Key Management Indicators: MD&A

(Management's Discussion and Analysis of Financial Position, Financial Results, and Cash Flows)

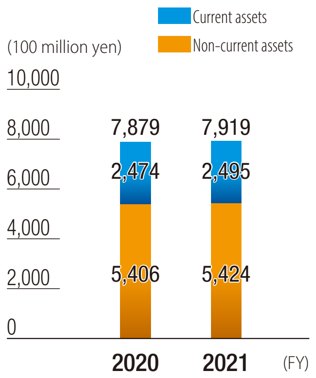
Financial Position

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 ¥2,120 million due to increases of ¥8,181 million in trade receivables and contract assets mainly due to increases in revenues and ¥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 ¥9,908million in cash and cash equivalents. Non-current assets increased by ¥1,822 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 Otsu City, Shiga Prefecture, and Kashiwa 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").

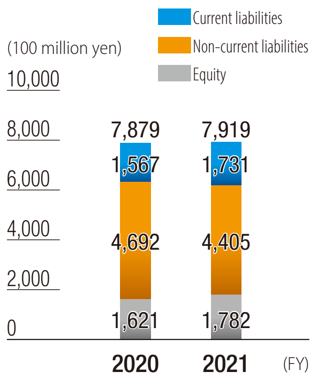
Total liabilities as of March 31, 2022 amounted to ¥613,665 million, a decrease of ¥12,164 million compared with the end of the previous fiscal year. Current liabilities increased by ¥16,486 million mainly due to increases of ¥9,772 million in current portion of long-term debt resulting from reclassification 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 ¥16,106 million compared with the end of the previous fiscal year. Total equity attributable to stockholders of the parent company increased by ¥15,012 million mainly due to a decrease of ¥98,996 million in treasury stock, at cost as a result of cancellation. Total equity attributable to stockholders of the parent company ratio increased from 19.7% as of March 31, 2021 to 21.5%.

Assets



Liabilities/Equity



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.

(Billions of yen)

	FY2020	FY2021
Revenues	6,524	7,436
Adjusted operating income	367	387
Operating income	411	307
EBIT	444	294
Income before income taxes	391	246
Net income attributable to stockholders of the parent company	229	135

Cash Flows

Cash flows from operating activities

Net cash provided by operating activities was ¥65,135 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 ¥14,622 million despite a decrease in cash from income taxes paid of ¥7,202 million.

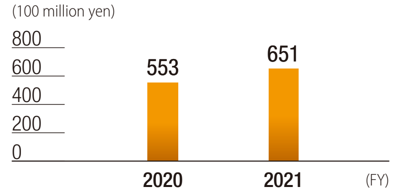
Cash flows from investing activities

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 resulting from purchase of property, plant and equipment and intangible assets of ¥20,359 million which consists mostly of capital expenditures for hazardous materials warehouses built in Otsu City, Shiga Prefecture, and Kashiwa 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.

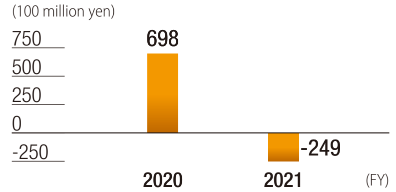
Cash flows from financing activities

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 lease liabilities of ¥33,758 million and repayments of long-term debt of ¥10,329 million.

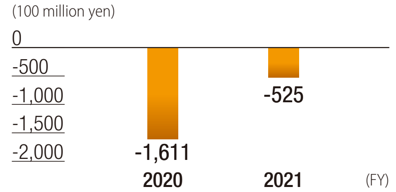
Cash flows from operating activities



Cash flows from investing activities



Cash flows from financing activities



Outline of Capital Expenditures

The Group (HTS and its consolidated subsidiaries) carefully selected and executed investments to expand logistics sites and renewed vehicles as part of ordinary business operation. The details of capital expenditures (based on tangible and intangible assets accepted) for the fiscal year ended March 31, 2022 are as follows:

In domestic logistics, we acquired hazardous substances warehouses (Otsu City, Shiga Prefecture, and Kashiwa 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 totaled ¥26,022 million.

In global logistics, we renewed existing assets, mainly vehicles. 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.

Details of capital expenditures

(100 million yen)

	FY2020	FY2021
Domestic logistics	512	260
Global logistics	115	161
Other	32	31
Company-wide	22	40
Total	681	493

Tax policy

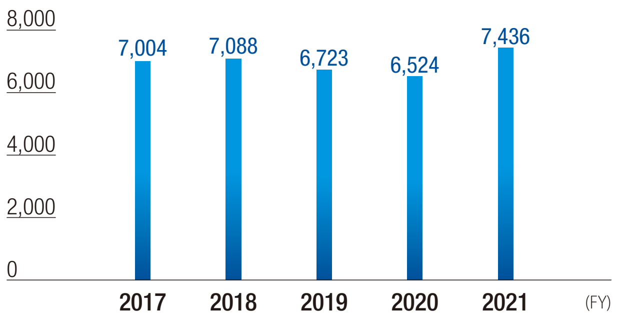
Recognizing that fulfilling tax obligations properly is one of our social responsibilities, the Group has established the internal "Rules of the Group Tax Management."

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 correspond to the diversification of taxation issues and the tax audits carried out by authorities, and report to relevant departments as soon as such issues start.

Key Management Indicators: Financial and Non-Financial Highlights

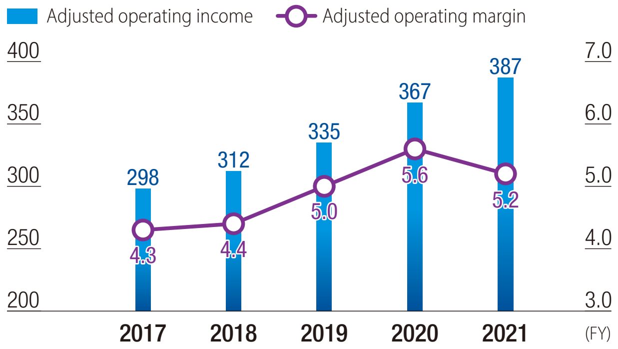
Financial Highlights

Revenues (100 million yen)



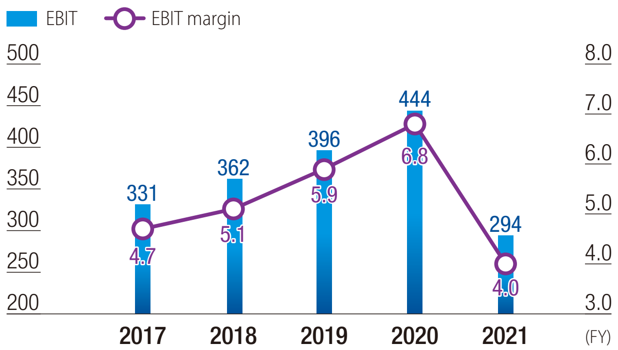
Revenues showed positive growth since FY2017 but decreased in FY2019 due to a decrease in volume of automobile parts and freight forwarding business and in FY2020 due to the spread of COVID-19. Revenues increased in FY2021 due to a recovery in handling volume.

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



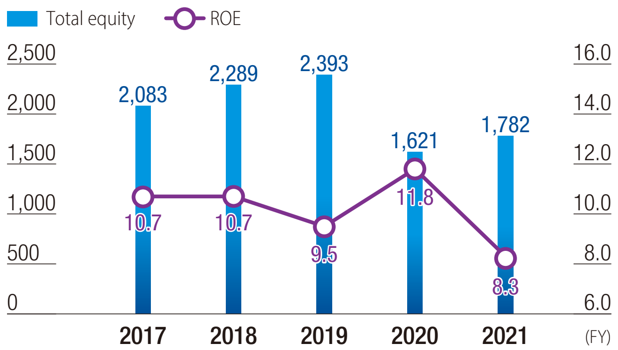
Adjusted operating income has been increasing since FY2013. The increase in FY2021 was mainly due to revenues increase, improved productivity, and improved profitability of freight forwarding business.

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



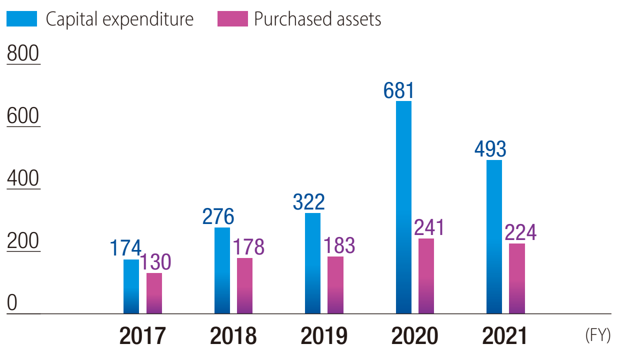
EBIT had been increasing since FY2013 but decreased in FY2021 due to loss by fire at a consolidated subsidiary and decreases in gains on sales of investments in associates and fixed assets recorded in FY2020.

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



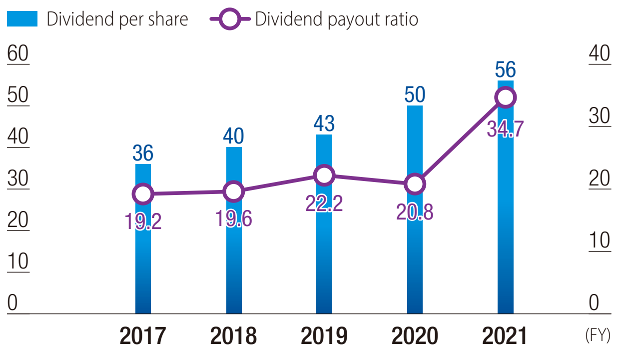
ROE remained flat since reaching 10% in FY2016. In FY2020, it increased due to a decrease in equity attributable to stockholders of the parent company as a result of the acquisition of approximately ¥98.8 billion of treasury stock, but decreased in FY2021 as net income attributable to stockholders of the parent company decreased mainly due to recording of loss by fire.

Capital expenditures/Purchased assets (100 million yen)



Capital expenditures including lease*1 remained at around ¥20 billion to ¥70 billion and purchased assets*2 remained at around ¥13 billion to ¥20 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 (%)

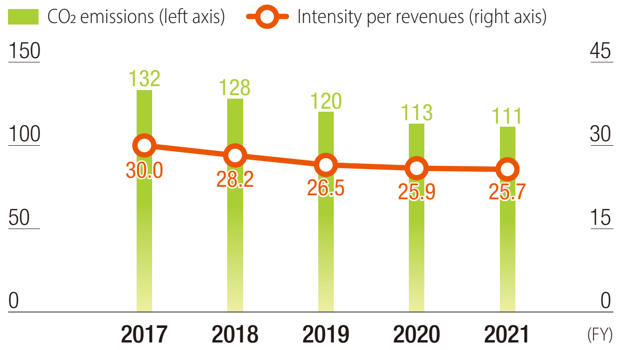


We have continued to increase dividends every year since FY2010. We seek profit distribution linked to business performance while considering medium-to-long-term business expansion and securing internal reserves to strengthen corporate structure.*3

*1 Based on tangible and intangible assets accepted *2 Based on non-current assets recorded *3 As announced in the news releases dated April 28, 2022, "Announcement of Expression of Opinion in Support of the Scheduled Commencement of the Tender Offer by HTSK Co., Ltd. for the Shares of Hitachi Transport System, Ltd., and Recommendation of Tender" and "Notice regarding Dividend Distribution (No Dividend)," we do not plan to pay an interim and a year-end dividends for the fiscal year ending March 31, 2023 in light of the scheduled commencement of the tender offer by HTSK Co., Ltd. for the Company's common shares.

Non-Financial Highlights

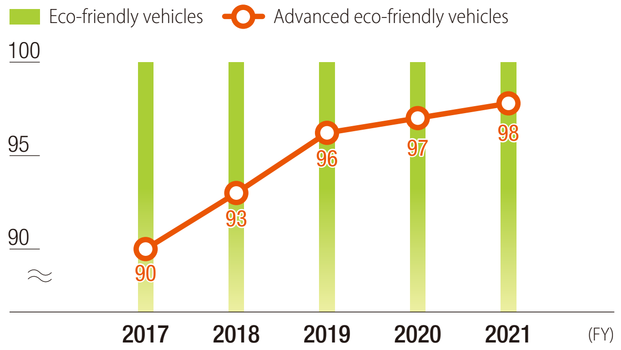
CO_2 emissions (thousand tons-CO_2)/Intensity per revenues (tons-CO_2/100 million yen)



Both CO_2 emissions and its intensity per revenues are on a declining trend mainly due to efforts to reduce electricity consumption and improve vehicle fuel efficiency.

Scope: HTS, domestic group companies (total of Scope 1 and 2)

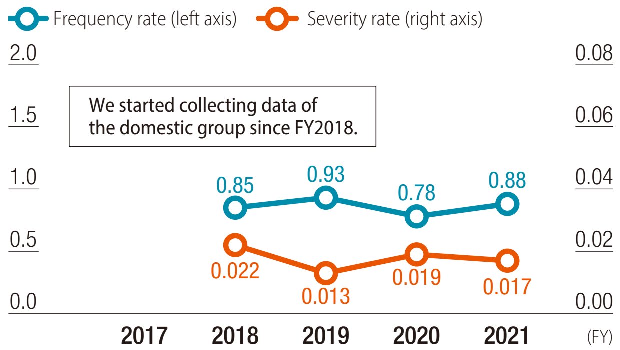
Eco-friendly vehicle ownership ratio (%)*1



To further reduce environmental load, we aim to achieve the advanced eco-friendly vehicle ownership ratio of 100% through, for example, the introduction of EVs and FCVs, etc. with higher environmental performance.

Scope: HTS, domestic group companies

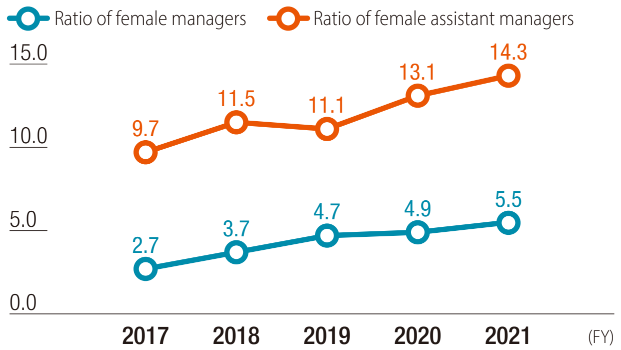
Workplace accident index: Frequency rate/Severity rate*2



In FY2021, the "frequency rate" representing the frequency of workplace accidents slightly increased but the "severity rate" representing the severity of accidents decreased mainly due to the introduction of education through realistic experience.

Scope: HTS, domestic group companies

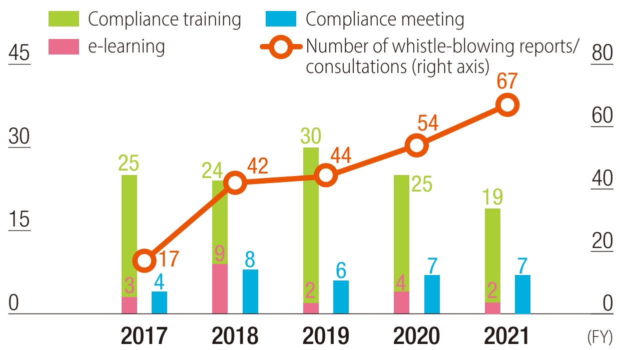
Ratio of female managers (%)



In FY2021, the ratio of female managers nearly doubled from FY2017 due to our systematic efforts to develop female employees.

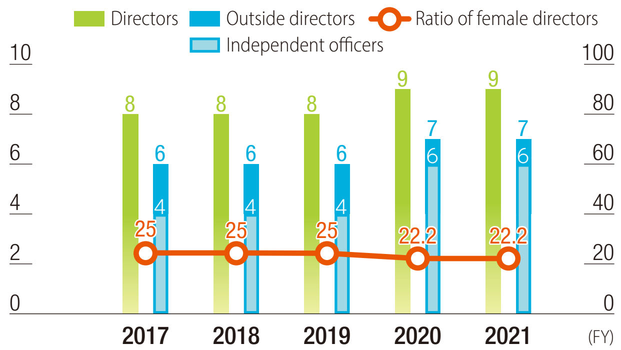
Scope: HTS

Number of compliance trainings and meetings conducted (times)/Number of whistle-blowing reports and consultations (cases)*3



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 whistle-blowing system.

Directors and outside directors (persons)/Ratio of female directors (%)*4



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.

Scope: HTS

*1 Eco-friendly vehicles are as follows: hybrid, natural gas, and electric as well as highly fuel-efficient vehicles certified by the government (vehicles meeting a specified standard), and low emissions vehicles. Total of personal and business vehicles excluding special vehicles. *2 A frequency rate, representing the frequency of accidents resulting in lost workdays, is expressed in terms of the number of injuries or deaths resulting from workplace accidents for each one million total hours worked by employees. A severity rate, representing the severity of accidents, is expressed in terms of the number of lost workdays for each 1,000 total hours worked by employees. *3 Compliance trainings and e-learning programs are provided to all employees of HTS and its domestics group companies. Number of compliance meetings and whistle-blowing reports/consultations is the total for the entire HTS Group including overseas group companies. *4 Female directors are all independent officers.