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 responses 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 oversee 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 comprising of the Group’s environment offices including CSO is held semiannually to confirm the achievement level of climate change responses including reduction of energy consumption and CO2 emissions, as well as determine necessary corrective measures and discuss measures to be taken in the future. Based on the decisions at the Environmental Promotion Conference with the CSO’s approval, the progress of climate change initiatives and the proposed strategy in the future are reported to the Executive Committee semiannually 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

- **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 analyses 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 new policies and measures presented by 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 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.

**Transition risks (1.5°C scenario / Less than 2°C scenario)**

**Types**

- Period
  - Long-term
  - Mid-term
  - Short-term

**Potential risks**

- Policy and legal
  - Risk of increasing tax burden (e.g., carbon tax, fuel tax) in relation to climate change and risk of rising cost due to tightening of regulation on CO2-emissions
  - Approves: reduction targets/measure/budgets

- Environment
  - Risk of increasing CO2 emission reduction cost and losing customers due to delay/failure in introducing environmental technology
  - Requires: budgetary/term increase on earnings decrease due to delay in introducing renewable energy and low carbon vehicles

- Market
  - Risk of losing customers due to inadequate response to customers who emphasize low-carbon or carbon neutral transportation
  - Requires: Earnings decrease due to increase of customers who emphasize climate change initiatives (e.g., customers whose targets were certified by the Science Based Targets (SBT) initiative)

**Potential impacts on business and response measures**

- Increase cost due to carbon pricing
- Develop and implement systematic environmental measures toward decarbonization (1) Introduce renewable energy (2) Introduce non-fossil fuel vehicles (e.g., EV/FCV), (3) Promote carbon-efficient power and (4) Introduce Internal Carbon Pricing (ICP)
- Reduce or limiting term increase on earnings decrease due to delay in introducing renewable energy and low carbon vehicles
- Introduce advanced technologies toward decarbonization (1) Introduce Renewable energy (2) Introduce non-fossil fuel vehicles (3) Introduce DF and SS in warehouse operations

**Physical risks (4°C scenario)**

**Types**

- Acute
  - Short-term
- Chronic
  - Mid-term

**Potential risks**

- Risk of logistics operation being suspended due to intensifying wind and flood damage caused by extreme weather
- Risk of prolongation of deterioration caused by a rise in average temperature making it difficult to secure human resources
- Risk of losing customers due to increased cost of climate change initiatives and information disclosure

**Potential impacts on business and response measures**

- Increase cost due to disruption of logistics services
- Increase cost due to reputational damage/lost customer
- Reduce CO2 emission reduction cost and increasing CO2 emission reduction cost

**Opportunities**

**Types**

- Resource efficiency
- Products and services
- Resilience

**Potential impacts on business and response measures**

- Decrease in energy cost due to efficiency improvement in logistics services
- 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 in
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- Revenue increase due to diversification of business activities
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- Decrease in energy cost due to introduction of solar power generation system/storage batteries, etc. and relocating sites to low-risk regions

**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 Medium-term Management Plan “LOGISTED2024” and will promote CO2 emission reduction measures to limit the temperature increase to 1.5°C above pre-industrial levels.

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References: 
1. TCFD framework: [ESG Data]
2. HTS Group’s ESG Report 2022