them.

Future Vision

Under “LOGISTEED2024,” we will further promote business solidification and global development which were achieved under “LOGISTEED2021,” to become a “leading 3PL company in Asia.”

Priority Measures

1. Reinforce and expand overseas business (Becoming a leading 3PL company in Asia)

   - Make investment in focused areas: India, Thailand, Indonesia, and Malaysia
   - M&As (light forwarding, transport business)

2. Expand business domains with new added value (Accelerate LOGISTEED)

   - Solve supply chain issues, propose visualization and optimization through DX
   - Expand new services in boundary domain between manufacturing and logistics, commerce VAS

3. Evolve Smart Logistics

   - Achieve automation/labor-saving through linkage of systems and machines, improve working environment through DX
   - Enhance and expand functions of three-temperature zone warehouses, hazardous substances warehouses, etc.
   - Enhance the transport business and address the “2024 problem”/ decarbonization through SSCV

4. Solidify ESG management base

   - Implement disaster prevention measures and risk management
   - Implement sophisticated and ongoing safety/quality control activities
   - Accelerate decarbonization activities
   - Continue/expand VC activities
   - Strengthen human resources for global development of DX and LT

Objective 1

Contribute to Decarbonized/Recycling-oriented Society

Objective 2

Build and Evolve Resilient, Sustainable Logistics Services

Objective 3

Create New Values through Collaborative Innovation

Supportive foundation for the objectives

Material issues

- Secure diverse human resources to support growth
- Step up DX
- Establish business models through collaborative innovation

Material issue

- Build and evolve resilient, sustainable logistics services

Objective

- Create new values through collaborative innovation
Mid-term Management Plan –LOGISTEED2024–

Priority Measures 1. Reinforce and Expand Overseas Business (Becoming a Leading 3PL Company in Asia)

To become a leading 3PL company in Asia, the HTS Group will further reinforce and expand its overseas business by promoting aggressive M&As and accelerating investments mainly in focused areas.

Europe

We will expand the network of intermodal transportation business (multimodal transportation) with low environmental load, operated by Mars Logistics Group Inc., our group company in Turkey. We will also expand the business in growing areas and markets in Europe including logistics services for the healthcare and apparel industries and temperature controlled transport. Regarding M&As, we acquired reverse logistics services for apparel e-commerce in June 2022* and are also considering further enhancement of 3PL and freight forwarding businesses for the apparel industry.

Key Themes
- Expand service area of intermodal business ➔ P57
- Expand business in growing areas and markets in Europe (Healthcare, temperature controlled transport, and apparel)
- Initiatives in EC-related business
- Promote M&As
  - Enhance 3PL, Freight forwarding (apparel)
- Introduce EV/fuel-efficient vehicles
- Eco-friendly logistics center

China

We will accelerate the introduction of automated/labor-saving equipment for warehouse operations, further improve safety/quality/productivity, and enhance our system to deliver high value-added logistics services. We will also work on further improvement of logistics network by expanding businesses in Southwest and the Greater Bay Area.

Key Themes
- Further improve safety, quality, and productivity through automation and labor-saving ➔ P57
- Expand Southwest area, develop Greater Bay Area
- Enhance high value-added logistics services
- Increase EV, solar power generation

North America

In addition to further expanding transportation business such as shared milkrun and trunk line transport, which has been one of our long-standing strengths, we will enhance our integrated logistics for customers’ factories such as in plant logistics service, cross-docking warehouse, and milkrun. We will also promote M&As to enhance non-asset based transport capability in the U.S.

Key Themes
- Expand shared milkrun service and trunk line transport
- Provide integrated logistics for factories
  - (In-plant logistics service, cross-docking warehouse, milkrun/transport between warehouses)
- Enhance freight forwarding business base/functions
- Group restructuring/structural reform
- Promote M&As
  - (Strengthen transport capability: The U.S. (non-asset))
- Address driver shortages

Asia

We will increase investments mainly in growing markets including India, Thailand, Indonesia, and Malaysia. By industry, we aim to expand our business by mainly targeting auto parts, food, and daily commodities, etc. and also focus on developing cold chains to enhance our local and regional networks. We will also promote M&As to enhance both asset based and non-asset based transport capability in India.

Key Themes
- Expand investments/businesses in India, Thailand, Indonesia, and Malaysia, etc.
  - (Auto parts, food, daily commodities, etc.) ➔ P58
- Develop cold chains
- Strengthen local/regional network
- Promote M&As
  - (Strengthen transport capability: India (asset, non-asset))
- Introduce automated/labor saving equipment at full scale
- Increase eco-friendly/multi-purpose logistics center and EV

*ESA s.r.o., our group company, acquired the reverse logistics services for e-commerce operators from Vlková Partners s.r.o., a logistics company in Czech Republic. Please refer to the Company’s news release available on the link on the right. https://www.hitachi-transportsystem.com/en/news/20220527.html

Our Future

Hitachi Transport System, Ltd.    Integrated Report 2022

Our History

Value Creation Achievements

Financial/Non-Financial Information

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Hitachi Transport System, Ltd.    Integrated Report 2022

32
Evolution of Supply Chain Optimization Services
As the modern supply chains are becoming more complicated and sophisticated, we will work together with our customers to increase their business values as a strategic supply chain partner through the visualization and total optimization by DX.

Integrated management of supply chain data for manufacturers
To solve issues faced by our customers in the manufacturing industry in particular, we will optimize the entire supply chain by linking manufacturer systems with logistics systems to integrate management of supply chain data in procurement/manufacturing/logistics.

In addition to providing existing logistics management systems such as Warehouse Management System (WMS), Transport Management System (TMS), and Forwarding Management System (FMS), we will contribute to the implementation of a strategy for the entire supply chain using digital technology by linking with customers’ planning/execution systems such as Manufacturing Resource Planning (MRP) and Enterprise Resources Planning (ERP).

Expansion of SCDOS*1 functions
Our supply chain optimization service, SCDOS, offers a supply chain design service that supports customers’ logistics network design and a decarbonization monitoring service that supports decarbonization strategy development by automatically calculating CO2 emissions based on the actual transport/delivery records.

In the future, we will expand our services through a seamless linkage with trade information platforms and SSCV*2 in order to support customers to create resilient supply chain and optimize their entire supply chain as well as contribute to their initiatives to enhance environmental values such as decarbonization.

Supply chain design service
We visualize the current logistics network and identify issues based on data about sites/volume/costs/delivery condition to optimize site placement/logistics operations/inventory. By doing so, we contribute to reducing logistics costs and environmental load while maintaining service level. We use actual data of our domestic and overseas sites and scenarios in the analysis to provide support for designing high-frequency and dynamic supply chain to cope with changes in global business environment.

Decarbonization monitoring service
We collect/integrate transportation data from multiple companies and systems for optimization simulations and automatic calculation/monitoring of CO2 emissions.

We also support customers to start Scope 3*3 emissions control and monitor daily emissions as well as contribute to the development of decarbonization strategies including a medium-to-long-term roadmap to reduce CO2 emissions.

Expansion of Value-Added Services (VAS*4)
We offer various value-added services (VAS) at each site that meet our customers’ requests for their wide range of products including food, apparel, products, cosmetics, precision instruments, auto parts, and ICT equipment.

Going forward, we will mainly focus on developing and expanding new services in boundary domain between manufacturing and logistics as well as increasing logistics sites to offer our services.

In specific, we will provide values to logistics-related services in customers’ value chain by seamlessly linking our services including manufacturing support, packaging design solution, safety training services using VR, manufacturing and logistics as well as increasing logistics sites to offer our services.

Examples of our services
We collect/integrate transportation data from multiple companies and systems for optimization simulations and automatic calculation/monitoring of CO2 emissions.

We also support customers to start Scope 3 emissions control and monitor daily emissions as well as contribute to the development of decarbonization strategies including a medium-to-long-term roadmap to reduce CO2 emissions.

*1 Supply Chain Design & Optimization Services
*2 Smart & Safety Connected Vehicle
*3 Life Cycle Inventory
*4 Value-Added Services
*5 Virtual reality
*6 Vendor Managed Inventory
*7 GDP (medical supplies)
Mid-term Management Plan –LOGISTEED2024–

Priority Measures 3. Evolve Smart Logistics

Enhance Warehouse Business (Automation/Labor-saving, DX)

In terms of warehouse operations, we will further introduce automated facilities as well as improve productivity and promote visualization using smart devices. By using a resource control system (RCS)*1 to manage those facilities, devices, and digital devices, we will realize further energy-saving and standardization.

In addition, we link RCS-controlled data and WMS data to achieve total optimization with a digital twin of cyber-physical connection, and also link with customers’ ERP to achieve real time operations. We will enhance warehouse business through this comprehensive warehouse management and deliver values to our customers as our DX.

Enhancement of real-time linkage with customers and sophisticated SCM

As for warehouse functions, we will build and enhance three-temperature zone warehouses to meet increasing needs for chilled/frozen storage, enhance GDP*3 compliance measures and respond to environmental changes such as digitalization. We plan to expand a chilled warehouse in Malaysia in 2024.

Enhance and Expand Warehouse Functions (Build/Enhance Three-temperature Zone Warehouses and Hazardous Substances Warehouses)

As for warehouse functions, we will build and enhance three-temperature zone warehouses to meet increasing needs for chilled/frozen storage, enhance GDP*3 compliance measures and respond to environmental changes such as digitalization. We plan to expand a chilled warehouse in Malaysia in 2024.

We will also build and expand hazardous substances warehouses against the backdrop of tightening of regulations and compliance requirements for hazardous products and increased volume of hazardous substances in the cosmetics and pharmaceutical fields. We opened hazardous substances warehouses in Chiba Prefecture in July 2021 and in Shiga Prefecture in January 2022.

Enhance Transport Business (to Cope with the “2024 problem”*4 and Decarbonization)

We will accelerate both physical and digital measures to appropriately cope with the “2024 problem” and contribute to decarbonization.

In terms of physical measures, we will use double-trailer trucks, relay transport and swap body to increase large capacity and short-haul truck transportation. We will also consolidate vehicle assignment with shared terminals and promote sharing to improve transport efficiency and reduce CO2 emissions.

In terms of digital measures, we will link loading dock booking management system and WMS to reduce drivers’ waiting time, and also use SCSV for digital roll-call and share and visualize information on risky area using internal/external data to offer solutions to secure drivers’ safety and support labor management.

Enhance Transport business to cope with the “2024 problem”

Physical measures

- Increase large capacity and short-haul truck transport
- Consolidate management of APIs and local companies (shared terminal)
- M&As, business succession, collaborative innovation

Digital measures

- Link loading dock booking and warehouse operation
- Reduce driver waiting time
- Link WMS and loading dock booking management system
- Comply with laws and regulations (drivers labor management)
- Accelerate introduction of digital roll-call
- Linking SCSV-Safety and SCSV-Smart

Reduce truck drivers’ working hours and waiting time and ensure strict labor management to cope with the “2024 problem” and decarbonization

Started a Joint Verification Project to Coordinate Truck Transportation with AI-Equipped Automated Forklifts

In September 2021, together with DAWA HOUSE INDUSTRY CO., LTD, AEON GLOBAL SCM CO., LTD, Kai Corporation, and Toyota Industries Corporation, we launched a joint project to improve cargo handling and logistics efficiency and promote energy saving by coordinating truck transportation with AI-equipped automated forklifts in logistics facilities. This project was publicly solicited by the Agency for Natural Resources and Energy of METI under the “Project to further improve transportation efficiency utilizing AI, IoT, etc. in FY2021”.

Points of Verification Project

1. Automation of “receiving” and “shipping” at logistics facilities by using automated forklifts
2. Data linkage between operators to improve efficiency of the entire supply chain
3. Improve efficiency and reduce energy consumption by reducing truck waiting time between shipper and consignee

*1 Resource Control System: an integrated control system, for which the Company has a patent, equipped with work execution function that gives instructions to each facility and worker based on the information on the operation status of the automated facilities and the work result of workers within the logistics center. Please refer to the Company’s news release shown below. https://www.hitachi-transportsystem.com/en/news/20210802.html

*2 Cyber Physical System

*3 Global Trade System

*4 Various issues arising from the upper limit of driver’s working hours, etc. which will become effective from 2024 under the work style reform-related bills.

*5 Project to improve transportation efficiency of the entire supply chain using new technologies, projects to promote energy saving of truck transportation, and project to maintain energy saving performance of road vehicles and appropriate automobile management utilizing big data.

*6 Project to promote energy saving of truck transportation, project to improve energy saving of truck transportation, and project to improve energy saving and appropriate automobile management utilizing big data.
Mid-term Management Plan –LOGISTEED2024–

### Priority Measures 4. Solidify ESG Management Base

**Review Objectives and Enhance Decarbonization Initiatives**

 Toward the realization of sustainable society and increase in corporate value, we are promoting actions focusing on environment, social, and governance and corporate ethics (ESG management). To further strengthen linkages with business activities, we have reviewed the “HTS Group’s Objectives” and will work to realize SDGs by focusing on the three areas below and leveraging our strengths of advanced logistics engineering capability, ability to accomplish operation, and global network.

1. Contribute to decarbonized/recycling-oriented society
2. Build and evolve resilient, sustainable logistics services
3. Create new values through collaborative innovation

In terms of the medium-term environmental targets, we will strive to reduce CO2 emissions by average 2.94% annually to achieve the target of 50% reduction*2 by FY2030. Our CO2 reduction efforts also include investment totaling ¥5 billion in energy saving, electrification, procurement of renewable energy, energy creation, and emissions trading during the period covered by the Mid-term Management Plan.

**Examples of CO2 emission reduction initiatives**

In terms of safety/quality/productivity, fire prevention/security, in addition to existing measures such as security rounds and safety/quality/productivity measures, we will promote “visualization of safety/quality/productivity/fire prevention/crime prevention” by introducing “safety cockpit” which centrally controls abnormality detection and issuance of alerts for incidents and hazardous work using AI recognition and deep learning, as part of our future measures to automate security/fire detection/firefighting as well as enhance safety/quality control activities and environmental management.

**Future vision of logistics center**

### Human Resource Strategy

We will carry out the human resource strategy more linked to our management and business strategies than ever to accelerate LOGISTEED.

In terms of personnel development and skill development, we will visualize human resources and skills to focus on the development of human resources with skills for site operation, DX/LT, and global business. In terms of the personnel system, we will introduce job-based system to encourage each individual employee to autonomously carry out their roles, have a challenging spirit and grow. As for the working-style reform, we will continue our efforts to improve productivity through DX and improvement activities.

**Investment Plan**

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

Under the brand slogan “Taking on the Future” and our business concept “LOGISTEED”, the HTS Group aims to create economic value as well as social and environmental values with the combination of “HI Way” and “LOGISTEED” by making business investments mainly to expand sites and strategic investments to change and evolve into a company envisioned by LOGISTEED using mainly operating cash flows and cash and cash equivalents.

### LOGISTEED2024 (accumulated) (100 million yen)

<table>
<thead>
<tr>
<th>LOGISTEED2024 (accumulated)</th>
<th>LOGISTEED2024 (accumulated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment + Dividends: (Result)</td>
<td>Investment + Dividends: (Result)</td>
</tr>
<tr>
<td>1,750</td>
<td>1,750</td>
</tr>
</tbody>
</table>

**Invest in growth opportunities**

- [ ] Expand/Expand Overseas Business
- [ ] DX, capital policy, etc.
- [ ] Expanding businesses
- [ ] Positive Smart Logistics
- [ ] Data Management
- [ ] Digital transport, etc.
- [ ] Solidity CS management base
**HTS Group Sustainability**

Under the HTS Group’s corporate philosophy “to deliver high-quality services that will help make the world a better place for people and nature for generations to come,” we have been promoting sustainability initiatives to contribute to the realization of a sustainable society.

**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.

**Contribution to SDGs**

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.

**SDGs closely related to four objectives**

SDGs relating to objectives of the HTS Group

**Participation in International Initiatives**

The HTS Group signed the “UN Global Compact (‘UNGC’)” in May 2020 to express its support for the principles. The UNGC is a voluntary initiative to participate in creating a global framework for the sustainable growth. 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.

**Overview of FY2021 Sustainability Promotion Committee**

- Discuss and approve the method to disclose sustainability information
- Share the information about the ESG external evaluation and external trends regarding sustainability
- Review and approve material issues, etc.

**Overview of FY2021 Sustainability Promotion Committee**

- Number of Sustainability Promotion Committee held: 2 times (August, January)

**Major agenda items**

- Participation in International Initiatives
- Contribution to SDGs
- Contribution to the implementation of Social Responsibility
- Contribution to the implementation of Social Responsibility

**Toward the Creation of Economic, Social, and Environmental Values**

<table>
<thead>
<tr>
<th>Year</th>
<th>Environment, social, governance and corporate ethics</th>
<th>Solidify ESG management base</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-2018</td>
<td>Identified material issues</td>
<td>Reflect to LOGISTEED2024</td>
</tr>
<tr>
<td>2019</td>
<td>Environment, social, governance and corporate ethics</td>
<td>P43</td>
</tr>
<tr>
<td>2020</td>
<td>Solidify ESG management base</td>
<td>P43</td>
</tr>
<tr>
<td>2021</td>
<td>Accelerate contribution to SDGs</td>
<td>P43</td>
</tr>
<tr>
<td>2022</td>
<td>Participation in the United Nations Global Compact</td>
<td>P43</td>
</tr>
<tr>
<td>2023-</td>
<td>Response to CDP (A rating for two consecutive years)</td>
<td>P43</td>
</tr>
</tbody>
</table>

**For details on sustainability, please visit our website:**
HTS Group Sustainability

Review of Material Issues
The HTS Group identified 15 material issues in FY2017 and developed four objectives from CSV* viewpoint, but we reviewed the material issues in FY2021 in light of drastic changes in issues and management environment relating to sustainability. In doing so, we identified material issues not only from ESG perspective but also in consideration of their relevance to solutions for social issues in the logistics industry and the business strategy. As a result, we identified a total of 12 material issues including those with strong focus on business and those unique to logistics operations, which is a social infrastructure, such as “Prevent accidents during operation” and “Enhance disaster prevention/mitigation.”

*Creating Shared Value (CSV): Refers to practices that balance activities to create economic benefits with solutions to social issues, or management strategies to achieve them

- Positioning of material issues, objectives, and SDGs
Of the identified 12 material issues, we classified those relating to value creation into three “Objectives” and those relating to the business base, such as compliance and risk management, into “Supportive foundation for the objectives.” We also clarified the relation between the objectives and SDGs.

Objective 1
Contribute to Decarbonized/Recycling-oriented Society
- Material issues
  - Contribute to decarbonized society
  - Contribute to recycling-oriented society

Objective 2
Build and Evolve Resilient, Sustainable Logistics Services
- Material issue
  - Build and evolve resilient, sustainable logistics services

Objective 3
Create New Values through Collaborative Innovation
- Material issues
  - Secure diverse human resources to support growth
  - Step up DX
  - Establish business models through collaborative innovation

Materiality

**Step 1** Identify Issues
- Understand issues of previous material issues identified in FY2017
- Identify ESG issues (SDGs, evaluation items by ESG rating agencies, disclosure guideline for non-financial information, material issues in the logistics industry, issues in our business strategy, strategic issues of corporate divisions)
- Created a list of material issues

**Step 2** Prioritized Issues
- Assessed the importance for stakeholders
  - Assessment weight of each industry by ESG rating agencies
  - Issues considered important by institutional investors
  - Investor survey
- Assessed the importance for the Group
  - Our business measures and ESG initiatives
  - Medium- to-Long- term environmental targets, etc.
- Identified material issues
  - Developed objectives and KPIs based on material issues

**Step 3** Check the adequacy
- Assessment by the management
  - Assessment of material issues by the management
- Discussion at the management workshop based on the assessment result
- Evaluate the adequacy by external experts
  - Interview by external experts about the assessment process and adequacy of material issues
- Check of adequacy and approval by the Board of Directors

Identified
- Identified material issues
- Developed objectives and KPIs based on material issues

I think that appropriate deliberation was conducted from the perspective of both “logic” and “will” by pursuing “HTS’s uniqueness” through discussions with the management and secretariat, instead of relying only on the objective and rational analysis of social demand, investors’ recognition, and competition trends. I felt that the process was not only appropriate but also successful in identifying the “material issues unique to HTS” with the business concept of LOGISTEED by including “Step up DX” and “Establish business models through collaborative innovation” among the material issues. I trust that including issues related to CSR as well as those directly related to realization of the management strategy has achieved “good understanding” within the Company. It was a little disappointing, however, that there are not enough material issues related to “new innovation beyond logistics domain.”

Mari Yoshitaka
Fellow, Principal Sustainability Strategist
Mitsubishi UFJ Research and Consulting Co., Ltd.

I believe material issues for ESG management have been properly identified through an adequate process in which important matters are discussed and shared among the management in order to spread them across the company. I think following such process with an aim to increase HTS’s corporate value will increase effectiveness of the initiatives to solve issues.

While themes of high importance to global logistics companies such as “decarbonization,” “resource recycling,” “human resources,” “work environment,” and “human rights/supply chain” are identified clearly and exhaustively, I felt that “Step up DX” and “Establish business models through collaborative innovation” that are supposed to remind the uniqueness of HTS don’t really sound like a logistics company to external parties. To enable smooth communication with stakeholders, it may be helpful to devise a way to describe them or set KPIs that show HTS’s uniqueness.

As the response to climate change in the logistics industry is drawing attention, placing top priority on “Contribute to decarbonized society” can be highly evaluated. So, I expect you will work on proactive engagement with investors to make sure they understand HTS’s long-term initiatives, including those to address physical risks identified by TCFD, in the context of the relevant material issues.
Material Issues and KPI of the HTS Group

The HTS Group has set KPIs for 12 identified material issues based on the priority measures, etc. of the Mid-term Management Plan “LOGISTEED2024.” Going forward, we will promote group-wide initiatives to address issues, manage the progress of KPIs, promote information disclosure, and aim to realize a sustainable society through dialogues with stakeholders.

### Objective 1: Contribute to Decarbonized/Recycling-oriented Society

<table>
<thead>
<tr>
<th>Material Issue</th>
<th>KPI</th>
<th>Priority measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contribute to decarbonized society</strong></td>
<td>Reduce CO₂ emissions (compared to FY2013: 26% reduction)**</td>
<td>Solidify ESG management base — Initiatives for decarbonization</td>
</tr>
<tr>
<td></td>
<td>Support customers’ decarbonization by providing SCOS “Decarbonization Monitoring Service”**</td>
<td>Expand business domains with new added value (accelerate LOGISTEED) — Evolve supply chain optimization services</td>
</tr>
<tr>
<td></td>
<td>Promote initiatives to set CO₂ emission reduction targets including supply chains (Set targets for FY2023)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Material Issue</th>
<th>KPI</th>
<th>Priority measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contribute to recycling-oriented society</strong></td>
<td>Recycling rate (Maintain 99% every fiscal year)</td>
<td>Expand business domains with new added value (accelerate LOGISTEED) — Evolve supply chain optimization services</td>
</tr>
<tr>
<td></td>
<td>Promote initiatives to build a circular economy business model</td>
<td></td>
</tr>
</tbody>
</table>

### Objective 2: Build and Evolve Resilient, Sustainable Logistics Services

<table>
<thead>
<tr>
<th>Material Issue</th>
<th>KPI</th>
<th>Priority measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Build and evolve resilient, sustainable logistics services</strong></td>
<td>Provide SCOS to support customers’ SCM**</td>
<td>Expand business domains with new added value (accelerate LOGISTEED) — Evolve supply chain optimization services</td>
</tr>
<tr>
<td></td>
<td>Realize a comfortable workplace by introducing automated/labor-saving equipment at logistics centers (Mechanization of cargo handling work 100 FTE** per year)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contribute to safe and more efficient transport by expanding user network of each SCOS function</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Achieve the target for introducing SCOS-Safety/Smart into partner companies)</td>
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</tr>
<tr>
<td></td>
<td>Enhance transport business to address the “2024 problem”**</td>
<td></td>
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<tr>
<td></td>
<td>(Number of violations of labor standards regarding drivers: 0)</td>
<td></td>
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<tr>
<td></td>
<td>Expand GIS**-compliant equipment at medical DCs (Complete introductions in target sites)</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Material Issue</th>
<th>KPI</th>
<th>Priority measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Evolve supply chain optimization services</strong></td>
<td>Enhance warehouse business (automation/labor saving, DK)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Enhance transport business (Address the “2024 problem” and decarbonization)</td>
<td></td>
</tr>
</tbody>
</table>

### Objective 3: Create New Values Through Collaborative Innovation

<table>
<thead>
<tr>
<th>Material Issue</th>
<th>KPI</th>
<th>Priority measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Secure diverse human resources to support growth</strong></td>
<td>Implement development of DX human resources</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Enhance the performance and market competitiveness of the organization and employees by securing human resources with global, digital, and management capabilities in line with the business strategies as well as actively addressing diversity and equal opportunities</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Material Issue</th>
<th>KPI</th>
<th>Priority measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Solidify ESG management base — Human resource strategy</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Supportive Foundation for the Objectives

<table>
<thead>
<tr>
<th>Material Issue</th>
<th>Step up DX</th>
<th>Address social issues such as diverter shortage and the “2024 problem” by promoting digitalization and labor-saving initiatives to create business opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KPI</strong></td>
<td>Establish a digital platform to create innovation through DX</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Execute logistics service reform projects utilizing a digital business platform (data linkage hub) (Total number of executions: 60)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Introduce Resource Control System (RCS)**</td>
<td>(Achieve the target number of introduction)</td>
</tr>
<tr>
<td></td>
<td>Improve conformance rate of “ONEsLOGI**” new WMS-PF (platform) to logistics operations (FY2023). Conformance rate 190%</td>
<td></td>
</tr>
</tbody>
</table>

| Material Issue | KPI | Address materials in the scope of RT and domestic group companies (total of Scope 1 and 2) | |
|----------------|-----|-------------------|
| **Priority measures** | Solidify ESG management base — Initiatives for decarbonization | |
| | Expand business domains with new added value (accelerate LOGISTEED) — Evolve supply chain optimization services | |

Material Issue: Secure diverse human resources to support growth

**Unless otherwise stated, the figures in ( ) represent targets for FY2024.**

* Scope: HTS and domestic group companies (total of Scope 1 and 2)  ** SCOS: Supply Chain Management  *** SCOS: Full-Time Equivalent: A unit of full-time work amount in an organization  **** Various issues arising from the application of upper limit of drivers’ overtime, etc. in 2024 set by the working style-reform related rules.  ***** GSAP (Good Distribution Practice) Approval: a standard to be fulfilled by medical supplies to ensure strict quality control  ****** Biometric Process Automation: A software robotic technology that automates administrative work performed by a person using a personal computer ******* Occupational accidents, vehicle accidents, and product incidents.  ** Activities to build and improve risk management systems in overseas sites via sending instructors from Japan.
Message from the CFO

We will accelerate our initiatives to further increase corporate value through “Dialogues” and “Collaborative innovation” with our stake holders.

Nobukazu Hayashi
Executive Vice President and Executive Officer, CFO
General Manager, Corporate Strategy Office

Review of the Mid-term Management Plan “LOGISTEED2021”

Under the Mid-term Management Plan “LOGISTEED2021” which ended in FY2021, although we fell short of some numerical targets including EBIT mainly due to the fire at a logistics center of a group company, we reported revenues of ¥743.6 billion exceeding the target of ¥720.0 billion and adjusted operating income of ¥38.7 billion exceeding the target of ¥36.0 billion. In this situation and indicators including cash flows in Japan and overseas altogether, to improve ROIC of the Group as a whole.

As for our investment plan, we made business investments aimed at building a solid core domain (Smart Logistics) such as expansion of domestic and overseas logistics sites and renewal of vehicles, etc. and strategic investments in “promotion of DX and establishment of IT platform,” “development of new technology,” “development of new business,” and “human resources, safety, etc.” and they all went according to the plan. However, M&As didn’t do well due to the impact of COVID-19, etc. We will also follow up on this under “LOGISTEED2024” and accelerate through collaboration with KKR mentioned earlier. Regarding the ROIC rating to facilitate fund raising from capital markets and diversify fund raising methods, despite some factors such as acquisition of treasury stock and a decrease in the total equity attributable to stockholders of the parent company ratio, we maintained a rating of A** as our long-term growth in adjusted operating income was recognized.

Financial Strategy in the New Mid-term Management Plan “LOGISTEED2024”

Expand topline by acquiring new customers
As the biggest theme of our financial strategy in the new Mid-term Management plan “LOGISTEED2024”, we will focus on the expansion of topline as mentioned above. In terms of domestic business, “Topline Expansion Project” is underway as mentioned earlier and we recently launched a relatively large project with new customers. So, we will boost topline and steadily improve profitability by increasing new projects.

For overseas business, as the Ukraine crisis and lockdowns under China’s zero-Covid policy have caused disruptions in global supply chains, we think it will take time before our freight forwarding business returns to normal. Under such circumstances, the Group aims to expand topline by continuing to pursue the “region-contained business model” described in the message from Mr. Nakatani, Chairman, and also allocating a large portion of strategic investment of ¥80 billion to ¥100 billion under “LOGISTEED2024” to M&As around the world. We are currently examining with KKR some domestic/overseas target companies and expected synergies and will promote such initiatives as increasing transportation capacity in the U.S. and India and enhancing 3PL and freight forwarding business in Europe through M&As.

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Major initiatives focusing on asset efficiency and capital efficiency (recent seven years)

<table>
<thead>
<tr>
<th>Mid-term Management Plan/FY</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2016</td>
<td>Partially changed the business assessment approach (assess centers owned by the Group by adding market rent)</td>
</tr>
<tr>
<td>FY2017</td>
<td>Issued corporate bonds of ¥30 billion</td>
</tr>
<tr>
<td>FY2018</td>
<td>Set ROE as an important management indicator</td>
</tr>
<tr>
<td>FY2019</td>
<td>Asset liquidation (e.g. sale of distribution centers with low asset efficiency, leaseback)</td>
</tr>
<tr>
<td>FY2019</td>
<td>Introduced “comparison of ROIC and WACC” as one of the investment decision criteria</td>
</tr>
<tr>
<td>FY2019</td>
<td>Newly established the Financial Strategy Office</td>
</tr>
<tr>
<td>FY2019</td>
<td>Created rules for strategic investments</td>
</tr>
<tr>
<td>FY2019</td>
<td>Issued corporate bonds of ¥30 billion</td>
</tr>
<tr>
<td>FY2019</td>
<td>Reset ROIC to reflect the adoption of IFRS 16 Leases (adopted in FY2019)</td>
</tr>
<tr>
<td>FY2020</td>
<td>Introduced ROIC and WACC in the budget control</td>
</tr>
<tr>
<td>FY2021</td>
<td>Introduced ROIC tree in the budget control</td>
</tr>
<tr>
<td>FY2022</td>
<td>Enhance cash management and ROIC management by renewal of core system and introduction of TMS</td>
</tr>
</tbody>
</table>

**1 SmartPerformance Visualization Platform (SPV): A system to manage corporate performance
**2 Treasury Management System (TMS): A system capable of centrally managing the entire group’s fund and financial risks, etc.
Enhance ROIC education for overseas group companies and mutual communications

We are focusing on ROIC education especially for overseas group companies because the improvement of ROIC requires not only a system renewal but also initiatives at each site such as “ROIC tree.”

For example, we prepare ROIC education materials in English and provide ROIC education to accounting managers and staff in four key management areas (North America/Europe/China/Asia) every year, with an aim to promote close communication with the head office as well as deepen their understanding and raise awareness of ROIC. In FY2022, we held a full-scale meeting with overseas sites online for the first time after a few years hiatus due to COVID-19 and decided to continue this initiative as we were able to have beneficial and meaningful discussions with accounting managers and staff and also presidents of some overseas subsidiaries. In FY2022, in light of the easing of the COVID-19-related travel restrictions, General Manager of Financial Strategy Office will visit key management areas and have face-to-face meetings to deepen communications and focus on the ROIC management together with the entire Group.

Enhance finance human resources development with a global rotational system and a new educational program

We will make a proactive investment to “solidify ESG management base” one of the priority measures in “LOGISTEDE2024” and especially in the human resource strategy, we will focus on increasing/deepening global/DX human resources as well as enhancing finance human resources development.

For example, Financial Strategy Office focuses on the development of global human resources by including overseas assignments in the job rotation and is also promoting the use of FASS test*4 as well as enhancing systematic educational programs. In light of the fact that employees return from their overseas assignments with enough ability to contribute to the Corporate Strategy Office and Global Business Management Headquarters, and also that we plan to consolidate/expand the size of domestic group companies, we will work on improving skills to deal with financial audit, enhancing the detailed human resource education based on career and skill level of individual employees, as well as invigorating organizations through job rotation. Furthermore, based on the request from overseas group companies, we will proactively consider accepting and providing educational opportunities in Japan to overseas employees as part of our effort to invigorate organizations through job rotation mentioned above.

Enhance and improve efficiency of global cash/receivables/credit management

By introducing TMS mentioned earlier, we will monitor the daily cash movement of the entire Group to further refine cash management and enhance corporate governance. We also further enhanced global credit and receivables management during the period of the previous Mid-term Management Plan after the U.S.-China trade friction in 2020 which caused non-performing receivables in some areas. As overseas business with the high proportion of the freight forwarding business is susceptible to market downturns, we will closely monitor the freight forwarding market and enhance effectiveness of corporate governance over credit and receivables management.

*4 Finance & Accounting Service Skill Standard Test (FASS test) is a test based on the “Finance & Accounting Service Skill Standard” developed by METI with an addition of the U.S. test theory to measure objective practical knowledge and skill level in accounting and finance field.

Continue to Focus on the Dialogues with our Stakeholders

Although we will become an unlisted company after the tender offer for the Company’s shares by HTSK Co., Ltd. and a series of procedures scheduled thereafter, we will continue to focus on sustainable value creation and further accelerate our initiatives to increase corporate value. In terms of dialogues with our stakeholders to achieve them, we will disclose fair and highly transparent information in a timely and appropriate manner, including proactive disclosure of non-financial information such as material issues and ESG/SDGs initiatives, in an effort to focus on constructive dialogues with all of our stakeholders.
Logistics DX that the HTS Group Aims to Achieve

To deal with social issues surrounding the logistics industry including “labor shortages,” “efficiency improvement” and “sustainable transport services,” the HTS Group developed and offered “SSCV (transport digital platform)” and “SCDOS (Supply Chain Design & Optimization Services)” and, in 2019, developed “Resource Control System (RCS)” to achieve highly automated operation in logistics centers and started operation of a shared automated warehouse “Kasukabe EC Platform Center” for EC logistics. The HTS Group aims to achieve automation/labor-saving through linkage of systems and machines, as well as improve working environment through DX in one of its priority measures “Evolve Smart Logistics” in the Mid-term Management Plan “LOGISTEED2024” (p.32, 33). What was the HTS Group’s perception about the issues when it started working on Logistics DX? And what kind of Logistics DX should the Group aim to achieve in the future? We held a roundtable discussion with members who work on the front line of Logistics DX to hear opinions from the perspectives of “strategy,” “technology,” “development” and “Gemba (site).”

Attendees in the discussion

- General Manager, Information & Communication Technology
  Strategy Headquarters
  Kazunori Azusawa

- Deputy Department Manager, Logistics Technology Department, Logistics Solution Business Development Headquarters
  Takaharu Sakurada

- Manager, Smart Office, Kasukabe EC Platforms Center, DX & Innovation Department, Business Development Headquarters
  Kousuke Murakami

- Manager, Corporate Strategy Department, Corporate Strategy Office
  Masahiro Itotani

- Manager, Logistics Technology Department, Logistics Solution Business Development Headquarters
  Xiaolin Fang

- Department Manager, Digital Solution Department, Digital Innovation Promotion Headquarters, Hitachi Distribution Software
  Atsushi Yanagisawa

*Names of organizations and positions are as of the date of the discussion

First, please tell us about your background and areas of expertise and roles in DX.

Azusawa: After I joined the Company, I was first assigned to IT Department where I worked on a warehouse management system and liaised with customers about the development. After that, I was transferred to Smart Logistics Development Department and then to Corporate System Management & Integration Department in 2017 where I worked with Financial Strategy Office in the company-wide standardization and improvement activities of the corporate system. My area of expertise is IT in general, and my recent project was a major renewal of the internal core system. Since 2022, I’m in Information & Communication Technology Strategy Headquarters working on DX in the 3PL and freight forwarding businesses.

Rotani: After working for a system integrator company, I joined the Company in 2020. My area of expertise is marketing activities including research on DX-related market/technology trend and identifying social trend. The main task of Corporate Strategy Department is the development and promotion of the Mid-term Management Plan, and my job there is the development of DX strategy and promotion of individual DX projects. The Company was selected as a “DX Certified Operator” in May 2021 and as a “DX Stock 2022” in June 2022, and I was in charge of filing these applications.

Sakurada: For three years after I joined the Company, I worked on one of the largest projects of the Group to launch the 3PL business for a leading distribution-related customer, and for the next ten years, I worked on the introduction and consideration of various equipment at the launch of a number of customers. Then, after working at Smart Logistics Development Department, I was transferred to Digital Business Development Department where I worked on the development of new solutions. I’m specializing in considering automated/labor-saving equipment and engaging in new fields. Now I’m in Logistics Technology Department and working to promote DX mainly through the introduction of automated/labor-saving equipment and the development of control tools for logistics.

Murakami: After engaging mainly in the launch of the 3PL business with manufacturing customers and the improvement of customer’s sites in Logistics Technology Department, I spent the next around ten years in China and gained experience in a wide range of fields, including sales, logistics center management, and labor management. From 2018, I am in DX & Innovation Department engaging in operation and management of Kasukabe EC Platform Center and initiatives aimed at expansion in the future. My area of expertise is center operation and management with DX, and I am currently working on the introduction of the first automated/labor-saving equipment in the Group and the creation of workplaces with a combination of physical and digital measures.

Fang: Since I joined the Company, I have been with Logistics Technology Department, and for the first five years, I worked on the launch of the 3PL business and the site improvement. After that, drawing on my experience in site improvement, I worked on developing the optimization tool and creating simulations, which is my area of expertise. Simulation is a necessary and important means to verify the arrangement/setting/appropriate operation of equipment, and my current mission is to consider how to use simulation in a more useful way and develop human resources.

Yanagisawa: After I joined Hitachi Distribution Software, I worked on the development of a warehouse management system such as automated warehouse in the 3PL business, including material handling equipment linkage, and my area of specialty is system building by industry and business type. From 2015, I participated in the system design project for Smart Warehouse aimed at promoting automation of logistics centers from the stage of designing Resource Control System (RCS). Since 2020, I’ve been with Digital Solution Department and supporting the HTS Group’s DX from the IT perspective.

I see that each of you has different skills and area of expertise. Now, please tell us why the HTS Group has been promoting Logistics DX.

Azusawa: The environment surrounding the logistics industry has been drastically changing in recent years, and in Japan, it has become vital that we address labor shortages and reform working style. Also, due to the expansion of EC market and technological innovation, there is a growing move toward the transformation in logistics. Meanwhile, implementing initiatives toward the realization of sustainable society such as SDGs and ESG management is also another pressing matter of importance. Amid such circumstances, the first thing the Group should do is to create a safe and secure environment for its employees and at the same time provide its customers and business partners with high value-added services, while establishing a system capable of quickly responding to drastic structural changes. The Group also needs to enhance its

- Value Creation Achievements
- Financial/Non-Financial Information

Hitachi Transport System, Ltd.  Integrated Report 2022
Collaboration partners
SSCV
Work instruction
achievements in DX.
Warehouse Control System (WCS), the recent major
individual skills so far, and DX is vital to break away from it.
higher level of demand, raising concern over the resource
and more complicated, the level of demand from customers
Also, because customers' supply chains are becoming larger
well as aging population, it’s also necessary to make good use
development of various optimization technologies and the
Warehouse. The term “Smart Warehouse” referred to the
attention in the world, the Group started working on initiatives
has decided to work on DX.
Our Future
Sakurada
In overseas, especially in Asia, an increase in the
middle class led to an increased burden in logistics and a
higher level of demand, raising concern over the resource
shortages to meet it. It means that “people” is no longer
our option for solutions in Japan and overseas. The logistics
industry, especially in Japan, has depended on workers and
individual skills so far, and DX is vital to break away from it.
Please tell us about the background of the development of Resource Control System (RCS) and Warehouse Control System (WCS), the recent major achievements in DX.
Sakurada
Even before the term “DX” began to attract
attention in the world, the Group started working on initiatives
called Smart Logistics, which gave rise to the idea of Smart
Warehouse. The term “Smart Warehouse” referred to the
development of various optimization technologies and the
introduction of automated/labor-saving technologies at that time. Particularly with regard to the optimization technology, we
aimed to let computers replicate and sophisticate adjustments and judgments made by work managers or experienced
workers based on their experience/expertise. In some cases at the development stage, we were able to achieve efficiency
improvement that cannot be achieved by human work, but in
most cases, the computer only produced almost the same level of results as competent workers, which advanced the
development of a system that enables everyone to produce the same level of results without depending on individual skills. The
Smart Warehouse project back then progressed in individual
optimization technologies such as considering optimal picking line and order assignment, but there was a limit in terms of total
optimization that takes into account overall conditions of the
whole center. Also, various optimization systems operating with
different modules made it difficult to introduce/install at
sites, which made us realize that we needed a large platform
to integrate all systems. So, as we worked on individual issues, the concept of Resource Control System (RCS) that enables an
optimal control of the whole center and Warehouse Control System (WCS) that controls automated/labor-saving equipment
was gradually formed.
Automated/labor-saving equipment, including Resource Control System (RCS) and Warehouse
Control System (WCS), were introduced in Kasukabe EC Platform Center in September 2019. Please tell us
what kind of advantages they brought to the center.
Murai
Kasukabe EC Platform Center was opened with the
concept of providing space/various equipment/systems in the
center for multiple EC business operators to share, and is
currently used by many customers. Compared to conventional
logistics centers, this center has a lot more automated/labor-
saving equipment enabling to unify work method and maintain
a certain level of quality and therefore achieves stable service
quality and efficiency improvement. As automation/labor-
saving enables extended operation for long time, one customer
can now handle 1.5 to 2 times more of shipping compared to
the time when it entrusted the operation to another logistics
company, so it is now considering expanding its sales channels.
We can also use the work result data to facilitate the site
management and offer various proposals to customers.
From the perspective of system development in site, what do you think triggered the development of Resource Control System (RCS)?
Yanagisawa
In developing the idea of a warehouse automation system, we figured that if “machines” replace “humans” to do work, the system should also replace humans in giving instructions and managing work processes. In giving such instructions, the number of resources and their individual capabilities must be taken into account, and when to start each work must also be controlled, in the same way that humans have always done. In order to achieve that, we needed a system that breaks down each work process, predicts process time based on the capability of resources in each process and controls when to give work instructions. That’s why we started the development of Resource Control System (RCS).
I hear it took a considerable amount of time and effort to develop the system. Please tell us in detail how you did it.
Sakurada
The concept of Resource Control System (RCS) and Warehouse Control System (WCS) first came up in late 2010s.
Yanagisawa
To realize a comprehensive operation system for automated/labor-saving equipment, we needed two “new ideas.” First, we needed an idea of how to create a system capable of making flexible decisions depending on the situation just as work managers and experienced workers do. Second, we needed an idea of how to operate equipment efficiently while pursuing the total optimization after replacing humans with automated/labor-saving equipment. We worked to develop the system based on these ideas under the notion that we could probably develop a better system if we developed an original one by ourselves as we knew the sites quite well.
Please tell us what kind of advantages the HTS Group as a whole got by realizing the perfect mix of equipment, IT system, and human work.
Yanagisawa
I think that would be that we realized a platform for an automated operation systems integrating various automated/labor-saving equipment. Resource Control System (RCS) controls when to give work instructions based on each equipment’s capability and volume aiming to maximize overall throughput. Resource Control System (RCS) is also capable of comprehensively managing the operation of the entire logistics center and realizing efficient operation through a close link with the Warehouse Management System (WMS). Having created a framework for them has brought a significant advantage to the Group. We believe an important notion applicable to all sites promoting automation is the combination of a series of functions we considered in the process of realizing the automated operation system i.e. process planning/task generation/optimization of resource allocation/prioritization/smoothing. We filed an application for and obtained a patent for the idea itself.

Digital platform based on Resource Control System (RCS)

HTS’s Logistics DX

Integrate four flows through LOGISTEED

Financial/Non-Financial Information

Digital business platform (Big data)

SCDOS
Smart Warehouse
SSCV

Logistics
Integrate four flows through LOGISTEED

Customer (camp-owners)
Partner transport companies
Collaboration partners

External DX that changes data to make through
Standardize by customer’s industry

Work instruction

Linkage with cargo owners’ system

RCS*4 linkage

Control using portable terminals

RCS*: Process/resource management

Material handling equipment linkage

Material handling equipment

AI task generation

Workers

Characteristics of WMS

* Standard work instruction by customer
* Support for multiple cargo warehouses
* Control operation using partly parameter
* Shares functions with RCS

Warehouse Management System
Resource Control System
Enterprise Resource Planning
Warehouse Control System
Internet of Things
One of the DX keywords of the HTS Group is “Simulation.” Please tell us how you use “simulation” in developing the system and work plan.

**Fang:** Simulation is a process of simulating movements of people and products in chronological order and useful in understanding "when," "where," and "how" people and products are moving. Using simulation in the system development and operation allows us to quantify and visualize the status of the equipment and optimal allocation of workers. We can predict and verify something we couldn't find out before we actually did it before. The Group has accumulated expertise in site operations such as how to instruct people and use equipment, which gives us a unique advantage in doing a precise simulation efficiently. However, about 10 years ago, we used to do simulations to prepare a work plan in advance based on average value using a general purpose spreadsheet software, and there were some cases where problems occurred after the work actually started and we suddenly had to examine the response. Now, IT technology has advanced since then, which enables us to do simulations of every possible pattern, analyze potential issues and take measures when preparing the work plan.

**Azusawa:** One of the characteristics of the logistics business is that cargo owners manufacture and sell products based on market forecasts. The Group makes logistics plans based on such forecast information, but in most cases, cargo owners only provide us with the information at the last minute of the shipping deadline. Previously, work managers and experienced workers dealt with it using their long years of experience and individual expertise, but the recent drastic changes in environment are causing an increase in cases where forecasts differ from actual results, and the simulation technology is also expected to reduce the gap.

**Sakurada:** For example, when we need to determine the most efficient picking method for an order received, if we can't know until we try it, it will cause a significant loss. If we use the simulation technology, we can estimate the time required for each method and verify it in advance. This is a typical example to show the need for simulation. Meanwhile, from the perspective of Cyber Physical System (CPS) and digital twin**, the basic concept of the Group’s DX, the simulation technology is the fundamental technology. Both collect the information of what is actually happening in the physical space as digital data and recreate it in the cyber space. By setting various conditions and parameters in the cyber space, we can estimate and verify work time.

**Please tell us about actual cases where the implementation of DX in sites contributed to efficiency and quality improvement.**

**Murakami:** Kasukabe EC Platform Center uses Business Intelligence (BI) tools and Warehouse Management System (WMS) to visualize the progress and labor shortage in each process, allowing work managers to assign appropriate number of workers based on the work volume in each process and equalize work at the logistics center.

**Please tell us what you all think about the Logistics DX in the future in terms of what kind of customer and social issues you are going to address.**

**Itotani:** In hopes of further enhancing "Gemba" Power, we will try to provide useful information to work managers by digitalizing "Gemba" information in real time and visualizing it as well as adding forecasts and simulation. Also, in light of the fire at a logistics center of our group company in 2021, we started considering the potential use of DX technology as the core of disaster prevention measures such as to enhance security and firefighting activities at early stage using robots and drones, in addition to early detection of danger using cameras and sensor technology.

**Sakurada:** DX has been promoted not only by us but also our peer companies and many companies in other industries. Amid such situation, implementing DX initiatives in limited areas only produces limited results. So, we need to work with a larger number of companies and realize optimization in larger areas. In recent years, we have been witnessing a number of disruptions/divisions in supply chains caused by various risks including climate change/inflection/geo-political risks, etc. Considering how we will find solutions to various social issues and realize more efficient and better society, one of the important roles of the industrial circles is to improve efficiency of the supply chain as a whole. The role of logistics industry in such challenge is quite important, and I think that the logistics industry is expected to implement DX in society as a whole, not just in limited areas by individual companies. The Group has worked on many projects with influential customers in various industries. Based on the trust relationships with them built over the years, we hope to pursue DX standard accepted by the entire industry and then DX can be implemented beyond the industry.

**Thank you. Please tell us how Logistics DX can contribute, for example, to decarbonization, one of the major social issues.**

**Azusawa:** From the Group’s point of view, decarbonization means reduction of CO2 emissions from transportation and logistics centers. To achieve that goal, we have started with effectively measuring the volume of CO2 emitted by the Group and our partner companies with DX and are now working to reduce it systematically toward the reduction target. These initiatives will include the use of renewable energy as well as activities to improve work efficiency with DX.

**Itotani:** Based on various data provided by our customers, we perform a simulation in cyber space of the methods to reduce CO2 emissions from transportation and logistics centers to propose them as solutions. So, by creating solutions based on our own initiatives toward decarbonization, I think we can contribute to decarbonization of our customers and industry and, furthermore, society as a whole.

**Please tell us about the internal DX, another pillar of the HTS Group’s DX strategy.**

**Azusawa:** We have been using Robotic Process Automation (RPA) as part of VC activities aimed at operational improvement through company-wide bottom-up initiatives. The introduction of RPA not only improved operation but also fostered improvement mindset, which led to the development of Literacy regarding a fundamental reform. On the other hand, the core of the internal DX is promotion of Enterprise Resource Planning (ERP) and renewal of the core system. All business activities are ultimately linked to the core system, and the Group is currently replacing the legacy core system with a next generation system. As a result, once it is completed, we will introduce the latest DX across the Group and reinforce the efforts to meet global standard.

Lastly, please tell us about your future plans in DX.

**Azusawa:** We will continue to respond to environmental changes in society including customers and strive to enhance our services to become a "more accommodating" company that can support decisions of customers in the entire supply chain. In terms of ESG initiatives, we aim to increase corporate value through efforts to further quantify and visualize non-financial value with internal DX and let our stakeholders know about our social value creation.
3PL Business (Domestic)

For logistics operation at any stage of customers’ supply chain and its 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 contributing 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 supply support chain 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 VMI*, assembly/batching 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 ICT*, skills for ICT equipment and collaborative logistics services for hazardous/chemical products.

* VMI: Vendor Management Inventory
* ICT: Skills for customer engineers who configure and perform operation check of ICT equipment

Market share in FY2020

<table>
<thead>
<tr>
<th>Company</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HTS</td>
<td>13.4%</td>
</tr>
<tr>
<td>Company A</td>
<td>9.9%</td>
</tr>
<tr>
<td>Company B</td>
<td>6.3%</td>
</tr>
<tr>
<td>Company C</td>
<td>5.4%</td>
</tr>
<tr>
<td>Company D</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

* Calculated by the Company using data in monthly magazine LOGISTEED.

FY2021 Result

- **Results**
  - Revenues: ¥366.0 billion (YoY - ¥2.2 billion)
  - Operating income: ¥22.14 billion (YoY - ¥0.99 billion)

- **New Orders/New Startups**
  - New Orders: 14 projects
  - New Startups: 13 projects

**FY2021 Topics**

April 2021: Acquired a patent for “Resource Control System (RCS)” to achieve highly automated command functions in logistics centers

May 2021: Selected as a “CIX Certified Operator” by METI of Japan

July 2021: Received “Advanced Technology Award” at the 22nd Logistics Environment Awards

September 2021: Co-awarded “METI Minister’s Award” and “Technical Packaging Award” at the Japan Packaging Conference 2021

September 2021: Started a joint verification experiment to coordinate truck transportation with AI-equipped automated forklifts

November 2021: Received the “Award of Modal Snip Initiative Excellent Business Operator (effective usage category)” in 2021

Value Creation Achievements

Examples of LOGISTEED2024 Priority Measures

**Expand Value-added Services (VAS) in Boundary Domain Between Manufacturing and Logistics**

With an aim to “expand business domains with new added value (accelerate LOGISTEED)” as set forth in priority measures in the Mid-term Management Plan, we are working to further increase business value by expanding domains.

We will provide VAS by focusing on an enhancement of value creation in the boundary domain between manufacturing and logistics using experience and expertise in factory logistics gained through many years of our services for manufacturing customers including the Hitachi Group and transport equipment manufacturers.

**Examples of VAS for manufacturing customers**

- Procurement logistics/VMI
  - Placement of raw materials/parts orders, VMI warehouse operation, proposal of materials, pickups/ milkruns, and JIT delivery

In addition to general logistics services, we also provide logistics-related services in a one-stop process, including placing orders in procurement logistics, operation of VMI warehouse, parts delivery before feeding to production line, assembly and inspection in the manufacturing process, and packaging design. For example, in the logistics center for a leading machinery manufacturer, the Group contributes to optimizing the customer’s cost and delivery time by undertaking a series of processes to turn unpackaged parts received from a supplier into maintenance parts ready for delivery, including painting, packaging, and packing. As a partner throughout the customers’ supply chain strategy, we will further enhance value creation beyond logistics.

Develop/Introduce a Unique Truck Loading Dock Booking Management System

We set forth “Evolve Smart Logistics” and “Solidify ESG management base” as priority measures in the Mid-term Management Plan and are working on initiatives to enhance creation of economic and social values through our businesses. For example, we endorsed the “White Logistics” movement and are working on the development and introduction of an original truck loading dock booking management system linked to Warehouse Management System (WMS), etc. Booking and allocating loading dock for truck loading at our logistics centers can reduce waiting time and traffic congestion and also improve drivers’ working conditions and truck usage efficiency and reduce CO2 emissions.

The feature of the system we are developing and introducing is that, in addition to having general functions, it is also capable of linking data with existing WMS and vehicle assignment systems, enabling more efficient operation as well as practical and detailed visualization/analysis by integrating information on cargos, work, vehicles, and loading dock availability that are usually managed separately.

We have already completed the development/ introduction and verification for a model site and plan to complete the introduction to major sites of domestic group companies by FY2023 to prepare for so-called the “2024 problem”.

**Financial/Non-Financial Information**
**3PL Business (Overseas)**

Since the expansion into Singapore in 1976, the HTS Group has been expanding internationally, with a global network of 435 sites in 28 countries and regions (excluding Japan) as of March 31, 2022. Under the policy to become a leading 3PL company in Asia set in the Mid-term Management Plan “LOGISTEED2024” and then to become a global leader by FY2030, we will support our customers’ supply chain strategies with a wide range of services.

**Examples of LOGISTEED2024 Priority Measures**

**Europe**

Expand service area of intermodal business

Mars Logistics Group in Turkey continues to act with an understanding of doing business that respects the nature by investing in environmentally friendly intermodal (multimodal) and railway transportation. In 2021, it invested approximately 10 million Euros to purchase 90 railway wagons and opened the Halkali (Turkey) – Kolín (Czech Republic) railway line and also significantly increased the number of trips on direct intermodal lines for Germany and Czech Republic. As intermodal and railway transportation are sustainable and reliable service fit for high amount of mass transportation, Mars Logistics offers environmentally friendly solutions by expanding these services.

**North America**

Further expand the Shared Milkrun business

Carter Logistics, engaging mainly in auto parts logistics and transportation in the U.S., is recognized by its customers as a top service provider for cross-docking production parts and transportation of service and production parts. The Shared Milkrun, the core service of the company, is a business model that embodies priority measures of “LOGISTEED2024” by achieving maximization of trailer cubes, increased delivery efficiency to customers, and reduction of the carbon footprint simultaneously. We expect an increase in demand for such business models amid soaring supply chain costs and we will meet customer needs through the growth of the company’s Shared Milkrun business.

**Asia**

Expand investment mainly in India, Thailand, Indonesia, and Malaysia

The HTS Group plans to increase investment in Asian region where steady economic growth is expected. In India, one of the key countries, we purchased approximately 90,000 m² of land in Mumbai and started construction of a warehouse in April 2022. In India, we will also construct warehouses in Chennai, Delhi, and Bangalore to establish 3PL business that respects the nature by investing in environmentally friendly intermodal transportation investments with Turkey-Germany and Turkey-Czech direct intermodal lines. We opened a new page in our environmental solutions with these large investments in our warehouses in 2021, and we will continue our Green Logistics investments under LOGISTEED2024 by continuing our feasibility studies for new lines.

**China**

Evolve into the next-generation logistics through accelerated automation/labor-saving

In China, the environment surrounding the logistics business is drastically changing, giving rise to issues such as labor shortages and supply chain disruptions. In China, where the development of automation/labor-saving equipment is advanced, our subsidiary has aggressively implemented such equipment and aims to quickly realize the next-generation logistics sites that address social issues and are not dependent on human labor. It has already installed new technologies mainly in such processes as delivery and processing for distribution and made achievements. In addition, it is focusing on improving the sustainability of logistics and making supply chain more resilient by providing high value-added services such as visualizing potential issues through DX.

**Examples from the officer in charge**

As the Group operates large 3PL and freight forwarding businesses in these countries, experiencing the impact of COVID-19 on our business activities made us realize once again the importance of resilient, sustainable logistics services. Going forward, to contribute to our customers and society, we will increase investment in and enhance automation, labor-saving and DX, demonstrate “Gemba” power, one of our strengths, more than ever, and strengthen business platform by improving safety, quality, productivity, and work environment while focusing on reducing environmental load.

**Message from the officer in charge**

Koji Kawakita

Chief Executive for Asia

President, Hitachi Transport System (China), Ltd.
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, JPL, and heavy machinery and plant logistics and operations that require high level of expertise such as agency service for trade administration, service related to exhibitions and overseas events, and trade agreement consultation.

FY2021 Result

**Revenues (round amount):** ¥169.6 billion

**Freight forwarding volume (round amount):**
- Ocean transportation: 455 thousand TEUs*
- Air transportation: 176 thousand tons

Business outline by region

* Logos of the Group’s major freight forwarding operations are shown.

### Japan
- Ocean: 102 thousand TEUs
- Air: 63 thousand tons
  - Major export goods: for China: hygiene products, electronic/parts
  - For North America: automobile parts

### Europe
- Ocean: 38 thousand TEUs
- Air: 56 thousand tons
  - Major export goods: for Europe: furniture, electronic products
  - For China: textiles, hygiene products
  - For North America: food products

### North America
- Ocean: 44 thousand TEUs
- Air: 12 thousand tons
  - Major export goods: for Japan: automotive parts
  - For China/Europe: hygiene products, automobile parts

### Asia
- Ocean: 72 thousand TEUs
- Air: 33 thousand tons
  - Major export goods: for Japan: heavy machinery, electronic/parts

**Composition ratio of freight forwarding revenues**
- Japan: 31%
- Europe: 24%
- Asia: 23%

Examples of LOGISTEED2024 Priority Measures

To achieve our vision to “become a leading JPL company in Asia,” we aim to evolve into our customers’ global supply chain strategist/partner by providing seamless freight forwarding service with high added value.

To enhance overall business platform, we will expand our global network, the Group’s strength, through M&As and collaborative innovation with partners as well as improve operational efficiency of both customers and the Company through DX and promote operational optimization of customers’ supply chains using accumulated data.

In terms of individual businesses, we position pharmaceuticals and healthcare-related, cross-border EC logistics, and decarbonization-related project freight forwarding as major targets for expansion and will focus on initiatives to invest in and expand these growing domains.

Message from the officer in charge

As the world situation is rapidly changing due to persistent disruptions in international transportation network and supply chain, we believe it is important more than ever to select the optimal freight forwarding service. The Group will continue to support our customers’ supply chains and social infrastructure by steadily promoting network expansion and DX initiatives as well as providing the optimal solution for a diverse range of international transportation needs in a timely manner.

Yuichi Kuroume
President, VANTEC HTS FORWARDING, LTD

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.

FY2021 Result

**Revenues (round amount included in the reportable segments of domestic logistics and global logistics):** ¥36.9 billion (YoY + ¥1.7 billion)

FY2021 Topics

- Transported power plant to the U.S.
- Transported railway cars to Vietnam and Taiwan (ongoing)
- Expanded new energy-related business in Japan (solar business, and onshore wind power)
- Continued transport of toroidal field coil for International Thermonuclear Experimental Reactor (ITER)
- Undertook one-stop transportation of compact modular boilers in Japan

Examples of LOGISTEED2024 Priority Measures

We will further enhance the business domain composed of the technologies cultivated since our founding, around 1,000 full-time employees and dedicated assets as well as take advantage of the strengths to focus on new growing sectors in the social infrastructure industry toward the realization of energy transition and decarbonization, with an aim to provide services promptly meeting customer needs and accelerate social value creation.

**Core business domains:**
- Plant supply chain
- Production logistics
- Power plants
- Railway cars
- Industrial plant/module
- Heavy machinery relocation

**Transportation of finished products**

- Semiconductor manufacturing equipment
- Medical equipment
- Automobile industry (EV)
- Entire traffic infrastructure
- Decarbonization projects
- Power transmission and distribution (cables, transformation of electricity)

**Support infrastructure globally**

- H2
- CCUS: Carbon capture and utilization
- Renewable

**Domains to be expanded:**
- Decarbonization-related business
- Renewable
- Heavy machinery + natural energy plant
- Introduction of decarbonization technology and a state-of-the-art power generation plant

**Contribute to the realization of sustainable society**

Message from the officer in charge

As the social environment surrounding the heavy machinery and plant logistics business drastically changes, the service domains and contents needed by customers are also rapidly changing. To rapidly adapt to these changes, we will further improve “Gamba Power” and proposal capabilities, the foundation of our services, and strive to fully meet customer needs, support customers’ business activities, and establish industrial foundation that will help make the world a better place.

Daisuke Hayashi
General Manager, Heavy Cargo Transport and Engineering Headquarters, Business Management Headquarters
### Board of Directors and Executive Officers/Board of Directors

#### 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*1</th>
<th>Registration</th>
<th>Committee Experience/Area of expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Miho Aoki</td>
<td>Director</td>
<td>Mr. Miho Aoki served as executive officer in Hitachi Information Consulting Co., Ltd. (previously known as Hitachi Consulting Ltd.) and held executive positions in various other firms. Based on her abundant experience, she is currently working as an associate professor at University. The Company expects that the unique knowledge and experience for strategic planning and management and thus contribute to enhancing the function of the Board of Directors.</td>
<td>61</td>
<td>2020</td>
<td>Nominating Audit Compensation Corporate Management Finance/Accounting</td>
</tr>
<tr>
<td>2</td>
<td>Sayoko Izumoto</td>
<td>Director</td>
<td>Ms. Izumoto has a long career in corporate accounting and has served in various public positions. Mr. Izumoto has extensive knowledge and experience in the field of audit and supervision of business execution. The Company expects that such knowledge and experience is beneficial for the Company’s management and can be effectively enhancing the function of the Board of Directors.</td>
<td>68</td>
<td>2017</td>
<td>Nominating Audit Compensation Corporate Management Finance/Accounting</td>
</tr>
<tr>
<td>3</td>
<td>Mitsudo Urano</td>
<td>Director</td>
<td>Mr. Urano has worked to enhance management efficiency and executive performance in manufacturing and logistics businesses and has experienced a number of positions as an executive officer at various enterprises. As the Chair of the Company’s Board of Directors, he is expected to continue to enhance the Board’s role and contribute to effective discussions. He also worked on the introduction of the performance-based stock compensation plan for executive officers, as then-Chair of the Compensation Committee. The Company expects that his excellent business sense and familiarity with various management issues make him qualified to supervise the Company’s management and can be effective in enhancing the function of the Board of Directors.</td>
<td>74</td>
<td>2014</td>
<td>Nominating Audit Compensation Corporate Management Finance/Accounting</td>
</tr>
<tr>
<td>4</td>
<td>Takashi Nishijima</td>
<td>Director</td>
<td>After serving as the president of Yokogawa Electric, Mr. Nishijima currently serves as the chairman of Yokogawa Electric Corporation. The Company expects that his managerial excellence 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>64</td>
<td>2020</td>
<td>Nominating Audit Compensation Corporate Management Finance/Accounting</td>
</tr>
<tr>
<td>5</td>
<td>Hiroshi Maruta</td>
<td>Director</td>
<td>Mr. Maruta has deep insights into global business, who has served as an executive officer with major companies in the global business sector and thus brings a unique perspective to the Board of Directors. The Company expects that his knowledge and experience are appropriate for supervising the Company’s management and contributes to enhancing the function of the Board of Directors.</td>
<td>68</td>
<td>2015</td>
<td>Nominating Audit Compensation Corporate Management Finance/Accounting</td>
</tr>
<tr>
<td>6</td>
<td>Hajime Watanabe</td>
<td>Director</td>
<td>Mr. Watanabe has a background in law and has experience in corporate restructuring and business strategy development. Since April 2016, he has successfully restructured the business strategy in the global business, which includes a number of positions as an executive officer at various enterprises. As the Chair of the Company’s Board of Directors, he is expected to continue to enhance the Board’s role and contribute to effective discussions. He also worked on the introduction of the performance-based stock compensation plan for executive officers, as then-Chair of the Compensation Committee. The Company expects that his excellent business sense and familiarity with various management issues make him qualified to supervise the Company’s management and can be effective in enhancing the function of the Board of Directors.</td>
<td>62</td>
<td>2020</td>
<td>Nominating Audit Compensation Corporate Management Finance/Accounting</td>
</tr>
<tr>
<td>7</td>
<td>Hiroaki Takagi</td>
<td>Director</td>
<td>As the Chair of the Company’s Board of Directors, he is expected to continue to enhance the Board’s role and contribute to effective discussions. He also worked on the introduction of the performance-based stock compensation plan for executive officers, as then-Chair of the Compensation Committee. The Company expects that his excellent business sense and familiarity with various management issues make him qualified to supervise the Company’s management and can be effective in enhancing the function of the Board of Directors.</td>
<td>59</td>
<td>2022</td>
<td>Nominating Audit Compensation Corporate Management Finance/Accounting</td>
</tr>
<tr>
<td>8</td>
<td>Yasuo Nakatani</td>
<td>Director</td>
<td>As the Chair of the Company’s Board of Directors, he is expected to continue to enhance the Board’s role and contribute to effective discussions. He also worked on the introduction of the performance-based stock compensation plan for executive officers, as then-Chair of the Compensation Committee. The Company expects that his excellent business sense and familiarity with various management issues make him qualified to supervise the Company’s management and can be effective in enhancing the function of the Board of Directors.</td>
<td>66</td>
<td>2013</td>
<td>Nominating Audit Compensation Corporate Management Finance/Accounting</td>
</tr>
</tbody>
</table>

*1 As of June 23, 2022  "*2" as of*
Board of Directors and Executive Officers/Executive Officers
(As of September 30, 2022)

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

Takashi Jingugi
Executive Vice President and Executive Officer
General Manager, Logistics Solution Business Development Headquarters, Business Management Headquarters

Kazuhisa Hatakeyama
Senior Vice President and Executive Officer
Senior Vice President and Executive Officer

Toru Watanabe
Senior Vice President and Executive Officer
General Manager, Safety and Quality Control Management Office

Shunsuke Yonekura
Executive Vice President and Executive Officer
General Manager, Information Technology Strategy Headquarters
General Manager, Information Security Office
Deputy General Manager, Business Management Headquarters

Tetsuji Mimura
Executive Vice President and Executive Officer
General Manager, Logistics Solution Business Development Headquarters, Business Management Headquarters

Profile of Board of Directors and Executive Officers are available at the Company’s website.
Corporate Governance

Basic Principle
At the HTS group, we consider corporate governance to be key to realizing even greater management transparency and efficiency, as well as ensuring that our business is carried out with compliance and in accordance with correct corporate ethics. By extension, the core of corporate governance lies in increasing corporate value and sustainable development. Rooted in this basic policy, we have adopted a corporate governance structure capable of responding flexibly 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 operation—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 objective opinions of many outside directors facilitates both management 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>Measures</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>Transformed to a Company with Committees (established Nominating Committee, Audit Committee and Remuneration Committee)</td>
</tr>
<tr>
<td>2014</td>
<td>Developed Criteria for Independence of Outside Directors</td>
</tr>
<tr>
<td>2015</td>
<td>Transformed to a Company with a Nominating Committee, etc. System</td>
</tr>
<tr>
<td>2016</td>
<td>Evaluated the effectiveness of the Board of Directors</td>
</tr>
<tr>
<td>2017</td>
<td>Appointed an outside female director</td>
</tr>
<tr>
<td>2019</td>
<td>Evaluated the effectiveness of the Board of Directors by a third-party assessor</td>
</tr>
</tbody>
</table>

The Current Corporate Governance System and Internal Control System

The Current Corporate Governance System
- General Shareholders’ Meeting
- Nominating Committee
- Compensation Committee
- Financial Strategy Office
- Human Resources & Management Office
- Export Regulation Office
- Safety and Quality Control
- Disclosure Committee
- Information Security Office
- Accounting Auditors
- Internal Auditing Office
- Human Resources & Business Support Office
- Sustainability Management Department
- Risk Management Office
- Information Security Office
- J-SOX Committee
- Board of Directors
- Executive Officer

The Current Internal Control System
- Corporate Governance Guidelines
- Corporate Governance Report

HTS’s Organization Design
By using a Company with a Nominating Committee, etc. System, substantial authorities related to business execution are delegated from the Board of Directors to executive officers, who make prompt decision making about business restructuring and strategic investments. Executive Committee meeting consisting of all executive officers is held once a month in general to discuss material subjects which have impacts on the Company and the entire Group and clarify responsibilities and authorities of the executive officers.

Primary roles of the Board of Directors and the Committees (FY2022)
- Board of Directors: Determines basic management policies, etc. and supervises the execution of duties by directors and executive officers.
- Nominating Committee: Elects candidates for director and executive officers. Considers, taking into account the business evaluation levels of candidates, etc. for each position in accordance with correct corporate ethics.
- Audit Committee: Performs audits of directors and executive officers’ business implementation and prepares audit reports. Evaluates and makes recommendations on director and executive officers’ business implementation.
- Compensation Committee: Determines compensation levels, etc. of directors and executive officers, and determines the compensation levels of outside directors in accordance with correct corporate ethics.

Primary roles of Executive Committee (FY2022)
- Executive Committee: Deliberates on important issues related to business implementation.

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

Succession Planning
We have 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 Operating Officer and business reporting and evaluation by executive officers at the Board of Directors.

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

Policy on cross-shareholdings
- HTS complies with all principles of the Corporate Governance Code including those for the Prime Market. For details, please visit “Corporate Governance Report” on the Company’s website.

Policy on cross-shareholdings
- HTS exercises its voting rights from the perspective of its medium-to-long-term sustainable growth and increase of corporate value.
**Corporate Governance**

- Initiatives for intellectual property governance
  - HTS’s policy on investment and utilization strategies for intellectual property and intangible assets

In the previous Mid-term Management Plan (February 2020), we launched new solution businesses such as “SCDL,” “SSCV,” and “Resource,” with the aim of designing a supply chain that unifies the four streams of “Finance, Commerce, Logistics, and Information,” working to optimize customers’ businesses and value creation. The Group believes that intellectual property is an important management resource and provides standard protection for new service solutions or business models. Through the acquisition of industrial property rights, including patents, in addition, we will consider protection and adding high value to data accumulated in the course of our logistics activities, including the protection/utilization of such data to promote strategies capitalizing on such patents. In the Mid-term Management Plan “LOGISTEED2024,” by focusing on “Gembal Power,” we will work on visualizing DX, IT, and “Gembal Power” as intangible assets to promote the creation/Utilization of further value.

- Intellectual property management system
  - The Intellectual Property Management Committee is established as a decision-making body on intellectual property strategy management, which supervises the Group’s intellectual properties in a cross-organizational manner. In the future, we will consider evaluation/supervision by the Board of Directors, etc.

- Specific initiatives for intellectual property/intangible assets governance
  - The Group will (1) understand the current situation, (2) create scenarios for decarbonization and reduction of environmental load, (3) formulate a business plan for “game change,” (4) acquire intellectual properties/intangible assets, (5) disclose necessary information, and (6) continuously implement intellectual property governance. Regarding (5), we will announce as soon as it is decided.

- Policy on the positioning of material issues
  - Based on the environmental awareness of “LOGISTEED2024,” we are visualizing CO₂ emissions and creating inventions related to decarbonization initiatives. In order to stop-up DX from the DX that we have promoted so far, we will conduct necessary surveys and secure the Group’s intellectual properties/intangible assets. In addition, we will conduct trend surveys, benchmarking, IP landscaping, etc. from a global perspective, and take necessary measures to expand our business domains.

- Group’s current status
  - In Smart Logistics, we have promoted DX centered on 3PL, our core business, and have accumulated knowledge and expertise through task analysis of the customers’ supply chain and “design and proposal for advanced operation.” In line with the results of our research with Hitachi, Ltd., our patent applications in the global strategy and LOGISTEED2024 will respond to intellectual property/intangible assets governance.

**Innovations for intellectual property and intangible assets**

- Value creation related to intellectual property strategy-1
  - Resource Control System (RCS)

  - Resource Control System (RCS), which brings together the expertise/knowledge of automation/labor saving, is a system for total optimization based on data prediction and simulation (co-simulation).

  - In the 3PL business, our core business, including the Resource Control System (RCS), we plan highly productive warehouse operations in the process of promoting DX in warehouses and in the process of incorporating automated/labor-saving equipment. The Group considers such warehouse operation design to be an important intellectual property and asset, and applies for a patent for necessary technologies as business-related inventions. We will accumulate and inherit intellectual properties and intangible assets that are integrated with our business to further strengthen our 3PL business.

- Value creation related to intellectual property strategy-2
  - SSCV-Safety®
  - Patent No. 7025457 “Management Support System”
  - Patent No. 6714036 “Management Support System”

  - In 2016, the Group began studying safe driving support technologies aimed at reducing the risk of accidents involving drivers, and has promoted the commercialization of these technologies as “Smart & Safety Connected Vehicle (SSCV)” with regard to SSCV-Safety, in addition to the basic logic shown in the chart, we have a patent-pending process for accident risk estimation logic (based on fatigue), and plan to develop the knowledge obtained in such process into various business areas in the future.

* SSCV-Safety® is provided to external parties as a solution service in collaboration with Hitachi, Ltd. and Hitachi Vantec Corporation.

**Major Agenda items and the Reports at the Board of Directors Meeting (FY2021)**

The Board of Directors of the Company deliberates mainly agenda items related to management strategies by leaving those related to individual business execution to the executive side. In addition, in FY2020, we improved the efficiency of the Board of Directors meetings by efforts including providing sufficient explanations prior to the meetings* and we have secured sufficient time to discuss themes related to particularly important management strategies.

* For example, since FY2019, an executive officer makes an explanation instead of the secretary. From FY2021, the monthly business results that were previously reported to the Board of Directors are reported only at preliminary briefings.

**Major agenda items**

- **Management strategies**
  - Basic policy
  - Business operation

- **Corporate governance**
  - Organized agendas for the General Shareholders’ Meeting
  - Evaluation of the effectiveness of the Board of Directors
  - Corporate Governance Report
  - Agenda of the Board of Directors
  - Appointment of Directors, Audit & Compensation Committee

- **Financial reports, etc.**
  - Financial results

- **Composition ratio by agenda item (FY2021)**

- **Average length of monthly regular Board of Directors’ meetings**
Corporate Governance (Analysis and Evaluation of Effectiveness of the Entire Board of Directors, and the Result)

Results of Analysis and Evaluation of the Effectiveness of the Board of Directors

The Company, pursuant to Article 4, Section 1 of “Board Self-Evaluation” of its Corporate Governance Guidelines, evaluates the effectiveness of a Board of Directors (BOD) annually. To evaluate the BOD’s effectiveness for the fiscal year ended March 31, 2022 (FY2022), the Company first asked all its directors to complete a questionnaire survey and then reviewed the results, with a focus on addressing the identified issues and the need to improve the BOD’s operation. For the fiscal year ended March 31, 2020 (FY2019), the Company, in addition to conducting a self-assessment of the BOD, engaged Japan Board Review Co., Ltd., a third-party assessor, to conduct an impartial and objective evaluation of the BOD for the first time. The Company intends to retain an independent assessor to evaluate the BOD every third year.

Results of the self-assessments by the BOD and the three Committees for FY2021 are as follows:

Self-Assessment by the BOD

Six of the nine BOD members are independent outside directors, two of whom are women. The BOD comprises a certified public accountant, a scholar, two lawyers, and other members with a wealth of professional expertise and experience in a diverse range of fields such as corporate management, finance, and accounting. BOD meetings covering FY2020 were chaired by one of these independent outside directors. Matters to be deliberated at each BOD meeting were proposed by the Chair, based on an annual plan resolved by the BOD at the beginning of the fiscal year as well as on the results of each Executive Committee meeting that the Chair attended throughout the year. Matters deliberated at BOD meetings during FY2021 consisted of management strategies (36%), corporate governance (21%), and business operations and others (56%), which reflected the BOD’s decision to spend less time making and approving decisions on specific business actions and spend more time discussing in depth the Company’s fundamental management issues, based on the results of the BOD’s self-assessment for FY2022. The BOD met 16 times during FY2021. The principle of holding a BOD meeting every month was appropriate, and the annual plan for BOD meetings incorporated prior input from its members and covered all bases.

Reflecting the results of the self-assessment conducted for FY2022, the BOD met five times during FY2021 to have preliminary and high-level discussions on updating the Company’s Mid-term Management Plan (MMP) for FY2022-2024. Prior to the full meetings, outside directors provided expert insights into the following four key initiatives to be incorporated into the MMP for FY2022-2024: (1) driving the Group’s top-line growth, (2) transforming the Group’s organizational structure, (3) revisiting the Company’s talent management strategy, and (4) implementing DX solutions. The expert opinions and ideas provided by outside directors helped clarify key issues to be deliberated on at the full BOD meetings. Furthermore, outside directors kept in touch with each other via online sessions to exchange ideas as to how the Company can sustain its business growth and increase its medium- and long-term enterprise value.

Self-Assessments by the Three Committees

The self-assessments by the Three Committees are stated on the following page.

General Shareholders’ Meeting (Notice of Convocation)

https://www.hitachi-transportsystem.com/en/ir/meeting/

Corporate Governance (Officers’ Compensation, etc.)

Compensation Committee’s Policy and Process for Determining the Amount of Compensation, etc. of Directors, Executive Officers, and Other Officers

As one of the Company’s important pillars underlying corporate governance, we have in place the following compensation governance to ensure that our officers will work toward our brand slogan “Taking on the Future” and our business concept “LOGISTEED” under our corporate philosophy and operate the compensation program according to our basic policy on the compensation plan for officers to deliberate and decide their compensation.

Compensation Governance

Operation policy, etc., for the Compensation Committee

We are in compliance with the Companies Act pertaining to the company with a Nominating Committee, etc., and stipulate rules on the Compensation Committee as follows:

Functions of the Compensation Committee

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

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

Size and composition of the Compensation Committee

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

Operation of the Compensation Committee

Details of compensation are determined at the level commensurate with the ability and responsibilities required of the Company’s officers, taking into account the compensation level of other companies.

The Compensation Committee reviews the above policy on a regular basis.

In determining the details of compensation, etc. for each director and executive officer of the Company, the Compensation Committee deliberates appropriately based on objective, necessary and sufficient information including recent status of the officers’ compensation, point of discussion, and other companies’ plans while collecting information and seeking advice from external compensation consultants on the basic policy, compensation structure, performance-linked compensation scheme, and individual payments, etc. of our compensation plan for officers. We hire Willis Towers Watson as the external compensation consultant.

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

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

Three members (including two outside directors)

Compensation Committee Chair (outside director) Ms. Izumoto, Director
Compensation Committee Member (outside) Mr. Nishijima, Director
Compensation Committee Member (inside) Mr. Nakatani, Director, Representative Executive Officer, Chairman and Chief Executive Officer

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

For director compensation, etc. for FY2021, the Compensation Committee deliberated and determined compensation, etc. for each director on June 22, 2021 in accordance with the determination policy, established by the Compensation Committee on December 22, 2020.

Compensation Program

Basic policy on the compensation plan for officers

Our basic policy on the compensation plan for officers is as follows:

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

Policy on the determination of the compensation ratio of performance-linked compensation and other compensation

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

Director compensation, etc.

Director compensation levels are comprised of basic compensation which is fixed monetary compensation. Basic compensation reflects factors such as full-time or part-time service and position and is determined based on the deliberation at the Compensation Committee and paid at a certain time every month. Directors who 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

The composition ratio of executive officers' compensation, etc. by type reflects the level of management responsibility with higher type reflecting the level of management responsibility. Cash compensation and stock compensation are 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.

Ratio of each compensation element

The ratio of performance-linked compensation is calculated using the standard amount assuming a 100% achievement of the Company's performance targets.

Composition of annual bonus and KPIs

Elements

Salary

Bonus

KPIs

Reasons for selection

Consolidated performance

Performance-linked compensation

Salary

Salary for a single year

Salary for a single year

Salary for a single year

Bonus

Compensation is based on a comprehensive consideration of the achievement level of division missions and individual missions. Targets and results of revenues related to performance-linked compensation of the recent fiscal years

The ratio of each compensation element by type of compensation, etc. (Million yen of performance-linked compensation)

<table>
<thead>
<tr>
<th>Type</th>
<th>Performance-linked compensation</th>
<th>Annual bonus</th>
<th>Basic compensation</th>
<th>Performance-linked compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>President</td>
<td>100</td>
<td>50</td>
<td>50</td>
<td>100:100</td>
</tr>
<tr>
<td>Corporate officer</td>
<td>60–40</td>
<td>30</td>
<td>30</td>
<td>60:40</td>
</tr>
<tr>
<td>Corporate officer (prior officer)</td>
<td>100</td>
<td>30</td>
<td>30</td>
<td>100:30</td>
</tr>
<tr>
<td>Executive officer</td>
<td>90–70</td>
<td>10–14</td>
<td>20–16</td>
<td>90:10–70:16</td>
</tr>
</tbody>
</table>

The ratio of performance-linked compensation is calculated using the standard amount assuming a 100% achievement of the performance targets.

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

Annual bonus

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

In evaluating the performance, the payment rate is calculated based on the achievement level of the targets, and the amount calculated using such payment rate is assessed and finalized at the Compensation Committee held after the year-end.

The payment rates based on the respective evaluation of the elements linked to consolidated performance, division missions, and individual missions fluctuate independently between 0 and 2 times, and the amount of annual bonus fluctuates between 0% to 200% of the standard amount determined for each position for a single year.

Composition of annual bonus and KPIs

<table>
<thead>
<tr>
<th>Elements</th>
<th>Supplier ratios</th>
<th>KPIs</th>
<th>Reasons for selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance-linked compensation</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Salary</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bonus</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The ratio of performance-linked compensation is calculated using the standard amount assuming a 100% achievement of the performance targets.

The ratio of performance-linked compensation for senior officers.

The composition ratio of executive officers' compensation, etc. by type reflects the level of management responsibility with higher type reflecting the level of management responsibility.

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

The calculation formulas 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 (%) = The Company's TSR (%) / The Company's TOPIX growth rate (%) (3)

Incentive curve of consolidated ROE (Average consolidated ROE for the period from FY2021 to FY2023)

The incentive curve of consolidated ROE is as follows.

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.

Compensation amount of directors and executive officers

<table>
<thead>
<tr>
<th>Officer category</th>
<th>Total amount of compensation, etc.</th>
<th>Bonus</th>
<th>Stock compensation</th>
<th>Executive officers</th>
<th>Management committee</th>
<th>Other employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director</td>
<td>500 million yen</td>
<td>40%</td>
<td>60%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>President</td>
<td>100%</td>
<td>100%</td>
<td>50%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Corporate officer</td>
<td>50%</td>
<td>50%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Notes**

1. The number of eligible officers for directors’ compensation, etc. excludes two directors who serve concurrently as executive officers.
2. The calculation is based on the evaluation at the Compensation Committee for performance evaluation of the relevant director and executive officers who served from April 1, 2021 to March 31, 2022.
3. The detail of retention incentive compensation, etc. for executive officers is 154 million yen of performance-related 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 are comprised of annual bonuses and stock compensation. However, FY2021 compensation is comprised only of annual bonus as stock compensation is based on the performance evaluation from FY2021 to FY2023.

The Compensation Committee deliberated and determined individual annual bonus amount based on the achievement level of FY2021 targets for revenues and adjusted operating income, which are consolidated performance indicators for annual bonus, in comprehensive consideration of the achievement level of division missions and individual missions. Targets and results of revenues and adjusted operating income for FY2021 are as follows.

Targets (initial plan)

- Revenues: ¥1,650 billion (YoY +4%)
- Adjusted operating income: ¥37.5 billion (YoY +2%)

Results

- Revenues: ¥1,634.6 billion (YoY +14%)
- Adjusted operating income: ¥38.696 billion (YoY +5%)

**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.

**Financial/Non-Financial Information**

- Adjusted operating income: ¥38.696 billion (YoY +5%)

**Value Driver Achievements**

- Adjusted operating income: ¥38.696 billion (YoY +5%)

**Cash Flow from operating activities**

- Operating cash flow: ¥58.6 billion (YoY +11%)

**Invested Capital**

- Invested capital: ¥2,409 billion (YoY +3%)

**Hitachi Transport System, Ltd. Integrated Report 2022**
### Compliance/Information Security

**Compliance**

In order to ensure management in compliance with laws and regulations, the HTS Group has put in place a system to clarify compliance functions and set a compliance basic policy, including matters concerning anti-corruption, to be observed by all officers and employees, to ensure thorough compliance with laws and regulations, company rules, and corporate ethics. We have also established "HTS Group Code of Conduct" defining how all officers and employees should act in their daily operations as it is vital for the entire group not only to comply with laws and regulations, including anti-corruption laws and competition laws, but also to act in accordance with corporate ethics in order to meet trust and expectations of the society.

**Compliance education**

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

**Procurement compliance education**

To ensure fair procurement activities, we provide e-learning for procurement compliance targeting all employees, as well as special e-learning and group trainings on a regular basis for those engaging in procurement in domestic and overseas group companies.

**Number of companies implementing education for those engaging in procurement (FY2021)**

Domestic: 19 companies Overseas: 35 companies

**Whistle-blowing system**

The Group has established a whistleblowing 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.

**Poster for dissemination of whistleblowing system**

To further improve internal awareness of "HTS Group In-company Compliance Reporting System", posters for dissemination were prepared in 20 languages and posted in each office.

**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 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.

**Rate of targeted threat emails for simulation trainings opened (FY2021)**

Scope: HTS domestic/overseas group companies

100%

**Rate of targeted threat emails for simulation trainings opened (FY2021)**

Scope: HTS domestic/overseas group companies

6.0%

**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 that certifies that an information security management system satisfies certain criteria.

**Privacy mark acquisition status at HTS and its domestic group companies (As of March 31, 2022)**

ISMS Certification* (As of March 31, 2022)

20 departments

For details of information security, please visit our website.


### Risk Management

The HTS Group strives to manage risks that are difficult to foresee and require company-wide countermeasures by sharing risk recognition, visualizing risks, selecting priority risks and examining relevant measures, with an aim to increase corporate value and achieve sustainable growth.

**Definition and classification of risks**

The HTS Group defines risk as “the influence of uncertainty about our objectives and the possibility to influence the achievement of our strategy and business goals when an event occurs.” We classify recognized risks as follows based on their type (strategic or pure) and factor (internal or external) to select “priority risk” that are highly likely to occur and have material impact and focus on discussing countermeasures against them.

* *1 Risk Owner: A person in charge of discussing risk response and monitoring/improving the implementation of measures
2 Risk Manager: A person in charge of addressing risks in cooperation with risk owners and promptly implementing relevant measures*

**Group’s policies**

*Prevent risks from occurring*

**Implement damage control assuming risks may occur**

Scope: HTS Group

**Prevent risks from occurring**

**Operational risk**

Risk factors that result from inadequate or failure of internal process, human resources or systems

**Hedge risks to minimize potential losses**

**Strategic risks**

Growth risk Risk factors that may impede implementation of the growth strategy that takes into account customer and business environment (human resources and assets)

**Agressively take risks to pursue growth**

**Environmental change risk**

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

**The HTS Group’s risk management system**

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

**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 risks by taking measures determined by the Business Continuity Management Committee (BCM), chaired by the President and COO, with an aim to continue its business operation and provide high quality services to our customers even when faced with these risks.

**Topics**

**Preventive Measures Against the Spread of COVID-19**

We developed the “Guideline amid the spread of infection” based on the policy released by the Japanese government and Keidanren (Japan Business Federation) and have been working to prevent the spread of infection at workplace. In FY2021, we conducted workplace vaccination three times for employees, other stakeholders, and their family members to increase vaccination rates and also distributed face masks and sanitizers to reduce infection risks. We will continue our efforts to prevent infection and spread of COVID-19.

As for disaster preparedness measures and BCM/BCP promotion system, please visit our website:


For details of information security, please visit our website.

**Risk Management**

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

### 1. Growth risk

<table>
<thead>
<tr>
<th>Risk factors</th>
<th>Description of risk/opportunity</th>
<th>Impacts when risk occurs</th>
<th>Groups/measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Concentration dependence on specific customers</strong></td>
<td>Close dependence of customers on sales results and high rate of employment by customers</td>
<td>Impact on the RTS Group's overall performance in the current business</td>
<td>Acquire additional businesses in order to diversify sales channels and increase supply chain share</td>
</tr>
<tr>
<td><strong>Changes in business environment (technological/innovative, etc.)</strong></td>
<td>Changes in business environment and technological innovation, etc.</td>
<td>Impact on existing services and business models due to rapid technological changes</td>
<td>Develop new services and improve business models through collaboration with external partners</td>
</tr>
<tr>
<td><strong>Securing exchange rates</strong></td>
<td>Changes in exchange rates</td>
<td>Impact on operating income and financial results</td>
<td>Manage foreign exchange fluctuations through foreign exchange contracts and currency options</td>
</tr>
<tr>
<td><strong>Innovation and research initiatives</strong></td>
<td>Changes in innovation and research initiatives within the company</td>
<td>Impact on research and development activities</td>
<td>Strengthen research and development capabilities</td>
</tr>
</tbody>
</table>

### 2. Environmental change risk

<table>
<thead>
<tr>
<th>Risk factors</th>
<th>Description of risk/opportunity</th>
<th>Impacts when risk occurs</th>
<th>Groups/measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sharp increase in cost</strong></td>
<td>Increase in procurement costs (fuel, labor expenses, etc.)</td>
<td>Impact on operational costs and financial performance</td>
<td>Reduce procurement costs and labor expenses</td>
</tr>
<tr>
<td><strong>Sharp fluctuations of exchange rates</strong></td>
<td>Sharp fluctuations of exchange rates</td>
<td>Impact on foreign exchange transactions</td>
<td>Manage foreign exchange transactions through hedging</td>
</tr>
<tr>
<td><strong>Climate change</strong></td>
<td>Changes in climate conditions due to climate change and extreme weather</td>
<td>Impact on operational efficiency and financial performance</td>
<td>Strengthen resilience to climate change and extreme weather</td>
</tr>
</tbody>
</table>

### 3. Operational risk

<table>
<thead>
<tr>
<th>Risk factors</th>
<th>Description of risk/opportunity</th>
<th>Impacts when risk occurs</th>
<th>Groups/measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Decrease in new orders received</strong></td>
<td>Decrease in new orders received due to competition and market conditions</td>
<td>Impact on operational performance and financial results</td>
<td>Strengthen sales and marketing activities</td>
</tr>
<tr>
<td><strong>Decrease in new orders received</strong></td>
<td>Decrease in new orders received due to competition and market conditions</td>
<td>Impact on operational performance and financial results</td>
<td>Strengthen sales and marketing activities</td>
</tr>
</tbody>
</table>

### 4. Hazard risk

<table>
<thead>
<tr>
<th>Risk factors</th>
<th>Description of risk/opportunity</th>
<th>Impacts when risk occurs</th>
<th>Groups/measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Severe disasters and global expansion of infectious disease ( pandemics )</strong></td>
<td>Impact on operational performance and financial results due to severe disasters and pandemics</td>
<td>Strengthen disaster management and risk communication</td>
<td>Develop disaster management systems and strengthen risk communication</td>
</tr>
<tr>
<td><strong>Threat to capital</strong></td>
<td>Increase in capital costs (interest costs)</td>
<td>Impact on capital structure and financial performance</td>
<td>Strengthen capital management</td>
</tr>
<tr>
<td><strong>Loss of corporate value due to decline in social trust</strong></td>
<td>Decrease in corporate value due to decline in social trust</td>
<td>Strengthen corporate trust management</td>
<td>Strengthen corporate trust management</td>
</tr>
</tbody>
</table>

As for risk factors other than priority risks, please visit our website. [https://www.hitachitransportsystem.com/en/profile/csr/governance/riskmanagement/](https://www.hitachitransportsystem.com/en/profile/csr/governance/riskmanagement/)
The HTS Group Environmental Management

Environmental Policy

The HTS Group is promoting business activities with less environmental load based on the following four principles. As 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, gasoline and LP gas and waste, etc.

2. Provide Logistics/Services with Less Environmental Load
Contribute to customers through CO₂ emission reduction and resource recycling

3. Improve Eco-Mind Level and Enhance Environment Management System
Increase global environmental awareness. Observe environmental laws/ordinances and company regulations.

4. Promote Symbiosis with Nature and Environmental Communications
Promote biodiversity and ecosystem. Maintain environmental collaboration with customers and local communities.

Environmental Management Structure

Since the establishment of a department dedicated to environmental issues in the head office in August 1992, we have worked on reducing environmental load and are currently promoting group-wide activities toward the global “environment-conscious business operations.”

Under the supervision of the Board of Directors and the Executive Committee, Sustainability Promotion Department, Corporate Strategy Office chaired by Executive 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 environmental conferences held (FY2021)
- Domestic: 7 times
- Overseas: 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: FY2021) 107

Efforts to Raise Environmental Awareness

We are working to raise the environmental awareness of employees by promoting environmental activities linked to VC activities. In FY2021, we started new programs including holding “Green Action Workshop” on the theme of environmental protection and “Environment Prize in VC Award” to recognize initiatives contributing to reducing environmental load.

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

Basic Policy on Climate Change

As 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," we position climate change response as one of our highest priority management themes and identifies "Contribute to decarbonized society" as one of the material issues. We also defined "Contribute to decarbonized/recycling-oriented society" as one of the business objectives to promote initiatives to address climate-related risks and opportunities and reduce CO2 emissions. In addition, we announced our endorsement of the TCFD recommendations in September 2021 and are now promoting climate change initiatives and information disclosure 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 (e.g., target setting and determination of specific climate change-related strategies such as energy-saving investments, and budget allocation for greenhouse gas (CO2) emission reduction) through Chairman and CEO who is responsible for climate change initiatives. The executive officer in charge reports to the Board of Directors the progress of the climate change initiatives annually or as needed.

Sustainability Promotion Department, Corporate Strategy Office in the head office oversees overall environmental management work under the supervision of Executive Vice President and Executive Officer, Chief Strategy Officer (CSO) who is responsible for sustainability strategy. The Environmental Promotion Conference comprised of the Group’s environment officers including CEO is held semianually 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 progress of climate change initiatives and the proposed strategy in the future are reported to the Executive Committee semianually or as needed.

Risk management

In consideration of all management risks identified, Sustainability Promotion Department, Corporate Strategy Office in the head office has selected risks and opportunities related to "Contribute to decarbonized society," one of the material issues, and has identified items having large financial impacts as material risks and opportunities. Sustainability Promotion Department is responsible for developing and executing plans to address them 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

The Group sets the medium-to-long-term targets for reduction of CO2 emissions to address climate change risks and opportunities.

Greenhouse gas (CO2) emissions

P78 (Trend of HTS Group CO2 emissions) P91 (ESG Data)

Strategy

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

(1) Scenario analysis process

The Group has performed scenario analysis according to the following procedures (P80 upper). Under the scenario that assumes the goal of the Paris Agreement is achieved (1.5°C /2°C scenario) and the one that assumes that no new policies are implemented but each country’s announced policies are achieved (4°C scenario), we have assessed financial impacts of identified climate-related risks and opportunities based on the information such as the trend of key parameters.

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

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

<table>
<thead>
<tr>
<th>Transition risks (1.5°C scenario / Less than 2°C scenario)</th>
<th>Type</th>
<th>Period</th>
<th>Potential risks</th>
<th>Potential impacts on business and response measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy and Legal</td>
<td>Long-term</td>
<td>• Risk of increasing tax burden (e.g., carbon tax, fuel tax) in relation to climate change and risk of rising cost due to tightening or introduction of regulations on CO2 emissions</td>
<td>Cost increase due to carbon pricing</td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>Medium-term</td>
<td>• Risk of increasing CO2 emission reduction cost and losing customers due to delay/failure in introducing environmental technology</td>
<td>Reduce business term or increase earnings due to delay in introducing renewable energy and low carbon vehicles</td>
<td></td>
</tr>
<tr>
<td>Sustainability</td>
<td>Medium-term</td>
<td>• Risk of losing customers due to inadequate response to customers who emphasize low-carbon or carbon neutral transportation</td>
<td>Earnings decrease due to increase of customers who emphasize climate change initiatives (e.g., customers whose targets were certified by the Science Based Targets Initiative (SBTi))</td>
<td></td>
</tr>
<tr>
<td>Environmental Promotion Conference</td>
<td>Medium-term</td>
<td>• Risk of losing corporate reputation due to insufficient climate change initiatives and information disclosure</td>
<td>Promote decarbonization measures in logistics services and strengthen information disclosure to stakeholders</td>
<td></td>
</tr>
</tbody>
</table>

(3) Transition plan to achieve 1.5°C Target

The Group has incorporated the five initiatives toward the realization of the medium-to-long-term environmental targets (energy saving, electrification, procurement of renewable energy, energy creation, and emissions trading) in the Mid-term Management Plan "LOGISTEED2024" and will promote CO2 emission reduction measures to limit the temperature increase to 1.5°C above pre-industrial levels.

<table>
<thead>
<tr>
<th>Step1</th>
<th>Step2</th>
<th>Step3</th>
<th>Step4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identified material climate-related risks and opportunities</td>
<td>Draw up climate change scenarios (1.5°C/2°C scenario)</td>
<td>Assessed the financial impacts under each scenario</td>
<td>Assessed strategic resilience for climate-related risks and opportunities and examined additional response measures</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transition risks (1.5°C scenario / Less than 2°C scenario)</th>
<th>Type</th>
<th>Period</th>
<th>Potential risks</th>
<th>Potential impacts on business and response measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy and Legal</td>
<td>Long-term</td>
<td>• Opportunity to reduce energy consumption by vehicles and CO2 emissions with advanced environmental technology</td>
<td>Increase energy cost due to efficiency improvement in logistics services</td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>Medium-term</td>
<td>• Opportunity to introduce efficient logistics operations using Smart Logistics and shared logistics services</td>
<td>Reduce energy cost by promoting decarbonization measures (1. Promote energy-saving measures, 2. Introduce renewable energy, 3. Introduce non-fossil fuel vehicles, and 4. Promote modal shift)</td>
<td></td>
</tr>
<tr>
<td>Products and services</td>
<td>Long-term</td>
<td>• Opportunity associated with diversification of business activities</td>
<td>Revenue increase due to diversification of business activities</td>
<td></td>
</tr>
<tr>
<td>Resilience</td>
<td>Long-term</td>
<td>• Opportunity associated with energy diversification</td>
<td>Cost decrease due to introduction of solar power generation system</td>
<td></td>
</tr>
</tbody>
</table>

*Reference scenario: 1.5°C scenario, IEA Han Zero Emissions by 2050 Scenario IPCC RCP2.6, 4°C scenario: IEA Special Report Scenarios IPCC RCP4.5

**P78** (Trend of HTS Group CO2 emissions) **P91** (ESG Data)
**Energy Saving and Global Warming Countermeasures of Vehicles**

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

- **Making the shift to eco-friendly vehicles and encouraging eco-friendly driving**
  
  We are promoting the shift to eco-friendly vehicles (highly fuel-efficient, low-pollution vehicle). We adhered to the eco-friendly vehicle ownership ratio of 100% at the end of FY2016, except for certain special vehicles. In FY2021, we introduced an electric truck in a sales office of our group company Hitachi Transport System Metropolitan Co., Ltd. in Hoda City, Chiba Prefecture. We will further promote the shift to the advanced eco-friendly vehicles in order to reduce pollutant emissions and will also promote eco-friendly driving, etc. to reduce environmental load.

**HTS Group eco-friendly vehicle ownership ratio (domestic) (As of March 31, 2022)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual (%)</th>
<th>Target (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>93</td>
<td>100</td>
</tr>
<tr>
<td>2019</td>
<td>96</td>
<td>100</td>
</tr>
<tr>
<td>2020</td>
<td>95</td>
<td>100</td>
</tr>
<tr>
<td>2021</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

* Total shows business and personal vehicles combined (excludes special vehicles).

**Vehicle fuel efficiency (domestic)**

- Increase of vehicle fuel efficiency by vehicle type (driving distance/fuel consumption) (FY2021 target and result for CO₂ emission reduction)

  Target: compared to FY2020
  
  Result: compared to FY2020

  +1.76%  
  
  +0.4%

**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 FY2021, we received “METI Minister’s Award” and “Technical Packaging Award” at the “Japan Packaging Contest 2021” hosted by Japan Packaging Institute. “METI Minister’s Award” is awarded to the best product at the contest, and our packaging was recognized as the best product from a comprehensive perspective, satisfying many requirements for packaging, including protectiveness and functionality, while giving consideration to economic efficiency and eco-friendliness.

**Co-awarded “METI Minister’s Award” and “Technical Packaging Award” at the Japan Packaging Contest 2021**

<table>
<thead>
<tr>
<th>Award-winning case/Award titles</th>
<th>Main effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of packaging materials for domestic transport of large equipment/METI Minister’s Award (Japan Star Award)</td>
<td>Loading ratio: up 70% CO₂ emissions: down 44% Reduction of cushioning material waste and others</td>
</tr>
<tr>
<td>Redesigned under-tray of washing machine/Technical Packaging Award</td>
<td>Cardboard waste: down 25% and others</td>
</tr>
</tbody>
</table>

**Visualize CO₂ Emissions and Reduction**

- **Support decarbonization in customers’ business with SCDOS**
  
  As part of SCDOS, our DX service to support optimization of customers’ supply chain, we started to offer “CO₂ emission visualization function” from FY2021. This service enables to accurately understand and visualize CO₂ emissions and reduction in the supply chain by centrally managing and monitoring customers’ various data, contributing to customers reducing CO₂ emissions and to the realization of a recycling-oriented society and decarbonization.

**Energy Saving and Global Warming Countermeasures Implemented in Buildings**

- **Energy saving of forklifts**
  
  The HTS Group introduced 14 lithium-ion forklifts in FY2021. Forklifts are indispensable in logistics operations in warehouses, etc. and generally powered by lead battery, but we are trying to reduce energy consumption by shifting to lithium-ion batteries with long cycle life and high charging efficiency. We will continue to work on energy saving of forklifts by expanding the use of lithium-ion batteries.

- **Power saving by using human detection sensor**
  
  Chuuyo Logistics Center in Aichi Prefecture is working on power saving by using human detection sensor. Before installation, we installed supplemental lights with a human detection sensor between storage shelves which light when the sensor detects the presence of workers picking up or storing products, achieving both workers’ safety and power saving.

**Introduction of LED lighting fixtures**

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

**Promotion of Modal Shift**

To reduce CO₂ emissions and solve issues such as driver/vehicle shortages, we have been proactively promoting a modal shift from trucks to rail and ocean transport in Japan and overseas with an aim to “develop new customers/routes.” In FY2021, we proposed and promoted a modal shift to the use of coastal vessels for the transport of products of a hygiene products manufacturer from its factory in Kyushu to logistics sites in Kanto, which enabled us to deal with driver/vehicle shortages and reduce CO₂ emissions by approximately 80% over a year compared to truck transport. As a recognition for such efforts, we received the “Award of Modal Shift Initiative Excellent Business Operator (effective usage category) in 2021” hosted by Japan Association for Logistics and Transport.

**CO₂ reduction effect of modal shift**

- **Award-winning case (effective use category)**

  **Before modal shift**

  **After modal shift**

  - Reduction of electricity consumption per floor space in “buildings” Development of new routes/route for modal shift

<table>
<thead>
<tr>
<th>(Number of vehicles)</th>
<th>100</th>
<th>250</th>
<th>500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before shift</td>
<td>164</td>
<td>392</td>
<td>542</td>
</tr>
<tr>
<td>After shift</td>
<td>200</td>
<td>184</td>
<td>150</td>
</tr>
</tbody>
</table>

**E: Environment**

**Eco-friendly vehicles Advanced eco-friendly vehicles**

- **Fuel-efficient vehicles certified by the government (vehicles meeting a specified standard)**
  
  The HTS Group’s 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.

**Energy Saving and Global Warming Countermeasures Implemented in Buildings**

<table>
<thead>
<tr>
<th>KPI</th>
<th>FY2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of sites with LED lighting fixtures</td>
<td>3</td>
</tr>
<tr>
<td>Existing sites: 12</td>
<td></td>
</tr>
<tr>
<td>CO₂ emissions suppressed with LED lighting fixtures</td>
<td>799 t-CO₂</td>
</tr>
</tbody>
</table>

**Development of new customers/routes**

- Co-awarded “METI Minister’s Award” and “Technical Packaging Award” at the Japan Packaging Contest 2021

Secure Safety in Operation and Transportation

Under the policy of “Safety is our first 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 high quality services during operations.

Safety Priority Policy
The HTS Group establishes a unified priority initiative 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 Board of Directors 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 and FY2021, but we will consider resuming them in light of the situation.

Safety Initiatives
■ Boosting safety knowledge and operation skill
■ Sending contents to non-HTS forklift and trucking competition
Each year, we send contents in the National Forklift Driving Contest* and the National Truck Driver Contest* for the national contests and achieved excellent results.

Pursue Next-generation Industries and Lifestyles
We will contribute to solving various environmental and social issues, including decarbonization and driver shortages, by developing and evolving sustainable logistics services with a high level of safety, quality, and productivity while fulfilling a role as a social infrastructure provider supporting next-generation industries and lifestyles.

Respond to Local Logistics Needs and Issues While Further Boosting Response Capability
■ Labor-saving efforts at medical DCs
In light of the importance of business continuity of medical services and sales of medical products, etc., we are working on labor-saving at medical DCs to deal with delays and interruptions in logistics and rising logistics costs caused by the pandemic and labor shortages. In the advanced medical DC which opened in FY2020, Resource Control System (RCS) developed by HTS has been installed, enabling the complex control linkage of automated equipment in the warehouse and achieving fully automated operation at certain processes.

■ Transportation of social infrastructure-related equipment
— Transport of wind power generation equipment —
Moves toward a decarbonized society are now accelerating around the world. Under such circumstances, in FY2021, the HTS Group transported onshore windmills in Rakushibacho, Hokkaido, as part of our initiatives to transport social infrastructure-related equipment to contribute to expand renewable energy use. The route to the onshore windmill construction site included mountain roads that are too steep or narrow for ordinary trucks and trailers, but our specialized vehicle “Multi Canoe” made it possible to transport the equipment from the foot to the top of the mountain. This transport project was accomplished by leveraging our technologies and experience obtained from many years of our service to transport power generation equipment and also by maintaining close coordination with the construction company and regional partner companies. We will continue to contribute to the realization of a decarbonized society through transportation related to renewable energy business including wind, biomass, and solar power generation in Japan and overseas.

KPI
■ Transportation of social infrastructure-related equipment
— Develop supply chain solutions

For KPI results, etc. in FY2021, please visit our website.

Promote Total Optimization of Supply Chain by Making Full Use of Advanced Technologies
■ Utilize artificial intelligence and develop supply chain solutions
We are working on establishing volume forecasting technology using AI and developing new solutions utilizing forecasting technology.

■ Use of volume forecasting tool
We aim to improve operational efficiency by optimizing inventories at logistics centers based on high-accuracy volume forecast using AI. In FY2021, we improved the precision of the volume forecasting tool which was designed and tested so far and successfully introduced it in 30 logistics sites. Currently, the number of cases using volume forecasting tool increased to a total of 50.

No. of cases using volume forecasting system (as of March 31, 2022, cumulative):
50

■ Expand SCDOs services
We are working to expand “SCDOs” services to contribute to optimization of customer’s supply chain. Specifically, our service includes the development of a supply plan based on capability of logistics resources and operating effectiveness and the support for restocking order placement using various logistics data. In FY2021, we launched an inventory optimization solution service which was co-developed with our customers and also started to verify the effectiveness at actual logistics sites of an inventory optimization approach originating from logistics centers.
HTS Group Human Resource Strategy

The HTS Group will accelerate LOGISTEED by promoting the human resource strategy focusing on “enhancement of human resource capability” and “promotion of organization.” We will enhance human resource capability by securing and developing superior human resources appropriate to business strategies and evaluating and employing employees according to the roles. We will also increase employee engagement and invigorate our organization through a working style reform and diversity and inclusion initiatives.

Invigoration of Organization

Increase in Employee Engagement

To realize sustainable growth, we need to develop strong relationships between employees and the Company and increase employee engagement. To increase employee engagement, it is imperative to deepen understanding of and spread the HT Way which shows the Group’s role and the way to move forward and to close the circle of connections among employees. We will also conduct engagement surveys and address issues identified in the surveys to increase employee engagement and become a company where employees can keep working with enthusiasm.

Spread of the HT Way

To make the concept of the HT Way take root in employees’ behaviors and judgment criteria, we hold workplace meetings and regular education, such as tank-based trainings and e-learning, and implement measures such as WOC activities on an ongoing basis.

Monitoring

Employee engagement survey

We conduct engagement surveys annually to understand the degree of penetration of the HT Way and the level of active participation of employees in the management strategy. We are now considering conducting a global survey.

Follow-Up

We are working to invigorate the organization by analyzing the result of the engagement survey, identifying issues by organization and implementing necessary measures. As the survey result showed the necessity to increase engagement of young employees, we conducted one-on-one career development interviews in FY2021.

Employee engagement survey results

— Sustainable engagement score

(2021)

Target: Achieve 100 by FY2023

Scope: HTS, domestic group companies

*1: Average highly correlated with the company’s growth that can be measured by questions on motivation for contribution and a sense of belonging, etc. We set a target value to increase engagement.

*2: Total score of positive answers.

Diversity and Inclusion

As labor force is expected to decrease due to declining birthrate and aging population and the logistics industry faces noticeable labor shortage, active participation of diverse human resources is essential for the HTS Group to contribute to society through logistics more than ever. We have established systems and structures to realize diverse working styles, as well as create/promote a culture of diversity and inclusion mainly through education.

Boosting understanding of diversity and changing mindset

We have expanded our training and education programs, such as the Cultural Diversity Curriculum, to increase understanding of diversity and change in mindset. Seminars by external lecturers have been held since FY2014. In Fy2021, approximately 600 employees (including online attendees) for including those of domestic group companies attended a diversity seminar focusing on the HT Way.

Promotion of women’s participation in the workplace

We position the active participation of women as an essential issue for a global company and have implemented various initiatives. In Fy2021, 67 employees attended leadership trainings and career development trainings aimed at raising awareness for appointing female managers.

Ratio of female managers

FY2021 result

Target: Achieve 100 by FY2023

5.5%

Scope: HTS

*1: Employees who have a spouse working outside the Company

In order to further support women, we will continue to promote women’s participation in the workplace.

Working-style Reform

We are promoting the “working-style reform” through various initiatives to ensure employees can stay healthy, feel secure, and find their work rewarding, such as increasing the productivity of the organization as a whole and the corporate value through active participation of each and every employee.

Promotion of VC activities

As part of its activities as an improvement activity, we aim to accomplish the working-style reform through initiatives to improve safety/quality productivity and workplace activities as well as to improve digital tools such as BPM.

Optimization of working hours

We are working to reduce overtime hours by encouraging employees and managers to change their mindset by using computer log management and biometric identification and also to create an environment which makes it easier to take annual paid leave.

Overtime hours (average)

(FY2021)

27.5 hours/month

Scope: Full-time employees of HTS

For details of employee-related initiatives, please visit our website. https://www.hitachi-logistics.com/en/profile/care/social/employee/

Enhancement of Human Resource Capability

Following the development of the Mid-term Management Plan “LOGISTEED2024,” we are promoting various measures to proactively reduce overtime hours and Digital workers.

The HTS Group College

We have established the “The HTS Group College” as an educational institution for all of our employees, designed to draw out the strengths of each individual through practical and specialized trainings. As we value our employees’ learning attitudes, we have created an environment to support them in their autonomous growth. We also hold regular surveys to understand the actual education hours and costs as well as check the training needs and effectiveness.

Education time per employee

(FY2021):

27,960 hours

Scope: HTS, domestic group companies

*1: Average education expenses per employee (FY2021): ¥8.4 million

Personnel Development/Skill Development

We have established the HTS Group College as an educational institution for all of our employees, designed to draw out the strengths of each individual through practical and specialized trainings. As we value our employees’ learning attitudes, we have created an environment to support them in their autonomous growth. We also hold regular surveys to understand the actual education hours and costs as well as check the training needs and effectiveness.

Education time per employee

(FY2021):

27,960 hours

Scope: HTS, domestic group companies

*1: Average education expenses per employee (FY2021): ¥8.4 million

Establishing a Basis of Personnel System

As the HTS Group works to standardize the evaluation criteria, we are shifting, ahead of others, to the Group common “personnel system” applicable to managers in Japan in which we clarify roles, responsibilities, expectations, results, and required skills, placing “the right person in the right job” based on their ability and motivation. We will aim to create greater value for the Group as a whole by encouraging each employee to autonomously carry out their roles, have a challenging spirit and grow, as well as better reflecting their actions, processes, and results in evaluation and compensation in order to build their sense of satisfaction and accomplishment.

Renew personnel management system

We are starting the reform of the personnel management system from Japan. Based on the roles and positions organized in the job-based personnel system, we will develop a management system to centrally manage employee information including each employee’s career history or job skills with an aim to achieve optimal personnel allocation and strategy from a global perspective.

Support for new hires to get acclimated to the new environment

We provide training on the HT Way, safety, and legal compliance to new employees and mid-career employees.

Surveys and career development interviews

We conduct surveys on young employees to measure their awareness of participation in the organizations they belong to and improving their productivity, in order to use the results to give advice to their supervisors on management. We also strive to improve the employee retention rate by introducing a mentoring program and having career development interviews on a regular basis.

Foundation Supporting Value Creation

S: Social

H: Human Resources

Percentage of foreign employees among new graduates hired (FY2021)

11%

Target: 3% of all employees by FY2023

We are working to reduce overtime hours by encouraging employees and managers to change their mindset using computer log management and biometric identification and also to create an environment which makes it easier to take annual paid leave.

Following the development of the Mid-term Management Plan “LOGISTEED2024,” we are promoting various measures to proactively secure and retain DX and global human resources to accelerate LOGISTEED and become a leading IRL company in Asia.

We are working to invigorate the organization by analyzing the result of the engagement survey, identifying issues by organization and implementing necessary measures. As the survey result showed the necessity to increase engagement of young employees, we conducted one-on-one career development interviews in FY2021.

Employee engagement survey results

— Sustainable engagement score

(2021)

Target: Achieve 100 by FY2023

5.5%

Scope: HTS, domestic group companies

*1: Average highly correlated with the company’s growth that can be measured by questions on motivation for contribution and a sense of belonging, etc. We set a target value to increase engagement.

*2: Total score of positive answers.

We are working to reduce overtime hours by encouraging employees and managers to change their mindset by using computer log management and biometric identification and also to create an environment which makes it easier to take annual paid leave.

Overtime hours (average)

(FY2021)

27.5 hours/month

Scope: Full-time employees of HTS

For details of employee-related initiatives, please visit our website. https://www.hitachi-logistics.com/en/profile/care/social/employee/
Foundation Supporting Value Creation

Stakeholder Dialogue

Responsible Dialogue with Stakeholders

The HTS Group manages and maintains our business activities through interaction with our broad array of stakeholders including customers, shareholders, local communities, and local administrations. We provide 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*4 or frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Improve customer satisfaction</td>
<td>Web seminars/briefings</td>
<td>13 times, 653 attendees</td>
</tr>
<tr>
<td></td>
<td>Raise corporate brand value</td>
<td>Networking events using LOGISTED CAFÉ</td>
<td>1,250 attendees from 496 companies*5 in total</td>
</tr>
<tr>
<td></td>
<td>Participation in large-scale exhibition</td>
<td>Annual, unexpectedly</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer survey</td>
<td>Annual, unexpectedly</td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>Enhance employee motivation</td>
<td>Presentation and commendation of excellent improvement careers (VC Award)</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>Create a workplace full of smiles and vibrance</td>
<td>Roundtable discussion with the management (dialogue session)</td>
<td>3 times, 230 attendees in total</td>
</tr>
<tr>
<td></td>
<td>Constantly maintain good employer-employee relationship</td>
<td>Setting up of internet site for improvement assistance (VC JUMP)</td>
<td>Regularly</td>
</tr>
<tr>
<td>Business partners</td>
<td>Build good relationships with partners beyond the logistics domain</td>
<td>Networking events using LOGISTED CAFÉ</td>
<td>1,250 attendees from 496 companies*5 in total</td>
</tr>
<tr>
<td></td>
<td>Mitigate long-term, stable, and effective relationships with partner transport companies</td>
<td>Seminars for partner transport companies</td>
<td>Semiannually in various locations*4</td>
</tr>
<tr>
<td></td>
<td>Award for partner transport companies</td>
<td>As applicable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Setting up of dedicated inquiry contact for suppliers</td>
<td>Employee engagement survey</td>
<td>Annual</td>
</tr>
<tr>
<td>Shareholders /Investors</td>
<td>Achieve sustainable growth and increase corporate value over the medium-to-long-term with action dialogue through fair and highly transparent information disclosure in a timely and appropriate manner</td>
<td>Results briefings</td>
<td>4 times</td>
</tr>
<tr>
<td></td>
<td>Small-scale meetings</td>
<td>Individual meetings by executives</td>
<td>6 times</td>
</tr>
<tr>
<td></td>
<td>(including overseas investors and ESG investment interviews)</td>
<td>Regular General Shareholders’ Meeting</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>Exercise of voting rights</td>
<td>Exercise of voting rights</td>
<td>90,296*4</td>
</tr>
<tr>
<td>Local administration/ Industry associations</td>
<td>Share recognition of cross-sectional issues related to logistics</td>
<td>Participation in committees/conferences/meetings</td>
<td>As needed</td>
</tr>
<tr>
<td></td>
<td>Contribute to solving issues through collaboration and solidarity and realize sustainable logistics</td>
<td>Participation in economic associations/industry groups</td>
<td>As needed</td>
</tr>
<tr>
<td>Local community</td>
<td>Contribute to the promotion of logistics innovation, etc.</td>
<td>Individual dialogue with NGOs/HIPs, etc.</td>
<td>15 times</td>
</tr>
<tr>
<td></td>
<td>Raise awareness on social role of logistics toward the next generation</td>
<td>Support for holding sporting events/sports promotion</td>
<td>As needed/Establishment of Track and Field Club</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dialogue with local governments</td>
<td>14 times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Participation in volunteer activities</td>
<td>As needed</td>
</tr>
</tbody>
</table>

*1 Counted as of March 31, 2022
*2 The number of participants is for 1,250 companies in total
*3 We refrained from holding seminars in FY2021 to prevent the spread of COVID-19
*4 Ratio of exercise of voting rights at the Regular General Shareholders’ Meeting held on June 23, 2022

Efforts for Constructive Dialogue with Shareholders and Investors

The Group communicates with our shareholders and investors through a variety of means including financial results briefings, telephone conferences, small-scale meetings, overseas roadshows, and individual meetings, etc. for securities analysts and institutional investors, etc. In FY2021, in light of the spread of COVID-19, we held individual meetings, financial results briefings, and small-scale meetings with investors including shareholders online and also disclosed materials in English in a timely manner, in an effort to promote dialogue with shareholders and investors.

External Evaluation

Commentations/recognition from outside the company

2021
July: Received "Advanced Technology Award" at the 22nd Logistics Environment Awards
September: Received "METI Minister’s Prize" and "Technical Packaging Award" at the Japan Packaging Contest 2021
October: Won "General" and "Women’s" categories at the 30th National Forklift Driving Contest
November: Received the "Award of Modal Shift Initiative Excellent Business Operator (effective usage category) in 2021" and the "Prime Minister’s Prize" at the 33rd National Truck Driver Contest and also won in "4-ton" and "Trailer" categories
December: Received the "Award of Modal Shift Initiative Excellent Business Operator (effective usage category) in 2021" at the 33rd National Truck Driver Contest

Inclusion in ESG Indexes

Selected as a constituent of five ESG indexes adopted by GPIF*1

ESG evaluations

FTSE RoMSCo Japan Index
FTSE RoMSCo Japan Sector Relative Index
FTSE 4Good

Our History
Our Future
Value Creation Achievements
Financial/Non-Financial Information
Integrated Report 2022
Footnote

External Evaluation

Other evaluations

Theme stock
Selected as an excellent Integrated Report by GPIF’s asset managers entrusted with domestic equity investment (February 2022)

ESG evaluations

FTSE RoMSCo Japan Index
FTSE RoMSCo Japan Sector Relative Index
FTSE 4Good

Our History
Our Future
Value Creation Achievements
Financial/Non-Financial Information
Integrated Report 2022
Footnote

External Evaluation

Other evaluations

Theme stock
Selected as an excellent Integrated Report by GPIF’s asset managers entrusted with domestic equity investment (February 2022)

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, 2022)

<table>
<thead>
<tr>
<th>(In thousands of yen)</th>
<th>J-GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2012</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues <strong>(1)</strong></td>
<td>¥374,206</td>
<td>¥464,999</td>
</tr>
<tr>
<td>Gross profit</td>
<td>¥24,689</td>
<td>¥24,958</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥23,266</td>
<td>¥23,224</td>
</tr>
<tr>
<td>Income before tax</td>
<td>¥13,466</td>
<td>¥13,122</td>
</tr>
<tr>
<td>Income tax</td>
<td>¥4,562</td>
<td>¥4,680</td>
</tr>
<tr>
<td>Income after tax</td>
<td>¥8,904</td>
<td>¥8,442</td>
</tr>
<tr>
<td>Net income attributable to the parent company</td>
<td>¥8,886</td>
<td>¥8,356</td>
</tr>
<tr>
<td><strong>2013</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues <strong>(2)</strong></td>
<td>¥427,733</td>
<td>¥549,924</td>
</tr>
<tr>
<td>Gross profit</td>
<td>¥25,689</td>
<td>¥30,767</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥22,981</td>
<td>¥27,904</td>
</tr>
<tr>
<td>Income before tax</td>
<td>¥14,278</td>
<td>¥17,996</td>
</tr>
<tr>
<td>Income tax</td>
<td>¥4,314</td>
<td>¥4,717</td>
</tr>
<tr>
<td>Income after tax</td>
<td>¥9,964</td>
<td>¥13,279</td>
</tr>
<tr>
<td>Net income attributable to the parent company</td>
<td>¥10,206</td>
<td>¥13,003</td>
</tr>
<tr>
<td><strong>2014</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues <strong>(3)</strong></td>
<td>¥450,048</td>
<td>¥564,903</td>
</tr>
<tr>
<td>Gross profit</td>
<td>¥31,578</td>
<td>¥36,448</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥27,924</td>
<td>¥33,755</td>
</tr>
<tr>
<td>Income before tax</td>
<td>¥18,978</td>
<td>¥22,037</td>
</tr>
<tr>
<td>Income tax</td>
<td>¥4,263</td>
<td>¥4,717</td>
</tr>
<tr>
<td>Income after tax</td>
<td>¥14,715</td>
<td>¥17,310</td>
</tr>
<tr>
<td>Net income attributable to the parent company</td>
<td>¥15,280</td>
<td>¥22,047</td>
</tr>
<tr>
<td><strong>2015</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues <strong>(4)</strong></td>
<td>¥459,386</td>
<td>¥612,535</td>
</tr>
<tr>
<td>Gross profit</td>
<td>¥33,195</td>
<td>¥39,213</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥27,924</td>
<td>¥33,755</td>
</tr>
<tr>
<td>Income before tax</td>
<td>¥19,201</td>
<td>¥24,458</td>
</tr>
<tr>
<td>Income tax</td>
<td>¥4,422</td>
<td>¥4,717</td>
</tr>
<tr>
<td>Income after tax</td>
<td>¥14,779</td>
<td>¥19,731</td>
</tr>
<tr>
<td>Net income attributable to the parent company</td>
<td>¥15,326</td>
<td>¥24,740</td>
</tr>
<tr>
<td><strong>2016</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues <strong>(5)</strong></td>
<td>¥466,386</td>
<td>¥678,831</td>
</tr>
<tr>
<td>Gross profit</td>
<td>¥34,457</td>
<td>¥40,281</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥27,924</td>
<td>¥33,755</td>
</tr>
<tr>
<td>Income before tax</td>
<td>¥19,535</td>
<td>¥25,528</td>
</tr>
<tr>
<td>Income tax</td>
<td>¥4,422</td>
<td>¥4,717</td>
</tr>
<tr>
<td>Income after tax</td>
<td>¥15,113</td>
<td>¥20,811</td>
</tr>
<tr>
<td>Net income attributable to the parent company</td>
<td>¥15,293</td>
<td>¥25,094</td>
</tr>
<tr>
<td><strong>2017</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues <strong>(6)</strong></td>
<td>¥459,386</td>
<td>¥678,831</td>
</tr>
<tr>
<td>Gross profit</td>
<td>¥31,578</td>
<td>¥36,448</td>
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</tr>
<tr>
<td><strong>2018</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues <strong>(7)</strong></td>
<td>¥459,386</td>
<td>¥678,831</td>
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<td>¥31,578</td>
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</tr>
<tr>
<td>Income after tax</td>
<td>¥14,715</td>
<td>¥17,310</td>
</tr>
<tr>
<td>Net income attributable to the parent company</td>
<td>¥15,280</td>
<td>¥22,047</td>
</tr>
<tr>
<td><strong>2019</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues <strong>(8)</strong></td>
<td>¥464,999</td>
<td>¥678,831</td>
</tr>
<tr>
<td>Gross profit</td>
<td>¥34,457</td>
<td>¥40,281</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥27,924</td>
<td>¥33,755</td>
</tr>
<tr>
<td>Income before tax</td>
<td>¥19,535</td>
<td>¥25,528</td>
</tr>
<tr>
<td>Income tax</td>
<td>¥4,422</td>
<td>¥4,717</td>
</tr>
<tr>
<td>Income after tax</td>
<td>¥15,113</td>
<td>¥20,811</td>
</tr>
<tr>
<td>Net income attributable to the parent company</td>
<td>¥15,293</td>
<td>¥25,094</td>
</tr>
<tr>
<td><strong>2020</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues <strong>(9)</strong></td>
<td>¥472,733</td>
<td>¥678,831</td>
</tr>
<tr>
<td>Gross profit</td>
<td>¥33,195</td>
<td>¥39,213</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥27,924</td>
<td>¥33,755</td>
</tr>
<tr>
<td>Income before tax</td>
<td>¥19,201</td>
<td>¥24,458</td>
</tr>
<tr>
<td>Income tax</td>
<td>¥4,422</td>
<td>¥4,717</td>
</tr>
<tr>
<td>Income after tax</td>
<td>¥14,779</td>
<td>¥19,731</td>
</tr>
<tr>
<td>Net income attributable to the parent company</td>
<td>¥15,326</td>
<td>¥24,740</td>
</tr>
<tr>
<td><strong>2021</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues <strong>(10)</strong></td>
<td>¥450,048</td>
<td>¥678,831</td>
</tr>
<tr>
<td>Gross profit</td>
<td>¥31,578</td>
<td>¥36,448</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥27,924</td>
<td>¥33,755</td>
</tr>
<tr>
<td>Income before tax</td>
<td>¥18,978</td>
<td>¥22,037</td>
</tr>
<tr>
<td>Income tax</td>
<td>¥4,263</td>
<td>¥4,717</td>
</tr>
<tr>
<td>Income after tax</td>
<td>¥14,715</td>
<td>¥17,310</td>
</tr>
<tr>
<td>Net income attributable to the parent company</td>
<td>¥15,280</td>
<td>¥22,047</td>
</tr>
</tbody>
</table>

**Notes:**

1. Terms in parentheses are used for J-GAAP.
3. Includes AIT Group and HTB-BCD Travel Group.
4. Effective April 1, 2019, the Group adopted IFRS 16 Leases.
5. *ROE* is calculated by dividing the net income attributable to the parent company by the average of shareholders’ equity at the beginning and end of the period.
7. Effective April 1, 2019, the Group adopted IFRS 16 Leases.
**Environmental Management**

**ESG Data**

**Category/Item**

<table>
<thead>
<tr>
<th>Scope</th>
<th>HTS Domestic</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021</th>
</tr>
</thead>
</table>

- **Greenhouse Gas (GHG)**
  - Impacts of efforts by vehicle type (largest GHG contributor) *(1)*
    - Reduction of CO2 emissions relative to FY2014
      - ISU-A: 1.0%
      - ISU-B: 1.0%
      - ISU-C: 2.5%
      - ISU-D: 3.7%
      - ISU-E: 3.9%
  - CO2 emission reduction by model shift (in CO2)**
    - Total CO2 emission reduction compared with ISU-A
    - Reduction of ISU-A: 100%
    - Reduction of ISU-B: 75%
    - Reduction of ISU-C: 60%
    - Reduction of ISU-D: 50%
    - Reduction of ISU-E: 40%

- **Environmental Management System**
  - Coverage of environmental management system (ISO14001)
    - Percentage of certification acquisition
    - FY2020: 99.0%
    - FY2021: 99.0%
  - Reduction of Environmental Management Cost
    - FY2020: 0%
    - FY2021: 0%

**Social**

**Anti-Corruption**

- Number of new graduate hired
  - FY2020: 9
  - FY2021: 10
- Number of female new graduate hired
  - FY2020: 3
  - FY2021: 3
- Number of new graduate hired the year after joining
  - FY2020: 17
  - FY2021: 14
- Number of experienced workers hired
  - FY2020: 9
  - FY2021: 10
- Ratio of experienced workers hired
  - FY2020: 41.0%
  - FY2021: 40.5%

**Work-life Balance**

- Number of the employees who took maternity leave (percentage of female employees)
  - FY2020: 11%
  - FY2021: 11%
- Number of the employees who took childcare leave (percentage of female employees)
  - FY2020: 3%
  - FY2021: 4%
- Number of the employees who took racing leave (percentage of female employees)
  - FY2020: 5%
  - FY2021: 5%

**Governance**

- Number of directors (female) (persons)
  - FY2020: 9
  - FY2021: 0
- Number of directors (male) (persons)
  - FY2020: 3
  - FY2021: 1
- Number of executive officers (female) (persons)
  - FY2020: 0
  - FY2021: 0

**Compliance**

- Number of compliance training completed (percentage of employees)
  - FY2020: 94.4%
  - FY2021: 100%

**Risk Management**

- Areas which conducted ISMS simulation trainings and number of attendees (persons)
  - FY2020: 2,218,798
  - FY2021: 2,454,703

**Information Security**

- Number of ISMS employees (persons) in charge of IT security
  - FY2020: 1,781
  - FY2021: 1,804

**Intellectual Properties**

- Number of patent applications
  - FY2020: 18
  - FY2021: 18

---

*1 Growth, Market, and Strategy (Efficiency ratio E1)! *2 CO2 emission reduction target was changed from "Reduction of CO2 emission intensity until FY2015" to "Improvement of fuel efficiency by vehicle type" from FY2016. *3 Specific cost. *4 Please refer to page 48 of this Annual Report. *5 For details. *6 Please refer to page 48 of this Annual Report. *7 Details to be announced at a later date. *8 Company in December due to COVID-19 *9 Details to be announced at a later date. *10 Included employees of associate company, accounted by the equity method. *11 From_male and female employees joined the Company in December due to COVID-19 *12 Started aggregating data of domestic group companies from FY2019. *13 Details to be announced at a later date. *14 Our History Overview. *15 Includes donation and matching gifts. *16 Data to be announced at a later date. *17 Details to be announced at a later date. *18 Details to be announced at a later date. *19 Details to be announced at a later date.
Key Management Indicators: MD&A
(Management’s Discussion and Analysis of Financial Position, Financial Results, and Cash Flows)

Financial Position
Total assets as of March 31, 2022 amounted to ¥791,878 million, an increase of ¥3,942 million compared with the end of the previous fiscal year. Current assets increased by ¥2,330 million due to increases in revenues and in ¥6,202 million in other financial assets resulting from payments into Turkish lira-denominated time deposits by our consolidated subsidiary Mars Lojistik & Grup Anonim Sirketi despite a decrease of ¥9,908 million in cash and cash equivalents. Non-current assets increased by ¥1,622 million mainly due to an increase of ¥9,309 million in property, plant and equipment resulting from capital expenditures for hazardous materials warehouses built in Osaka City, Shiga Prefecture, and Kashivawa City, Chiba Prefecture, and renewal of vehicles despite a decrease of ¥6,765 million in right-of-use assets due to recording of depreciation and amortization and loss related to the fire at a logistics center at Maishima Sales Office of Hitachi Transport System West Japan Co., Ltd., our consolidated subsidiary (“Fire at our consolidated subsidiary”).

Total liabilities as of March 31, 2022 amounted to ¥633,665 million, a decrease of ¥12,164 million compared with the end of the previous fiscal year. Current liabilities increased by ¥16,486 million mainly due to increases of ¥9,772 million in current portion of long-term debt resulting from reclassification from long-term debt and of ¥6,485 million in other current liabilities due to recording of provision for damages related to the Fire at our consolidated subsidiary. Non-current liabilities decreased by ¥28,650 million mainly due to decreases of ¥19,917 million in long-term debt resulting from reclassification to current portion of long-term debt and of ¥9,877 million in lease liabilities mainly due to repayments and reversal in relation to the Fire at our consolidated subsidiary.

Total equity as of March 31, 2022 amounted to ¥178,213 million, an increase of ¥21,106 million compared with the end of the previous fiscal year. Total equity attributable to stockholders of the parent company ratio increased from 19.7% as of March 31, 2021 to 21.5%.

Operating Results
Revenues, adjusted operating income
For the fiscal year ended March 31, 2022, revenues increased by 14% year-on-year to ¥743,612 million due to recovery in handling volume. Adjusted operating income increased by 5% year-on-year to ¥38,696 million mainly due to revenues increase, improved productivity, and improved profitability of freight forwarding business. Operating income decreased by 25% year-on-year to ¥30,738 million mainly due to loss related to the Fire at our consolidated subsidiary and decreases in gains from transfer of all shares of SAGAWA EXPRESS CO., LTD. and from sales of fixed assets despite a decrease in COVID-19-related loss.

EBIT (Earnings before interest and taxes)
Earnings before interest and taxes (EBIT) decreased by 34% year-on-year to ¥29,417 million mainly due to decreases in operating income and in share of profits of investments accounted for using the equity method mainly due to transfer of all shares of SAGAWA EXPRESS CO., LTD. as well as foreign exchange loss.

Net income attributable to stockholders of the parent company
Net income attributable to stockholders of the parent company decreased by 41% year-on-year to ¥13,513 million mainly due to a decrease in income before income taxes.

Cash Flows
Cash flows from operating activities
Net cash provided by operating activities was ¥45,135 million, an increase of ¥9,826 million compared with the fiscal year ended March 31, 2021. This is mainly due to increases in cash from depreciation and amortization of ¥50,828 million and recording net income of ¥14,602 million despite a decrease in cash from income taxes paid of ¥7,202 million.

Cash flows from investing activities
Net cash used in investing activities was ¥24,877 million, an increase of ¥94,656 million compared with the fiscal year ended March 31, 2021. This is mainly due to a decrease in cash from purchase of property, plant and equipment and intangible assets of ¥20,559 million which consists mostly of capital expenditures for hazardous materials warehouses built in Osaka City, Shiga Prefecture, and Kashivawa City, Chiba Prefecture, and renewal of vehicles, and payments into time deposits of ¥6,049 million which consists mostly of payments into exchange-rate-protected Turkish lira time deposits by our Turkish subsidiary Mars Lojistik & Grup Anonim Sirketi to be eligible for tax exemptions introduced by the Turkish government for valuation gains on foreign currency-denominated assets.

Cash flows from financing activities
Net cash used in financing activities was ¥52,511 million, a decrease of ¥108,545 million compared with the fiscal year ended March 31, 2021. This is mainly due to a decrease in cash from repayments of long-term debt of ¥10,345 million and repayments of long-term debt of ¥16,329 million.

Outline of Capital Expenditures
The Group's (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 accepted) for the fiscal year ended March 31, 2022 are as follows:

- In global logistics, we acquired hazardous substances warehouses (Osaka City, Shiga Prefecture, and Kashivawa City, Chiba Prefecture) as property, plant and equipment in an effort to expand logistics sites.
- We also renewed existing assets and made investments for streamlining and labor-saving. As a result, capital expenditures amounted to ¥16,140 million.
- In other, we renewed existing assets such as vehicles for rental business. As a result, capital expenditures amounted to ¥3,136 million.

Tax policy
Recognizing that fulfilling tax obligations properly is one of our social responsibilities, the Group has established the internal “Rules of the Group 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 to respond 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.
Financial Highlights

**Revenues (100 million yen)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>7,004</td>
<td>7,088</td>
<td>6,723</td>
<td>6,524</td>
<td>7,436</td>
</tr>
</tbody>
</table>

Revenues showed positive growth since FY2017 but decreased in FY2019 due to a decrease in demand for automobile parts and freight forwarding business and in FY2020 due to the spread of COVID-19. Revenues increased in FY2021 due to a recovery in handling volume.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>298</td>
<td>315</td>
<td>335</td>
<td>367</td>
<td>397</td>
</tr>
</tbody>
</table>

Adjusted operating income has been increasing since FY2019. The increase in FY2021 was mainly due to revenues increase, improved productivity, and improved profitability of freight forwarding business.

**EBIT (100 million yen)/EBIT margin (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>333</td>
<td>361</td>
<td>396</td>
<td>444</td>
<td>500</td>
</tr>
</tbody>
</table>

EBIT had been increasing since FY2013 but decreased in FY2021 due to loss by fire at a consolidated subsidiary and decreases in gains on sales of investments in associates and fixed assets recorded in FY2020.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>2,083</td>
<td>2,268</td>
<td>2,283</td>
<td>1,621</td>
<td>1,702</td>
</tr>
</tbody>
</table>

ROE remained flat since reaching 18% in FY2016 in FY2021, increased due to a decrease in equity attributable to stockholders of the parent company as a result of the acquisition of approximately ¥92.6 billion of treasury stock, but decreased in FY2021 as net income attributable to stockholders of the parent company decreased mainly due to recording of loss by fire.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>276</td>
<td>278</td>
<td>313</td>
<td>241</td>
<td>224</td>
</tr>
</tbody>
</table>

Capital expenditures including lease*1 remained at around ¥20 billion to ¥22 billion. In FY2021, we made an effort to expand business sites by purchasing assets including hazardous substances warehouses.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>36</td>
<td>40</td>
<td>43</td>
<td>50</td>
<td>56</td>
</tr>
</tbody>
</table>

We have continued to increase dividends every year since FY2018. We seek profit distribution linked to business performance while considering medium- to long-term business expansion and securing internal reserves to strengthen corporate structure.*4

---

**Key Management Indicators: Financial and Non-Financial Highlights**

**Non-Financial Highlights**

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>298</td>
<td>315</td>
<td>335</td>
<td>367</td>
<td>397</td>
</tr>
</tbody>
</table>

Adjusted operating income has been increasing since FY2019. The increase in FY2021 was mainly due to revenues increase, improved productivity, and improved profitability of freight forwarding business.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>2,083</td>
<td>2,268</td>
<td>2,283</td>
<td>1,621</td>
<td>1,702</td>
</tr>
</tbody>
</table>

ROE remained flat since reaching 18% in FY2016 in FY2021, increased due to a decrease in equity attributable to stockholders of the parent company as a result of the acquisition of approximately ¥92.6 billion of treasury stock, but decreased in FY2021 as net income attributable to stockholders of the parent company decreased mainly due to recording of loss by fire.

---

**Eco-friendly vehicle ownership ratio (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>90</td>
<td>90</td>
<td>97</td>
<td>96</td>
<td>96</td>
</tr>
</tbody>
</table>

We continue to implement measures to enhance compliance of the entire Group in Japan and overseas. The number of reports/consultations is on the rise due to the spread of the whistleblower system.

---

**Number of compliance trainings and meetings conducted (times)/Number of whistle-blowing reports and consultations (cases)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>23 24 24</td>
<td>19 20 21</td>
<td>14 17 16</td>
<td>11 12 11</td>
<td>9 9 8</td>
</tr>
</tbody>
</table>

We continue to implement measures to enhance compliance of the entire Group in Japan and overseas. The number of reports/consultations is on the rise due to the spread of the whistleblower system.

---

**Ratio of female directors (persons)/Ratio of female assistants managers (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>4 8 6</td>
<td>4 8 6</td>
<td>4 8 6</td>
<td>4 8 6</td>
<td>4 8 6</td>
</tr>
</tbody>
</table>

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

---

**Foundation Supporting Value Creation**

**Eco-friendly vehicle ownership ratio (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
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<td>96</td>
<td>96</td>
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<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
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<td>19 20 21</td>
<td>14 17 16</td>
<td>11 12 11</td>
<td>9 9 8</td>
</tr>
</tbody>
</table>

We continue to implement measures to enhance compliance of the entire Group in Japan and overseas. The number of reports/consultations is on the rise due to the spread of the whistleblower system.

---

**Eco-friendly vehicle ownership ratio (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>90</td>
<td>90</td>
<td>97</td>
<td>96</td>
<td>96</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
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<th>2020</th>
<th>2021</th>
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<td>Value</td>
<td>23 24 24</td>
<td>19 20 21</td>
<td>14 17 16</td>
<td>11 12 11</td>
<td>9 9 8</td>
</tr>
</tbody>
</table>

We continue to implement measures to enhance compliance of the entire Group in Japan and overseas. The number of reports/consultations is on the rise due to the spread of the whistleblower system.
## Consolidated Statement of Financial Position

Hitachi Transport System, Ltd. and subsidiaries

<table>
<thead>
<tr>
<th>Assets</th>
<th>As of March 31, 2022</th>
<th>As of March 31, 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥ 94,907</td>
<td>¥ 104,815</td>
</tr>
<tr>
<td>Trade receivables and contract assets</td>
<td>131,862</td>
<td>123,681</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,363</td>
<td>1,083</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>10,580</td>
<td>4,378</td>
</tr>
<tr>
<td>Other current assets</td>
<td>10,758</td>
<td>13,393</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>¥ 249,470</td>
<td>¥ 247,350</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>6,762</td>
<td>6,372</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>169,290</td>
<td>159,981</td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>281,265</td>
<td>288,030</td>
</tr>
<tr>
<td>Goodwill</td>
<td>25,881</td>
<td>25,228</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>21,270</td>
<td>23,824</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>14,022</td>
<td>11,732</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>17,259</td>
<td>18,459</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>6,659</td>
<td>6,960</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>¥ 542,408</td>
<td>¥ 540,586</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>¥ 791,878</td>
<td>¥ 787,936</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>As of March 31, 2022</th>
<th>As of March 31, 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>¥ 54,561</td>
<td>¥ 51,733</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>1,114</td>
<td>2,152</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>20,092</td>
<td>10,320</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>31,926</td>
<td>30,600</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>5,385</td>
<td>6,089</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>22,019</td>
<td>24,202</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>38,044</td>
<td>31,559</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>¥ 173,141</td>
<td>¥ 156,655</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>120,386</td>
<td>140,303</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>251,343</td>
<td>261,220</td>
</tr>
<tr>
<td>Retirement and severance benefits</td>
<td>39,436</td>
<td>37,071</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>7,969</td>
<td>7,467</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>18,435</td>
<td>20,075</td>
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<td>Other non-current liabilities</td>
<td>2,955</td>
<td>3,038</td>
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<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>¥ 440,524</td>
<td>¥ 469,174</td>
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<td><strong>Total liabilities</strong></td>
<td>¥ 613,665</td>
<td>¥ 625,829</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Equity</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>145,026</td>
<td>236,311</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>9,162</td>
<td>1,861</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(821)</td>
<td>(99,817)</td>
</tr>
<tr>
<td><strong>Total equity attributable to stockholders of the parent company</strong></td>
<td>¥ 170,170</td>
<td>¥ 155,158</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>8,043</td>
<td>6,949</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>¥ 178,213</td>
<td>¥ 162,107</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>¥ 791,878</td>
<td>¥ 787,936</td>
</tr>
</tbody>
</table>
Consolidated Financial Statements

Consolidated Statement of Profit or Loss
Hitachi Transport System, Ltd. and subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>¥743,612</td>
<td>¥652,380</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(649,000)</td>
<td>(566,582)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>94,612</td>
<td>85,798</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(55,916)</td>
<td>(49,087)</td>
</tr>
<tr>
<td>Operating income</td>
<td>38,696</td>
<td>36,711</td>
</tr>
<tr>
<td>Other income</td>
<td>2,071</td>
<td>10,787</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(10,029)</td>
<td>(6,448)</td>
</tr>
<tr>
<td>Operating income</td>
<td>30,738</td>
<td>41,050</td>
</tr>
<tr>
<td>Financial income</td>
<td>76</td>
<td>413</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(1,888)</td>
<td>(44)</td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td>491</td>
<td>3,010</td>
</tr>
<tr>
<td>Adjusted operating income</td>
<td>29,917</td>
<td>44,429</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,299</td>
<td>1,197</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>(6,085)</td>
<td>(6,492)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>24,631</td>
<td>39,134</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(10,009)</td>
<td>(15,160)</td>
</tr>
<tr>
<td>Net income</td>
<td>¥14,622</td>
<td>¥23,954</td>
</tr>
<tr>
<td>Net income attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stockholders of the parent company</td>
<td>22,873</td>
<td>22,873</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>1,081</td>
<td>1,081</td>
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</table>

Consolidated Statement of Comprehensive Income
Hitachi Transport System, Ltd. and subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>¥14,622</td>
<td>¥23,954</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>(696)</td>
<td>706</td>
</tr>
<tr>
<td>Net changes in financial assets measured at fair value through OCI</td>
<td>(474)</td>
<td>475</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>52</td>
<td>213</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>(1)</td>
<td>18</td>
</tr>
<tr>
<td>Total items not to be reclassified into net income</td>
<td>(696)</td>
<td>706</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>8,133</td>
<td>6,274</td>
</tr>
<tr>
<td>Net changes in cash flow hedges</td>
<td>(516)</td>
<td>8</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>118</td>
<td>20</td>
</tr>
<tr>
<td>Total items that can be reclassified into net income</td>
<td>8,259</td>
<td>6,296</td>
</tr>
<tr>
<td>Other comprehensive income (OCI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>¥22,185</td>
<td>¥30,956</td>
</tr>
<tr>
<td>Comprehensive income attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stockholders of the parent company</td>
<td>20,516</td>
<td>29,211</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>1,669</td>
<td>1,745</td>
</tr>
</tbody>
</table>

Consolidated Statement of Cash Flows
Hitachi Transport System, Ltd. and subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>¥14,622</td>
<td>¥23,954</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>(44,911)</td>
<td>(3,010)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>(2,769)</td>
<td>(2,769)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(1,270)</td>
<td>(1,270)</td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td>(3,795)</td>
<td>(5,086)</td>
</tr>
<tr>
<td>Loss by fire</td>
<td>(429)</td>
<td>(50)</td>
</tr>
<tr>
<td>Gain on sale of investments in associates</td>
<td>(4,945)</td>
<td>(4,945)</td>
</tr>
<tr>
<td>Gain on sale of property, plant and equipment</td>
<td>(219)</td>
<td>(2,769)</td>
</tr>
<tr>
<td>Interest and dividends income</td>
<td>(1,375)</td>
<td>(1,270)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>6,085</td>
<td>6,492</td>
</tr>
<tr>
<td>(Increase) decrease in trade receivables and contract assets</td>
<td>(4,366)</td>
<td>(4,366)</td>
</tr>
<tr>
<td>(Increase) decrease in inventories</td>
<td>(77)</td>
<td>(77)</td>
</tr>
<tr>
<td>Increase (decrease) in trade payables</td>
<td>2,276</td>
<td>3,084</td>
</tr>
<tr>
<td>Increase (decrease) in retirement and severance benefits</td>
<td>2,283</td>
<td>1,976</td>
</tr>
<tr>
<td>Changes in other assets and other liabilities</td>
<td>(11,733)</td>
<td>(5,203)</td>
</tr>
<tr>
<td>Other</td>
<td>1,743</td>
<td>996</td>
</tr>
<tr>
<td>Subtotal</td>
<td>76,625</td>
<td>83,644</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>1,571</td>
<td>4,145</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(5,987)</td>
<td>(6,399)</td>
</tr>
<tr>
<td>Fire-related payments</td>
<td>(501)</td>
<td>–</td>
</tr>
<tr>
<td>Insurance proceeds received</td>
<td>429</td>
<td>50</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(7,202)</td>
<td>(26,131)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>65,135</td>
<td>55,309</td>
</tr>
</tbody>
</table>

Cash flows from investing activities:

Purchase of property, plant and equipment and intangible assets | (20,359) | (19,792) |
Proceeds from sale of property, plant and equipment and intangible assets | 760 | 3,814 |
Proceeds from sale of investments in associates | 14 | 87,183 |
Purchases of subsidiaries' shares | (1,476) | (1,476) |
Payments into time deposits | (6,049) | (572) |
Other | 757 | 622 |
Net cash used in investing activities | (24,877) | 69,779 |

Cash flows from financing activities:

Decrease in short-term debt, net | (1,165) | (1,575) |
Repayments of long-term debt | (10,329) | (10,409) |
Repayments of lease liabilities | (33,758) | (36,648) |
Proceeds from sale of shares of consolidated subsidiaries to non-controlling interests | 114 | 114 |
Acquisition of shares of consolidated subsidiaries from non-controlling interests | (7,541) | (7,541) |
Dividends paid | (4,696) | (4,299) |
Dividends paid to non-controlling interests | (174) | (121) |
Acquisition of treasury stock | (1) | (99,633) |
Other | (1,375) | (1,375) |
Net cash used in financing activities | (52,511) | (11,056) |

Effect of exchange rate changes on cash and cash equivalents | 2,345 | 1,762 |
Net increase (decrease) in cash and cash equivalents | (9,908) | (34,206) |
Cash and cash equivalents at beginning of year | 104,815 | 139,021 |
Cash and cash equivalents at end of year | ¥94,807 | ¥104,815 |
**Glossary**

**Intermodal transportation**
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.

**UN Global Compact**
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.

**2024 problem**
Collectively refers to various issues that might arise in the transport/logistics industry as a result of the application of the “upper limit of overtime allowed for automobile drivers” set by the working-style-reform-related bills effective April 1, 2024. In particular, truck drivers’ overtime will be limited to 960 hours per year.

**Milkrun**
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.

**AGV**
Stands for Automated Guided Vehicle. It is equipment that automatically drives and delivers pallets/roll box pallets mainly in logistics centers and factories.

**CDP**
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.

**DX**
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.”

**ERP**
Stands for Enterprise Resource Planning. It is a system to enable sophisticated management by centrally managing the corporations’ core functions such as “production,” “procurement,” “inventory,” “sales,” and “accounting.”

**GDP**
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.

**RCS**
Stands for Resource Control System, which is an integrated control system equipped with a work execution function that gives instructions to each equipment and worker based on the information on the operation status of the automated equipment and the work results of workers within the logistics center.

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*Listed in Japanese or English alphabetical order

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**RPA**
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.

**SCDOS**
Stands for Supply Chain Design & 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.

**SSCV**
Stands for Smart & 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).

**SWH**
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 Kusukake, 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.

**TCFD**
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.

**TEU**
Stands for Twenty-Foot Equivalent Unit and refers to a unit of volume converted into the number of 20-foot-long marine containers.

**TMS**
Stands for Transportation Management System. It mainly consists of functions to support delivery planning, movement management, and driving record management.

**VAS**
Stands for Value-Added Services and refers to the Company’s logistics services and their peripheral operations in the customers’value chains of procurement/ manufacturing/ shipping/sales/service.

**VC activities**
Stands for Value Change & Creation and refers to daily improvement activities to implement the HB 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 improvement activities” and “cultivation of the culture of praise” such as exchanging ideas among employees under different themes and giving awards to excellent cases.

**WCS**
Stands for Warehouse Control System, which is an automated control system to operate automated/labor-saving equipment at logistics centers.

**WMS**
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.

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SCDOS, SSCV, and Smart Warehouse are registered trademarks of Hitachi Transport System, Ltd.
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: 45,681

Stock Information

Stock Exchange
Tokyo
Securities Code: TSE-9086

Number of shares outstanding
84,101,714 shares

Number of shares per unit
100 shares

Composition of shareholders

- Number of shares outstanding: 84,101,714 shares
- Number of shares per unit: 100 shares

Major shareholders (top 10)

<table>
<thead>
<tr>
<th>Name of shareholder</th>
<th>Number of shares held (thousands)</th>
<th>Percentage of share held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hitachi, Ltd.</td>
<td>33,473</td>
<td>39.91 %</td>
</tr>
<tr>
<td>SG Holdings Co., Ltd.</td>
<td>8,210</td>
<td>9.79</td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd.</td>
<td>6,674</td>
<td>7.96</td>
</tr>
<tr>
<td>STATE STREET BANK AND TRUST COMPANY</td>
<td>2,694</td>
<td>3.21</td>
</tr>
<tr>
<td>STATE STREET BANK AND TRUST COMPANY</td>
<td>2,402</td>
<td>2.86</td>
</tr>
<tr>
<td>Custody Bank of Japan, Ltd.</td>
<td>1,841</td>
<td>2.20</td>
</tr>
<tr>
<td>GODLAMN, SACHS &amp; CO REG.</td>
<td>1,444</td>
<td>1.72</td>
</tr>
<tr>
<td>RBC GCM CLIENT ACCOUNT IRD AC (SG FE-AC)</td>
<td>1,425</td>
<td>1.70</td>
</tr>
<tr>
<td>MESS INVESTMENTS &amp; MASTEFUND LTD.</td>
<td>1,390</td>
<td>1.66</td>
</tr>
<tr>
<td>Hitachi Transport System Ltd.</td>
<td>1,216</td>
<td>1.45</td>
</tr>
</tbody>
</table>

Financial institutions, securities companies 14,171,137 shares (17)
Individuals and others 5,298,531 shares (6.57)
Foreign shareholders 21,326,187 shares (25.36)

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

<table>
<thead>
<tr>
<th>Share Price (Yen)</th>
<th>Share Price</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>7,000</td>
<td>12,000</td>
</tr>
<tr>
<td>2022</td>
<td>6,000</td>
<td>9,000</td>
</tr>
<tr>
<td>2023</td>
<td>5,000</td>
<td>6,000</td>
</tr>
</tbody>
</table>

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
- YouTube official channel: https://www.youtube.com/channel/UCnFIA_IsmEJpFjIg1OQq_1Kg
- Twitter official channel: https://twitter.com/hb_logisteed (Japanese version only)

Rating agency
Rating and Investment Information, Inc. (R&I)

Rating (announced on May 2, 2022)
Issuer rating: A
Rating outlook: Negative