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 crucial role of corporate governance lies in increasing corporate value and sustainable development. Based in this basic policy, we have adopted a corporate governance structure capable of responding deftly to changes in the business environment as well as boosting soundness and transparency—namely a company with a Nominating Committee, etc. System. This means that we have effectively separated our corporate management and our business implementation—a setup that largely transfers business decision-making rights from our Board of Directors to our Executive Committee. The result is rapid decision-making and implementation on initiatives such as restructuring and strategic investment. In addition, because we believe in considering the objective opinions of many outside directors, we have already established three committees overseeing nomination, auditing, and compensation respectively.

Measures to Enhance Corporate Governance Implemented in the Past

<table>
<thead>
<tr>
<th>Year</th>
<th>Measures</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Transferred to a Company with Committees (established Nominating Committee, Audit Committee and Compensation Committee)</td>
<td>To strengthen management supervision function of the Board of Directors</td>
</tr>
<tr>
<td>2014</td>
<td>Developed Criteria for Independence of Outside Directors</td>
<td>To secure independence of directors</td>
</tr>
<tr>
<td>2015</td>
<td>Transferred to a Company with a Nominating Committee, etc. System</td>
<td>To comply with the amended Companies Act</td>
</tr>
<tr>
<td>2016</td>
<td>Responded to the Corporate Governance Code Established Corporate Governance Guidelines of Hitachi Transport System</td>
<td>To strengthen governance</td>
</tr>
<tr>
<td>2017</td>
<td>Evaluated the effectiveness of the Board of Directors</td>
<td>To strengthen functions of the Board of Directors</td>
</tr>
<tr>
<td>2019</td>
<td>Appointed a female director</td>
<td>To diversify the Board of Directors</td>
</tr>
<tr>
<td>2020</td>
<td>Appointed a female director</td>
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</tr>
</tbody>
</table>

The Current Corporate Governance System and Internal Control System

- **General Shareholders’ Meeting**
  - Board of Directors
  - Nomination Committee
  - Compensation Committee
  - Audit Committee

- **Executive Committee**
  - President
  - Executive Officers

- **Corporate Governance Guidelines**

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

- **Succession plan**
  - The Company has had in-depth discussions about a succession plan at the Nominating Committee and the Board of Directors. Appropriate supervision is conducted through decisions by President and Chief Operating Officer and business reporting and evaluation by executive officers at the Board of Directors.

- **Appointment of new management members**
  - The Company selects candidates from the next-generation management members, candidates (executive officers), 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.

- **Foundation Supporting Value Creation**

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

- **Audit Committee**
  - Performs audits of directors and executive officers’ business implementation and prepares audit reports

- **Compensation Committee**
  - Determines compensation levels, etc. of directors and executive officers

Primary roles of Executive Committee (FY2022)

- **Executive Committee**
  - Deliberates on important issues related to business implementation

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 members based on the President/CEOs (2J), 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.

Corporate Governance Report

Policy on cross-shareholdings
- **Policies regarding cross-shareholdings**
  - HTS does not hold cross-shareholdings in principle, unless it is for a medium-to-long-term sustainable growth of the Company and increase of corporate value.
  - Under such policy, of 26 issues held, we sold all shares of 14 issues in March 2016, one share in October 2016 and one issue in June 2017, and we purchased one share in March 2019, and as a result, we held 11 issues of shares as of March 31, 2022. As of March 31, 2022, the amount of cross-shareholdings accounted for less than 1% of total assets, which is insignificant on the balance sheet.
  - In addition, the Board of Directors evaluates every year whether to continue holding those shares from the viewpoint of the criteria for investment assessment (ROE, dividend payout ratio, and impairment risk, etc. of individual issues) and the criteria for business assessment (revenues from direct transactions with HTS, compensation with the capital cost of core businesses, credit information by third party agencies, and compliance, etc.).

- **Exercising of voting rights**
  - HTS exercises its voting rights from the perspective of its medium-to-long-term sustainable growth and increase of corporate value.
Initiatives for intellectual property governance

- HTS's policy on investment and utilization strategies for intellectual property and intangible assets

In the previous 10-year term (Medium Business Plan 2020-2029), we launched new solution businesses such as “SCDOS” and “SSCV” and reinforced the management of intellectual property and intangible assets. In the medium-term (Medium Business Plan 2020-2029), we will, in line with the results of our research with Hitachi, Ltd., continue to make efforts to accumulate and inherit intellectual properties and intangible assets that are integrated with our business to further strengthen our IP business.

- 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 “OUR SESEED2024,” we are visualizing CO2 emissions and creating inventions related to decarbonization initiatives. In order to stop-up DX from the DT, we have formulated so far, and we will conduct trend surveys and research, and continuously implement intellectual property governance. In addition, we will continuously implement intellectual property governance to further strengthen our IP business.

- 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 DX field have increased since 2014. In recent years, we have focused on acquiring patents on on-site DX, new business/business models, and applications for business-related inventions accounted for more than 85% to the Group’s total applications.

- Intellectual property management system

The Intellectual Property Management Committee is established as a decision-making body on intellectual property strategy and 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. in the future.

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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 (“Board Self-Evaluation”) of its Corporate Governance Guidelines, evaluates the effectiveness of its Board of Directors (BOD) annually. To evaluate the BOD’s effectiveness for 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 Japon 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 its 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 covered during FY2022 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 Executive Committee meetings that the Chair attended throughout the year. Matters deliberated at BOD meetings during FY2021 consisted of management strategies (36%), corporate governance (25%), and business operation and others (39%), which reflected the BOD’s decision to spend its 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 FY2022. 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 (MTP) for FY2022-2024. Prior to the full-term discussions, outside directors provided in-depth insights into the following key topics to be incorporated into the MTP for FY2022-2024: (1) driving the Group’s top-line growth, (2) transforming the Group’s organizational structure, (3) revising the Company’s talent management strategy, and (4) implementing IX solutions. The expert opinions and ideas provided by outside directors helped clarify key issues to be deliberated on at 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 pages.


Corporate Governance

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

As one of the Company’s important pillars underpinning 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 “LOGISTEE” 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

1. Operation policy, etc. for the Compensation Committee

We are in compliance with the Company Act pertaining to 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:

1. Determine the policies to determine the details of compensation of each director and executive officer
2. Select the member of the Compensation Committee who can convene the Board of Directors
3. Report the member of the Compensation Committee who reports on the execution of duties by the Committee to the Board of Directors
4. Determine the matters delegated by the General Shareholders’ Meeting to decide
5. 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 remaining members consisting of independent 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 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:

The three members (including two outside directors) Compensation Committee Chair (outside director) Ms. Isazuma, 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

1. Basic policy on the compensation plan for officers

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

1. 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”
2. 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 “LOGISTEE”
3. 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
4. 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
5. 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 composition ratio of performance-linked compensation and other compensation

We determine the composition ratio of performance-linked compensation and other compensation in accordance with the basic policy on the compensation plan for officers. In determining the composition ratio of performance-linked compensation and other compensation, we benchmark our compensation levels against those of peer companies with similar business size based

Attendance record of Board of Directors meetings and Committee meetings in FY2021

<table>
<thead>
<tr>
<th>Name</th>
<th>Registration</th>
<th>Positions and assignments in the Company in FY2021</th>
<th>Number of attendances in all meetings during FY2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miho Aoki</td>
<td>2020</td>
<td>Outside Director</td>
<td>16/16</td>
</tr>
<tr>
<td>Sayoko Iizumo</td>
<td>2011</td>
<td>Outside Director</td>
<td>20/20</td>
</tr>
<tr>
<td>Mitsuho Urano</td>
<td>2014</td>
<td>Outside Director Chair of the Board of Directors</td>
<td>16/16</td>
</tr>
<tr>
<td>Takashi Nishijima</td>
<td>2020</td>
<td>Outside Director</td>
<td>16/16</td>
</tr>
<tr>
<td>Tetsu Fusayama</td>
<td>2016</td>
<td>Outside Director</td>
<td>16/16</td>
</tr>
<tr>
<td>Hiroshi Maruta</td>
<td>2015</td>
<td>Outside Director</td>
<td>16/16</td>
</tr>
<tr>
<td>Hajime Watanabe</td>
<td>2020</td>
<td>Outside Director</td>
<td>16/16</td>
</tr>
<tr>
<td>Takashi Jingui</td>
<td>2016</td>
<td>Representative Executive Officer Executive Vice President and Executive Officer</td>
<td>16/16</td>
</tr>
<tr>
<td>Yasuo Nakatani</td>
<td>2013</td>
<td>Representative Executive Officer President and Chief Executive Officer</td>
<td>16/16</td>
</tr>
</tbody>
</table>

"The colored frames indicate respective Committees with the upper part showing the name of the Committee to which a director belongs or chairs and the lower part showing his/her attendance records during FY2022."
The payment rates based on the respective evaluation of the achievement of the performance targets. Assuming an achievement of the performance targets, division missions, and individual missions fluctuate independently between 0 and 2 times, and the amount of bonus payment 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>KPIs</th>
<th>Elements</th>
<th>Yen Compensation (Fixed)</th>
<th>Compensation (Variable)</th>
<th>Compensation (Linked)</th>
</tr>
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<tbody>
<tr>
<td>FY2022</td>
<td>100</td>
<td>50</td>
<td>50</td>
<td>100:50:50</td>
</tr>
<tr>
<td>FY2023</td>
<td>100</td>
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<td>40</td>
<td>100:60:60</td>
</tr>
<tr>
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<td>100</td>
<td>30</td>
<td>30</td>
<td>100:70:70</td>
</tr>
</tbody>
</table>

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

**Ratio of each compensation element**

<table>
<thead>
<tr>
<th>Elements</th>
<th>FY2022</th>
<th>FY2023</th>
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</tr>
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<tbody>
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<td>Stock compensation</td>
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<tr>
<td>Total compensation</td>
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<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

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 bonus payment fluctuates between 0% to 200% of the standard amount determined for each position for a single year.

**Stock compensation**

Stock compensation aims to raise executive officers’ awareness to contribute to improving medium-term performance and corporate value by clarifying the relationship between their compensation and the Company’s performance and equity value to let them share benefits and risks associated with stock price movements with shareholders.

For the evaluation period of three consecutive fiscal years from FY2021 to FY2023, officers are granted the base points (1 point = 1 share) calculated as the standard amount for each position divided by the Company’s stock price in the trust before the start of the evaluation period. For the performance evaluation period, the base points are calculated as the standard amount for each position divided by the Company’s stock price in March, and the number of the Company’s common stock is calculated by multiplying the base points by the share grant ratio reflecting the performance evaluation (the “Company’s Shares”) are granted. The grant points are calculated using the number of shares sold at the market to secure cash for tax payment, and the proceeds will be paid.

**Performance evaluation period**

<table>
<thead>
<tr>
<th>Performance evaluation period</th>
<th>Grant share</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2022</td>
<td>20%</td>
</tr>
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Compliance/Information Security

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.

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 whistle-blowing system with internal and external points of contact for reporting, which allows employees to report irregularities, violations, and ethics issues in a safe and secure manner. The system operates in accordance with relevant laws and regulations, and personal information protection/information security.

In addition to e-learning for all employees, we provide rank-based group trainings for information security education targeting new employees, mid-career employees, and assistant managers/managers. Simulation trainings to cope with targeted threat emails are also conducted every year.

Attendance rate of information security training course (FY2021)

100.0%

Scope: HTS, domestic/overseas group companies

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

6.0%

Scope: HTS domestic group companies

Acquisition and maintenance of third-party certification

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

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

12 companies

ISMS Certification* (As of March 31, 2022)

20 departments

Customer privacy

In FY2021, there were no complaints filed for the violation of customer privacy.

For details of information security, please visit our website.


Risk Management

Definition and classification of risks

The HTS Group defines risk as “the influence of uncertainty about our objectives and the possibility of 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.

Operational risk

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

Strategic risk

Growth risk

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

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

Pure risk

Operational risk

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

Hazard risk

Risk factors beyond our control that result from external events and may impede business continuity by causing damage or harm

Foundation Supporting Value Creation

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 such risks, and the Group has also formulated countermeasures in response to changes in social conditions and the overseas trend regarding relevant laws and regulations.

For details of information security, please visit our website.


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.

For details of information security, please visit our website.


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

**Risk Management**

**1 Growth risk**

- **Risk factors and the implementation status of our measures (priority risks):**
  - Sharp drop in revenues and profit due to the post-COVID-19 recovery, a general decline in demand, and a significant increase in material prices due to higher energy costs and other factors affecting the business base.
  - Adverse impacts on revenue, profit, and business base in the post-COVID-19 environment.

**2 Environmental change risk**

- **Risk factors and the implementation status of our measures:**
  - Decrease in new orders received due to a decrease in demand for customer orders.
  - Inability to acquire new orders due to a decrease in demand for customer orders.
  - Difficulty in acquisition of new customers due to a decrease in demand for customer orders.

**3 Operational risk**

- **Risk factors and the implementation status of our measures:**
  - Decrease in profitability due to a decrease in demand for customer orders.
  - Decrease in revenue due to a decrease in demand for customer orders.
  - Decrease in profits due to a decrease in demand for customer orders.

**4 Hazard risk**

- **Risk factors and the implementation status of our measures:**
  - Decrease in profitability due to a decrease in demand for customer orders.
  - Decrease in revenue due to a decrease in demand for customer orders.
  - Decrease in profits due to a decrease in demand for customer orders.