Corporate Governance

Basic Principle

At the LOGISTEED Group, we consider corporate governance to be key to realizing even greater management transparency and efficiency, as well as ensuring that our business is carried out with compliance and in accordance with correct corporate ethics. By extension, the crux of corporate governance lies in increasing medium-to-long term corporate value and sustainable development.

LOGISTEED's Organization Design

Effective March 1, 2023, the Company transitioned to a Company with Audit & Supervisory Board Members from a Company with a Nominating Committee, etc., and has the Board of Directors, Audit & Supervisory Board members, and accounting auditors. We ensure the objectivity and transparency of management by separating supervision of management and execution of business operations, and also adopted an executive officer system to speed up decision-making and clarify responsibilities and authorities for business execution. In addition, we established the Audit & Supervisory Board in order to improve the effectiveness and efficiency of audit activities by Audit & Supervisory Board members.

The Board of Directors consists of eight directors, including six outside directors, and established the Nominating and Compensation Committee to appoint executive officers. Each executive officer executes their duties under the direction and supervision of Representative Directors within the scope of their respective authority and responsibility.

Four Audit & Supervisory Board members attend the Board of Directors meetings to understand the important decision-making process and the status of business execution.

The Audit & Supervisory Board consisting of all Audit & Supervisory Board members meets once a month in principle to exchange information and hold discussions, such as on the status of audit, and also to receive reports from the accounting auditors and departments in charge of internal audit, etc. to exchange opinions. The Audit & Supervisory Board members receive reports from the accounting auditors in advance on their audit plan.

The Executive Committee, which is held once a month in principle, deliberates in accordance with the criteria for deliberation stipulated in the "Rules of the Executive Committee." In addition, the "Criteria for Resolution of Executive Officer" were established, and 11 executive officers execute their duties in accordance with the Criteria. The Company has an environment which allows outside directors and Audit & Supervisory Board members to remotely attend important internal meetings, such as the Executive Committee.

■ Primary roles of the Board of Directors, etc. (FY2023)

Board of Directors	**Determines basic management policies, etc. and supervises the execution of duties by directors** Also passes a resolution by focusing on specific discussions on the Mid-term Management Plan and fiscal budget in addition to matters to be resolved stipulated by laws and regulations, the Articles of Incorporation and the Board of Directors regulations	Male **7** / Female **1**
Audit & Supervisory Board Members/Audit & Supervisory Board	**Performs audits of directors' business implementation and prepares audit reports** Performs audits of execution of duties by directors from the viewpoint of legal compliance and appropriate performance of duties in cooperation with accounting auditors and internal audit division, with an aim of establishing a high-quality corporate governance system to maintain social trust	Male **3** / Female **1**
Nominating and Compensation Committee	**Makes proposals on the appointment of candidates for directors and Audit & Supervisory Board members as an advisory body to the Board of Directors** Makes proposals on the appointment of candidates for directors and Audit & Supervisory Board members, the appointment and dismissal of executive officers, etc., the appointment and dismissal of Representative Directors, the succession plan for executive officers including President, the policy on compensation of directors and executive officers, etc.	Male **3** / Female **0**

■ Primary roles of the Executive Committee (FY2023)

Executive Committee	**Deliberates on important issues related to business implementation** Comprised of executive officers and Executive Chairman and CEO or persons specifically nominated by the President and COO, and deliberates/reports basic policies on business management, financial results, and business plans, etc.	Male **10** / Female **1**

The Current Corporate Governance System and Internal Control System

Under the "Basic Policy for Building an Internal Control System" established by the Board of Directors, the Company strives to develop and appropriately operate a system to ensure the appropriateness of the operations of the corporate group. The following illustrates an overview of the operational status. The Company transitioned to a Company with an Audit & Supervisory Board Members from a Company with a Nominating Committee, etc., on March 1, 2023, and the following is an overview of the operational status after the transition.
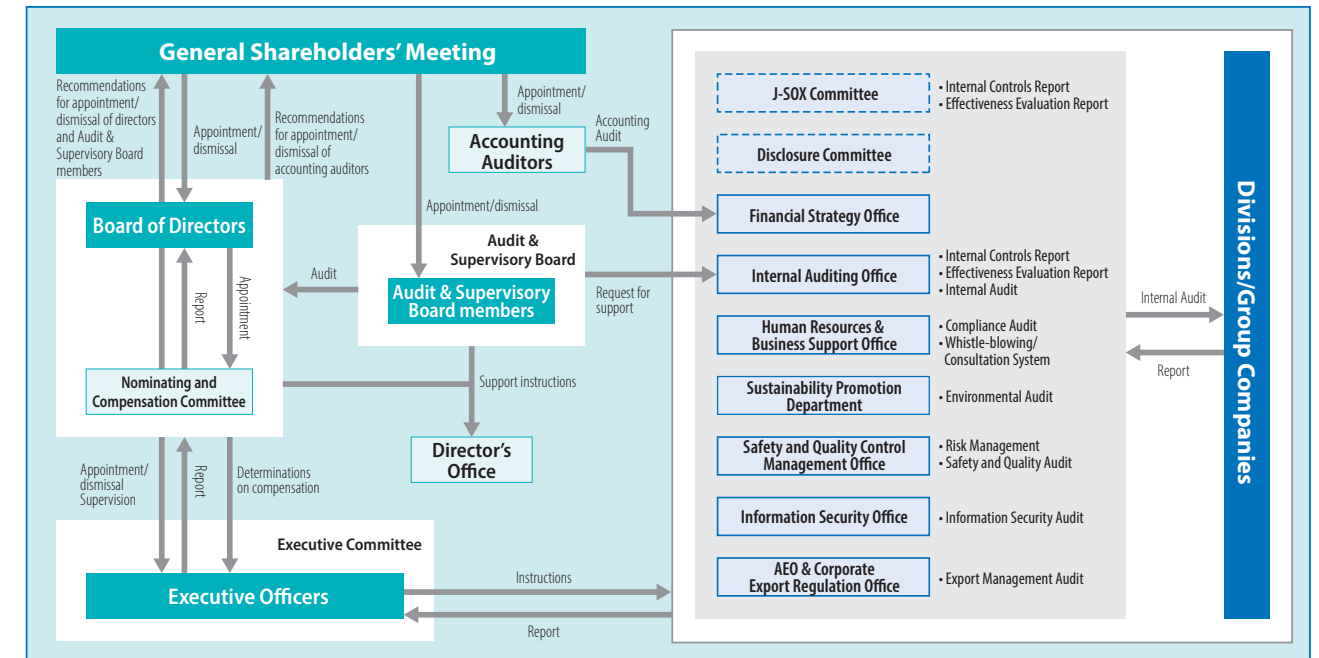
■ Overall internal control and internal audit

With regard to overall internal control, we have established and operate the internal control system of the Company and group companies, and perform an audit on a regular basis to effectively achieve the internal control goals.

As for internal audit, the Internal Auditing Office and other responsible departments as well as subsidiaries' responsible departments conduct internal audits to confirm the status of compliance with laws and regulations and to deter violations of laws and regulations, and we have the "LOGISTEED Group Internal Whistle-blowing System," which is the Company's internal whistle-blowing system. The results of internal audits and the status of the reporting under the compliance internal whistle-blowing system are regularly reported to the Board of Directors.

■ Risk management system

For compliance, information security, environment, disasters, quality control, export control, and prevention of antisocial transactions, etc., each responsible department established rules including "Rules on Prevention of Bribery," "Standards on Information Security Measures," and "Quality Assurance Control Rules." The Company, together with its subsidiaries, prepared and distributed manuals for legal compliance, and holds e-learning on a regular basis. In addition, the Executive Committee deliberates and reports on compliance, information security, environment, disasters, quality control, export control, and prevention of antisocial transactions, etc. to understand the risk likelihood. The Board of Directors also deliberates and reports on important policies and internal rules.

■ Structure of group companies

We require our group companies to establish a system according to their size, as well as send directors and Audit & Supervisory Board members to subsidiaries and conduct audits, etc. of each department of subsidiaries on a regular basis. Also, the Company's Board of Directors and Executive Committee deliberate important business matters related to subsidiaries in accordance with the "Group Company Management Standards." In addition, we established basic policies such as the "LOGISTEED Group Code of Conduct" and share corporate social responsibility with group companies.

Compliance/Information Security

Compliance

In order to ensure management in compliance with laws and regulations, the 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 "LOGISTEED 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 by deepening understanding of anti-corruption laws, warehousing business law, etc., we hold e-learning for all employees including officers and rank-based programs as well as group trainings targeting new directors of domestic group companies.

Attendance rate of Code of Conduct e-learning course (FY2022): **97**%
Scope: LOGISTEED, domestic/overseas group companies

■ 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 (FY2022)

Domestic: **21** companies　　　Overseas: **30** companies

■ Initiatives to prevent bribery
We recognize that anti-corruption is one of the most important compliance issues, and we are working to strengthen our management system particularly for bribery in Japan and overseas. In FY2022, we revised the "Anti-Bribery Rules," etc. and reviewed related rules as well as conducted examination of some business partners based on the revised rules.

Status of examination of business partners (customs clearance)

Subject to examination: **236** companies in Japan and overseas　　　Examination rate: **97**%

■ Whistle-blowing system
In order to detect and correct illegal and/or inappropriate actions early on, the Group has a whistle-blowing system with internal and external points of contact to allow employees and other stakeholders to report without hesitation, and ensures thorough protection of whistle-blowers.

🌐 LOGISTEED Group Code of Conduct
https://www.logisteed.com/jp/profile/policy/pdf/koudoukihan.pdf (Japanese version only)

🌐 For details of compliance information, please visit our website.
https://www.logisteed.com/en/profile/csr/governance/compliance/

Information Security

We recognize that the highest priority is to properly manage and protect information assets of customers and the Group, and accordingly the entire Group has been promoting the preparation of internal rules as well as education and awareness activities for employees. As part of our efforts to prevent information leakage and maintain a high-level security, we revise the internal rules in keeping with changes in social conditions and the overseas trend regarding personal information protection and confirm the management and operation status of personal information protection and information security. We are also enhancing governance across the entire Group and working on education and simulation trainings for targeted threat emails for employees, responses to GDPR* in EU and other relevant laws in other countries, and personal information protection in Japan and overseas, in an effort to maintain and bolster security levels to provide safe and secure logistics services to customers.

> * General Data Protection Regulation (GDPR): A regulation established by EU to protect personal data and privacy, which imposes severe restrictions on the handling of personal data (processing and transfer) by companies and organizations.

■ Education and training for personal information protection/information security
In addition to e-learning for all employees, we provide rank-based group trainings for information security education. Also, as a countermeasure against targeted threat emails, in FY2022, we introduced more practical training using a simulation training system we developed and began monitoring of the reporting rate.

Attendance rate of information security training course (FY2022) **100**%
Scope: LOGISTEED, domestic/overseas group companies

Rate of targeted threat emails for simulation trainings opened (FY2022) **7.1**%
Scope: LOGISTEED, domestic group companies

■ Acquisition and maintenance of third-party certification
● Privacy Mark/Information Security Management System (ISMS)
LOGISTEED and its domestic group companies have acquired the Privacy Mark certification which certifies that a business operator has established a system to take appropriate measures to protect personal information. We have also acquired ISO/IEC 27001 which is an international standard certifying that an information security management system satisfies certain criteria.

Privacy Mark acquisition status (As of March 31, 2023) LOGISTEED, domestic group companies **12** companies

ISMS Certification* (As of March 31, 2023) **18** departments

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

■ Customer privacy
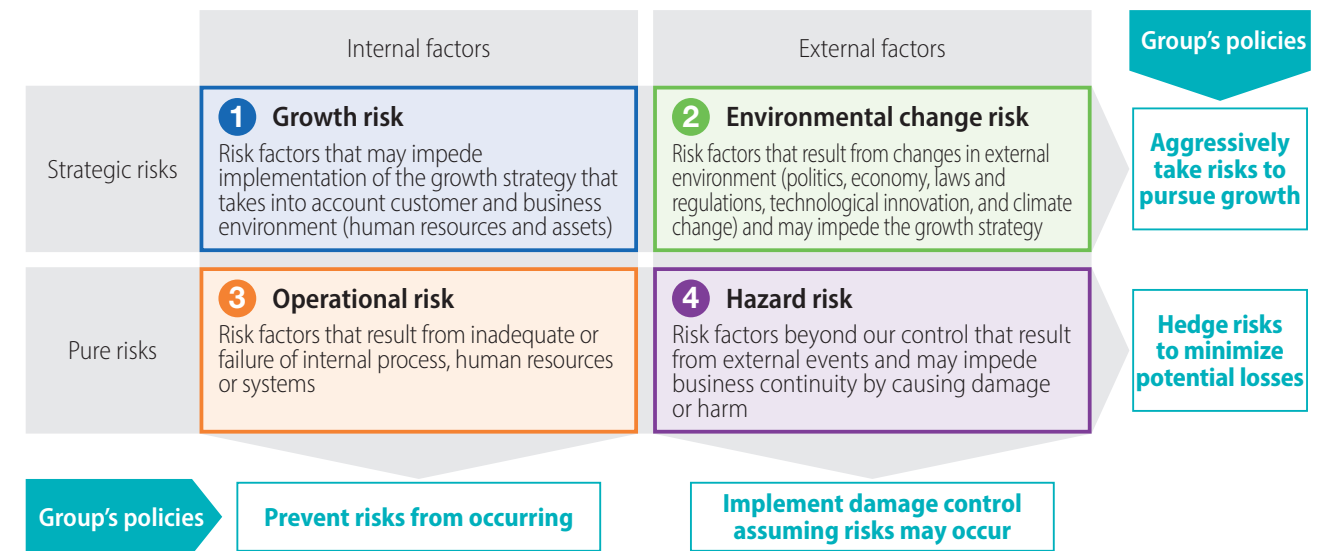In FY2022, there were no complaints filed for the violation of customer privacy.

🌐 For details of information security, please visit our website.
https://www.logisteed.com/en/profile/csr/governance/riskmanagement/

Risk Management

The LOGISTEED Group strives to enhance the PDCA cycle of risk management to address risks that are difficult to foresee and require company-wide countermeasures by considering the identification of risk items (identification), risk analysis (quantification), risk assessment (prioritization), and risk response (response policy), with an aim to increase corporate value and achieve sustainable growth.

■ Definition and classification of risks
The 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 types (strategic or pure) and factors (internal or external) and quantify them by risk factors based on the probability of occurrence and the degree of impact to select priority risk which exceeds the reference point. We also prioritize risks based on the assessment points and focus on discussing countermeasures against them.
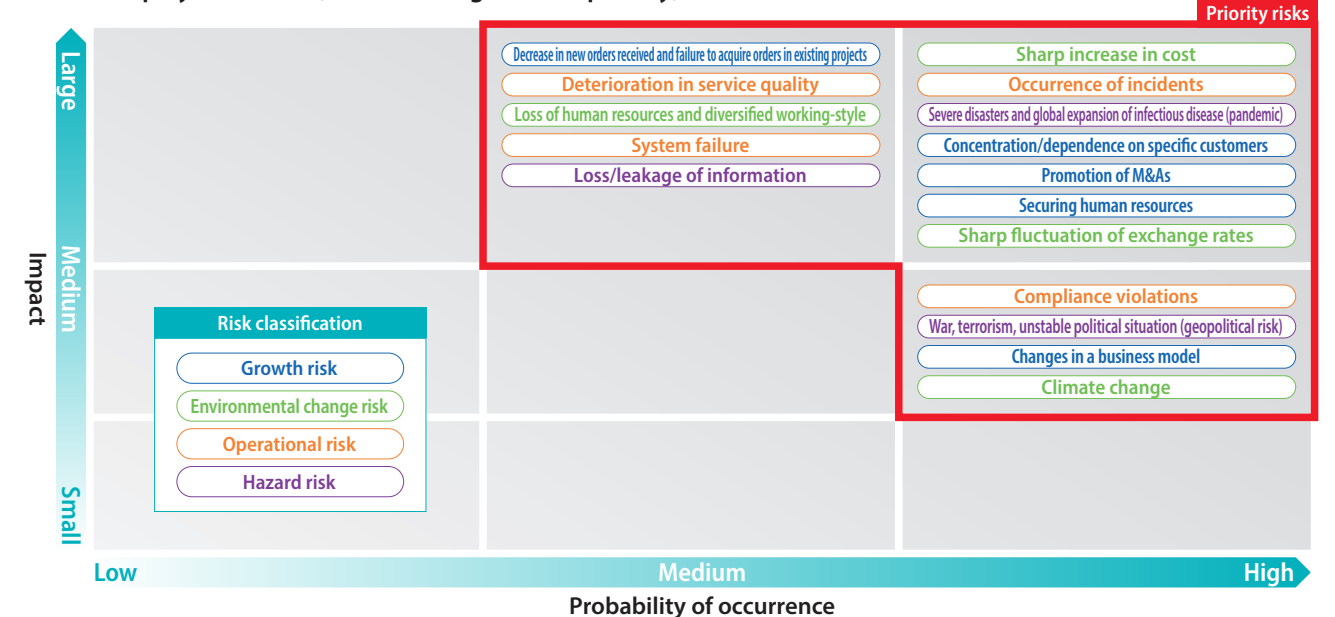

	Internal factors	External factors	Group's policies
Strategic risks	**①　Growth risk** Risk factors that may impede implementation of the growth strategy that takes into account customer and business environment (human resources and assets)	**②　Environmental change risk** Risk factors that result from changes in external environment (politics, economy, laws and regulations, technological innovation, and climate change) and may impede the growth strategy	**Aggressively take risks to pursue growth**
Pure risks	**③　Operational risk** Risk factors that result from inadequate or failure of internal process, human resources or systems	**④　Hazard risk** Risk factors beyond our control that result from external events and may impede business continuity by causing damage or harm	**Hedge risks to minimize potential losses**

Group's policies ▶ **Prevent risks from occurring**　　　**Implement damage control assuming risks may occur**

■ Risk Management System
The group manages risks with a system whereby a Risk owner*[1] and a Risk manager*[2] are appointed for each risk factor, and risk owners or risk managers report the status of relevant risk items to the Executive Committee and also to the Board of Directors when necessary, in order to ensure effectiveness of Enterprise Risk Management (ERM).

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

■ Heatmap by risk factor (in descending order of priority)

Priority risks

Impact: Large / Medium / Small
Probability of occurrence: Low / Medium / High

- Decrease in new orders received and failure to acquire orders in existing projects
- Deterioration in service quality
- Loss of human resources and diversified working-style
- System failure
- Loss/leakage of information
- Sharp increase in cost
- Occurrence of incidents
- Severe disasters and global expansion of infectious disease (pandemic)
- Concentration/dependence on specific customers
- Promotion of M&As
- Securing human resources
- Sharp fluctuation of exchange rates
- Compliance violations
- War, terrorism, unstable political situation (geopolitical risk)
- Changes in a business model
- Climate change

Risk classification
- Growth risk
- Environmental change risk
- Operational risk
- Hazard risk

🌐 As for disaster preparedness measures and business continuity management/BCP promotion system, please visit our website.
https://www.logisteed.com/en/profile/csr/governance/riskmanagement/

Risk Management

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

❶ Growth risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
Concentration/ dependence on specific customers	■ **Risk** • Impact on business results and continued employment by losing projects • Impact on the Group business of customers' performance fluctuations and business reorganizations • Impact on the Group business due to the changes in customers' business environment including drastic changes in the industrial structure and increasing supply chain vulnerability ■ **Opportunity** • Efficient business expansion and able to take advantage of scale	• Sharp drop of revenues and profit due to poor performance or bankruptcy of customers and a significant increase in liabilities due to uncollectible accounts receivable • Downsizing of the business base	• Account management through enhanced collaboration among group companies and divisions • Monitor customers' business condition • Monitor the movements of peer companies • Establish and monitor credit limit • Perform periodic review of customer dependency • Allocate management resources to non-core businesses • Develop/provide services beyond conventional logistics domain • Promote diversity through new customer development
Changes in a business model (technological innovation, etc.)	■ **Risk** • Obsolescence of existing services and business models due to rapid development of IT and other digital technologies • Obsolescence of existing technologies due to failure to promptly deal with digitalization and introduce new technologies • Decrease in market share due to entry of competitors from different industries (e.g. IT, equipment) ■ **Opportunity** • Acquisition of growth opportunities through the development of revolutionary technology	• Loss of competitive advantages in the logistics industry • Decrease in competitiveness due to delayed response to digitalization	• Increase competitiveness by developing new services and unique business models through collaborative innovation with business partners • Collect information on new business models including new technologies and different industries as well as benchmark other companies • Promote cooperation among industry, government, and academia as well as open innovation • Reinforce human resources with IT/digital skills
Securing human resources	■ **Risk** • Labor shortage due to tighter regulation on drivers' overtime work by the Work Style Reform Act • Difficulty in securing human resources due to aging population combined with a declining birth rate and intensifying competition in the labor market • Loss of momentum for promotion of diversity management which enables diverse employees to participate in the workplace ■ **Opportunity** • Acquisition of new expertise and creation of new businesses	• Stagnation of the business • Decrease in market competitiveness • Slowdown in corporate growth	• Expand network of partner companies and secure workforce by enhancing recruitment of in-house drivers (increase personal vehicles) including reviewing drivers' benefit • Visualize human resource skills using the HR management system and make full use of skills • Secure human resources with site management, global, digital, and business management capabilities according to the business strategy (Enhance recruiting and establish a compensation system) • Enhance in-house training programs to foster and educate human resources • Perform human resource retention control (Create a pleasant working environment) • Improve work efficiency through implementation of automation and RPA
Decrease in new orders received and failure to acquire orders in existing projects	**Decrease in new orders received** ■ **Risk** • Difficulty in acquiring new orders and slowdown in growth due to intensifying competition and market shrinkage • Failure to launch a new project ■ **Opportunity** • Business expansion with new orders, and acquisition of new expertise	• Decrease in market competitiveness • Growth slowdown due to a decline in customer trust • Decline in profit margin due to unprofitable businesses	• Enhance monitoring through wider use of the phase-gate process management • Visualize and share information on orders received and not received • Set priority targets for new customers • Enhance sales activities for acquiring new customers (expansion of sales channel and network)
	Failure to acquire orders in existing projects ■ **Risk** • Failure to acquire orders in existing projects due to a bidding system, etc. • Misjudgments in business planning		• Visualize and share customers' risk information • Understand trend, analyze potential impact on businesses, and develop/ implement responsive plans • Strengthen communications with existing customers
Promotion of M&As (including capital and business alliance)	■ **Risk** • Drop in performance of the acquiree, investee or alliance partner • Fall of governance in the acquiree ■ **Opportunity** • Establishment of growth platforms through acquisition of new management resources and creation/expansion of an ecosystem	• Decrease in earnings and recognition of impairment loss • Loss of customers due to scandals or violation of rules ■ **Reference** • Goodwill in FY2022: 30.1 billion yen • Customer-related intangible assets in FY2022: 10.2 billion yen	• Strengthen due diligence before M&A or alliance • Develop and implement a PMI plan by the head office and relevant business divisions • Create synergies through collaboration with existing businesses

❷ Environmental change risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
Sharp increase in cost	■ **Risk** • Increase in procurement costs (fuel, car allocation expenses, labor costs, warehouse rent, and utility costs, etc.) ■ **Opportunity** • Decrease in procurement costs	• Deterioration in profitability due to failure to collect adequate fee corresponding to the increase in cost • Negative impact on business continuity due to shortage of human resources and vehicles, etc. ■ **Reference** Outsourcing costs/labor costs in FY2022 • Outsourcing costs: 415.8 billion yen • Labor costs: 180.4 billion yen	• Promote streamlining of relay transport and joint delivery in addition to building close relationships with partner companies • Optimize fees and contract form based on the movements of peer companies • Efficient management by promoting digitalization, in-house manufacturing, and joint procurement • Reduce impact on business continuity by monitoring management of major partner companies
Sharp fluctuation of exchange rates	■ **Risk** • Exchange loss • Negative impact of translation of business results of overseas subsidiaries into Japanese yen due to sharp fluctuation of exchange rates ■ **Opportunity** • Exchange gain • Positive impact of translation of business results of overseas subsidiaries into Japanese yen due to sharp fluctuation of exchange rates	• Decrease in profit due to exchange loss (items below EBIT in the income statement) • Decrease in revenues and profit due to negative impact of translation of business results of overseas subsidiaries into Japanese yen ■ **Reference** Ratio of global business in revenues and adjusted operating income in FY2022: Revenues: 46% Adjusted operating income: 46%	• Concentrate exchange risks (centralize transactions such as forward exchange contracts and currency options in the head office) • Enter into hedge transactions including forward exchange contracts with financial institutions • Maintain a balance of foreign currencies and continue investment in time deposits
Climate change	■ **Risk** • Impact on realization of sustainable society • Rise in greenhouse gas emissions price • Impact of extreme weather and natural disasters • Increase in the average temperature ■ **Opportunity** • Use of more efficient transportation modes and production and distribution processes • Ability to diversify business activities • Alternative/diversified resources	• Increase in tax burden related to climate change and cost increase due to tightening or introduction of regulations on greenhouse gas emissions • Stagnation of the logistics business due to intensifying extreme weather	• Establish an environmental management system and promote relevant activities • Strengthen alliance with collaborative innovation partners to achieve the medium-to-long-term environmental targets (procurement of renewable energy, introduction of advanced eco-friendly vehicles, energy-saving buildings and facilities, and recycling) • Develop decarbonizing solutions (visualization of CO_2 emissions) and promote green logistics • Enhance risk management by purchasing appropriate insurance • Promote BCP measures (business continuity, quick recovery)

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
Loss of human resources and diversified working-style	■ **Risk** • Loss of human resources due to a mismatch between the personnel measures and employees' desire • Decline in labor productivity and increase in turnover rate due to health concerns and problems • Loss of human resources due to delayed response to diversified working-style, and difficulty in securing human resources • Increase in turnover due to the mobilization of human resources • Interruption in transfer of skills and expertise due to an increase in turnover. Delay in development of new services/business models ■ **Opportunity** • Secure diversified human resources including highly-skilled personnel and those from different industries, etc.	• Fall of governance and business operation ability due to loss of human resources • Decrease in market competitiveness and slowdown of corporate growth due to loss of human resources	• Realize diversity and inclusion and a work-life balance through use of a broad range of human resources • Appoint human resources and provide career education based on a succession plan • Promote visualization of employee engagement and mental health countermeasures using the employee engagement survey and stress check • Improve moral/motivation through periodic interviews at workplace • Support active participation of female, elderly, or disabled employees in the workplace • Conduct employee surveys and strengthen employee engagement • Secure excellent human resources by implementing group common in-house training programs • Further promote teleworking • Offer opportunities and occasions for growth (talent management and education) • Introduce a job-oriented compensation system that reflects "roles/ responsibilities" and "achievements"

❸ Operational risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
Occurrence of incidents	■ **Risk** • Occurrence of industrial accident, vehicle or product accidents, and fire	• Compensation for losses caused by accidents or fire to products or the affected people, and payment of damage compensation to the affected people • Decrease in revenues and profit due to decline in customer and social trust. Loss of customers	• Enhance disaster prevention/mitigation capabilities by providing education and trainings and installing equipment and systems • Maintain proper insurance for assets in custody (inventory) • Strengthen communications with employees • Actively use disaster prevention technology • Develop and implement a facility maintenance plan • Establish an initial response and reporting system in case of an accident, and conduct drills • Share lessons, insights, and good examples within the Company • Create safety workplaces by introducing technology (SSCV, etc.) • Implement safety activities such as remote/VR education in Japan and overseas
Compliance violations (violation of the labor law, bribery, infringement on human rights, etc.)	■ **Risk** • Violation of overtime regulations, etc. • Disagreement with the authority on the interpretation of equal pay for equal work • Violations of laws and regulations such as bribery and competition law • Deviation from social norms • Information leakage • Infringement on human rights including harassments, child labor, and low wage labor • Infringement on intellectual property rights	• Impairment of corporate value due to decline in social trust • Decrease in revenues and profit due to decline in customer and social trust. Loss of customers	• Establish the LOGISTEED Group Code of Conduct and educate all employees • Introduce a whistle-blowing system • Conduct investigation and education by legal divisions in each region • Establish a structure to manage an attendance management system • Clarify wage calculation method • Establish a specialized IP division and educate all employees • Enhance compliance through visualization by introducing IT standardized systems and digitized systems as well as enhancing the post-implementation follow-up
Deterioration in service quality	■ **Risk** • Loss of customer trust • Deterioration in service quality and delays in delivery, etc.	• Decrease in revenues and profit due to decline in customer and social trust. Loss of customers • Compensation for losses such as reimbursement due to the incidents	• Manage KPIs by quality control divisions • Quality control through process management • Conduct monitoring based on the internal control system, perform audit, and enhance support • Implement quality monitoring by holding regular meetings with customers
System failure	■ **Risk** • Significant delay in work or suspension of operations due to power outage or system/equipment failure caused by natural disasters • Significant delay in work or suspension of operations due to system failure at external service providers • Delay in operations due to deterioration of system/equipment response	• Compensation or penalty for customers' opportunity loss due to delay in work • Impairment of corporate value due to decline in social trust • Decrease in revenues and profit due to decline in customer and social trust • Expenses related to recovery or renovation	• Introduce redundant system • Prepare alternative means in case of failure • Strengthen backup measures for system recovery and conduct on-site training • Implement measures for each service used and BCP • Enhance risk management with cybersecurity insurance

❹ Hazard risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
Severe disasters and global expansion of infectious disease (pandemic)	■ **Risk** • Damage to employees • Disruption of logistics network • Damage to the Group's assets (e.g. buildings and facilities) and customers' products	• Decrease in revenues and profit due to impacts on business (e.g. shutdown) • Restoration cost and impairment of assets	• Assess business interruption risk in each region • Develop business continuity plan (BCP) for early business recovery (including prior consultation with customers and business partners) • Establish rules for information collection and work regulations as a global organization in case of pandemic • Carry out business continuity management (BCM) • Promote automation/labor-saving
Loss/leakage of information	■ **Risk** • Loss or leakage of data such as customer information due to an information security incident, cyberattack or large-scale system failure	• Impairment of corporate value due to decline in social trust • Decrease in revenues and profit due to decline in customer and social trust • Restoration cost • Claims for compensation damages from customers	• Strengthen the information asset management through internal audit and in-house trainings, etc. • Establish and disseminate information security rules • Build a system to deal with cyberattacks and regularly update the technology • Increase frequency of monitoring including audit
War, terrorism, unstable political situation (geopolitical risk)	■ **Risk** • Damage to employees • Impact on business (SC disruption, etc.) • Damage to the Group's assets (e.g. buildings and facilities) and customers' products	• Decrease in revenues and profit due to impacts on business (e.g. shutdown) • Restoration cost and impairment of assets	• Conduct routine situation analyses and monitoring • Accelerate decision-making in case of emergency • Develop BCP