HITACHI
Inspire the Next

Hitachi Transport System

Toward New Dimensions

LOGISTEED

Integrated Report 2021

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Editorial Policy
The HTS Group has published the Integrated Report from 2020 in lieu of the conventional Annual Reports. This report introduces the Group's initiatives toward sustainable increase of corporate value to our stakeholders through the explanation of our value creation process and business model.
This report has been compiled with reference to "the International Integrated Reporting Framework" published by the International Integrated Reporting Council (IIRC) and "Guidance for Collaborative Value Creation" published by the Ministry of Economy, Trade and Industry.

Reporting period
The fiscal year ended March 31, 2021 (April 1, 2020– March 31, 2021 in general) However, recent activities are also reported in this report. "FY" refers to a financial period ended or ending on March 31.

Companies covered in this report
This integrated report covers Hitachi Transport System and the HTS Group (81 consolidated subsidiaries and 16 associates accounted for using the equity method) in principle.

Forward-looking statements
This integrated report contains forward-looking statements that reflect Hitachi Transport System, Ltd. and its Group companies' forecast, targets, plans, and strategies. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, and various other factors that may cause Hitachi Transport System and its Group companies' actual results, performance, achievements, or financial position to be materially different from any future results, performance, achievements, or financial position expressed or implied by these forward-looking statements.

Toward New Dimensions

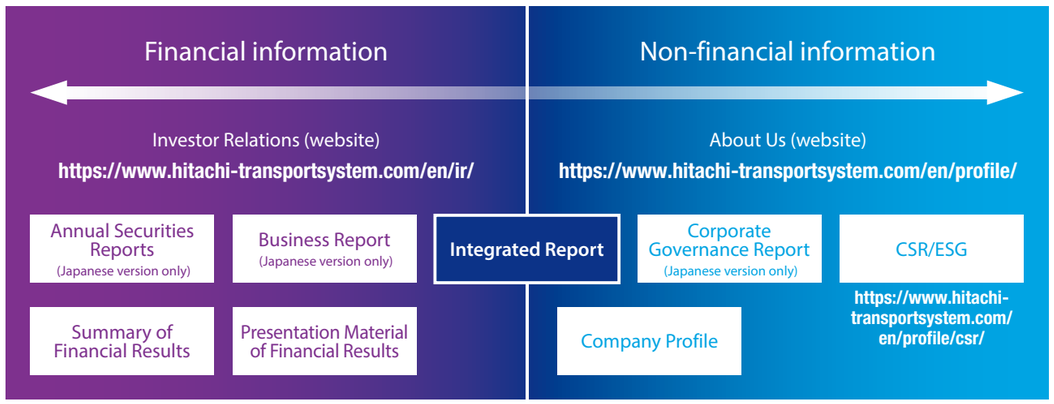
LOGISTEED

[LOGISTEED]: A word that combines LOGISTICS with Exceed, Proceed, Succeed, and Speed. It represents our determination to lead businesses to a new domain beyond the conventional logistics.

Details are available at the Company's website.

Hitachi Transport System aims for "LOGISTEED"
https://www.hitachi-transportsystem.com/en/logisteed-cafe/

The HTS Group's tools for information disclosure



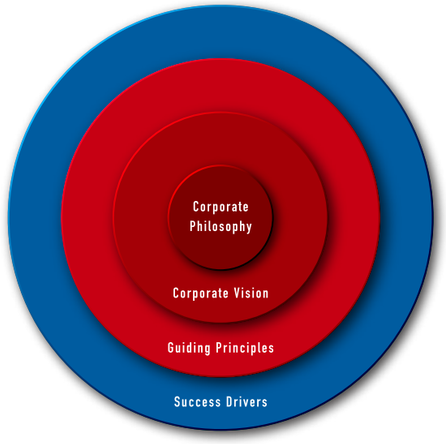
Management Philosophy & Brand

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."

HB WAY



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.
Diversity and inclusion	We leverage inclusive diversity for holistic growth.
Sustainability	We think and act responsibly as a global citizen.

Success Drivers
"Gemba" Power, multiplied by Visualization

3 Key Goal Indicators	Safety, Quality, and Productivity
3 Disciplines	Attention to Detail, Uncovering Problems, and Strong Sense of Speed
3 Attributes	Customer Centricity, Teamwork, and Can Do Spirit

Brand Promise

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.

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, 2021)

Number of Companies*1/Locations*2

Locations

98 companies **752** sites

<Domestic: 26 companies 330 sites/Overseas: 72 companies 422 sites>

Total Personnel *3

Human Resources

43,729

<Domestic: 28,671 employees/Overseas: 15,058 employees>

Area of Logistics Center*2

Warehouses

7.53 Mm²

<Domestic: 5.27 Mm²/Overseas: 2.26 Mm²>

Number of Vehicles (Including Leased Vehicles)

Vehicles

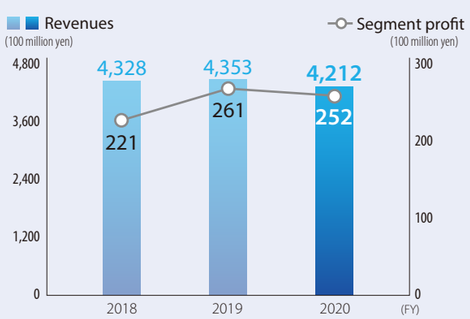
Total: 16,924

Truck*4:	3,671	Forklift:	5,981
Trailer:	5,679	Other*5:	1,593

*1 Number of companies includes associates accounted for using the equity method.
*2 Number of locations and floor space of logistics centers exclude those of AIT Group and HTB-BCD Travel Group.
*3 Number of employees excludes associates accounted for using the equity method.
*4 Including tractors and vans
*5 Including buses and passenger cars, etc.

FY2020 Business Overview by Segment

Domestic logistics business (FY2020)



* Effective April 1, 2019, the Group adopted IFRS 16 *Leases*.

Revenues ↘ (Y o Y) −3%

Revenues of domestic logistics business decreased by 3% year-on-year to ¥421,190 million due to a continued decline in volume caused by the spread of COVID-19 despite an increase in revenues as a result of contributions from newly launched projects and consolidation of PALENET CO., LTD. and Hitachi Transport System East Japan Distribution Services Co., Ltd.

Segment profit ↘ (Y o Y) −3%

Segment profit decreased by 3% year-on-year to ¥25,176 million due to a decrease in revenues despite improved productivity and a reduction in total costs.

As a domestic 3PL market leader*, we provide comprehensive logistics services excellent in safety, quality, and productivity by taking advantage of our extensive network in Japan and overseas as well as abundant experience and know-how as a pioneer.

* Source: "3PL White Paper 2020" in September 2020 issue of monthly magazine LOGI-BIZ

Services – Businesses & Solutions –

3PL business

Segment: Domestic logistics/ Global logistics

Value

We provide the optimal logistics services in supply chain. In automobile parts logistics, we meet the logistics-related needs of the automobile industry.

Heavy Machinery and Plant Logistics business

Segment: Domestic logistics/ Global logistics

Value

We provide transportation, installation, and setting-up services, etc. for heavy machinery and precision instruments.

Freight Forwarding business

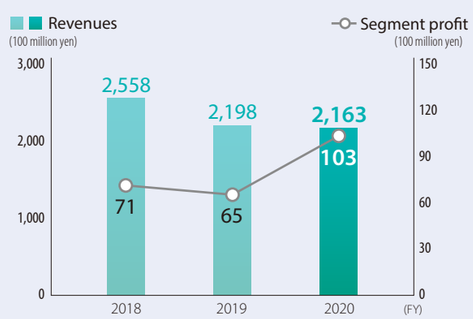
Segment: Global logistics

Value

We propose an optimal transportation plan from various transportation modes including aircraft, ship, rail, etc.

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

Global logistics business (FY2020)



* Effective April 1, 2019, the Group adopted IFRS 16 *Leases*.

Revenues ↘ (Y o Y) −2%

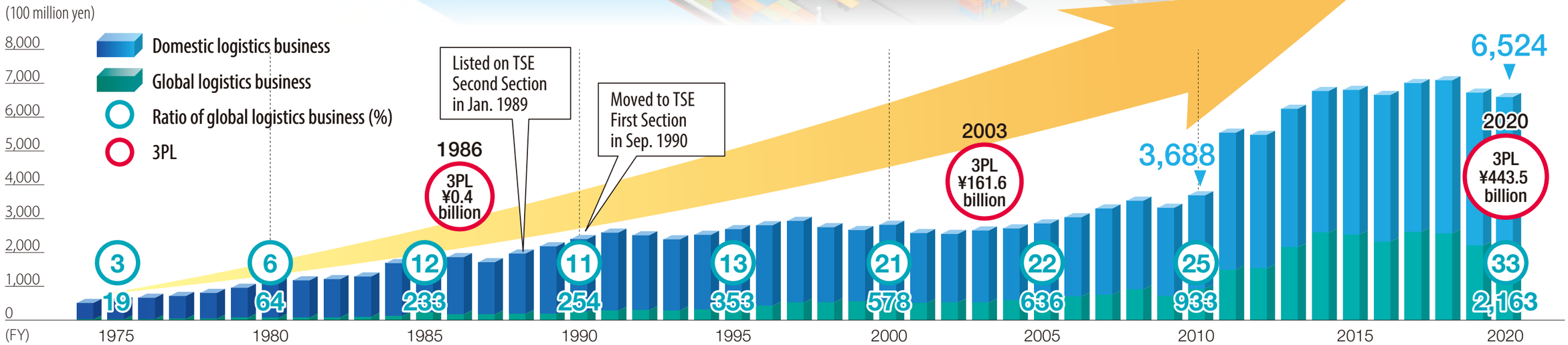
Revenues of global logistics business decreased by 2% year-on-year to ¥216,258 million as revenues did not return to the level of the previous fiscal year after being affected by the spread of COVID-19 and fluctuations of foreign exchange rates, although showing a recovery trend in each region.

Segment profit ↗ (Y o Y) +59%

Segment profit increased by 59% year-on-year to ¥10,340 million due to an increase in profitability of domestic and Chinese freight forwarding business between Japan and other countries and the effects of improved productivity and total cost reduction in each region despite a decrease in revenues.

History of the HTS Group

Revenues



1950-

Became independent by integrating transportation divisions

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.

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

Following the telecommunications liberalization in 1985, 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 AEON 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-

Expansion strategy through collaborative innovation

We have been promoting the expansion strategy through collaborative innovation and the creation of an ecosystem by forming alliance with SG Holdings Co., Ltd. and SAGAWA EXPRESS CO., LTD. in March 2016, AIT Corporation in October 2018, Hitachi Capital Corporation (currently Mitsubishi HC Capital Inc.) in December 2018, and A.P. Moller-Maersk in 2021.

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 VC21 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.

SDGs (Sustainable Development Goals) on which we focus for sustainable growth

→ P75-78

Input

Financial capital
- Stable financial base
- Surplus funds to enable flexible investments

Total assets ¥787.9 billion
Cash and cash equivalents at end of year ¥104.8 billion

Manufactured capital
- Global business sites
- Transport vehicles
- Digital business platform underpinning LOGISTEED

Locations*1
Domestic 330 sites
Overseas 422 sites in 28 countries and regions
Area of logistics center*1
7.53 Mm²

Intellectual capital
- Patent (warehouse design/management system, etc.)
- Expertise (SCM optimization, safety, advanced logistics technology)

R&D expenses ¥670 million
No. of systems in operation 499*2

Human and organizational capital
- Diverse human resources well-versed in logistics
- Human resources who carry out the HB WAY

Total personnel 43,729
Education expenses per employee (domestic) ¥19,934

Social and relationship capital
- Trust relationships with stakeholders
- Business ecosystem to be built together with collaborative partners

Transportation partners (domestic) Approx. 1,400 companies

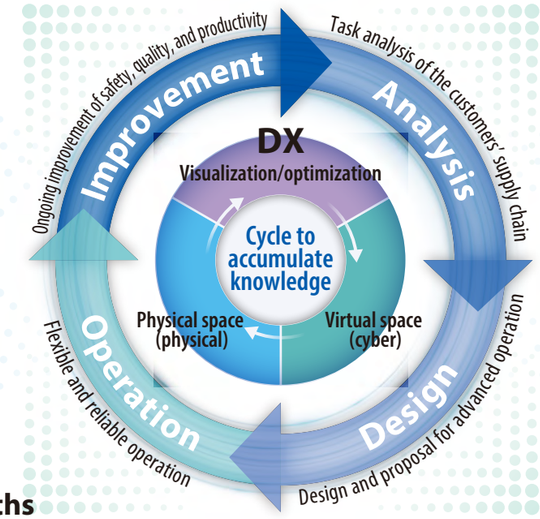
Natural capital
- Resources and energy that we use through logistics service with less environmental load*3

Total energy consumption (domestic) (crude oil equivalent)
1) Electricity consumption 44,461 kl
2) Fuel consumption 15,591 kl

Business model

Toward New Dimensions

LOGISTEED



Strengths

- Ability to accomplish operation
- Advanced logistics engineering capability
- Global network

- Structure to support value creation -

- Collaborative innovation
- R&D
- Human resource development
- VC21 (Improvement activities)

→ P33-34

Sustainability management → P75-88

Corporate governance → P63-74

HB WAY
("Gemba" Power, multiplied by Visualization) → P2

Output

We support people's lives and assume a role as a social infrastructure provider by providing comprehensive logistics services with high level of safety, quality, and productivity.

3PL business
Procurement logistics services/Production logistics services/Distribution logistics services/Reverse logistics services/Auto parts logistics

Heavy Machinery and Plant Logistics Business
Plant-related transport/Machinery and equipment transport/Railway-related equipment transport/Precision instruments transport/Various research equipment transport

Freight Forwarding Business
International air transport/International ocean freight transport/International truck transport/International railway transport

→ P45-52

Outcome

Financial capital
ROE 11.8%
Total Shareholder Return (TSR) 208%
Credit rating (R&I) A

Manufactured capital
Use accumulated skills and expertise as reference models to build and manage new logistics centers and systems

Revenues ¥652.4 billion

Intellectual capital
Number of patents held 78
Number of attendees of data scientist training course (accumulated) 72*4
Number of working hours saved by RPA*5 Approx. 6,600 hours/month

Human and organizational capital
Employee engagement (Understanding of goals/targets) *6 74
Ratio of female managers 4.9%
[Negative outcome]
Workplace accident index
Frequency rate 0.78 Severity rate 0.019

Social and relationship capital
Domestic share of 3PL business 14.4%*7
No. of customers Over 20,000 companies (80 industries)

Natural capital
CO_2 emission reduction rate (domestic) (Scope 1 & 2) YoY -5.6%
[Negative Outcome]
Greenhouse gas emissions (domestic) (Scope 1 & 2) 113(thousand tons-CO_2)

Stakeholders
- Customers
- Employees
- Business partners
- Shareholders/Investors
- Local administration
- Local community

External environment

- Decrease in labor population/consumers in Japan
- Increases in climate change risk and large-scale natural disasters
- Rise of protectionism and escalation of trade friction
- Increase in geopolitical risk
- Occurrence of big disasters and global pandemic
- Expansion of EC market
- Advancement of digital technologies (5G/IoT/AI, etc.)
- Changes in environment surrounding the logistics business

*1 Number of locations and area of logistics centers exclude those of AIT Group and HTB-BCD Travel Group.
* As of March 31, 2021
*2 Self-developed systems
*3 Including modal shift, use of eco cars, introduction of double-trailer trucks and sharing of facilities and equipment
*4 No. of attendees of in-house training to foster data scientist with advanced data analyst skills
*5 Robotic Process Automation
*6 Total score of favorable responses in employee engagement survey
*7 Calculated by the Company using data in "Monthly Magazine LOGI-BIZ"

The HTS Group's Strengths

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.

Value chain

Analysis	Design	Operation	Improvement
Task analysis of the customers' supply chain	**Design and proposal for advanced operation**	**Flexible and reliable operation**	**Ongoing improvement of productivity and quality**
Analyze supply chain issues based on data and interviews by communicating with customers	**Design and propose optimal site placement, delivery routes, transportation methods, and warehouse operations to customers based on analysis results**	**Accomplish operation based on well-designed workflows, and strictly manage safety, quality, and productivity**	**Improve the productivity and quality of the entire organization through improvement activities reflecting customers' feedback and employees' opinions**

The HTS Group's strengths

Analysis

- Conduct realistic analysis and identify issues, leveraging abundant experience in logistics operations including 3PL as a domestic market leader
- Promote projects with the collaboration of 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

Design

- Expertise and internal system to optimize site placement, plan distribution centers, design warehouse layouts, and establish warehouse workflows
- Design and develop high-performance warehouse management system (WMS) applicable to various sectors
- Design sustainable logistics by introducing advanced technologies and strategically working on sophistication and automation/labor-saving of logistics
- Design and provide smart warehouse combining automation/labor-saving expertise and digital technologies
- Use latest technologies and design one-stop service including carrying out, transportation, installation, and setting up of heavy machineries such as plant cargoes and machineries relating to social infrastructure

Operation

- 752 domestic and overseas business sites supporting global supply chain
- Operating structure capable of responding to changes in customers' sales channels and environment flexibly and promptly
- Favorable and solid relationships with customers and partner companies
- Implement KPI-based strict control and improvement measures for profitability, safety, quality, and productivity
- Implement measures using technology for packaging and transportation jigs to improve transportation quality and reduce environmental load
- Implement safe driving management using SSCV (transport digital platform) which makes full use of IoT technology

Improvement

- Implement group-wide initiatives of "VC21 activities," which spread improvement culture through visualization of activity progress and excellent cases
- Use logistics engineering capability and digital business platform to continuously improve transportation routes, warehouse layouts, and warehouse operation processes
- Provide various improvement educations and practice at workplaces
- Implement cross-departmental productivity reform by making full use of digital tools such as RPA and AI-OCR
- Provide guidance to improve driving skills by using "SSCV" (transport digital platform) which makes full use of IoT technology

Related solutions, tools, etc.

- **SCDOS***
- **Develop data analysis experts**

→ P29

*SCDOS: Supply Chain Design & Optimization Services

- **EC platform (smart warehouse)**
- **SLC* (warehouse design support tool)**

*SLC: Smart Logistics Configurator

- **SSCV*1 (transport digital platform)**
- **SDF*2 (volume forecasting system with AI)**

→ P31-32
→ P39-44

*1 SSCV: Smart & Safety Connected Vehicle
*2 SDF: Smart Demand Forecast

- **Operation analysis support tool**
- **RPA、AI-OCR***
- **SSCV(transport digital platform)**

→ P29

*AI-OCR: Optical Character Reader with AI

1 Ability to Accomplish Operation

Manufactured Capital | Human and Organizational Capital | Social and Relationship Capital

Diverse human resources well-versed in logistics
Total personnel
43,729

Transportation assets to support society and people's lives
No. of vehicles (including leased vehicles)
16,924

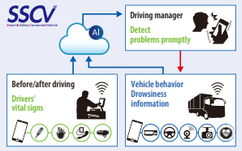
Digital business platform underpinning LOGISTEED
No. of self-developed systems in operation
499

2 Advanced LogisticsEngineering Capability

Manufactured Capital | Intellectual Capital | Human and Organizational Capital

A group of professionals of data analysis, operation managementdesign, package design, and introduction of advanced technologies

Human resources specialized in logistics engineering
Approx. **250**
Including cumulative 72 attendees of data scientist training course



No. of SSCV installed within the Group
Approx. **1,300**
Installed in all vehicles of the domestic group companies

Introduction of automated facilities including AGV* and automated forklift
No. of AGV installed within the Group
Approx. **230**

*AGV: Automated Guided Vehicle

3 Global Network

Manufactured Capital

Business sites supporting global supply chain

Locations

Logistics centers

752 sites in **29** countries and regions

Total **7.53** Mm²

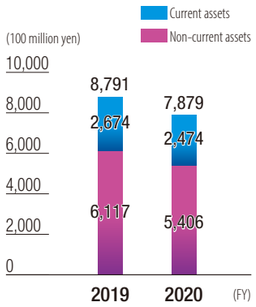
For details, please visit our website.
Smart Warehouse https://www.hitachi-transportsystem.com/en/logisteed-cafe/service.html#SWH
SLC https://www.hitachi-transportsystem.com/jp/solution/smartlogistics/smart_movie01.html (Japanese version only)

Key Management Indicators: MD&A
(Management's Discussion and Analysis of Financial Position, Financial Results, and Cash Flows)

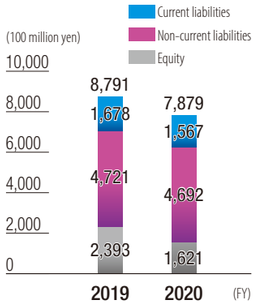
Financial position

Total assets as of March 31, 2021 amounted to ¥787,936 million, a decrease of ¥91,208 million compared with the end of the previous fiscal year. Current assets decreased by ¥20,059 million mainly due to a decrease of ¥34,206 million in cash and cash equivalents, despite increases of ¥8,262 million in trade receivables and contract assets thanks to a sharp rise of volume in the freight forwarding business in the three months ended March 31, 2021 and of ¥6,592 million in other current assets mainly due to income tax refunds receivable associated with withholding tax on dividends between group companies. Non-current assets decreased by ¥71,149 million mainly due to a decrease of ¥82,899 million in investments accounted for using the equity method as SAGAWA EXPRESS CO., LTD. was excluded from the scope of the equity method after the Company transferred shares of the company to SG Holdings Co., Ltd., despite an increase of ¥11,749 million in property, plant and equipment mainly due to capital expenditures for East Japan II Medical DC and renewal of vehicles.
Total liabilities as of March 31, 2021 amounted to ¥625,829 million, a decrease of ¥14,058 million compared with the end of the previous fiscal year. Current liabilities decreased by ¥11,106 million mainly due to a decrease of ¥13,684 million in other financial liabilities because of reclassification of liabilities for written put options over non-controlling interests to non-current liabilities as a result of the review of exercise date of the option and also because of exercise of the option. Non-current liabilities decreased by ¥2,952 million mainly due to a decrease of ¥10,199 million in long-term debt as a result of the reclassification to current portion of long-term debt, despite an increase of ¥7,776 million in other financial liabilities mainly due to reclassification of liabilities for written put options over non-controlling interests from current liabilities as a result of the review of exercise date of the option.
Total equity as of March 31, 2021 amounted to ¥162,107 million, a decrease of ¥77,150 million compared with the end of the previous fiscal year. Total equity attributable to stockholders of the parent company decreased by ¥77,703 million mainly due to an increase of ¥99,633 million in treasury stock, at cost as a result of acquisition of treasury stock in relation to the partial amendment to the capital and business alliance with SG Holdings Co., Ltd. and SAGAWA EXPRESS CO., LTD. Total equity attributable to stockholders of the parent company ratio decreased from 26.5% as of March 31, 2020 to 19.7%.

Assets



Liabilities/Equity



Operating results

Revenues, adjusted operating income

For the fiscal year ended March 31, 2021, although there were some contributions from newly launched projects and the impact of COVID-19 was tapering off in each region, revenues did not return to the previous fiscal year level because of the effect of exchange fluctuation and decreased by 3% year-on-year to ¥652,380 million. Adjusted operating income increased by 10% year-on-year to ¥36,711 million mainly due to an increase in profitability of domestic and Chinese freight forwarding business between Japan and other countries and the effects of improved productivity and total cost reduction in each region despite a decrease in revenues. Operating income increased by 19% year-on-year to ¥41,050 million mainly due to an increase in other income resulting from transfer of all shares of SAGAWA EXPRESS CO., LTD. despite losses due to COVID-19.

Earnings before interest and taxes (EBIT)

Earnings before interest and taxes (EBIT) increased by 12% year-on-year to ¥44,429 million mainly due to an increase in operating income despite a decrease in share of profits of investments accounted for using the equity method mainly due to transfer of all shares of SAGAWA EXPRESS CO., LTD.

Net income attributable to stockholders of the parent company

Net income attributable to stockholders of the parent company increased by 6% year-on-year to ¥22,873 million mainly due to an increase in income before income taxes.

(100 million yen)

	FY2019	FY2020
Revenues	6,723	6,524
Adjusted operating income	335	367
Operating income	344	411
Earnings before interest and taxes (EBIT)	396	444
Income before income taxes	338	391
Net income attributable to stockholders of the parent company	216	229

Cash flows

Cash flows from operating activities

Net cash provided by operating activities was ¥55,309 million, a decrease of ¥22,895 million compared with the fiscal year ended March 31, 2020. This is mainly due to a decrease in cash from income taxes paid of ¥26,131 million despite increases in cash from depreciation and amortization of ¥52,159 million and recording net income of ¥23,954 million.

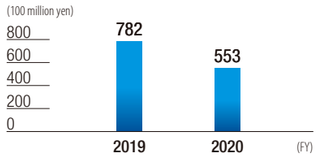
Cash flows from investing activities

Net cash provided by investing activities was ¥69,779 million, an increase in cash of ¥70,941 million compared with the fiscal year ended March 31, 2020. This is mainly due to an increase in cash resulting from proceeds from sale of investments in associates of ¥87,183 million in relation to the partial amendment to the capital and business alliance with SG Holdings Co., Ltd. and SAGAWA EXPRESS CO., LTD., partly offset by a decrease in cash mainly due to purchase of property, plant and equipment and intangible assets of ¥19,792 million which consists mostly of capital expenditures for East Japan II Medical DC and renewal of vehicles, etc.

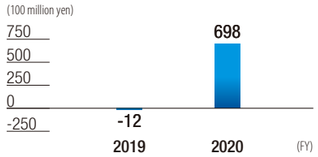
Cash flows from financing activities

Net cash used in financing activities was ¥161,056 million, an increase of ¥115,349 million compared with the fiscal year ended March 31, 2020. This is mainly due to a decrease in cash from acquisition of treasury stock of ¥99,633 million in relation to the partial amendment to the capital and business alliance with SG Holdings Co., Ltd. and SAGAWA EXPRESS CO., LTD. and repayments of lease liabilities of ¥36,648 million.

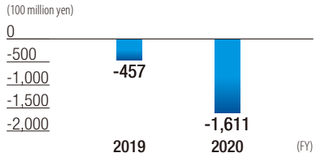
Cash flows from operating activities



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; amounts exclude consumption taxes, etc.) for the fiscal year ended March 31, 2021 are as follows:
In domestic logistics, we acquired MFLP Yachiyo DC (Yachiyo City, Chiba Prefecture) and ESR Noda DC (Noda City, Chiba Prefecture) as right-of-use assets 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 ¥51,213 million.
In global logistics, we renewed existing assets, mainly vehicles. As a result, capital expenditures amounted to ¥11,489 million.
In other, we renewed existing assets such as vehicles for rental business, and capital expenditures amounted to ¥3,231 million.

Details of capital expenditures

(100 million yen)

	FY2019	FY2020
Domestic logistics	188	512
Global logistics	74	115
Other	44	32
Company-wide	17	22
Total	322	681

Tax policy

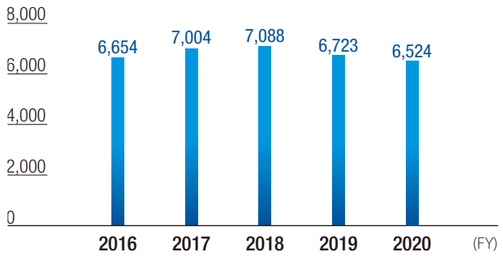
Recognizing that fulfilling tax obligations properly is one of our social responsibilities, the Group has established the "Rules of Global Tax Management."

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

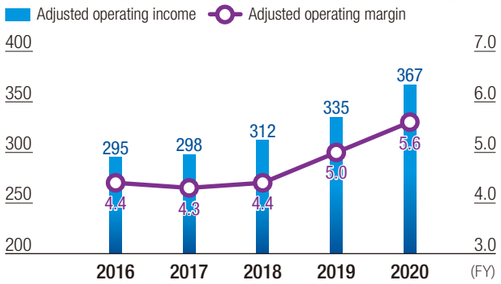
Financial Highlights

Revenues (100 million yen)



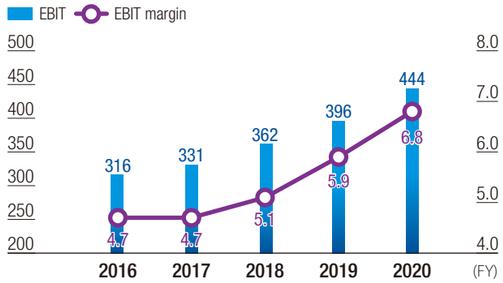
Revenues showed positive growth since FY2017 but decreased in FY2019 due to a decrease in volume of automobile parts and freight forwarding business and in FY2020 due to the spread of COVID-19.

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



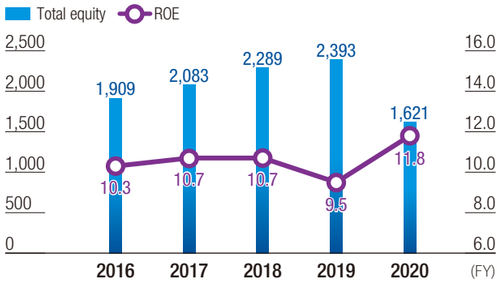
Adjusted operating income has been increasing since FY2013 and also increased in FY2020 due to improved profitability of freight forwarding business and the effects of improved productivity and total cost reduction despite the impact of COVID-19.

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



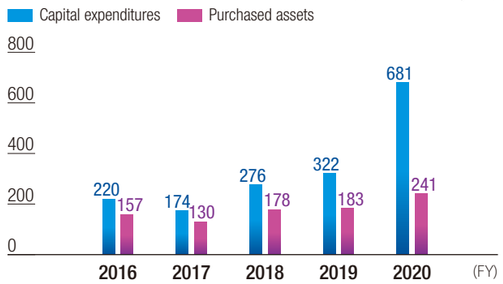
EBIT has been increasing since FY2013 and also increased in FY2020 due to sales of investments in associates and fixed assets despite a decrease in share of profits of investments accounted for using the equity method.

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



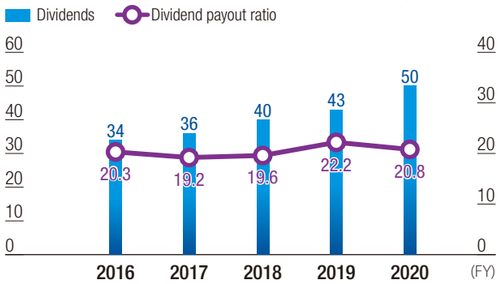
ROE remained flat since reaching 10% in FY2016 but increased in FY2020 due to a decrease in equity attributable to stockholders of the parent company as a result of the acquisition of approximately ¥98.8 billion of treasury stock.

Capital expenditures/Purchased assets (100 million yen)



Capital expenditures including lease*1 remained at around ¥20 billion to ¥30 billion and purchased assets*2 remained at around ¥13 billion to ¥20 billion. They increased in FY2020 due to an effort to expand business sites in Japan through capital expenditures including lease and purchased assets.

Cash dividends per share (Yen)/Dividend payout ratio

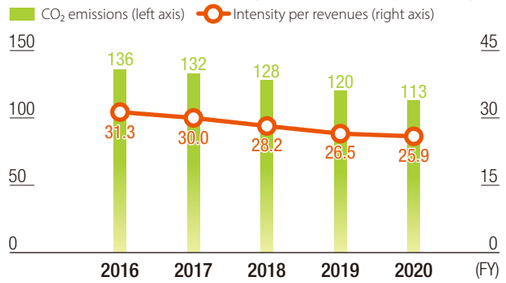


We have continued to increase dividends every year since FY2010. We seek profit distribution linked to business performance while considering medium-to-long-term business expansion and securing internal reserves to strengthen corporate structure.

*1 Based on tangible and intangible assets accepted *2 Based on non-current assets recorded

Non-Financial Highlights

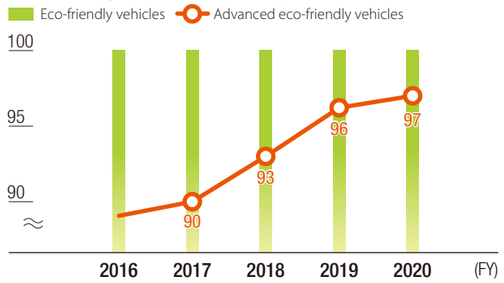
CO_2 emissions (thousand tons-CO_2)/Intensity per revenues (tons-CO_2/100 million yen)



CO_2 emissions and its intensity per revenues both decreased due to the introduction of the advanced eco-friendly vehicles, promotion of eco-friendly driving, and efforts to reduce the use of electricity and fuel.

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

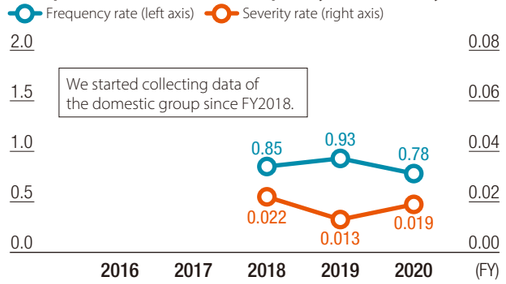
Eco-friendly vehicle ownership ratio (%)*1



We are promoting the systematic introduction of advanced eco-friendly vehicles. We have maintained 100% of the eco-friendly vehicle ownership ratio since FY2016.

Scope: HTS, domestic group companies

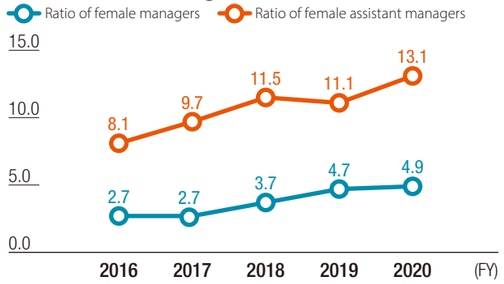
Workplace accident index: Frequency rate/Severity rate*2



In FY2020, the "severity rate" representing the severity of workplace accidents slightly increased, but the "frequency rate" representing the frequency of accidents decreased as a result of adopting safety technology.

Scope: HTS, domestic group companies

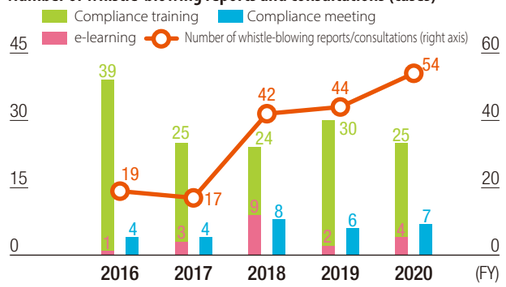
Ratio of female managers (%)



The ratios of female managers and candidates for the next managers are on the rise due to our systematic efforts to develop female employees.

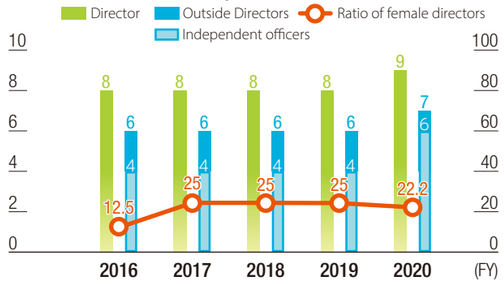
Scope: HTS

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. Also, the number of reports/consultations has increased due to the appropriate development and operation of the whistle-blowing system.

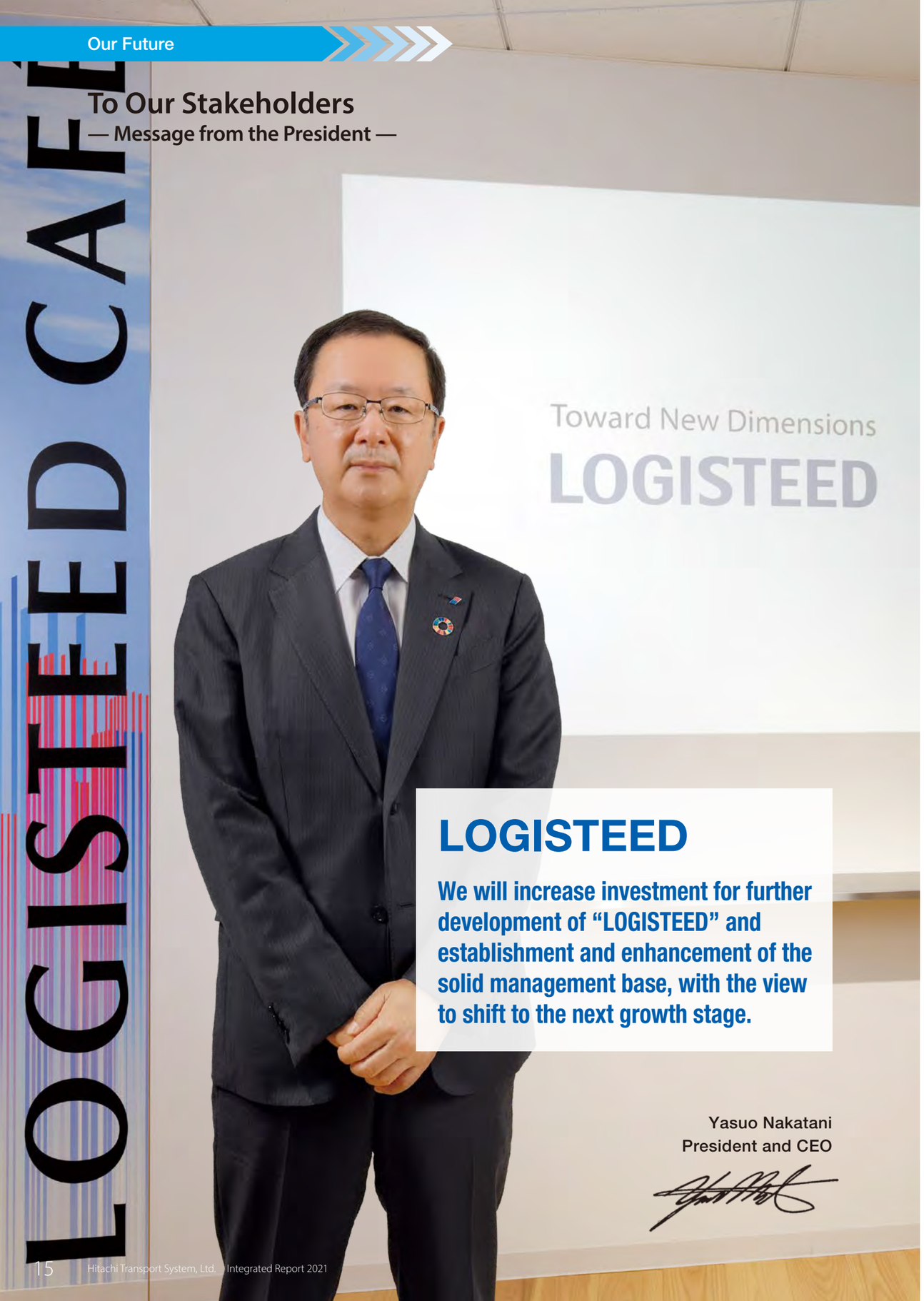
Directors and outside directors (persons)/Ratio of female directors (%)*4



The Board of Directors, which is the supervisory body of management, invites outside directors in order to proactively incorporate 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.

To Our Stakeholders
— Message from the President —



LOGISTEED

We will increase investment for further development of "LOGISTEED" and establishment and enhancement of the solid management base, with the view to shift to the next growth stage.

Yasuo Nakatani
President and CEO

Value Creation amid the COVID-19 Pandemic

Reacknowledged our "mission" and "purpose"

In FY2020, we were affected by COVID-19 throughout the year, and we also reacknowledged our purpose as a logistics service provider.

The "mission" of logistics service is to create "value" by delivering products created by manufacturers to end users and society. The Group has consistently carried out this mission for over 70 years since its foundation. Recently, however, there has been a series of cases where supply chains were disrupted due to intensifying natural disasters by climate change in addition to the COVID-19 pandemic. The responsibility of the logistics service to maintain people's lives and socioeconomic activities even in such emergency conditions is no longer limited to delivering values related to products but is changing to "preventing supply chain disruption in the world." I believe this is the "purpose" of the logistics service in this modern age with increasing global risks and uncertain future prospects.

In FY2020, in order to fulfill a common mission of the Group and customers "not to stop logistics," we focused on maintaining stable business operation by seeking the best and creative solutions. For example, we prevented infections and the spread of the virus within the Company by ensuring thorough health management of employees, introducing contactless operations early, launching new projects remotely, etc. We also addressed the imbalance of volumes caused by difference in levels of COVID-19 impacts among industries by flexibly shifting human resources within the Group. As a result, we were able to contribute to supporting customers' supply chain and maintaining people's lives and socioeconomic activities, and such efforts also led to our profitability improvement and record high profit*1. Although the uncertain business environment is expected to remain for a while, the Group will continue efforts to seek creative solutions, with "preventing supply chain disruption in the world" as our purpose.

*1: Adjusted operating income-basis

Share creative solutions in the VC21 activities to implement the HB WAY

As mentioned above, various "creative solutions" which proved effective and contributed to maintaining supply chains amid the COVID-19 pandemic are the Group's source of value creation and directly link to the implementation of the HB WAY. Our efforts to spread the HB WAY include distributing a "reference card" to employees, hanging posters, placing cartoons in the company magazines and preparing/distributing video materials, but what we focused especially on in FY2020 and proved effective was "VC21*2 Activities ("VC21")." VC21 is daily improvement activities to implement the HB WAY, under which employees register improvement measures they came up with under different themes in a dedicated system, and the PDCA cycles of the improvement activities are being implemented in approximately 300 sites in Japan. The Executive Committee acknowledges and evaluates measures of all sites and checks the progress in each organization. Excellent initiatives are awarded and shared among the Group at the presentation meeting in a bid to cultivate "the culture of praise." In addition, the improvement culture where each employee works on VC21 with a sense of "personal ownership" has taken roots by "visualizing" the productivity improvement through VC21 as a quantitative effect. Unfortunately, we had to hold the company-wide presentation meeting and award ceremony online in FY2020 due to the COVID-19 pandemic, but it had the advantage that many employees were able to share good examples at the same time. VC21 also produces several creative solutions to support logistics operation amid the COVID-19 pandemic. Going forward, we will promote DX and decarbonization initiatives mainly through VC21.

*2: VC21: Value Change & Creation 2021

Recognition of External Environment

The logistics industry is becoming increasingly "borderless"

As I mentioned in the Integrated Report 2020, the logistics industry is becoming increasingly "borderless,"

and we expect the growth of major EC platformers and the new entry by third parties into the logistics domain will continue. Accordingly, the Group will not limit our services to the conventional logistics domain but promote the business concept "LOGISTEED*3" which aims to create values beyond the logistics domain in order to strengthen the potential for the medium-to-long-term growth. Among others, our efforts to advance into the "manufacturing" domains, which are our roots and closely related to the logistics industry, are producing solid results, and we are expanding our business domain by offering services that have previously been handled by customers at their own factories such as just-in-time supply of parts collected from suppliers to assembly lines, painting, and placement of ingredient labels of cosmetics that require a permit or license. We plan to pursue the possibility of collaborative innovation in the "manufacturing" domain including the above-mentioned pre- and post- processes in overseas as well as to expand collaborative innovation that provides our stakeholders with the systems we have created for ourselves such as "SSCV (a transport digital platform)*4" to be discussed later. Through these initiatives, we aim to shift to a stage where we can say, "The Group's business is not logistics but 'LOGISTEED.'" in the future.

*3 A word that combines LOGISTICS with Exceed, Proceed, Succeed, and Speed. It represents our determination to lead businesses to a new domain beyond the conventional logistics.
*4 Smart & Safety Connected Vehicle

Enhance the region-contained business considering the increasing geopolitical risks and supply-demand imbalance in logistics

For global logistics that showed a significant profit growth in FY2020, we expect to see more business opportunities to create region-contained supply chains focusing on local production for local consumption, in addition to international transportation, on the back of increasing geopolitical risks related to global supply chains and shortages of marine containers and spaces for air cargoes.
The Group will ensure to acquire business opportunities behind these risks by making investments aimed at enhancing region-contained business models, including intermodal business in Europe and truck transport in Asia.
And, the Group has been working on the Mid-term Management Plan (LOGISTEED 2021) since FY2019 in both Japan and overseas as specific strategies to develop the concept of "LOGISTEED" under which we aim to expand collaborative innovation domains beyond businesses and industries, create new innovation beyond the conventional logistics domain, and create/expand the ecosystem while focusing on the enhancement of logistics as a function (Smart Logistics) as our core target.

Growth Strategy

Maintain strategic investment for the medium-to-long-term growth based on the steady profit growth

Under the Mid-term Management Plan (LOGISTEED 2021), in order to change and evolve into a company represented by "LOGISTEED" and become the most preferred global supply chain solutions provider, we have focused on 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*5 growth strategy," "Originate and succeed operation (hands-on approach) toward the next-generation," and "Environment, social and governance as well as corporate ethics."
As a result, in FY2020, the second year of the Plan, we were able to achieve profit growth as mentioned above although topline was sluggish mainly due to a drop in automobile-related transport affected by COVID-19, and accordingly we will make strategic investment with particular emphasis on the following three points in FY2021, the final year of the Plan.

*5: Topline: Net sales (revenues) presented at the top of the statement of profit or loss.

Enhance investment in digital transformation rooted in the improvement mindset at sites

Firstly, we will increase investment in digital transformation (DX) and automation to further strengthen our business platform toward the medium-to-long-term growth and development. In specific, we will accelerate "Link warehouse and transport operations," "Standardize and classify work/operating process" and "Bring together wisdom" through digitalization and achieve "Sophistication of logistics" and "Connected supply chain."
The basic policy of DX is to implement a cycle of collecting digital data on sites (physical space), analyzing it on cyber space, adding analogue knowledge and giving feedback to the sites. I think digitalization cannot be achieved without improvement mindset and creative solutions, so we consider DX as an extension of "improvement mindset at logistics sites" and "visualization" including VC21.
In order to improve operational efficiency and aggregate data in these DX efforts within the Company (internal DX), we plan to "visualize" warehouse operations, renew the core systems, and promote RPA.
Meanwhile, we also continue to refine our DX efforts outside the Company (external DX) including "SSCV," "SCDOS*6" and "Smart Warehouse" and provide the latest added value to all stakeholders including customers.

*6 SCDOS: Stands for "Supply Chain Design & Optimization Services," and are services that centrally manage and visualize customers' supply chain information

Expand collaborative innovation with partners for realization of "LOGISTEED" overseas

The second point is overseas investment for further growth of the global business. While the domestic business continues to be our important management base, further enhancement of the global business is essential in the Group's medium-to-long-term growth strategy. Although it was in the midst of the COVID-19 pandemic, in FY2020, we opened a logistics center in the suburbs of Chennai as part of the business expansion strategy in India. We are also making investments to open or reinforce sites in the U.S. and the Netherlands in FY2021 as well as in India, Malaysia, and Indonesia after FY2022. Through a series of these investments, a total of more than ¥12 billion will be invested in major projects

from FY2021 to FY2023 to accelerate the global growth strategy.
Since we established a subsidiary in Singapore in 1976, we have operated global business in various countries and regions, and in light of our past experiences of success and failure, most of our current overseas investments have been made through collaborative innovation with local partners under the "region-contained business model," under which local subsidiaries operate businesses at their discretion and we focus on the supervision. Going forward, we will take into account digitalization, automation, and labor-saving to pave the way to achieve "LOGISTEED" in the global business. As part of such efforts, we launched collaborative innovation activities with Maersk, a major international marine shipping company in Denmark, in FY2020. We will strive to accelerate business expansion of both companies through personnel exchanges to provide seamless logistics globally.

Increase investment in "SSCV" with the view to create economic, social, and environmental values

The third point is to create economic, social, and environmental values through an increase in investment in "SSCV" mentioned above. "SSCV" is a service contributing to health/labor management of drivers, accident prevention and resolutions of social issues such as reduction of CO_2 emissions through efficient transportation and, as introduced in Special

Feature (on pages 39 through 44), has already been commercialized through external sales, with the plan of expanding into other transporters (land, passenger, etc.) and creating new services and businesses with big data in the medium to long term. We will also continue to develop business models that create values for other businesses or the entire society through initiatives we have started for ourselves.

Place "Collaborative Innovation" at the base of all growth strategies

We continue to use "Collaborative Innovation" as a keyword for all these growth strategies, and there are two factors for this.
The first one is the acceleration of declining birthrate and aging population in Japan. From the early 2000s to around 2010, the basic policy of the Group was to develop business mainly with our own management resources. However, we reviewed such policy as difficulty in securing workers at logistics centers or truck drivers became a serious issue, and shifted to a policy to secure resources by accumulating collaborative innovation activities on a daily basis.
The second one is the effort to automate on-site operations. When we first started the automation initiatives as one of the measures to address the declining birthrate and aging population, there was strong resistance at sites. However, once we introduced automation with support of collaborative innovation partners including Hitachi, Ltd., we were able to see its clear effects and realized that, in these times of drastic change, the shortest way to solutions is to quickly realize "what we cannot do" instead of "what we can do" and find necessary partners to collaborate and deliver innovative solutions. Placing "Collaborative Innovation" at the base of all growth strategies, the Group ensures to pave the way for the expansion of ecosystem and the sustainable growth through "LOGISTEED" by continuing initiatives with various partners including start-ups, industry peers with strengths in international transportation, or material handling manufactures with deep insights in automation.

ESG Management and Future Response against COVID-19

Accumulate on-site efforts with "Sharing" as a keyword

The Group will promote the ESG management toward the realization of sustainable society and increase of corporate value and enhance initiatives of four objectives that contribute to the achievement of SDGs. In doing so, what I want to focus on most is to link ESG and our business and accumulate efforts at sites, as well as the keyword "sharing." To reduce CO_2 emissions toward "decarbonization" in environment (E), "sharing," which can improve loading and transportation efficiency by sharing trucks and warehouses with the industry peers, and EC platform, which reduces environmental load by allowing multiple EC business operators to share facilities and equipment, are very effective means. For example, Mito Transport Center, opened in February 2021, shares transportation resources including cargo and vehicle information, offices and garages in the region with our business partners, achieving efficient operation of the entire transportation ecosystem.
In addition to these, our efforts to realize decarbonization in the business processes include establishment of "decarbonization model sites" to measure the effects and examine assessment methods, visualization of CO_2 emissions using SCDOS, and accumulation of on-site efforts such as "promoting a sense of personal ownership" for environmental activities through VC21.
As for "Promote diversity of the workplace," the core of our initiatives for social (S) and one of the themes of the objective of "Enhance Occupational Safety and Productivity," we are working to achieve the FY2023 target of "Ratio of female managers of 10% (HTS)" and there are quite a few female members in the top management in our overseas group companies, proving that our initiatives to encourage active participation of women have been going well in the Group as a whole. As for the promotion of active participation of human resources in each region, because logistics services vary significantly in different countries or regions, we will continue to promote active participation and growth of local employees using the region-contained model and also maintain a system whereby local employees learn new skills in foreign countries as necessary. In the future, around the time when overseas revenues account for approximately 50% of the total consolidated revenues, we plan to introduce a system to appoint those engaged in the management in each region as members of the management team of the Company, regardless of their nationality.
For initiatives for governance (G), we will continue to enhance compliance and governance by ensuring to bear in mind the notion of "Basics and Ethics." Especially for the governance in overseas sites, we will maintain the basic policy to closely monitor fund movement to eradicate the environment and opportunities that may lead to inadequate transactions. As COVID-19 has made it difficult to visit sites for internal audit, we will further enhance governance by using external resources such as local audit firms, renewing the core systems which is currently underway, using process mining and eventually creating a digital audit environment. In addition, the Board of Directors will deepen discussions on ESG and sustainability, treating them as themes related to the essence of management.

Support supply chains while securing health and safety of employees

While COVID-19 vaccination is making progress, new variants have been spreading and the end of the pandemic is still nowhere in sight. So, the age of "coexisting with COVID-19" could be more prolonged than expected. Under such circumstances, in order to fulfill our mission as a logistics service provider and support supply chains in the world, the Group will continue to focus on contactless operations and automation while securing health and safety of our employees, and strive to meet customer needs. In addition, we will address the imbalance of volumes caused by difference in levels of COVID-19 impacts among industries by, in principle, flexibly shifting human resources within the Group and intend to continue this basic policy as it will contribute to diversification of employees' skills and maintenance of employment.

To Our Stakeholders

Increase investment for further development of "LOGISTEED" toward the next growth stage

As we go into the final year of the Mid-term Management Plan (LOGISTEED 2021), I feel that "LOGISTEED" contributed more than expected to various initiatives we have implemented so far as the concept that accelerates collaborative innovation beyond the logistics domain and creates ecosystems. In the last two years, the Group has created new values in various domains and produced successful results. Therefore, we will continue our efforts to achieve medium-to-long-term growth and increase corporate value under the concept of "LOGISTEED."
In addition, we will expand services representing "LOGISTEED," including digitalization and SSCV, and make larger investments in various areas such as overseas development and ESG, with an aim to shift to the next growth stage. Through these efforts, we will establish and enhance a solid management base and realize further expansion of business domain and profit growth.
Also, there is no doubt that such increase in investment will further expand the ecosystem that we will create with our collaborative innovation partners and all other stakeholders and lead to the creation of larger social values.
We will continue to share valuable information on "LOGISTEED" of the Group with our stakeholders, and we look forward to your continued support and understanding.

Message from the CFO

I will evolve domestic and overseas initiatives in order to expand topline, achieve the targets under the Mid-term Management Plan, and realize medium-to-long-term growth.

Nobukazu Hayashi
Senior Vice President and Executive Officer
General Manager, Financial Strategy Office

Execute Financial Strategy Supporting the Growth with Both "Offensive" and "Defensive" Approaches

In FY2021, the final year of the Mid-term Management Plan "LOGISTEED 2021," I am focusing on shifting the direction of the entire Company to the "expansion of topline" in my role as CFO to "serve as a "bridge" between the management and sites" that I discussed in the Integrated Report 2020.
Thanks to our recent initiatives to improve internal efficiency and profitability, the Group's operating margin has been improving steadily. Meanwhile, our current issue is the sluggish growth of topline, and regrowth of topline is strongly called for in order to steadily achieve operating income target*1 set in the final year of the Mid-term Management Plan. Thus, the management members themselves are meeting more customers' executives in an effort to strengthen sales activities, and the "Topline Expansion Project" comprised of officers is rebuilding strategies to acquire new customers. In order to grow topline, it is important to put forward "HTS's uniqueness" in addition to meeting customers' requirements for new orders. Accordingly, we are focusing on appealing to customers our unique features including DX and ESG initiatives at logistics sites, tailoring them to fit each customer's needs.
In addition to such "offensive" initiatives, I, as CFO, have taken the initiative in activities to underpin topline with "defensive" initiatives including "Project Management (PM) Office" and "Misconduct Eradication Committee." For example, the PM Office manages preparation status of new projects using an eight-stage phase-gate methodology to ensure new orders received will produce profits. It also checks details of bid proposals for both existing and new orders to reduce risks of failing to receive orders. The Misconduct Eradication Committee that I chair is responsible for centrally identifying misconducts and troubles within the Group including administrative errors in billing and payments, implement the PDCA cycle in collaboration with Internal Auditing Office and each Management Headquarters to prevent recurrence, in order to secure sound and proper business operation and underpin topline.

*1 The Company's recognized target (adjusted operating income of ¥38.5 billion) reflecting the impact of adoption of IFRS 16 *Leases* to the target released on May 24, 2019

Accelerate DX in Execution of "Defensive" Financial Strategy

Execution of "defensive" financial strategy involves active promotion of DX. For example, we digitalized approval documents, contracts, and seals and unified the data entry methods of the core system among the entire Group, which improved efficiency significantly. We also introduced the finger vein authentication system for working hours management of on-site employees including partner companies' employees, promoting "visualization" of attendance and leave as well as work efficiency through digitalization.
Recently, we are working on the core system renewal to build a structure that centrally manages domestic and overseas data. This will accelerate DX in audit, which will reduce time and improve efficiency/precision of audit and also contribute to enhancing governance effectiveness.

Focus on Strategic Investment and Value-added Service (VAS) Strategy toward Achievement of the Mid-term Management Plan and Medium-to- Long-term Growth

In terms of the "offensive" initiative to expand topline, we will continue strategic investments aimed at emphasizing "HTS's uniqueness" mentioned above. For example, we plan to continue to make strategic investments of around ¥3 billion*2 per annum in DX, including automation, labor-saving, and visualization at logistics sites and environmental investments. For "Smart Warehouse" initiative, we will enhance development and introduction of automated forklifts, AGV, and RPA, etc. while focusing on building a structure to combine and comprehensively control/manage them. In addition, we will work to further develop our transport digital platform "SSCV" and supply-chain optimization solution "SCDOS" with an aim to expand topline and create/expand an ecosystem with collaborative innovation partners. For overseas strategic investments, we will expand sites in the U.S., the Netherlands, India, Malaysia, and Indonesia (➡ P.18). In opening and enhancing warehouses that are integral to 3PL business, we will mitigate risks by using "purchased assets" and "rental/leased properties" differently based on the assessment of political/economic trends in each area and customer needs.

*2 Costs to be recorded in the consolidated statement of profit or loss

Also as a practical case of "LOGISTEED" beyond logistics domain, we are focusing on business expansion in "manufacturing" domain (➡ P.17). In the new procurement logistics order for a construction machinery manufacturer, we offer new added value by undertaking cargo assortment according to the production line, which is contributing to the topline growth. We position these initiatives to expand business domains as "Value Added Service (VAS) strategy" and focus on supporting its further expansion.

To Deepen the ROIC Management

Regarding initiatives for the ROIC management which started in FY2018, we provide e-learning to "spread" it and develop the ROIC tree budget reports to "deepen" it.
In FY2020, we prepared/distributed/explained an English version of documents which clearly describe the ROIC concept to accelerate the spread in overseas sites. We also set specific action items including "Expand sales," "Improve efficiency," and "Collect trade receivables early"

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

Mid-term Management Plan/FY		Measures
Previous Mid-term Management Plan Value Creation 2018	FY2016	■ Partially changed the business assessment approach (assess centers owned by the Group by adding market rent) ■ Issued corporate bonds of ¥30 billion ■ Set ROE as an important management indicator
	FY2017	■ Asset liquidation (e.g. sale of distribution centers with low asset efficiency, leaseback)
	FY2018	■ Introduced "comparison of ROIC and WACC" as one of the investment decision criteria ■ Newly established the Financial Strategy Office ■ Created rules for strategic investments ■ Issued corporate bonds of ¥30 billion
Current Mid-term Management Plan LOGISTEED 2021	**FY2019**	**■ Reset ROIC to reflect the adoption of IFRS 16 *Leases* (adopted in FY2019)**
	FY2020	**■ Introduced ROIC and WACC in the budget control**
	FY2021	**■ Introduced ROIC tree in the budget control**

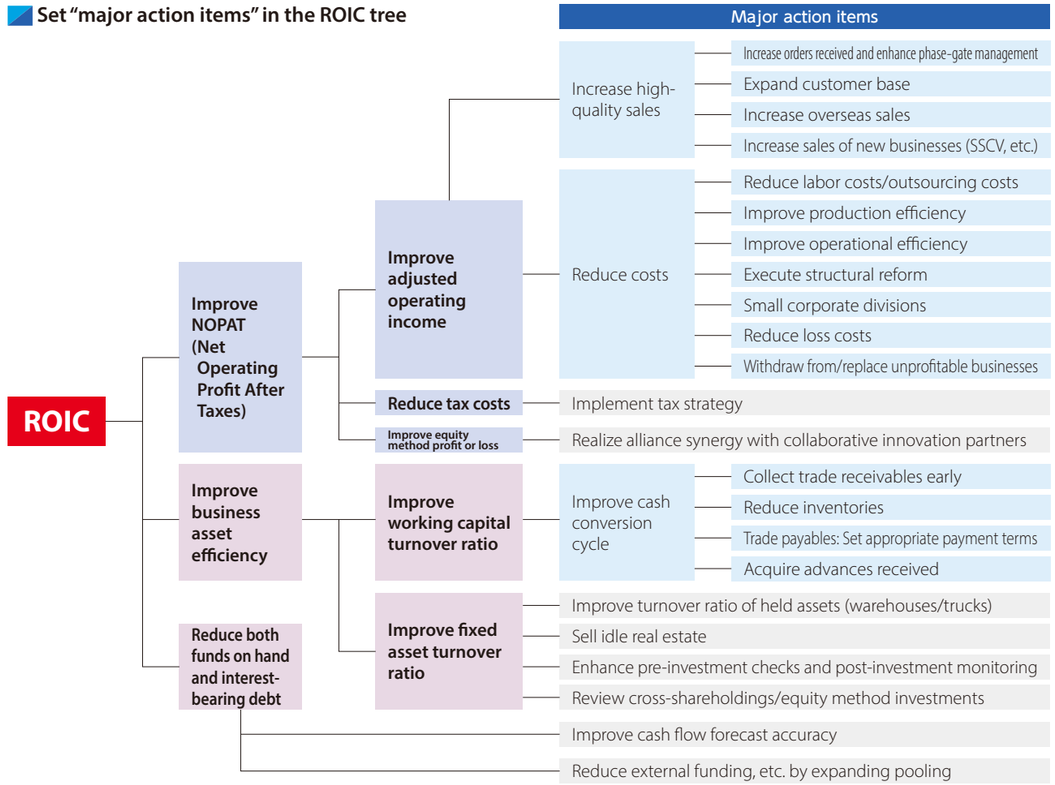
in the ROIC tree budget reports which we prepared in FY2021.
Going forward, we will strive to strengthen the concept of "ROIC reverse tree" which originates from sites and focuses on "what needs to be done at sites to improve ROIC" and aim to further spread it. We will also focus on improving ROIC through topline growth so as not to result in contracted equilibrium.
In addition, we are currently building a structure to centrally manage revenues and expenses by site such as logistics center with the core system toward introducing balance sheet management and ROIC by site for the future "evolution" of the ROIC management. Once such structure is completed, we will be able to automatically generate balance sheets and profit and loss statement by site, and our initiatives to improve ROIC by site will progress significantly.

Focus on Reducing Overseas Financial Risks and Strengthening Tax Governance in Anticipation of the Acceleration of Global Growth Strategy in the Future

As for response to financial risks, we are focusing on overseas initiatives considering the growing geopolitical and country risks.
For example, we are accelerating refinancing efforts to reduce borrowings from overseas financial institutions and replace them with intra-group financing such as parent-subsidiary loans. Also, as an effort to reduce the impact of exchange fluctuation arising from exchange rate protection and negative interest rate policies in various countries, we make full use of the Group's regional pooling and parent-subsidiary loans to minimize foreign exchange loss. Through a series of these initiatives, we ensure to link the future acceleration of the global growth strategy to earnings generation.
In addition, we recognize tax governance, which was set as an item of the GRI*3 standards in 2019, as one of our critical management issues and are working to strengthen the overseas tax governance as one of the "defensive" initiatives to accelerate the global growth strategy. Corporate Tax Department established in 2017 plays the center role in enhancing ability to respond to tax issues including BEPS*4, and we reduce risks by checking tax governance of local subsidiaries in collaboration with major audit firms in the respective regions.

*3 GRI: An NGO that develops a global standard on sustainability reporting
*4 BEPS: Base Erosion and Profit Shifting

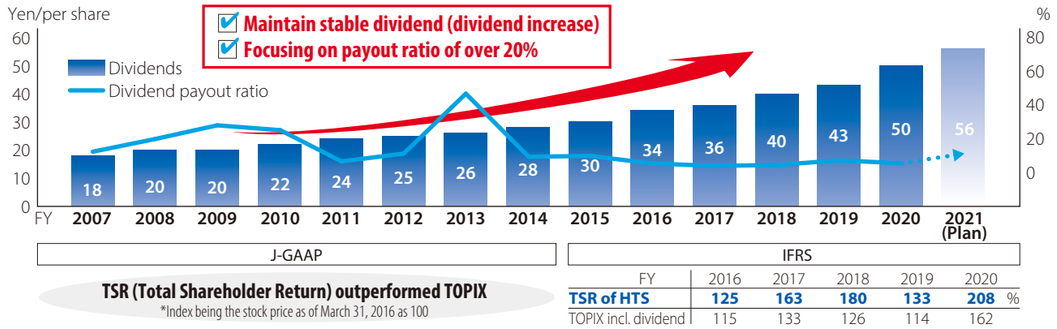
Set "major action items" in the ROIC tree



Aim for Stable Increase in Dividends While Securing Funds for the Growth

Going forward, our basic policy of dividends is to seek to maintain stable distribution linked to business performance, while considering medium-to-long-term business expansion and securing internal reserves to strengthen corporate structure. Under the policy, we aim to continue stable dividend payments (dividend increase) while securing funds for our growth.
The Company cancelled its treasury shares in June and September 2021 from the viewpoint of improving asset efficiency and shareholder value and now meets one of the continued listing criteria for the Prime Market, one of the new market segments of TSE, "Tradable share ratio of at least 35%." In terms of future strategic investments, alliance, and M&As to achieve "LOGISTEED," we will mainly consider the use of cash and borrowings from financial institutions.

Trend and plan of dividend per share



FY	2016	2017	2018	2019	2020	
TSR of HTS	**125**	**163**	**180**	**133**	**208**	%
TOPIX incl. dividend	115	133	126	114	162	

* Dividend payout ratio: Dividend per share/(Net income attributable to stockholders of the parent company/Average number of shares during the term)

Accelerate the Development of Next-generation Finance Human Resources by Making Full Use of Remote Education and English

Previously, our basic policy on development of next-generation finance human resources in Japan and overseas was to provide offline education. In FY2020, however, we switched to remote education due to the COVID-19 pandemic, which turned out to be more effective than we expected. Therefore, to actively use this as one of the measures to "coexist with COVID-19," we will provide remote education in North America, Europe, Asia, and China in FY2021. Recently, many employees in charge of finance in overseas sites and group companies are locally hired, and they are familiar with communications in English. Accordingly, in the future, we will accelerate the development of next-generation finance human resources by making full use of remote education and English.

Place Emphasis on Interactive Dialogues with Our Shareholders and Investors

The Group has a policy to focus on a number of strategic investments including DX and decarbonization initiatives and will strive to provide our shareholders and investors with detailed explanations about ROIC, ROE, and our dividend policy through dialogues. In FY2021, as the use of remote communication increased, we were able to hold dialogues with more shareholders and investors than usual and also received lots of advice and suggestions on information we provide from shareholders who actually hold our shares, which helped us make improvement. We will endeavor to achieve sustainable increase of corporate value while placing importance on dialogues and maintaining relationships of trust with our shareholders and investors.

Mid-term Management Plan –LOGISTEED 2021–

Outline of the Mid-term Management Plan

With an aim to become the most preferred global supply chain solutions provider, the HTS Group promotes the Mid-term Management Plan and strives to achieve sustainable growth by solving issues and creating "values" through various "collaborative innovation."

Mid-term Management Plan – LOGISTEED 2021–

Period	FY2019-FY2021
Basic policy	As the supply chain structure is changing significantly due to technological advancement and social changes, including "IoT," "AI," "Robotics," "Fintech," "Sharing Economy" and digitization, we promote digitalization of the Group and its collaborative innovation partners, and build open platform, in order to realize supply chain based on and originating from our logistics domain. The Group strives to enhance our new existence value and increase corporate value by changing and evolving to a company represented by "LOGISTEED" in order to become the most preferred solutions provider.
Priority measures	• 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 the logistics domain • Implement a topline growth strategy • Originate and succeed operation (hands-on approach) toward the next generation • Environment, social and governance as well as corporate ethics

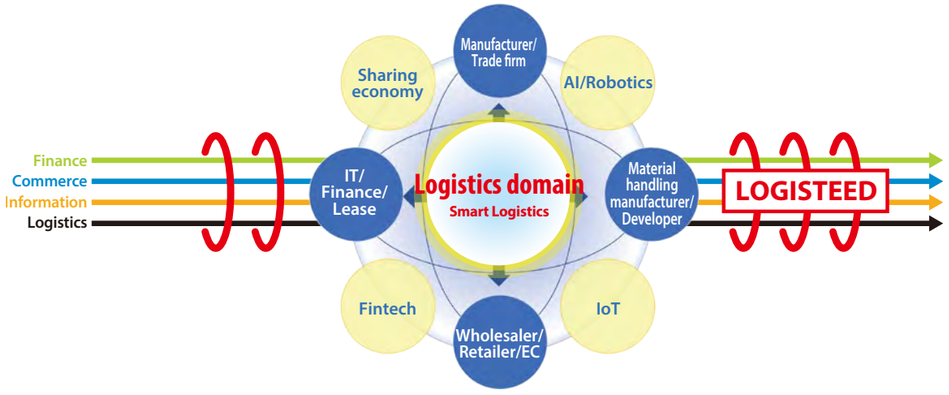
Result and Plan

	FY2018 Results	FY2019 Results	FY2020 Results	FY2021 Plans
Revenues:	¥708.8 billion	¥672.3 billion	¥652.4 billion	¥690.0 billion
Adjusted operating income:	¥31.2 billion	¥33.5 billion	¥36.7 billion	¥37.5 billion
EBIT:	¥36.2 billion	¥39.6 billion	¥44.4 billion	¥37.2 billion
ROE:	10.7%	9.5%	11.8%	12.7%

Response to Changes and Future Vision

Future Vision: The Most Preferred Global Supply Chain Solutions Provider

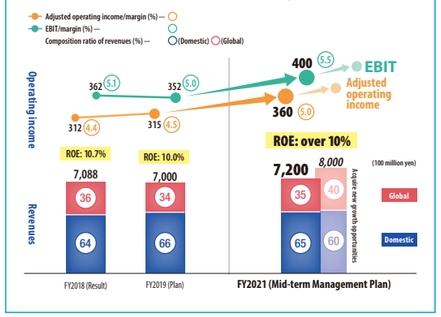
Integrate four flows for better supply chain



The HTS Group has grown to become a leading 3PL company providing services combining logistics and information, while we expect an increase in customer needs for supply chain solutions. We view these changes as opportunities to continue sustainable growth, and strive to extend our domains to finance and commerce through digital transformation platform. And we will create new solutions and design optimal supply chain for customers based on and originating from logistics.

Progress of the Mid-term Management Plan

Mid-term Management Plan: Numerical targets
(Source: Materials released on May 24, 2019)



FY2021 Plan

Revenues:	¥690 billion
Adjusted operating income:	¥37.5 billion
EBIT:	¥37.2 billion
ROE:	12.7%

Our recognition
"Numerical targets in the Mid-term Management Plan (after the adoption)" reflecting an impact of adopting IFRS16 ***Leases***
Adjusted operating income: ¥38.5 billion
EBIT: ¥42.5 billion

Catch-up in FY2022

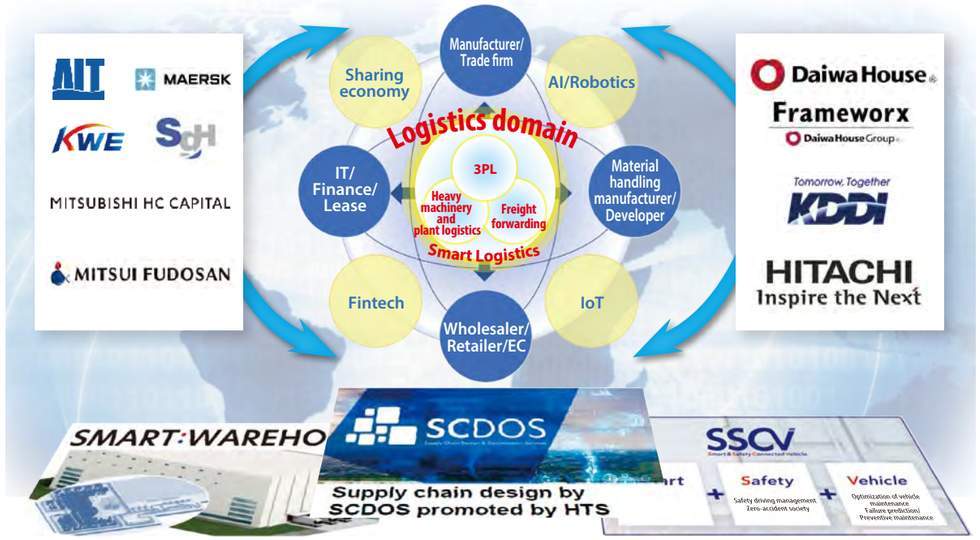
Toward the next Mid-term Management Plan To become a leading 3PL company in Asia

- ☑ **Establish a strong position in Japan and evolve into a regional leader in Asia**
- ☑ **Establish and enhance a solid management base (enhance funding capability and ecosystem)**
- ☑ **Next-generation logistics supporting Society 5.0**

- ■ **Top line expansion**
- ■ **Improve profitability**
- ■ **Efficiency improvement (Asset/Equity)**

- ● **Expansion of business domains** (Service/Region/Sales channel, etc.)
- ● **Resource management** (Assets/Human resources, etc.)
- ● **Cash generation** (Asset securitization, etc.)

- ◆ **Collaborative innovation strategy**
  - **Partners (Industry peers/DX)**
  - **Real estate/Developer**
  - **Private Equity (PE) funds, etc.**



The HTS Group has formed alliance with partner companies in business areas where all companies can increase corporate value. Our aim is to achieve sustainable growth for all companies by enhancing competitiveness and profitability in our core logistics domain (Smart Logistics) and also by building a larger ecosystem group to expand the collaborative innovation domains beyond businesses and industries.

Progress of the Mid-term Management Plan

Priority Measure: Implement Collaborative Innovation Strategy Aiming at Enhancement of the Core Domain and Further Expansion of Domains

Collaborative Innovation Activities with SG Holdings Group and AIT Group

FY2020 Result

In FY2020, our collaborative innovation activities with SG Holdings Group and AIT Group generated additional contributions to revenues of approximately ¥3,200 million and operating income of approximately ¥480 million in total.

Collaborative innovation with SG Holdings Group

Under the capital and business alliance with SG Holdings Group since FY2016, we have been promoting cross-selling to take advantage of both companies' strengths (mutual complement between logistics and delivery business) and working on streamlining of business operation of both companies.
In FY2020, we started operation of logistics centers for food, sporting goods, and industrial equipment manufacturers and collaborated in broad areas including integration/relocation of logistics centers.
In September 2020, we partially amended the capital and business alliance with SG Holdings Group but maintain the alliance relationship with an aim to produce more benefits through collaborative innovation activities including sales tie-up and resource sharing.

Collaborative innovation with AIT Group

In FY2019, we have launched full-scale activities based on the capital and business alliance with AIT Group, which has significant strengths in the freight forwarding business between Japan and China, and we are working to create new customer value through collaboration between freight forwarding and 3PL.
In FY2020, we newly started operation of a logistics center for an eyeglass manufacturer in China, making steady progress in building global logistics services capitalizing strengths of both companies.

Additional contributions generated by collaborative innovation activities in FY2020 (100 million yen)

	Revenues	Operating income
Domestic	25	3.3
Global	6	1.3
Others	1	0.2
Collaborative innovation effects	**32**	**4.8**

The table above includes collaborative innovation effects with SG Holdings Group and AIT Group.

Major new collaborative innovation projects

Integration/relocation of logistics centers

Logistics center for a food manufacturer

Logistics center for a sporting goods manufacturer

Logistics center for an industrial equipment manufacturer

Logistics center for an eyeglass manufacturer (China)

Logistics center for a material manufacturer

Collaborative Innovation Activities with Maersk

In FY2020, we newly started collaborative innovation activities with A.P. Moller-Maersk ("Maersk"), a leading marine shipping company in the world. We aim to build a service to seamlessly link customers' global supply chains by offering a one-stop service including global logistics services of Maersk centered on ocean transport and 3PL of the Group.
We will also collaborate in import procedures for air cargo in Japan as well as jointly work on the verification in order to make more sophisticated analysis and optimization proposals on digital platform with the combination of "TradeLens," Maersk's blockchain base technology and "SCDOS," our supply chain visualization/optimization solution.

Basic strategy of Maersk: Expansion of L&S* service

Offer global, seamless Logistics through overseas import/export and **building of domestic logistics**

日立物流 Hitachi Transport System

OT (Operational Technology) × IT (Information Technology)

L&S Service Partner
<Offer 3PL solutions>
Sales operation together with Maersk
(Send dedicated sales representatives)

*L&S: Logistics & Services

Opened "LOGISTEED CAFÉ"

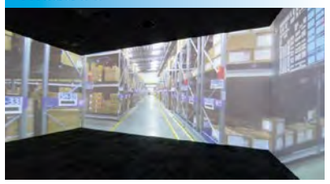
In December 2020, the Company opened "LOGISTEED CAFÉ," our first open innovation facility, in the head office building.
This was opened as part of the collaborative innovation strategy to "share and explore knowledge" with partners and "accelerate projects through collaboration" and has various spaces including "LxHUB," a collaborative innovation space to hold workshops and other events, "Theatre S," a 270-degree large screen for virtual tours of logistics sites, and "Exhibition" introducing our history and businesses.

Facility description

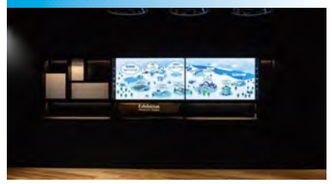
LxHUB

Collaborative innovation space for seminars and workshops

Theatre S


A 270-degree theatre which offers the experience of the cutting-edge logistics sites with realistic videos

Exhibition

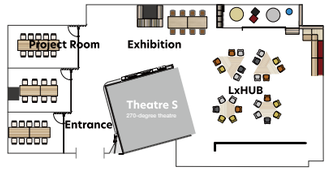

Introduction of the history and businesses of the Group

Project Room

Space for meetings and discussions for collaborative innovation projects

Solution

Exhibits of the latest solutions that make up LOGISTEED and development solutions with collaborative innovation partners



Location:
2-9-2, Kyobashi, Chuo-ku, Tokyo, Japan
* Visitors are required to make advance reservations through the Group employees.

Online special site "LOGISTEED CAFÉ"

We share information related to events held in the facility on the special site. Such information includes advanced examples of our services, collaborative innovation activities with various partner companies beyond industries, interviews focusing on "individuals" engaging in these services and announcements of workshops and seminars.

Contents (as of September 2021)

Facility information	About "LOGISTEED CAFÉ" in the head office building
Co-Creation	About partner companies sharing passion for collaborative innovation with us
Services	About advanced examples including "Smart Warehouse," "SSCV," and "SCDOS"
Event/Seminar (Japanese version only)	Information on events and seminars to be held by the Company and the registration for events
Downloads (Japanese version only)	Materials about our advanced services available for download
Insight (Japanese version only)	Latest information on logistics and interview articles, etc.

LOGISTEED CAFÉ
https://www.hitachi-transportsystem.com/en/logisteed-cafe/

Progress of the Mid-term Management Plan

Priority Measure: Design Supply Chain Based on and Originating from the Logistics Domain

Promotion of Digital Transformation (DX)

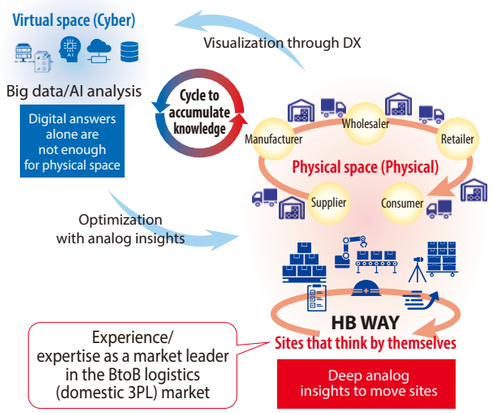
In order to enhance our new existence value and further increase corporate value by changing and evolving into a company represented by "LOGISTEED," the HTS Group has formulated "DX Strategy - toward the Realization of "LOGISTEED 2021."

Basic policy of DX strategy

Value creation through collaborative innovation with Cyber Physical System (CPS)

We will collect and accumulate various data in logistics sites (physical space) through the sensor network and systems. We will use AI, etc. to analyze these big data and turn them into knowledge in the cyber space. We will provide these accumulated information and value to the logistics sites to further strengthen our "Gemba" Power. In addition, we will use these data to vitalize open innovation with various collaborative innovation partners with the aim of creating new businesses and business models.

Cyber Physical System (CPS)



Priority measures

i. External DX that changes data to value through collaborative innovation
ii. Internal DX that improves operational efficiency and collects data
iii. Development of an organization and human resources to realize DX
iv. Enhancement of IT governance
v. Continuation of DX investments
vi. Establishment of a PDCA cycle for DX by setting and managing KPIs

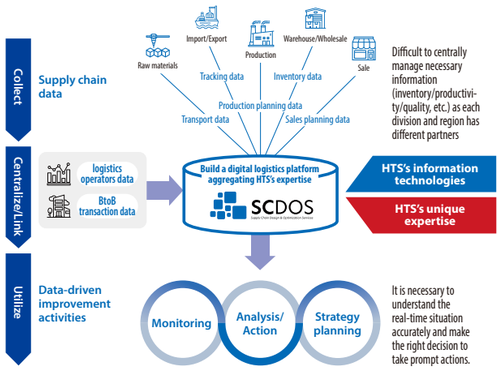
External DX cases

We commercialized three solutions.

In 2021, we added "function to visualize CO_2 emissions" in SCDOS and promoted decarbonization at both customers and the Company.

SCDOS*1	Centrally manage and visualize supply chain information supporting processes to solve issues
SWH*2	Combine the automation/labor-saving expertise and digital technology and standardize them for each industry
SSCV*3	Help transporters improve operational efficiency and achieve zero-accidents by making full use of IoT technology

*1 Supply Chain Design & Optimization Services
*2 Smart Warehouse
*3 Smart & Safety Connected Vehicle



Internal DX cases

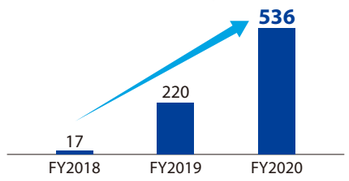
We have promoted the standardization of WMS*4 and the core system renewal to aggregate data in a digital business platform.

We have also been promoting RPA as part of VC21 activities aimed at operational improvement through company-wide bottom-up initiatives and working on initiatives to spread DX at sites.

Through RPA, we have developed 536 types of robots in the entire Group until March 31, 2021, which enabled us to save approximately 6,600 hours of work per month.

*4 Warehouse Management System

Number of RPA robots developed (accumulated)



Number of working hours saved (March 2021, hours/month) approx. **6,600**

Responded to the Digital Governance Code

"Digital Governance Code" is a document prepared and released by the Ministry of Economy, Trade and Industry (METI) of Japan, which summarizes responses required of managements to encourage companies' voluntary efforts for DX.

In response to the Digital Governance Code, the Company is implementing measures such as development and execution of DX strategy, establishment of a governance system including the involvement of the Board of Directors, and information disclosure to stakeholders.

The Company was recognized for these efforts and selected as a "DX Certified Operator" in May 2021.

Enhancement of IT governance

We established the IT Governance Code under the Digital Governance Code to define principles and general rules for introduction/operation of IT.

In addition, we established the management rules according to the IT Governance Code and monitor/evaluate the entire Group's IT activities to build an IT platform that contributes to DX promotion.

Development of DX human resources

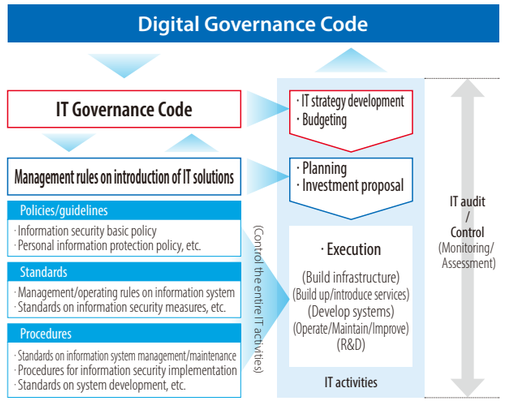
We have established a system to develop DX human resources and promoted development of highly skilled personnel as well as providing basic education to all employees including executives in order to raise the level of digital literacy.

We also focus on fostering data analysts capable of practical data analysis at logistics sites and are working on operation analysis/improvement using actual data. In order to secure human resources, we promote long-term, stable retention of human resources from partner companies in addition to hiring experienced personnel.

Digital Transformation Certification

Hitachi Transport System, Ltd. was selected as a "DX Certified Operator" in the DX Certification Program established by METI of Japan.

Establishment and operation of the IT Governance Code



DX human resources development system

All employees Improve digital literacy	Education of IT basics + DX mindset For all employees from FY2021
Business divisions Develop on-site data analysts	Training for data scientists (Tech Boot-camp) Number of attendees: 72 (cumulative)
IT divisions Enhance DX implementation division	Project management/business analysis training data architect/data analyst training Number of attendees: 214 (cumulative)

(As of July 2021)

For details about DX strategy, please visit our website.
https://www.hitachi-transportsystem.com/en/ir/corporate/vision/dx/

Message from the officer in charge

We will promote DX by making full use of three core functions i.e. SCDOS, Smart Warehouse, and SSCV to contribute to the resolution of social issues in the logistics domain and promote LOGISTEED. Capitalizing on a wide range of data at sites (physical space) and the cutting-edge digital technologies, we will invigorate open innovation with various collaborative innovation partners and use it to create new businesses and models with the view to further increasing corporate value.

Kiyoshi Nagao
Vice President and Executive Officer
General Manager, Business Management Headquarters
General Manager, Logistics Solution Business Development Headquarters
General Manager, Transport Business Enhancement Project Team

Message from the officer in charge

Under the IT Governance Code, we monitor and evaluate IT activities of the entire Group to build an IT platform for DX. We are also enhancing our risk response by raising the cybersecurity level to fulfill our role as social infrastructure that supports supply chains. In terms of development of DX human resources, we will improve digital literacy of all employees and foster on-site data analysts in business divisions through various trainings.

Shunsuke Yonekura
Executive Officer
General Manager, Information and Communication Technology Strategy Headquarters, Business Management Headquarters
General Manager, Information Security Office
Deputy General Manager, Transport Business Enhancement Project Team
(President, Hitachi Distribution Software Co., Ltd.)

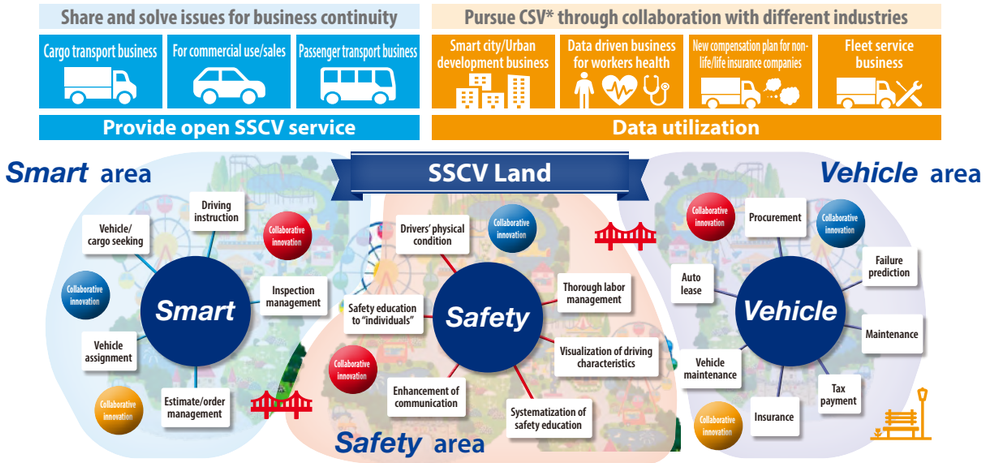
Progress of the Mid-term Management Plan

Priority Measure: Design Supply Chain Based on and Originating from the Logistics Domain

We are working to build a transport digital platform and enhance the transport business in order to solve transport issues faced by the Group and other transporters and to realize "sustainable transportation services" and "zero-accident society."

Building a Transport Digital Platform

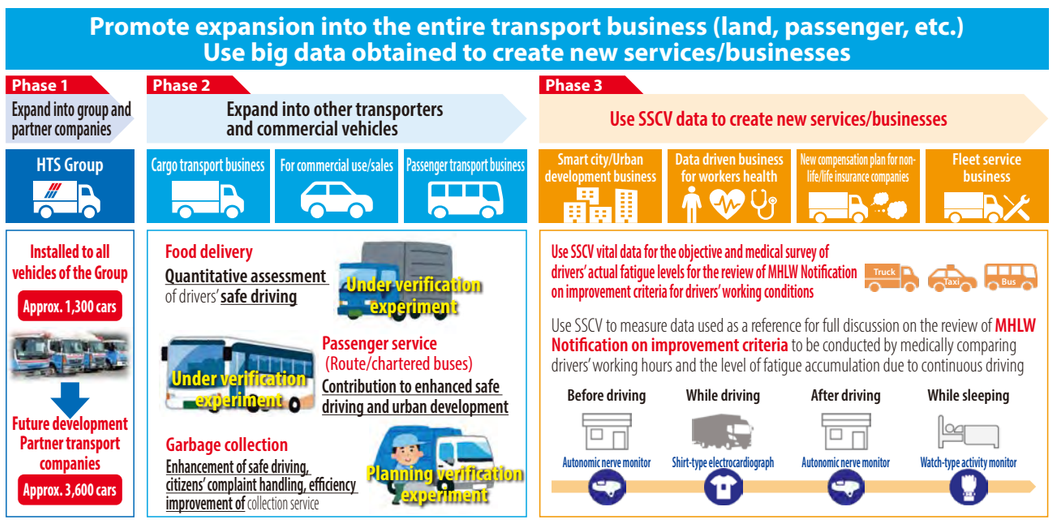
We are building a transport digital platform designed to solve transport issues using "viewpoints of a logistics company + power of technology" the Company provide. SSCV is a platform consisting of three solutions of SSCV-Smart, SSCV-Safety, and SSCV-Vehicle, through which we will share data with our collaborative innovation partners to create new services and businesses.



* 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.

For details of SSCV, please visit our website (Japanese version only).
https://www.hitachi-transportsystem.com/jp/sscv/

SSCV-Safety has already been installed to all vehicles of the Group. Going forward, we will introduce the service to our partner transport companies and transportation operations in a wide range of industries such as retail, bus, and taxi. Also, we will use big data obtained through SSCV to create new services and businesses including smart city/urban development business, data driven business for health, and a new compensation plan for non-life/life insurance companies.



Contribute to solving social issues such as drivers' health/labor management and reduction of CO_2 emissions through efficient transportation

*For SSCV initiatives, please refer to "Special Feature –Employee Roundtable Discussion" on pages 39 to 44.

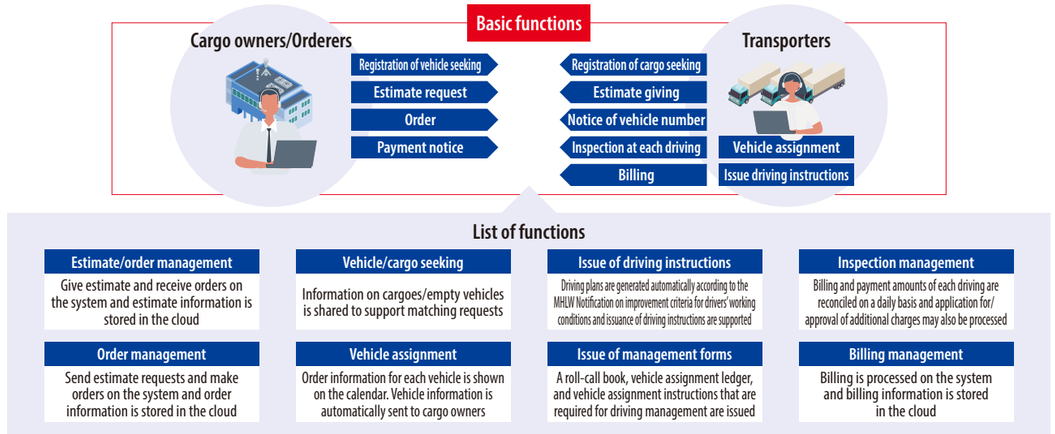
Start of external sales of SSCV-Safety

After the use within the Group, we started selling SSCV-Safety to external customers through collaboration with Hitachi, Ltd. and Mitsubishi HC Capital Inc. in July 2021 as a SaaS-type* new service "SSCV-Safety on Hitachi Digital Solution for Logistics" targeting transportation operations in a wide range of industries including logistics, manufacturing, wholesale, retail, bus, and taxi. Amid growing demand for transportation operations in the New Normal era, we hope to contribute to driving management and improvement of drivers' safety through the introduction and spread of this service.

*SaaS: Software as a Service

Start of Providing SSCV-Smart

In October 2020, we started to provide SSCV-Smart, a SaaS-type service designed to solve issues faced by transporters including "driver shortage and improvement of working conditions" and "complicated slip management" by offering, as basic functions, estimate/order management, vehicle assignment/driving management, and billing management, which have traditionally been handled manually, in digital formats. We will support sustainable management of transporters with SSCV-Smart by assisting improvement of operational efficiency, enhancement of compliance, promotion of paperless operation, and strengthening of financial and administrative base.



Enhancement of Transport Business

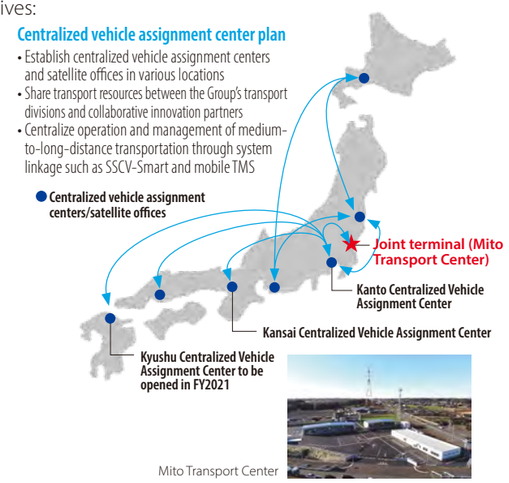
Launch of the Transport Business Enhancement Project

In October 2020, we launched "Transport Business Enhancement Project" with an aim to provide high-quality, sustainable transportation services, and we are working on the following initiatives:

- Accelerate the building of a transport digital platform
- Create a transport ecosystem by offering SSCV services to partner transport companies and other transporters
- Establish "centralized vehicle assignment centers" to establish a group-wide vehicle assignment and transport/delivery network
- Develop engineer drivers who can provide added values of "transportation plus something extra"

Centralized vehicle assignment center plan

- Establish centralized vehicle assignment centers and satellite offices in various locations
- Share transport resources between the Group's transport divisions and collaborative innovation partners
- Centralize operation and management of medium-to-long-distance transportation through system linkage such as SSCV-Smart and mobile TMS



Mito Transport Center

Opened a joint terminal (Mito Transport Center)

In February 2021, we opened Mito Transport Center in Tokai Village, Naka-gun, Ibaraki Prefecture, as part of the "centralized vehicle assignment center plan." The center was opened as a joint terminal with Nichiun Ibaraki Business Cooperative*, a regional business partner, with the aim of achieving efficient business operations in the entire transport ecosystem including partners by sharing transport resources in the region (cargoes/vehicle information, offices, and garages, etc.).

* Nichiun Ibaraki Business Cooperative: A cooperative located in Tokai Village, Naka-gun, Ibaraki Prefecture and engaged in cargo transportation with 21 member companies

Progress of the Mid-term Management Plan

Priority Measure: Originate and Succeed Operation (Hands-on Approach) toward the Next-generation

Promotion of VC21 Activities

Outline of activities

The HTS Group has been working on "VC 21 Activities" as daily improvement activities to implement the HB WAY.
The aim of these activities is that "the Company continues to grow and employees find their work rewarding."
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.
We share initiatives of all sites among the entire Group via the dedicated system and give an award to excellent cases at the presentation meetings held on a regular basis as an effort to establish an improvement culture through "visualization of improvement activities" and "cultivation of the culture of praise."
We have enhanced our organization and ability to accomplish operations through a cycle where we have human-centered deep dialogue, enjoy learning, generate ideas, and implement improvements.
Each employee has been working on "VC 21 Activities" with a sense of "personal ownership," and the accumulation of such efforts has taken root as the improvement culture and has become the foundation to support our business model and the source of value creation.

Logistics OPEX
Build a community where employees can repeat learning and improving through deep dialogue while enjoying them

Improvement education
Provide unique improvement education adopting Industrial Engineering (IE), etc.

Dialogue café
Have deep dialogue in interview-style workshops

Use of digital tools such as RPA
Implement cross-departmental productivity improvement by making full use of digital tools

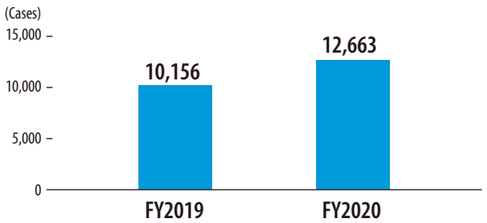
Workshop for generating ideas
Generate improvement ideas by directly hearing the voices of employees working on-site

Sharing of excellent improvement cases
Share excellent improvement cases within the Group and manage the progress of improvement initiatives using the dedicated system

Activities in FY2020

The number of improvement initiatives of the entire HTS Group proposed in FY2020 reached approximately 13,000.

No. of new improvement initiatives



In FY2020, most of our activities were held online due to COVID-19. Group companies have conducted various activities in addition to those listed below.

Name of activity	Number of times
VC21 Award	1
Workshop for generating ideas	17
Digital dialogue events	13
Improvement education/assistance	62
Logistics OPEX-related activities	27
VC21 activities steering committee meetings	13
Total	133

VC21 Award 2020

In November 2020, we held "VC21 Award 2020" online. As we had to refrain from holding meetings in a large group as a preventive measure against the spread of COVID-19, we connected LOGISTEED CAFÉ in the head office building and offices in each region online, allowing more than 1,000 including the Company's officers and the employees of group companies to participate the event. Among 19 improvement/excellent cases selected by group companies and departments, six cases selected by vote of 4,396 employees were elaborately presented.

Applications

Number of applications: 164

VC21 Award Grand Prize: 19 cases

Themes (excerpt)

Improvement at sites

- Introduction of "Pictograms (notices)" at sites
- Enjoy and challenge! Can we move a 300kg super heavy wagon easily!?
- Development of one-way stacking jig

Improvement by digitalization

- Efforts to promote RPA
- Promotion of paperless operation using digitalization tools and DX through introduction of AI-OCR
- DX efforts using SCDOS

Report of orders received

- Production logistics projects
- Report on a project to transport manufacturing equipment to new Tainan factory
- Urgent delivery of automobile parts after heavy rains in Kyushu region
- Sales expansion due to orders received for enclosing, sorting, and delivery services
- Completion of PC replacement
- Orders received for trailer maintenance
- New core system integration project

Business renovation

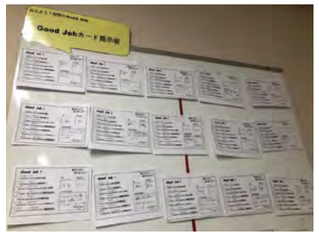
- Activities of the group procurement "improvement" department
- Enhancement of awareness of transport reform
- Efforts to improve quality

Digital dialogue session

We held online "digital dialogue session" twice in a bid to promote communication beyond job positions with approximate 200 attendees from around the nation. We exchanged ideas under the theme of "let's envision a digitalized future office" and actively discussed how to promote DX at workplace. We used to hold face-to-face dialogue session in the past, but the online session enabled employees around the nation to join at the same time over geographical distances. Participants learned how to come up with and sophisticate ideas through "deep dialogue" in this event and are using it in their daily improvement activities at their workplaces.

Efforts to improve work environment and vitalize workplaces

Workshop for generating ideas
Employees are striving to improve work environment and operating process by sharing what they think is unnecessary or inefficient and exchanging ideas about how to improve them.



Good Job cards
Employees exchange words of appreciation and cultivate "the culture of praise."

Progress of the Mid-term Management Plan

Priority Measure: Environment, Social, Governance and Corporate Ethics

Initiatives for SDGs —Four Objectives—

In order to promote actions in consideration of environment, social, and governance as well as corporate ethics (ESG management) with an aim to realize sustainable society and increase corporate value, we developed "HTS Group's Objectives" and are implementing activities to enhance our initiatives for four objectives that contribute to the achievement of SDGs.

Contribution to SDGs

We will focus on four objectives to drive innovation forward in supply chains with an eye to creating a sustainable society.

Four objectives

1 Pursue Next-generation Industries and Lifestyles

With the power of logistics, we will develop businesses to support the realization of the next-generation sustainable industries and social infrastructure in various areas across the globe.

- **Promote total optimization of supply chain by making full use of advanced technologies**
- **Respond to local logistics needs and issues while further boosting response capability**

2 Enhance Occupational Safety and Productivity

We will work on realizing further occupational safety and enhancing productivity in logistics sites across the globe.

- **Secure safety in operation and transportation**
- **Minimize workload at logistics sites**
- **Promote diversity of the workplace**

3 Ensure Excellent Quality and Resilience*

We will pursue quality of the next-generation logistics that meets the social expectation and resilience against disaster and climate change.

- **Pursue high quality logistics services**
- **Consideration for disposal and emission**
- **Contribution to disaster recovery assistance**

4 Realize Decarbonized Business Processes

While we steadily proceed with initiatives to enhance efficiency of energy and resources, we will also work on decarbonizing from the long-term perspective.

- **Increase energy efficiency**
- **Introduce renewable energy**
- **Strengthen environmental management**

*Defined as "the capability of a people or things to recover quickly from difficult conditions such as shock and injury" or "the ability to return to its original form after being bent, stretched or compressed."

➡ P.75-88

ESG Initiatives

It is important for companies' management and growth to have consideration from the Environment, Social, and Governance perspectives and contribute to the achievement of SDGs by enhancing each initiative for "E," "S," and "G."

Initiatives from FY2021

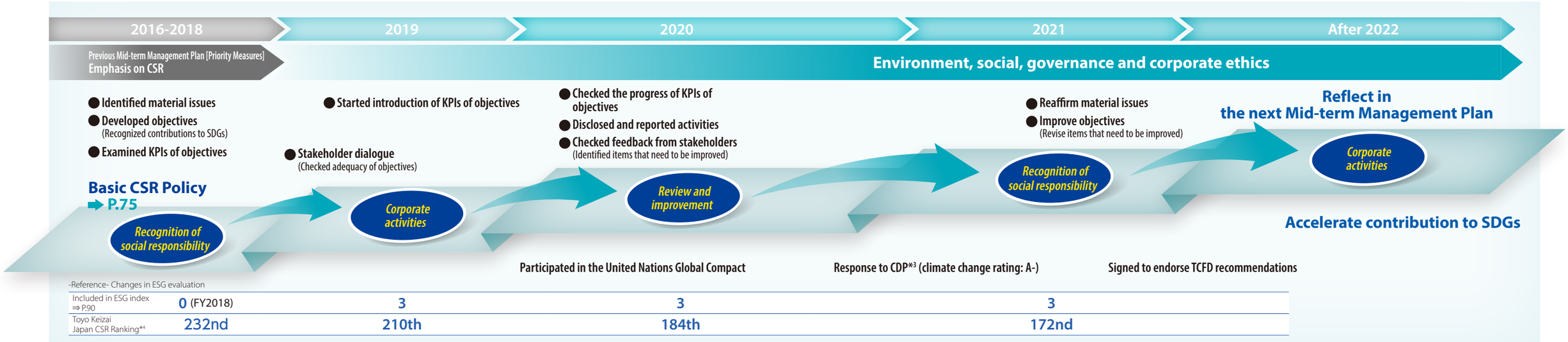
E: Environment	**Realize decarbonized business processes** · Establish a model site to measure the effects and examine how to assess (accumulating expertise) · Visualize CO_2 emissions using SCDOS and promote a sense of personal ownership for environmental activities through VC21 Activities · Adequate disclosure of the Company's initiatives (endorsement of TCFD*1 recommendations, Integrated Report)
S: Social	**Accelerate diversity & inclusion and working-style reform** · Increase the ratio of female managers in the entire Group (FY2023 target: 10%*2) **Promote investment in human capital** · Observe and visualize employee engagement, and develop and secure DX human resources
G: Governance	**Ensure to keep in mind "Basics and Ethics"** · Improve operational efficiency and enhance governance through core system renewal (Develop digital audit environment, etc.) · Appoint risk owners and risk response managers · Conduct in-depth discussion on the essence of management at the Board of Directors (sustainability, DX, etc.)

*1: Task Force on Climate-related Financial Disclosures *2: Scope: HTS

Objectives from ESG perspectives

	Relevant objectives	Pages for related information
E: Environment	Objective 3, Objective 4	Environmental policy and its management structure, etc. /Medium-to-long-term environmental targets/Climate change initiatives/Consideration for disposal and emission/ Increase of energy efficiency ➡ P.79-84
S: Social	Objective 1, Objective 2	Secure safety in operation and transportation/Pursue next-generation industries and lifestyles/ Promote diversity of the workplace/Social contribution/Strengthening of BCP ➡ P.85-88
G: Governance	Objective 3	Enhance compliance/governance ➡ P.63-74

Toward the Realization of Sustainable Society



-Reference- Changes in ESG evaluation

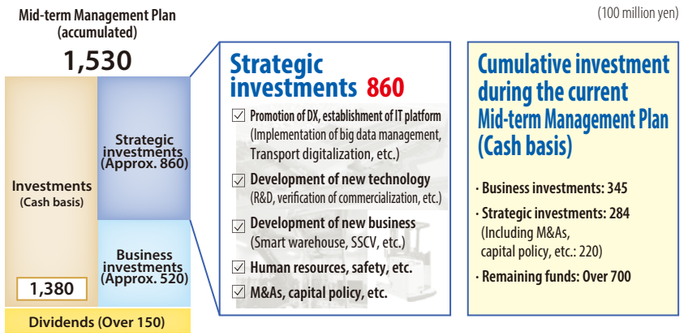
Included in ESG index ⇒ P.90	0 (FY2018)	3	3	3
Toyo Keizai Japan CSR Ranking*4	232nd	210th	184th	172nd

*3 A non-profit organization in the U.K., which investigates, evaluates, and discloses information on "climate change" and other environmental matters of corporations upon request of investors in the world.
*4 A company ranking independently assessed and published by TOYO KEIZAI INC. annually to identify reliable companies in Japan from CSR and financial perspectives.

Investment Plan

Investment Strategy for Change and Evolution into "LOGISTEED"

The HTS Groups aims to expand collaborative innovation domains beyond businesses and industries and create new innovation beyond the conventional logistics domain while focusing on the enhancement of logistics as a function (Smart Logistics) as our core target. In order to achieve them, the Group has made business investments mainly to expand logistic sites and strategic investments to evolve into a company envisioned by LOGISTEED using mainly operating cash flows and cash and cash equivalents.



Business Investments

The HTS Group carefully selects business investments to build robust core domain (Smart Logistics). In specific, we have expanded logistics sites and renewed vehicles, etc.

Major Investments in FY2020

Operations started June 2020:
Oragadam Logistics Center (India) ➡ P.47

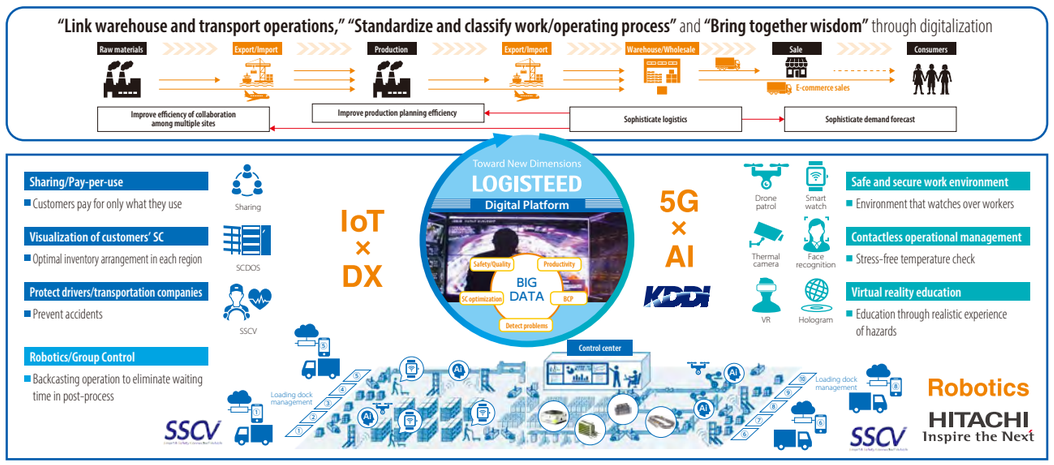
Operations started February 2021:
East Japan II Medical DC (Saitama Prefecture) ➡ P.46

Operations started March 2021:
Mito Transport Center (Ibaraki Prefecture) ➡ P.32

Renewal of vehicles, etc.
(North America/Turkey and other areas)

Strategic Investments

Under the basic policy to make "investment to establish sustainable competitive advantage by building a structure no one can imitate," we focus on investments in the cores of digital platform including supply chain solutions, Smart Warehouse, and transport digitalization, to strengthen core functions and expand customer services.



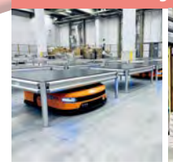
Future Plans to Expand Logistics Sites and Equipment

We plan to expand domestic and overseas logistics sites and equipment to further enhance our mainstay 3PL business. In the domestic business, we will invest in logistics centers that serve as foundations to provide higher value-added services, such as coordination with customers' production process and enhancement of handling of hazardous goods, and in automated/labor-saving equipment. In the overseas business, we will accelerate the global growth strategy mainly in Asia toward the next Mid-term Management Plan.

Domestic Business

Yamaguchi Prefecture
Manufacturing parts logistics center
(Start of operation: FY2022)

Nationwide
Introduction of automated/labor-saving equipment



Shiga Prefecture
Hazardous goods logistics center (Automated warehouse)
(Start of operation: FY2021)

Total investments: Over ¥53 billion (Cumulative total of key plans*)
Further enhancement/higher added value of 3PL

Fukuoka Prefecture
Multipurpose logistics center
(Start of operation: FY2022)

Hyogo Prefecture
Materials logistics center
(Start of operation: FY2021)

Shizuoka Prefecture
Materials logistics center
(Start of operation: FY2021)

Overseas Business

The U.S.
Automobile related XD Center (Order expansion)
(Start of operation: FY2021)

The Netherlands
Enhancement of center (Order expansion)
(Start of operation: FY2021)

Malaysia
Chilled warehouse (Cold chain)
(Start of operation: FY2023)

Total investments: Over ¥12 billion (Cumulative total of key plans*)
Acceleration of global growth strategy
(Including joint investment with collaborative innovation partners)

India
Multipurpose logistics center
(Start of operation: FY2022)

Chennai/Mumbai
(Scheduled to be launched in Delhi and Bangalore)

China, etc.
Introduction of automated/labor-saving equipment

Indonesia
Enhancement of center (Bonded + freight forwarding)
(Start of operation: FY2023)

*Major investment plans for FY2021-2023

Special Feature –Employee Roundtable Discussion–

Transport Department, Hitachi Transport System East Japan	Legal Department	Transport Business Enhancement Project Team	Transport Business Enhancement Project Team	Corporate Strategy Office	Transport Business Enhancement Project Team
Yoichi Maeda	**Tomoko Suzuki**	**Hiroshi Obinata**	**Hideaki Nagumo**	**Naoko Goto**	**Kiminori Satoh**

Contribute to the Solution of Social Issues through SSCV

Smart & Safety Connected Vehicle (SSCV) is a transport digital platform that the HTS Group develops and provides to realize "sustainable transportation services" and "zero-accident society."
With on-site data collection and industry-government-academia collaboration as the starting point, we have rolled out the following three services with an aim to solve social issues and create economic value.
SSCV-Smart = Order management, vehicle assignment management, and driving management
SSCV-Safety = Safe driving management
SSCV-Vehicle = Optimization of vehicle management, failure prediction and preventive maintenance
For this report, we held a roundtable discussion mainly with members who participated in development and installation of SSCV.

Attendees in the discussion

General Manager, Smart & Safety Connected Vehicle Enhancement Department, Transport Business Enhancement Project Team, Business Management Headquarters	**Hideaki Nagumo**	Department Manager, Smart & Safety Connected Vehicle Enhancement Department, Transport Business Enhancement Project Team, Business Management Headquarters	**Kiminori Satoh**
Assistant Manager, Smart & Safety Connected Vehicle Enhancement Department, Transport Business Enhancement Project Team, Business Management Headquarters	**Hiroshi Obinata**	Manager, Intellectual Property Group, Legal Department, Human Resources & Business Support Office	**Tomoko Suzuki**
Manager, Corporate Strategy Department, Corporate Strategy Office	**Naoko Goto**	Deputy General Manager, Transport Department, Ibaraki Division, Hitachi Transport System East Japan	**Yoichi Maeda**

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

First, please tell us about your career and what you do in this team.

Nagumo: For the first around 10 years after I joined the Company, I was engaged in the shipment and transport of ICT equipment of Hitachi, Ltd. For the next 10 years, I was in charge of launching a new business in the ICT solution business. It was a new business covering delivery/storage of ICT equipment, kitting, and installation and operation check at delivery destinations, which was great experience for me. After that, I oversaw the management of 3PL, solution business, and transport business as a General Manager of Keihin Sales Office and then worked at the Digital Business Development Department, etc. before joining the Smart & Safety Connected Vehicle Enhancement Department. And now, I am overseeing this project as a General Manager.

Satoh: After I joined Hitachi Distribution Software, I was seconded to HTS's subsidiary in Singapore for around eight years, where I was engaged in the development and maintenance of warehouse management system of subsidiaries in Southeast Asia. Since the end of 2016, I was seconded to HTS, and in the SSCV project, I am in charge of the system development and system linkage by cooperating with academics and vendors.

Maeda: I joined Hitachi Transport System East Japan as a driver and was engaged in transportation of home appliances and hazardous products for the first two years and in the transportation planning for the next seven years. Since FY2011, I worked as a manager in transport sales offices in Mito and Hitachi, Ibaraki Prefecture. After transferred to the Planning Section of Transport Department, as it coincided with the renewal of existing systems in Hitachi Transport System East Japan, I worked with the SSCV Team in the development of SSCV-Smart. Now, I am promoting sales expansion of it to partner companies.

Goto: After working as an asset manager in a real estate fund management company handling REIT, etc. I joined HTS in 2018. I was engaged in developing an overall real estate strategy and launching "LOGISTEED CAFÉ*1" at Kyobashi Head Office. In SSCV, my mission is to expand and deepen CSR domains to be created by this business, in other words, Creating Shared Value (CSV).

Obinata: After working as a driver and a driving manager and engaging in the warehouse management, etc. in two logistics companies, I joined HTS in 2020. In the SSCV Team, I am in charge of sales and proposing installation of SSCV to customers and sale on approval.

Suzuki: Before I joined HTS in 2017, I was in charge of patent applications and infringement lawsuits in the intellectual property division of an electric and precision instruments manufacturer. In SSCV, I am responsible for protecting services that our team has devoted so much effort to through various applications, intellectual property right protection, and risk control, etc.

*1: Open innovation facility established in the head office building in December 2020 as part of the collaborative innovation strategy P.28

I see the team is made up of experts in various fields. What made you think of developing SSCV in the first place?

Nagumo: The origin of SSCV was three rear-end collisions that happened in a row within just five months in 2015 when I was a site manager. Trucks crashed into the rear of the cars in front without applying the brakes in all three cases. When we checked their dashboard camera footages, none of the drivers were dozing off, distracted or using a mobile phone while driving, but they crashed even though they were looking ahead. When the drivers were interviewed, it was found that they suffered from chronic mental exhaustion due to sickness of family members or caring of their parents. Based on these, it was suspected that mentally unstable drivers "are not seeing anything although their eyes are open," causing an "absent-minded driving." These factors were not identified in face-to-face roll-call before driving, and drivers themselves were not aware of it.

What do you think of it as a driver?

Maeda: We, drivers, have a sense of responsibility or mission that we will deliver cargoes we load. Therefore, we feel that we are responsible for delivering cargoes even if we are not feeling well or have some family problems. From the standpoint of a driving manager, because of the driver shortage at sites, we were not able to provide the environment where drivers could say at roll-call, "I can't drive today."

Obinata: Me neither. When I was working as a driver, I could never say, "I don't want to drive because I am tired." If I couldn't deliver, I had to ask someone to cover for me. And I also didn't want others to step in my delivery area.

Nagumo: Statistics of the Ministry of Land, Infrastructure, Transport and Tourism of Japan also showed a rapid increase in the number of transport accidents attributable to drivers' health problem since around 2015, which made us think that social environment may be the cause of these accidents. However, we had to do something because driver shortage and aging drivers were becoming serious issues. Those three successive accidents were just rear-end collisions as there happened to be cars in front of them, but they could have hit someone or the drivers could have lost their lives. If the cargoes are not delivered safely to their destination, the original mission of logistics service provider is not fulfilled.

So, safety management is not an easy job if you consider drivers' feelings and on-site culture.

Nagumo: Yes. And keys to solve this issue are "quantification" and "visualization." Previously, driving managers had no way of knowing the drivers' situation while driving, so they had no choice but to leave safety management to drivers once vehicles left the office. But then we thought using AI and IoT devices might make it possible to completely visualize "fatigue" and "driving behavior" while driving in real time, and we could protect drivers as a company – that's how we started the development of SSCV.

Next, please tell us about the services of SSCV.

Nagumo: SSCV consists of three services of SSCV-Smart, SSCV-Safety, and SCV-Vehicle ("Smart," "Safety," and "Vehicle," respectively). The transport business consists of three factors of "driving plans," "drivers' safety," and "trucks," and SSCV supports them. Smart which supports "driving plans" helps transporters improve operational efficiency and enhance compliance by digitalizing order management, etc. "Safety" comprehensively supports the safe driving management through AI-based analysis of drivers' vital signs and driving data. Vehicle is a solution that achieves failure prediction and preventive maintenance of vehicles by digitalizing the vehicle management and maintenance records and obtaining real-time driving data for statistical analysis.

First, please explain features of Safety, the origin of SSCV.

Nagumo: Heinrich's law*2 states "for every accident that causes a major injury, there are 29 accidents that cause minor injuries and 300 accidents that cause near-misses (Hiyari-Hatto)," but Safety aims to achieve "zero-accident" by visualizing and eradicating not just accidents but near-misses. The most notable feature is that it incorporates a logic backed by fatigue science that sends a near-miss alert to drivers based on objective data including their physical conditions and fatigue levels on the basis of the research findings on the correlation between drivers' vital signs and vehicles' abnormal behaviors. During the initial stage of the project in 2016 and 2017, we collected all products that send a reminder to drivers from Japan and overseas and had the Company's drivers try them. However, we couldn't find the product that had all functions we wanted, so we decided to develop it ourselves.

*2 A theory about workplace accidents introduced by Herbert William Heinrich who was working in the engineering and inspection division of a non-life insurance company in the U.S.

Satoh: Then, we met Professor Hirohiko Kuratsune of Osaka City University, an authority of fatigue science, and he proposed, "A research on correlation between vital signs of drivers while driving and fatigue is the first in the world. Can we do it together?" As a result, a joint research including RIKEN has started in 2018. This collaboration brought a great advantage for us. Analysis and research on the relation between autonomic nerve function and physical condition have been conducted since before the World War II, but because most data were obtained in indoor researches, they could not be applied to an environment with lots of noise and vibration that are unique to automobiles. Thanks to this academic-industrial collaboration, we were able to collect sufficient amount of vital signs of drivers before/after/while driving and vehicles' behaviors, and we summarized the analytical findings in a paper and published it after a peer review by a third party professor.

Nagumo: For your information, we collected around 4,000 person-days of before/after driving data and 1,200 person-days of while driving data.

Such support of academic research must be one of the most notable features of Safety, isn't it?

Satoh: Yes. We incorporated academic logic and built the system together with the sites through trial and error. After a prototype was completed, we held regular meetings with executives twice a month and advanced the development with advice and wisdom from various people, but there were more than a few times that we had to make a course correction by scrapping what we built. Through these efforts, we were able to put logic of sophisticated academic research and on-site voices into the system, and that is the feature and sales point of Safety. Safety enables to present near-misses prediction while driving based on the objective data such as drivers' physical conditions and fatigue levels using a collision risk estimation algorithm backed by academic research. It is also equipped with functions that detect near-misses that may cause accidents in real time by obtaining vehicles' status while driving and drivers' stress levels using IoT-based dashboard cameras or wearable devices and issue a warning sound in case of reckless driving or dangerous situation.

How did drivers react when Safety was installed?

Maeda: Hitachi Transport System East Japan installed Safety in its all vehicles. Because one of the advantages of being a driver is that you can be alone while driving, there were a great deal of resistance from drivers to the idea of being watched through the camera all the time at first. So, driving managers patiently talked to each driver and managed to convince them that it was a tool to protect them, not to monitor.

Nagumo: I also explained our view carefully at workplace meetings that "it is for protection and not for monitoring" and "we do not want any driver of the Group to become an assailant or victim." And I think because we showed drivers some videos of the accidents we caused, they probably started thinking, "If Smart can prevent such accidents." We completed the installation in all around 1,300 vehicles of our group companies, and in FY2021, we plan to install it in around 3,600 vehicles in partner companies.

Please tell us about specific example of the effects of the installation of Safety.

Obinata: Since the installation in June 2019, there has been no accident due to absent-minded driving with Safety-installed vehicles. According to the fixed-point observation of one of our offices, the number of near-misses including sudden start, sudden braking, and sudden steering declined by 94%.

Nagumo: At this point, the number of accidents decreased approximately 60%, which contributed to a decline in accident-related expenses. Decreases in sudden start, sudden braking, and sudden steering, etc. are also helping us realize eco-driving. In one of our group companies, fuel efficiency improved by approximately 5% in full-year data, which shows that Safety is contributing to not only safety but also a reduction of CO_2 emissions and decarbonization.

Maeda: As a qualitative effect, drivers and driving managers previously used to exchange only a few words after drivers return to offices, but now the communications between them are invigorated because they review the SSCV data together.

Nagumo: It is because driving managers can give advice by watching the camera footage of actual driving of that day. For example, a driver who tends to make sudden steering frequently may not be aware of it, but because it is plain to see on the video, the driver can correct it. Safety education was only a generalization before, but now we can give guidance according to driving habit of each driver.

Maeda: The following distance between vehicles which is important for safety driving tends to be closer with experienced drivers. Drivers may disagree when we simply point it out, but when we show the data showing that "their distance is closer" than others, they agree.

Nagumo: In addition, because the system shows a two-week average value of the drivers' vital signs, drivers pay attention to the scores and are becoming health conscious.

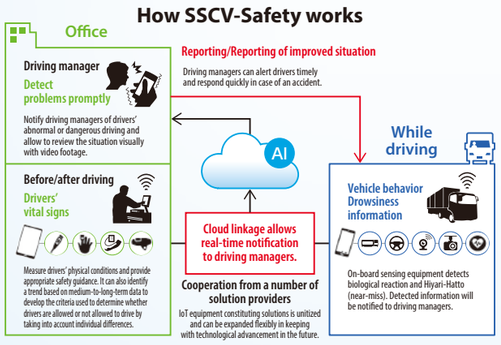
Satoh: It also helps us to prevent the spread of COVID-19. It shows the body temperature with the difference from the average over the last 30 days and saves data of blood oxygen levels, which is very helpful in providing drivers' information to customers and also giving reassurance to drivers themselves.

I understand that Safety has various advantages. Please tell us about an intellectual property strategy to protect such value in business.

Suzuki: In 2017 when we started to prepare for patent application of Safety, the Company's patents were mainly related to warehouse management and operation support systems. So, I was really surprised when I was told the Company aimed to apply for patents related to the transport business, and I wasn't sure if it was possible at first. After we spent six months to carefully examine the details of the applications, we applied for two patents of "accident risk notification" and "notification with dashboard camera video clip" for the system which predicts accident risk and notifies driving managers when it determines an accident risk is really high and dangerous, and they were registered. In addition, we have around 10 patents pending mainly related to Safety. We also have several pending applications for trademark registration. While "Hitachi Transport System" and "LOGISTEED" were registered in five areas, we applied for and obtained registration of SSCV in eight areas to expand the scope of services. We believe that the Company has an advantage that it can provide services and value needed at the sites because its primary business is logistics. We will ensure to incorporate such advantage in our intellectual property strategy to proceed with patent application and acquisition of rights.

Next, please tell us about Smart.

Nagumo: We have developed Smart by focusing on improving transportation/delivery efficiency and enhancing compliance. One of the hidden priority issues in the transport industry is that many operations are performed manually. Needless to say, it is inefficient,



Roundtable discussion (Mito Transport Center)

Measurement at roll-call before driving

Review by a driving manager and a driver

and violation of laws due to insufficient paperwork may result in situations such as suspension of vehicle operations. In Japan, there are approximately 62,000 trucking companies, of which about 90% has less than 50 employees. To improve operating efficiency of small and medium-sized transporters will lead to CSV from the viewpoint of not stopping logistics in Japan. To proactively support them, the Company has focused on developing Smart by taking into account their requests and opinions. We offer Smart as a cloud-based service that digitalizes operations including receiving/making orders, vehicle assignment management, driving plans/instructions, and billing, allowing to use all functions with one login as long as it is online.

Just like Safety, it is an example of external DX in anticipation of creating shared value. What is the status of installation of Smart?

Nagumo: It was released in October 2020 and has been installed in the Group and its partner companies since April 2021.

Maeda: Because it has just started, we are receiving all different kinds of opinions from users. In the logistics industry, 10 companies have 10 different ways of operation, with each wanting a system to be matched to their way. Currently, our development team has been struggling to make adjustments in a bid to find the greatest common factor.

Nagumo: We received a report that they were able to eliminate posting errors or omissions and delivery arrangement errors thanks to digitalization and full paperless operations. We believe that we will be able to see quantitative effects gradually.

Next, please tell us about the overview of Vehicle and the current initiatives.

Nagumo: Vehicle promotes DX for vehicle management and maintenance. It improves the vehicle utilization rate and reduces management processes through visualization and digitalization of vehicle management and maintenance records. In addition, it collects and statistically analyzes data while driving in real time to sophisticate vehicle maintenance, and eventually achieve failure prediction and preventive maintenance. We are developing the systems with an aim to install a system that visualizes vehicle management and maintenance records in FY2021 and to achieve data-driven preventive maintenance in FY2022. In addition, our group company Hitachi Auto Service launched a fixed price maintenance service for group companies and partner companies. We will increase users and offer a fixed price maintenance service together with data-driven failure prediction and preventive maintenance functions in hopes to prevent small and medium-sized transporters from incurring loss costs or opportunity losses due to vehicle failures.

Please tell us about the future development plans for these three services of SSCV and cross-industry collaboration.

Satoh: Currently, relevant ministries and agencies, etc. have been discussing how to sophisticate driving management using ICT and how to improve drivers' working conditions, which we think will expand the potential for the use of Safety. Going forward, we will work on improving convenience and reducing costs. For devices to measure drivers' vital signs while driving, we are eying developing a smartwatch-type device in addition to the existing shirt-type device. For the measurement before/after driving at office, we hope in the future to realize a system that allows busy drivers to measure vital signs while doing other things by connecting the device to drivers' smartphones, etc.

Nagumo: Another development is for education services. We are working with our collaborative innovation partners to build an education service matched to characteristics of individual drivers by using data collected by SSCV. For Smart, we will enhance its mobile functions to register driving records with smartphones, etc. and visualize loading ratios. In addition, in preparation for the Amended Act on Book and Record Keeping through Electronic Methods to be enacted in January 2022, we will enhance its electronic storage functions and also have a plan to develop a financial service to provide financial support to small and medium-sized transporters.

Goto: Currently, our cross-industry collaboration for SSCV has two objectives. First one is to enhance functions so that SSCV can be used widely in various scenes of transport. We have installed SSCV in vehicles of a food delivery company, a bus company, and garbage trucks of a municipality to conduct a joint study for additional functions. We are also working with non-life insurance companies to develop a scoring function for safe driving. The second one is to deliver social value by using various data accumulated through SSCV. I'll give you an example of the initiative with the Ministry of Health, Labour and Welfare (MHLW). MHLW is now considering reviewing its notification on improvement criteria for drivers' working conditions with an aim to shorten drivers' working hours, and they are interested in vital signs showing drivers' fatigue status while driving that can be obtained by SSCV, which are now used in a medical survey of drivers' actual fatigue level conducted by MHLW.

Is there anything else you would like to share with us about the value that SSCV can deliver?

Goto: In terms of contributions to SDGs, SSCV can deliver two types of values: one that can be created in the short term and another that can be created in the medium-to-long term. The value that can be created in the short term is an improvement of operational efficiency and compliance by using Smart and the enhancement of safety by using Safety. In the medium-to-long term, I hope SSCV can contribute to the reduction of CO_2 emissions by eco-driving, as well as the increase in potential young/female drivers and promotion of diversity in the entire logistics industry, through the enhancement of employees' health consciousness and the implementation of health-focused management.

Lastly, please tell us briefly about your future plans and challenges.

Nagumo: SSCV first started for the purpose of enhancing safety and eradicating accidents in the Group, but I believe it can also contribute to the solving of issues faced by the entire logistics industry. In order "not to stop" logistics that is essential social infrastructure or in order to realize "sustainable logistics," we will focus on further enhancement and development of SSCV functions. I will continue to take issues and opinions of transporters seriously and work to add and extend functions and services with higher added value.

Satoh: I recognize that SSCV is a solution that takes a step forward from the conventional logistics business and that is also quite important and meaningful in promoting the Group's DX. As a system developer, I will continue to cooperate with various collaborative innovation partners including academics and support the development of services that will offer values to stakeholders including the Group and other transporters.

Maeda: Driver shortage, safety management, and streamlining of transport operation will continue to be issues for the entire domestic logistics industry including us, and I think what's really important is how we can help small and medium-sized transporters with SSCV. I will continue to focus on expanding SSCV sales to partner companies and also enhance support for transporters who do not have sufficient resources to promote DX, with an aim to reach the level where transporters think "all we need for the transport business is SSCV." I will continue to work with my team toward that aim.

Goto: I will work to expand and deepen CSV initiatives through SSCV. I hope to enhance our capability to create values not only for the Company but also for SSCV users, and will strive to create shared value in the entire transport industry through the use of SSCV. In addition, I will cherish a network with a wide variety of industries in hopes to spread the use of SSCV to a wide range of sectors and industries other than logistics.

Obinata: I will continue to introduce and share various features of SSCV to the world, and I think it would be great if we could add other functions that offer compliment on safe driving. The current labor standard for drivers sets a uniform limit on work hours and consecutive driving hours regardless of their attributes or form of transport. By monitoring drivers' fatigue levels in real time using SSCV, we may be able to contribute to the realization of flexible working style according to the drivers' fatigue levels and an improvement of transport efficiency.

Suzuki: Originally, the focus of patent is to protect the business by seeking patents for R&D results. Recently, however, there is a movement that considers what is required for sustainable development of society and seeks patents for such ideas. I believe that is what the Group should do, so I will continue to acquire patents for various ideas to be generated by enhanced functions of SSCV, and I'd like to develop many personnel who will underpin the Company's future from the viewpoint of intellectual property.

SSCV Initiatives in Each ESG Area

Climate change
Reduce greenhouse gas emissions by improving transportation/delivery efficiency (by sharing or increasing loading ratio)

Energy
Promote eco-driving and reduce fuel consumption by improving delivery efficiency and visualizing driving behavior

Cities
Contribute to realization of accident-free cities and society by popularizing safety support system using comprehensive digital data

Healthcare and safety
Implement health management to keep aging drivers safe and healthy

Gender
Create a female driver-friendly environment by promoting DX of transport operation

Compliance
Improve the labor management capability by visualizing driving status and working hours

Education
Provide coaching and education based on individual driving data to improve safe driving skill

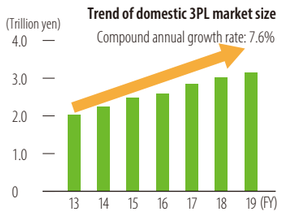
3PL Business (Domestic)

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 continuing 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 1980's. We support supply chains in Japan with our proposal capabilities backed by abundant experience and management capabilities offered by professionals with deep customer knowledge.

Domestic 3PL market leader



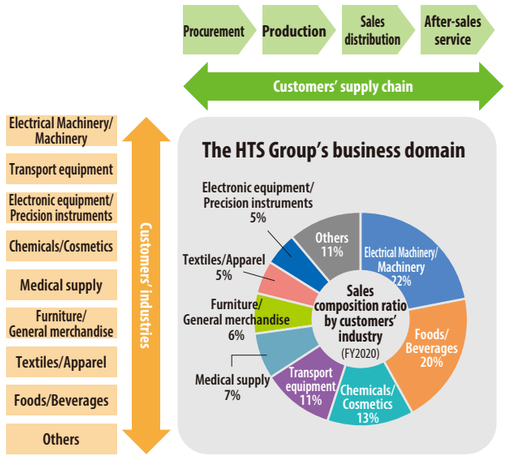
Market share in FY2019		
1	HTS	14.4%
2	Company A	10.5%
3	Company B	5.7%
4	Company C	5.4%
5	Company D	5.4%

Calculated by the Company using data in monthly magazine LOGI-BIZ

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*1, assembly/painting 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 CE*2's skills for ICT equipment and collaborative logistics services for hazardous/chemical products.

*1 VMI: Vendor Management Inventory
*2 CE: Stands for customer engineers who configure and perform operation check of ICT equipment



R&D of the Next-generation Logistics Technology through Collaborative Innovation

Sophisticate logistics using 5G (collaborative initiative with KDDI CORPORATION)

The Company and KDDI CORPORATION are jointly working on the initiatives to sophisticate logistics using 5G. In FY2020, we built a 5G environment inside the Group's logistics center in the Tokyo Metropolitan area to conduct verification experiments. We use 5G for real-time AI analysis of on-site 4K camera footage, problem detection/notification aiming to sophisticate human judgment and behaviors including preventing accidents such as collision/fall and improving work efficiency.

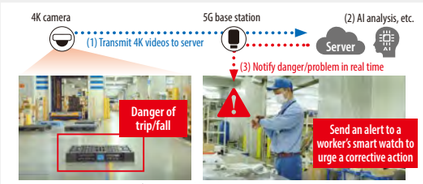


Image of on-site 4K video analysis using 5G

Development of AI forklift (collaborative initiative with Hitachi, Ltd.)

The Group has introduced automated forklifts in some sites, but there are certain restrictions in their operations at logistics sites such that the areas must be segregated from the environment where people work from a safety perspective and that they can handle preset simple tasks only. The Company and Hitachi, Ltd. are conducting a joint development aimed at realization of collaborative work between automated forklifts and workers by incorporating AI in automated forklifts and connecting them with management systems such as WMS and other equipment to control them as a group in an integrated way.

FY2020 Result

Results (round amount)

Revenues:
¥368.2 billion
(YoY **-¥8.4 billion**)

Operating income:
¥23.13 billion
(YoY **+¥0.52 billion**)

New orders/new startups

New Orders:
16 projects

New startups:
17 projects

FY2020 Topics

- **February 2021**: Opened East Japan II Medical DC
  → Strengthened pharmaceutical logistics business and realized a labor-saving center
- **February 2021**: Opened Mito Transport Center
  → Joint terminal to strengthen transport business ➡ P.32
- **March 2021**: Launched a new service "Recovice" using RFID
  → Provide integrated services including systems and logistics, etc. necessary for rental and sharing business and deliver new values accommodating changes in consumer trends ➡ P.86

East Japan II Medical DC

- A GDP*- compliant logistics center that strictly control quality through temperature and security management, etc.
- Accommodate the needs of medical supply companies to enhance BCP by adopting quake-absorbing structure and installing in-house power generator
- Installed advanced technologies including Automated Guided Vehicle (AGV) and automated forklift to realize the next-generation labor-saving center

* GDP (Good Distribution Practice): "Appropriate distribution standard for medical supply" to ensure strict quality control

Location	152-1, Kitaokuwa, Kazo City, Saitama Prefecture
Site area/total floor space	Approx. 29,850m^2/Approx. 32,250m^2

Introduction of labor-saving equipment, etc.

AGV (Automated Guided Vehicle)

Automatic forklift

Automatic palletizer

Automatic labeler

ESG Topics

HTS's initiatives

- Reduce CO_2 emissions through a review of transport modes, improvement of transportation efficiency, and joint delivery
- Reduce waste through a review of packaging and reduce CO_2 emissions through an improvement of loading efficiency

FY2020 Topics

- **July 2020**: Received "Logistics Environment Special Award" in the "21st Logistics Environment Awards"
- **October 2020**: Received three awards of "Director-General, Manufacturing Industries Bureau, Ministry of Economy, Trade and Industry Award," "Appropriate Packaging Award," and "Large-sized Equipment Packaging Award" at the Japan Packaging Contest 2020
- **November 2020**: Received "2020 Excellent Business Entities Working on Modal Shift (effective use category)" for 2 cases

Packaging solution

We have a facility specialized in packaging technology (Technical Center) and propose the optimal packaging solution based on accumulated quantitative data and evaluation test results.

Verification of packaging material by testing machine

Message from the officer in charge

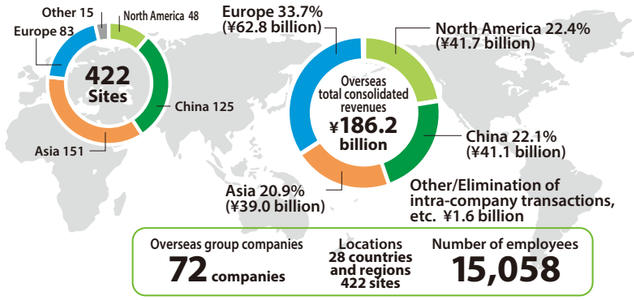
In FY2020, while overall volume dropped due to COVID-19, demand for foods, hygiene products, and EC, etc. increased and the Group focused on maintaining stable logistics operation as a social lifeline. With the economic recovery, cargo movement is on a recovery trend, and there is an increasing momentum among customers to review their supply chains and introduce automated/labor-saving equipment. So, the Group will further demonstrate its strengths of proposal/management capabilities and advanced IT/technological capabilities in order to deliver values to customers and society.

Toru Watanabe
Senior Vice President and Executive Officer
Executive, Higashinippon Area Management Headquarters

3PL Business (Overseas)

As of March 31, 2021, the HTS Group has established a global network of 422 sites in 28 countries and regions outside of Japan, since expanding into Singapore in 1976. In order to support our customers' increasingly large and complicated global supply chain, we offer a wide range of services including 3PL and Auto Parts Logistics.

Revenues by overseas region and no. of overseas sites (FY2020)



FY2020 Result

Results

Revenues: ¥186.2 billion (YoY -¥4.8 billion)

Operating income: ¥9.6 billion (YoY +¥3.25 billion)

New orders/new startups

New orders: 12 projects

New startups: 11 projects

FY2020 Topics

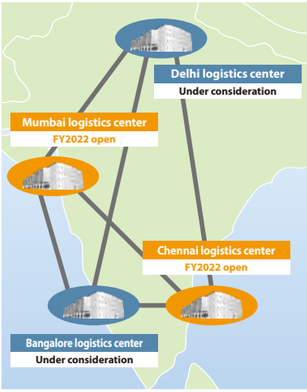
Asia Built a new logistics center through own investment in Chennai, further accelerating investments in India

Oragadam Logistics Center

Flyjac Logistics Pvt. Ltd., which operates 3PL and freight forwarding services mainly in India, being one of the largest integrated Logistic Service providers in India has opened a new modern logistics center in Oragadam, near Chennai in June 2020. Oragadam is the nerve center of industrial activities in Chennai and home to many companies including six global automobile manufacturers. This new facility, conveniently located just one-hour away by car from the Port of Chennai, helps providing one-stop logistics services to customers as a base for handling import and export cargoes and JIT (Just In Time) delivery.

Oragadam logistics center

Concept of 4 Logistics HUBs



The logistics and supply chain market in India is forecast to grow at a CAGR of 10.5% between 2019 and 2025 *1. The HTS Group will continue to aggressively invest in India, which is one of the fastest growing markets.
As a part of strategy for expanding its footprint in India, HTS is creating large multi-purpose logistics centers in four metros, to start with Mumbai and Chennai in FY2022, to be followed by Delhi and Bangalore.
Our objective is to be a partner of our customers in creating value through optimizing supply chain by integrating the entire activities including international and domestic movements by air/ocean/land, support in export/import compliance, as well as providing storage solutions for raw materials and finished goods including temperature controlled cargoes.

Message from local leadership

While Flyjac has been one of the largest freight forwarding companies in India, our current focus as an integrated logistics solution partner is on developing a world-class infrastructure with multi-purpose logistic centers and modernized transportation, to enable the supply chain optimization for our 5,000 plus customers. We have upgraded our entire IT system in August 2020, to improve efficiency, speed, accuracy, and real-time visibility on a single platform.

A.V.Ravikumar
MD & CEO
Flyjac Logistics Pvt. Ltd.

*1 "Indian Logistics Industry Outlook, 2020" reported by Research and Markets

North America Started in-plant logistics business in Huntsville, Alabama

Carter Logistics, headquartered in Indiana, U.S., has developed its Auto Parts Logistics business using its unique Milkrun business model, and has been recognized by the customers as a top service provider for cross-docking of production parts and transportation of service parts.
Carter Logistics has partnered with two large OEMs to provide the in-plant logistics services for a new automobile manufacturing facility located close to the city of Huntsville, Alabama. Carter was awarded the business in the summer of 2020 and started training and start up activities in the fall of 2020. At full capacity in the fall of 2022, Carter will employ close to 250 forklift operators on two shifts and will be responsible for handling over 15,000 daily skids (pallets) inbound and the unloading of more than 150 daily routes into the facility. Carter is excited to build upon its current service offerings to include in-plant logistics.

Huntsville in-plant logistics service

Message from local leadership

Carter Logistics built its foundation in trucking but is now a high-tech, results-orientated supply chain company. Carter is dedicated to innovation and marries the latest technology and data with a large, asset-based operation in the U.S. and Mexico. We are eager to add in-plant logistics services to our supply chain services and grow this new line of business.

Jessica P. Warnke
President & CEO
Carter Logistics, LLC

Europe Installed solar panels at the Hadımköy DC in Turkey

Mars Logistics Group in Turkey has installed solar panels at its Hadimköy DC in Istanbul as part of its sustainable and environmentally-friendly initiatives. Total 4,914 solar panels were installed on the 12,098 m^2 roof of the DC by January 2021, which are expected to save CO_2 emissions by approximately 1,134 tons annually. The center is also implementing other environmentally-friendly activities, such as collecting rainwater and using it for fire water, etc., and using paper pallets made of recycled paper instead of traditional wooden pallets.

Hadımköy DC

Message from local leadership

By installing solar panels, we contribute to achieving the SDGs, such as "Affordable and Clean Energy" and "Climate Action." We are also developing an environmentally-friendly intermodal transportation business, combining ocean and rail transportation for the trunk line transportation portion to reduce the environmental load caused by transportation. We will continue our sustainability activities and investments.

Garip Sahillioğlu
CEO
Mars Logistics Group Inc.

ESG Topics

- **October 2021: Carter Express in the U.S. was awarded as a 2020 "Top Company for Women to Work for in Transportation"**
  - ☑The award was established in 2018 to promote the accomplishments of companies that are focused on the employment of women in the trucking industry.
  - ☑Nearly 11,000 votes were cast to determine the winners. Carter was selected as one of the top companies for women to work for in transportation.
  - ☑Active involvement of women in various types of job, including executives, truck drivers, and mechanics, was highly evaluated.
- **Mars Logistics Group in Turkey has started a project in the field of Gender Equality**
  - ☑Mars is starting "Equality Has No Gender" project since January 2021.
  - ☑Employees selected as ambassadors organize monthly events in cooperation with various NGOs on topics such as employment and education.
  - ☑This initiative will contribute to the achievement of Gender Equality target ,which is one of the Sustainable Development Goals.

2020 "Top Company for Women to Work for in Transportation"

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, 3PL, 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.

FY2020 Result

Revenues (round amount):

¥**101.1** billion

Freight forwarding volume (round amount):

Ocean transportation **441** thousand TEUs*

Air transportation **147** thousand tons

Business outline by region

* Logos of the Group's major freight forwarding operators are shown

Europe

Hitachi Transport System

Ocean 35 thousand TEUs
Air 14 thousand tons

Major export products
For Japan: Furniture, tires
For China: Hygiene products
For Asia/North America: Food products

Japan

Hitachi Transport System

Ocean 94 thousand TEUs
Air 47 thousand tons

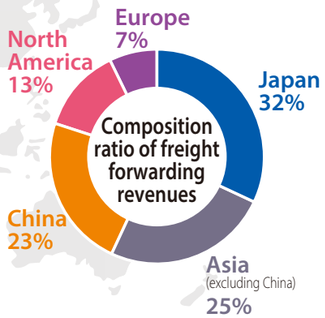
Major export goods
For China/Asia: Hygiene products, electric/electronic parts
For North America/Europe: Automobile parts

North America

Hitachi Transport System

Ocean 41 thousand TEUs
Air 9 thousand tons

Major export goods
For Japan/Asia: Food products
For China/Europe: Hygiene products, automobile parts



* TEU (Twenty-Foot Equivalent Unit): The volume converted into the number of 20-foot-long marine containers

Asia

Hitachi Transport System

Ocean 109 thousand TEUs
Air 50 thousand tons

Major export goods
For Japan/China/Europe: Electric/electronic parts
Within Asian region: Hygiene products
For North America: Tires

China

Hitachi Transport System

Ocean 162 thousand TEUs
Air 27 thousand tons

Major export goods
For Japan: Electric/electronic parts
For Asia: Hygiene products, electric/electronic parts
For North America/Europe: Automobile parts, toys

FY2020 Topics

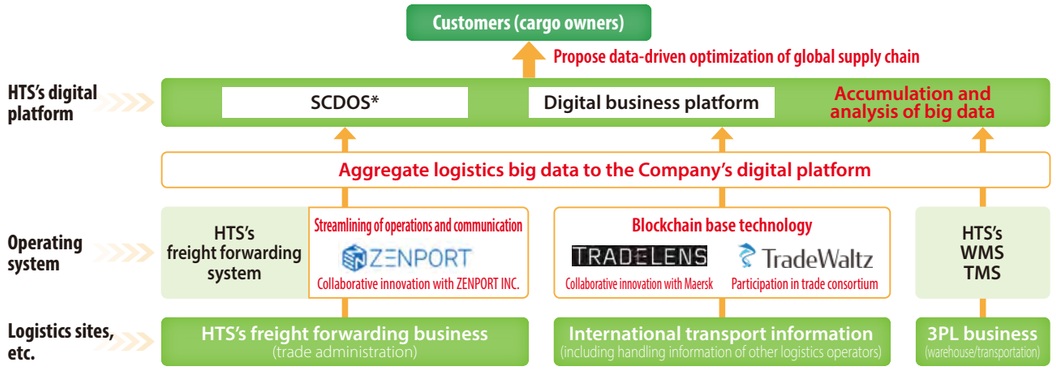
Acquired "CEIV Pharma*," a quality certification for air transport of pharmaceutical products, in Narita Airport

In March 2021, VANTEC HTS FORWARDING, LTD., a freight forwarding business company of the Group, acquired the "CEIV Pharma*" certification, a quality certification program for air transport of pharmaceutical products, in Narita Airport. We are certified as "a business operator capable of high-quality air transport of pharmaceutical products that meets global standards" and striving to enhance safe and secure international one-stop logistics service for pharmaceutical products, along with such initiatives as Medical DC (➡ P.46) in the domestic 3PL business.

* CEIV Pharma: Stands for "The Center of Excellence for Independent Validators in Pharmaceutical Logistics."
It is a uniform international standard of a quality certification for air transport of pharmaceutical products at controlled temperatures developed by the International Air Transport Association (IATA)

DX Initiatives in the Freight Forwarding Business

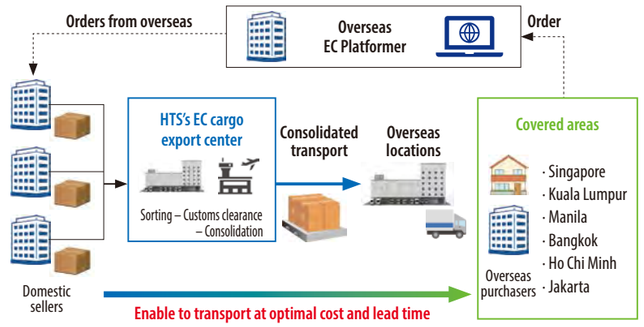
The Group promotes digital transformation (DX) as one of its priority measures in the Mid-term Management Plan (➡ P.29-30). The freight forwarding business is also working on DX initiatives, including collaborative innovation initiatives with our partners, with an aim to streamline administrative work and communication through digitalization of trade administration and optimize customers' global supply chains through data accumulation and analysis.



*SCDOS: Our solution to centrally manage and visualize supply chain information and support solving issues ➡ P.29

Enhance Cross-border EC-related Services

We are enhancing freight forwarding services related to the growing cross-border EC market. In FY2020, we have tied up with a leading overseas EC platformer and provide one-stop delivery of EC cargo exported from Japan to local sellers mainly in Asia with efficient consolidated transport service. We support our customers in expanding their sales opportunities through logistics by optimizing costs and shortening lead time.



Launched Full-scale Freight Forwarding Service in Eastern Europe

ESA s.r.o., our group company headquartered in the Czech Republic, operates a comprehensive logistics business mainly in three Eastern European countries of the Czech Republic, Poland, and Slovakia. The company had been engaged in cross-border transport across Europe using its truck transportation capacity and recently launched full-scale freight forwarding service including ocean, air, and rail, to provide one-stop logistics service in combination with 3PL and heavy machinery and plant logistics.

ESA s.r.o. (Wholly-owned subsidiary of Hitachi Transport System)
· Operates a comprehensive logistics business in the Czech Republic, Poland, and Slovakia
· **Launched full-scale freight forwarding service** to further enhance services

*FCL: Stands for "Full Container Load," which is a mode of transport whereby a cargo owner charters the full size of a container
LCL: Stands for "Less than Container Load," which is a mode of transport whereby multiple owners use less than one container.

Message from the officer in charge

Amid drastically changing environment due to COVID-19 including a disruption of global transport network and surging cost in FY2020, the Group has made an all-out effort to maintain our customers' global supply chains. We expect the global transport market to become more diversified and complicated, and the Group will ensure to promote the "expansion of collaborative innovation with partners" and "DX" and support global business activities of our customers by providing more seamless and higher value-added freight forwarding services.

Yuichi Kuroume
Executive Officer, General Manager, Collaborative Innovation Project Team
Deputy General Manager, Transport Business Enhancement Project Team, Business Management Headquarters
(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.

Positioning of the HTS Group in the Market

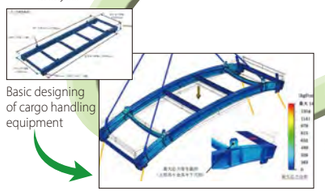
The HTS Group is one of a few domestic logistics operators who can offer various engineering services with dedicated staff and transport services using own assets in large-scale projects to transport and install heavy cargoes. In the heavy machinery relocation and installation and reverse logistics*, we have been developing a wide variety of businesses including services using the Group's domestic network and the development of unique equipment.

* Reverse logistics: Logistics for disposal of used products as well as re-use, resale, and recycling of unneeded products

Various engineering

Hull response analysis

Self-propelled multi-axle trailer



Basic designing of cargo handling equipment

Strength analysis

Largest-class trailer in Japan (350 ton capacity)

Our unique equipment

Major Services

Build Social Foundation
Services for power plant and industrial project cargoes

With regard to power and industrial plant facilities delivered to various locations around the world, our professional team having abundant experience and high level of expertise plans and executes the optimal transportation according to customer requirements. In addition, with the Group's network, we provide safety-first transport service, from shipment to delivery, for products ranging from small parts to chemical plant facilities weighing over 2,000 tons under fine-tuned management both in Japan and overseas.

Connect Regions
Services for rail and other transport system project cargoes

We meet various logistics needs including transportation of train cars of bullet trains and other high-speed railways, city trains, and monorails, as well as related equipment such as signal systems and platform barriers, procured parts to manufacture train cars, and maintenance parts. In addition to delivery of finished products, we also provide a broad range of services for maintenance after equipment is put into operation by making full use of our 3PL expertise and transportation capacity, supporting the development of transport infrastructure.

Contribute to the Realization of Sustainable Society (1)
Services for renewable energy

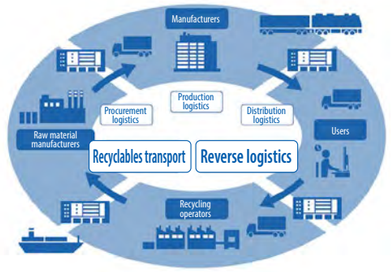
We provide transportation and installation services for renewable energy facilities used for solar and wind power generation. Our engineers having abundant expertise take the lead in examining projects, including mega-solar facilities and wind power generation facilities weighing over 300 tons across the country, to realize safe and optimal transportation. Through these services, we will contribute to the realization of environmental preservation and a sustainable society.

Contribute to the Realization of Sustainable Society (2)
Environment-related solutions

We provide high value-added reverse logistics services to contribute to the realization of a recycling-oriented society.

- **Recycling solutions for goods and machinery**
  We collect used products for reuse or recycling when delivering PCs, servers, and ATMs.
- **Recyclables transport**
  We offer a wide variety of solutions for recycling materials such as waste plastic bottles and waste plastic, including transportation as well as the development of special container with higher transport efficiency.
- **Compliant recycling**
  We provide logistics services complying with various related laws and regulations including collection and transportation of PCB-containing wastes and recycling of home appliances.

Reverse logistics services in supply chains



40-feet special container for transport of recyclable resources (HTS has acquired the patent)

Rollout ceremony for the unit 1 of toroidal field coil for International Thermonuclear Experimental Reactor (ITER)

Transport of toroidal field coil for ITER

FY2020 Result

Revenues (round amount included in the reportable segments of Domestic logistics and Global logistics)

¥35.2 billion (YoY - ¥4.4 billion)

FY2020 Topics

- Completion of transport of super large chemical plant module to overseas
- Transport related to the renewable energy business including biomass, offshore wind power, and solar power
- Continued transport of toroidal field coil for International Thermonuclear Experimental Reactor (ITER)
- Continued projects of constructing coal-fired power plants in Japan and overseas
- Transport of temporary facilities for international sporting events

ESG Topics

Transport of railway cars to various locations around the world
Contribute to the reduction of environmental load and development of society and economy

Countries and regions where population has been rapidly increasing face growing problems including traffic jam and air pollution, and such problems are expected to be mitigated by developing a public transportation system. The Group, as an expert of railway car transport, has been engaged in many transport projects in various locations around the world and supporting the realization of a sustainable society in terms of logistics.

FY2020 Result

Started work of Line 1 in the Ho Chi Minh City Metro Rail System ➡ P.86

【Outline of transport operation】

- Transport period: From 2020 to 2022
- No. of cars to be transported: Total of 51 (17 organizations)

Transport of railway cars for the Ho Chi Minh City Metro Rail System

Rendering of Opera House Metro Station
Source: Website of Nippon Koei Co., Ltd.

Message from the officer in charge

The Company's heavy machinery and plant logistics business has been growing, along with the technological capabilities we have cultivated since the foundation as well as approximately 1,000 employees of the Group. Transport modes have diversified, and service domains needed by customers are also expanding globally and widely. We will strive to deliver customers' important products safely and securely and provide total solutions taking into account the entire supply chain with an aim to support customers' business activities and contribute to the establishment of better social and industrial foundation.

Daisuke Hayashi
General Manager, Heavy Cargo Transport and Engineering Headquarters

Response to COVID-19

The HTS Group plays a key role as one of the lifelines that are critical to maintain society and industry by providing logistics service to customers in a wide range of industries, including delivery of food products, daily commodities, and medicines. In order to maintain this role stably even during the COVID-19 pandemic, we set up "COVID-19 Prevention Headquarters" to prevent the spread of infection among group employees.

COVID-19 Prevention Headquarters Structure

(General Manager) Officer in charge of Safety and Quality Control Management Office
(Deputy General Manager) Officer in charge of Human Resources & Business Support Office

Secretariat
Risk Management Department

Operation divisions	Higashinippon Area Management Headquarters/ Nishinippon Area Management Headquarters/Global Business Management Headquarters/Group companies
Corporate divisions	Public Relations/Finance/Human Resource/ Administration/Procurement/Sales/IT

HTS Group's Basic Policy (Excerpt)

- Give the highest priority to health and safety of our customers, partners, and employees and their family members
- Prevent the spread of infection within and outside the Group and minimize impacts on the business
- Fulfill accountability to stakeholders and disclose information on a timely and appropriate basis

In Order "Not to Stop Logistics"

In order "not to stop logistics" while giving the highest priority to health and safety of the Group employees, we take necessary measures to maintain stable business operation, including contactless/non-face-to-face operations and securing of a structure to execute operations.

When coming to work	• All employees are required to measure their body temperature and check their health condition before coming to work and refrain from coming to work if they are in poor health condition. • All employees are required to notify before coming to work if any of their family members living together is in poor health condition. • Avoid commuting during rush hours of public transportation by using various alternatives including staggered commuting, shift work, flextime, and working from home	
In workplace	**<Logistics centers/Offices>** • Ensure to wear a mask • Ensure to wash and disinfect hands frequently when coming to work and during breaks • Provide frequent ventilation • Prohibit non-essential and non-urgent business trips/outings • Hold meetings and trainings, etc. online. Limit the number of attendees, ensure social distancing and keep a record of attendees when holding face-to-face meetings, etc. • Arrange seats and work areas apart from each other to ensure social distancing, and install partitions or vinyl sheets to prevent droplet infections • Frequently disinfect common facilities such as doorknobs, control panels of elevators, and tables and chairs in meeting rooms • Put alcohol-based sanitizers in canteens and break rooms, etc. and disinfect these areas regularly • Introduce/install air purifiers and CO_2 monitors	**<Logistics centers>** • Disinfect worktables and roll box pallets, etc. regularly • Secure a structure to execute operations by measures such as flexibly shifting human resources • Develop a scenario assuming that someone is tested positive for COVID-19 • Conduct simulation drills in the event that someone is tested positive for COVID-19
Response to infections or suspected infections	• Report to Prevention Headquarters symptoms of employees absent from work due to poor health condition and prepare for an event that someone is tested positive for COVID-19 (preparation for disinfection and securing of a structure to execute operations) • Instruct employees confirmed infected to stand by at home for a certain period and determine whether to allow them to return to work based on their health monitoring when they return to work	

Response to Customers and Suppliers

We develop a scenario assuming that someone is tested positive for COVID-19 from the viewpoint of BCP and strive to provide stable logistics services by closely sharing information with customers.

- Implement infection prevention measures according to guidelines of customers or the Company. Share our prevention measures with customers
- Promptly notify our customers if someone is tested positive or identified as a close contact
- Develop and share a scenario assuming that someone is tested positive for COVID-19
- Secure an operating structure to accommodate a sharp increase in shipment of food products, daily commodities, and hygiene products
- Assist the review of supply chains including a support for shortage of warehouse storage space and a shift to an alternative transportation mode in global logistics

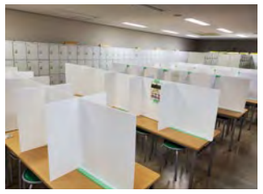
Examples of Our Response to COVID-19

Transport of medical supplies

In March 2020, when Hokkaido issued its own state of emergency, the first in Japan, Guangzhou City, China, sent masks and thermometers as relief supplies to its friendship city Noboribetsu City, Hokkaido. The Group undertook the import/export operation and SAGAWA EXPRESS CO., LTD. took charge of the domestic transport, achieving quick transport through collaborative relationship. Also, to support frontline medical workers, the Hitachi Group started a production of face shields in May 2020 and has donated them to designated medical institutions for infectious diseases. The HTS Group undertook their shipment/delivery and packaging design.

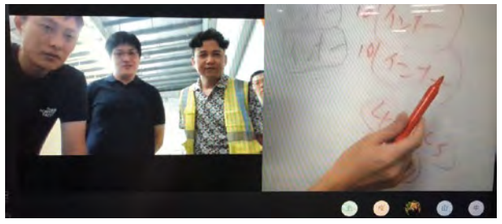
Infection prevention measures at offices

We have in place various infection prevention measures, including body temperature screening when entering/exiting office by installing contactless temperature sensors, regular disinfection of roll box pallets, etc., installation of vinyl sheets on the reception counter, installation of partitions in offices and canteens, with an aim to create environment where employees can work with a sense of security and to maintain stable business operation. We also share excellent cases of prevention measures in our offices through VC21 activities (➡ P.33-34) and implement them across the Group.



Remote launch of new projects via online meetings

We launch new projects remotely by connecting logistics centers and the head office via online meeting system which enables us to verify operations and hold pre-launch trainings while looking at the sites via PC camera.



Online global meetings

Amid international travel restrictions, the Group held its first large-scale global online meeting, with approximately 300 attendees from 17 countries.

Provide infection prevention education using videos

Certain overseas group companies have prepared videos for their employees to ensure thorough implementation of infection prevention measures.

Online seminars

We hold online seminars for EC business operators, etc. to provide information on a non-face-to-face basis.

Board of Directors and Executive Officers/Board of Directors

Reasons for the Appointment of Directors

No.	Name	Position	Reasons for the appointment	Age*1	Registration	Independent Officer	Committee		
							Nominating	Compensation	Audit
①	Miho Aoki	Outside Director	Ms. Miho Aoki served as executive officer in Deloitte Tohmatsu Consulting Co., Ltd. (currently known as ABeam Consulting Ltd.) and held executive positions at various other firms. Based on her abundant experience in company management, she currently works as an associate professor at a university. The Company determines that she can leverage her knowledge and experience for supervising the Company's management and thus contribute to enhancing the function of the Board of Directors.	60	2020	○			○
②	Sayoko Izumoto	Outside Director	Ms. Sayoko Izumoto has a long career in corporate accounting at a large audit corporation and has served in various public posts. Ms. Izumoto has sufficient knowledge and experience in the field of audit and supervision of business execution. The Company determines that such knowledge and experience is beneficial for the Company's management and can be of help in enhancing the function of the Board of Directors.	67	2017	○		◎*2	○
③	Mitsudo Urano	Outside Director	Mr. Mitsudo Urano has worked to enhance management efficiency as a top executive in manufacturing and logistics businesses and has experienced a number of positions as an outside officer at various enterprises. As the Chair of the Company's Board of Directors as an independent officer, he is striving to invigorate the Board and enhance the quality of discussions. He also worked on the introduction of the performance-linked stock compensation plan for executive officers, which was introduced last year, as then-Chair of the Compensation Committee. The Company determines that his excellent business sense and familiarity with various management issues make him qualified to supervise the Company's management and can be of help in enhancing the function of the Board of Directors.	73	2014	○	◎		
④	Takashi Nishijima	Outside Director	After serving as the president at Yokogawa Electric Corporation and holding various executive positions in the Yokogawa group, Mr. Takashi Nishijima currently serves as the chairman of Yokogawa Electric Corporation. The Company determines 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.	63	2020	○	○	○	
⑤	Tetsu Fusayama	Outside Director	After his long career as a public prosecutor, Mr. Tetsu Fusayama is now active as an attorney at law, with a wealth of expertise and experience in legal and compliance issues. The Company determines that his knowledge and experience are continuously helpful for the Company's management and can contribute to enhancing the function of the Board of Directors.	69	2016	○	○		
⑥	Hiroshi Maruta	Outside Director	Mr. Hiroshi Maruta has deep insights in the field of finance and accounting and has extensive experience working overseas. The Company determines that he is expected to leverage his knowledge and experience for supervising the Company's management and to contribute to enhancing the function of the Board of Directors.	67	2015				◎
⑦	Hajime Watanabe	Outside Director	Mr. Hajime Watanabe is an attorney at law, who is savvy about international business and trade law. The Company determines that his specialized knowledge and experience are appropriate for supervising the Company's management helpful to enhance the function of the Board of Directors.	61	2020	○			○
⑧	Takashi Jinguji	Director	Since joining the Company, Mr. Takashi Jinguji has been engaged in a variety of operations including personnel management, labor management, marketing, strategy-making, and operations outside Japan. Since he became Representative Executive Officer, Executive Vice President and Executive Officer and Board Director, he has taken the lead and successfully executed the Company's growth strategy through relationship-building and negotiations with various collaborative innovation partners. The Company has determined that his wide-ranging business experience and knowledge make him qualified as a director who can contribute to the increase of its corporate value.	65	2016				
⑨	Yasuo Nakatani	Director	Since his assumption of office as Representative Executive Officer, President and Chief Executive Officer and Board Director of the Company, Mr. Yasuo Nakatani has been exercising strong leadership in building the Group's value creation process as well as enhancing the economic, social, and environmental values. In the pursuit of our vision to become "the most preferred global supply chain solutions provider," the Company has determined that Mr. Nakatani has the competence to promote the Company's global business management and ensure continued increase of its corporate value.	65	2013		○	○	

*1 As of June 22, 2021 *2 ◎Chair

Summary of Skillsets of Directors

Field	Number of directors						
Corporate management	③	④	⑨				
Financial accounting	②	⑥					
Law/compliance	⑤	⑦					
Society/environment	①	②	③	④	⑤	⑨	
Global business	①	③	④	⑥	⑦	⑧	⑨
Technology	④						
Human Resources/ Human Resource Development	③	④	⑧	⑨			

Board of Directors and Executive Officers/Executive Officers

Yasuo Nakatani*

Representative Executive Officer
President and Chief Executive Officer

Takashi Jinguji*

Representative Executive Officer
Executive Vice President and Executive Officer

General Manager, Global Business Management Headquarters
General Manager, AEO & Corporate Export Regulation Office

Yoshitaka Tsuda

Executive Vice President and Executive Officer

In charge of IT/logistics solution

Seiki Sato

Senior Vice President and Executive Officer

General Manager, Corporate Strategy Office
Deputy General Manager, Transport Business Enhancement Project Team, Business Management Headquarters

Kazuhisa Hatakeyama

Senior Vice President and Executive Officer

General Manager, Safety and Quality Control Management Office

Nobukazu Hayashi

Senior Vice President and Executive Officer

General Manager, Financial Strategy Office
General Manager, Project Management Office

Toru Watanabe

Senior Vice President and Executive Officer

Executive, Higashinippon Area Management Headquarters

* Concurrently serve as Board Director (Listed in Japanese alphabetical order by title.)

Kenji Abe

Vice President and Executive Officer

Deputy General Manager, Business Management Headquarters
General Manager, Business Development Headquarters, Business Management Headquarters

Kazuhisa Sakaguchi

Vice President and Executive Officer

Executive, Nishinippon Area Management Headquarters
Executive, Nishinippon Area Headquarters, Nishinippon Area Management Headquarters
(President, Hitachi Transport System West Japan Co., Ltd.)

Hiroaki Takagi

Vice President and Executive Officer

Chief Executive for China
(President, Hitachi Transport System (China), Ltd.)

Kiyoshi Nagao

Vice President and Executive Officer

General Manager, Business Management Headquarters
General Manager, Logistics Solution Business Development Headquarters, Business Management Headquarters
General Manager, Transport Business Enhancement Project Team, Business Management Headquarters

Yasushi Hagiwara

Vice President and Executive Officer

General Manager, Human Resources & Business Support Office

Yuichi Kuroume

Executive Officer

General Manager, Collaborative Innovation Project Team
Deputy General Manager, Transport Business Enhancement Project Team, Business Management Headquarters
(President, VANTEC HTS FORWARDING, LTD.)

Kazuhiro Nishikawa

Executive Officer

Executive, Metropolitan Area Headquarters, Higashinippon Area Management Headquarters
Deputy General Manager, Corporate Strategy Office

Riichiro Hirano

Executive Officer

Chief Executive for Europe
(President, Hitachi Transport System (Europe) B.V.)

Hitoshi Honda

Executive Officer

Deputy General Manager, Financial Strategy Office

Ryuichi Honda

Executive Officer

Chief Executive for Asia
(President, Hitachi Transport System (Asia) Pte. Ltd.)
(Chairman of the board, Hitachi Transport System Vantec (Thailand), Ltd.)
(Chairman of the board, Eternity Grand Logistics Public Co., Ltd.)

Tetsuji Mimura

Executive Officer

Executive, Higashinippon Area Headquarters, Higashinippon Area Management Headquarters
(President, Hitachi Transport System South Kanto Co., Ltd.)

Shunsuke Yonekura

Executive Officer

General Manager, Information and Communication Technology Strategy Headquarters, Business Management Headquarters
General Manager, Information Security Office
Deputy General Manager, Transport Business Enhancement Project Team, Business Management Headquarters
(President, Hitachi Distribution Software Co., Ltd.)

Profile of Board of Directors and Executive Officers are available at the Company's website.
https://www.hitachi-transportsystem.com/en/ir/corporate/officer/

Independent Director Dialogue

"Future" of Governance toward the Next Growth Stage

Amid the drastic change in business environment due to the expansion of infectious disease risk and climate change risk, the HTS Group has realized profit growth creating economic and social values through its business and evolved corporate governance that supports such growth. What should the Group focus on next in terms of governance to prepare for the shift to the next growth stage? Two independent outside directors held a dialogue.

Outside Director
Chair of the Board of Directors
Chair of the Nominating Committee
Mitsudo Urano

Outside Director
Member of the Nominating Committee
Member of the Compensation Committee
Takashi Nishijima

Please tell us about the roles you played in the Company's corporate governance in FY2020. As it was the first year for Mr. Nishijima as a director of HTS, would you also tell us your impression about the Company's governance and the Board of Directors?

Urano: In FY2020 when the entire world was facing the threat of COVID-19, I reacknowledged the logistics industry has very important mission no matter what the social situation is. The Group supports people's lives by providing logistics services to customers in a wide range of sectors including daily necessities such as foods, daily commodities, and medical supplies. If our operation is suspended, it could stop the flows of the supply chain in the world. The Board of Directors has monitored operation by strongly recognizing such importance and focused on maintaining stable business operation even amid the COVID-19 pandemic. In addition, under the new business concept of "LOGISTEED," the Board of Directors spent a great deal of time discussing SSCV, which we have been developing to realize "sustainable transportation services" and "zero-accident society," and made a significant progress in initiatives to secure safety and improve efficiency in the entire transport industry. While some fields experienced a decrease in revenues due to the COVID-19 pandemic, the Board of Directors actively discussed these emergency responses and the solution of social issues, which I believe contributed to producing good results. Under such circumstances, while I continued to focus on monitoring as an independent outside director in a Company with a Nominating Committee, etc., I also tried to give executive officers a supportive push in a crucial phase of decision-making. For example, SSCV, that I mentioned earlier, started off really small, but based on opinions of executive officers that there will be business opportunities to offer SSCV to transporters including passenger transport, I suggested we should accelerate our activities to share with the entire transport industry the values of "securing safety" and "improving efficiency" created by SSCV.

Nishijima: I became an outside director about a year ago in the midst of the COVID-19 pandemic, and what came to mind first was that logistics services are really essential to people's lives. In addition, I saw executive officers paying close attention to every detail of daily on-site operations and taking actions timely and appropriately, and I was impressed by the strengths of "Gemba" Power deeply rooted in the Company. I also highly value the fact that the Board of Directors not only focuses on current initiatives but also has in-depth discussions from medium-to-long-term perspective.

As for me, I focused on monitoring business execution as a member of the Nominating Committee and the Compensation Committee and was deeply involved in "offensive" management strategy toward a growth using my experience in corporate management. At the same time, in terms of "defense," I made suggestions on risk management and group governance. Especially because a measurement and control equipment manufacturer that I have been involved as a member of management focuses on not only manufacturing products but also providing solutions to support customers' value creation, I think that company shares a lot in common with HTS that provides comprehensive solutions in addition to delivering products. So, I will use my experience and insight that I have accumulated through management of the manufacturing company to support HTS's management.

What do you think the features and strengths of the Company's current governance are?

Nishijima: The most notable feature is that the Board of Directors is highly independent*, and it is consisted of outside directors with very diversified backgrounds and careers. I recognize this ensures sufficient monitoring functions. One of the strengths is that the management shares a sense of purpose to "establish good governance for good management," with executive officers and outside directors having very active and open discussions. Under such atmosphere, outside directors sometimes ask sharp questions and give tough feedback, which I felt helps maintain a good balance of sound tension and unity. The Company actively provides information to outside directors, and I was able to visit many sites. If we spend more time and deepen discussions on essential themes such as long-term initiatives to increase corporate value, I believe we can make the Board of Directors even better.

Urano: I value that the Company's governance has evolved significantly in recent years. After it shifted to a Company with Committees in 2003, the Company was not able to take advantage of the system for a while. But now, all three committees are made up of a majority of independent outside directors and are operated with a smaller number of members, which makes them possible to conduct high-quality discussions and activities. For example, the Nominating Committee evaluates activities of each officer during the year and has an honest discussion on the structure of the next year. The Compensation Committee has introduced a completely new type of performance-linked stock compensation plan in consideration of all stakeholders in FY2020. Also, the Audit Committee functions effectively as members actually visit sites for audit in addition to reviewing documents.

As for the issue that I pointed out in last year's dialogue saying "outside directors cannot know in advance what was discussed in the Executive Committee," now outside directors can listen to the Executive Committee meetings online, which eliminated a large part of information gap. In addition, depending on the agenda item, the Board of Directors also discusses the same item that has been discussed by the Executive Committee, which makes me think that the Company now has a "very open relationship between the Board of Directors and the Executive Committee." I have served as an outside director in many companies, and I am proud that HTS's current governance is in a very good condition.

*Of nine directors, six are independent officers (as of June 22, 2021)

About the issues to improve effectiveness of governance, could you tell us the progress, etc. of the items pointed out in last year's dialogue? Please start with "an improvement of capital efficiency."

Urano: An improvement of capital efficiency has been one of the key themes in governance for the past few years, and the Board of Directors including me has been dedicated to it.

The Company has focused on on-site education and initiatives related to ROIC tree (Message from the CFO ➡ P.22-23), and as a result, I think the concept is starting to take root. It's not 100% yet, but capital efficiency is now discussed at an early stage of the examination of investment projects, and I think we are certainly laying the groundwork for a culture to discuss capital efficiency routinely, for example, in the VC21 activities and as part of daily operations. I think this is wonderful.

How about "catch-up of IT infrastructure with DX in society"?

Nishijima: One of our DX issues is that because we have been making full use of IT for a long time to develop 3PL business at full scale, there are "legacy assets" in "facilities," "culture," and "how to use." To advance transformation, replacement of legacy assets should take place in stages, not all at once. The management fully recognizes that, and it has almost completed "identifying issues" and "developing a roadmap for improvement and transformation." In addition, the management has a strong recognition of IT governance issues and is developing a cross-sectional framework and systems, including domestic and overseas group companies. As we have already developed a basic framework for catch-up and started to move toward the solutions of identified issues, I think our transformation is moving in the right direction.
However, DX should not be considered simply as an improvement or renewal of IT infrastructure. We should also consider transformation of corporate culture and climate, business model, and creation of innovation, so it requires quite extensive and deep efforts. Also, because IT is a "moving target" which is constantly evolving, we can't just proceed according to the framework once it is developed but need to be prepared to "keep transforming." In addition, if we run into an issue after starting the developed plan, we have to deal with it nimbly, and, in some cases, we may need to adjust or change the plan flexibly. The Company needs to enhance IT human resources who are the key to all of these initiatives. So, I think the Company's future task is to enhance skill sets and abilities required to keep up with the moving targets through both recruiting and development of human resources.

The effectiveness evaluation of the Board of Directors in FY2019 pointed out the issue of "whether the discussions by the Board of Directors really consider all stakeholders." Please tell us what progress has been made in FY2020 in this regard.

Urano: Partly because the major premise of the business concept "LOGISTEED" is a creation of an ecosystem with stakeholders in the first place, discussions at the Board of Directors have significantly changed to give due consideration to all stakeholders over the past year.
For example, we have discussed a dividend payout ratio with TSR, which is a KPI shared with shareholders and investors, in mind. We also introduced a compensation plan for officers that is closely linked to TSR and ROE. As for the businesses that solve social issues including SSCV I mentioned earlier, we have discussed how to solve issues as HTS closely paying attention to business partners and local communities. Also, when discussing new proposals for customers or new investments, we always emphasize "customer benefits." For employees, as VC21 activities make progress, we have more opportunities to discuss how to improve their work-life balance and satisfaction. And for business partners, the Board of Directors has discussed communication and other approaches to build win-win relationships with them.

Next, please tell us about the progress in addressing management issues pointed out in last year's dialogue. Please start with "acceleration of DX and enhancement of IT infrastructure."

Nishijima: I already talked about internal DX earlier, and as for external DX, we have started the implementation of core solutions including SSCV, Smart Warehouse, and SCDOS and their business development. They are making steady progress as projected in the Mid-term Management Plan "LOGISTEED 2021." But I think the aim of "LOGISTEED" is even higher and more comprehensive, that is "optimization of supply chain management" and "integration of a wider range of systems ("system of systems", etc.)." So, I think they will be our major challenges in the future. For example, the Group aims to realize new innovation beyond conventional logistics domain, and we need to clarify to stakeholders what economic and social values will be generated through the innovation and how it will be implemented through our business. By doing so, our ecosystem-driven growth strategy should be successfully embodied, and I am participating in various discussions for that purpose.

How about "change of the business portfolio"?

Urano: In the Mid-term Management Plan, the Company presented the amounts to be spent for M&As and capital policy, etc. in the future and clarified its intention to promote M&As to change the business portfolio. While executive officers have been deliberating on its details, I think there are a number of possibilities in both existing and new businesses.
First, the existing 3PL business has been actively promoting new initiatives such as EC platform center, but it may be difficult to find a high growth potential in Japan in the future as it is basically in the stage of cash cow (mature) of the domestic leading company. Freight forwarding business is recently posting strong performance partly due to external conditions, but it is unknown whether it's going to last in the long run. Heavy Machinery and Plant Logistics business currently has many domestic projects, while a high growth may be expected in emerging countries in the future.
In new businesses under the keywords "Finance, Commerce, Information, and Logistics," a business covering "finance" and "commerce" domains has already been launched. Although the business scale is still very small, it is possible that it may even grow to the level that it undertakes procurement and payment functions of customers.
Anyway, we need to constantly change the business portfolio to realize sustainable growth, and sticking to the basic policy to explore growing sectors while maintaining cash cows and withdraw from unprofitable businesses should eventually improve capital efficiency. In addition, a key in developing new businesses to explore growing sectors is how much risk we are willing to take. In the procurement undertaking business for customers I mentioned earlier, for example, we should expect a considerable risk at an early stage. While we continue the ROIC management, we, outside directors, might encourage executive officers to take a risk by changing WACC at a crucial moment when we think it's worth it.

Then, please tell us about the "enhancement of group governance."

Urano: So far, the Company has expanded global logistics through M&As, and I said, "we aim to formulate an integrated group governance" in last year's dialogue. But we will need to have much discussion on group governance from a global perspective, including a fundamental question such as "Is an integrated governance what we need?" For example, there are successful cases of an integrated governance such as global companies with a single product under a single brand. However, in case of a company running its overseas businesses with a region-contained business model like the Group, I think whether an integrated governance is the best choice should be discussed as a management issue.
Nishijima: This is just my impression that I got from discussions and reports from the Audit Committee in one year since I became a director, but considering our global logistics business is comprised of companies with different environment, business, and strengths that were grouped together through M&As, I think the Group needs to make further efforts to visualize such differences and identify/distinguish items that should be standardized and integrated. Having said that, I also have experience in managing a global company focusing on service business just like HTS with more than 100 group companies, so I know it is difficult to implement an integrated governance in all group companies around the world. I will seek an optimal solution for group governance taking into account business environment, strengths, and characteristics of customers in each region in discussions at the Board of Directors.

Thank you. And lastly, would you please tell us about issues related to the Group's ESG and SDGs initiatives?

Urano: In order to actively promote ESG and SDGs initiatives, it is important that all members of the Group "fully understand" these concepts. From this viewpoint, for "Environment (E)," the Company has focused on reducing CO_2 emissions from truck transport from early on and steadily produced results. For "Governance (G)," as I mentioned earlier, our initiatives have been evolving in the right direction. For SDGs initiatives, however, we may be able to further deepen our understanding if we become more aware that "human beings are also a part of the Earth system" when we think of 17 goals.
Nishijima: I think the Group should focus on "creating value" through these initiatives. For example, if employees "fully understand" them, their motivation and productivity may improve further. By setting lofty vision or high goals, we may be able to attract excellent human resources. In addition, if we make further progress with initiatives for "E" and "S," we can increase the number of customers, which then increases economic value. And I think it is very important to make a full effort to appeal all such "values" to stakeholders.

Corporate Governance

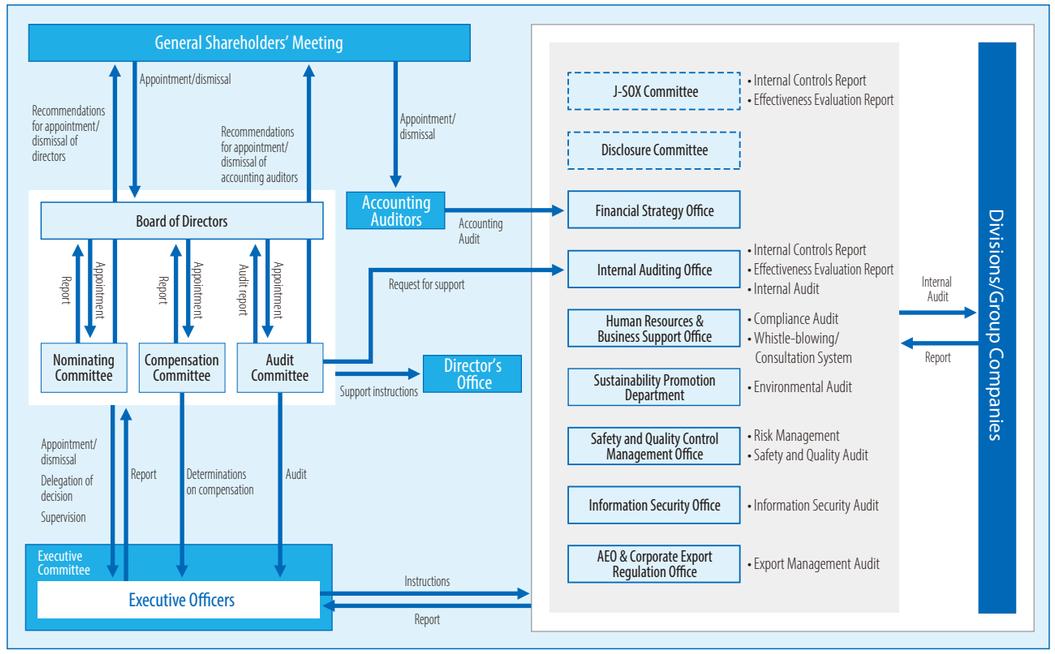
Basic Principle

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 crux 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 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 that considering the subjective opinions of many outside directors facilitates both monitoring 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

	Measures	Purpose
2003	Transitioned to a Company with Committees (established Nominating Committee, Audit Committee and Compensation Committee)	**To strengthen management supervision function of the Board of Directors**
2014	Developed Criteria for Independence of Outside Directors	**To secure independence of directors**
	Appointed a female director	**To diversify the Board of Directors**
2015	Transitioned to a Company with a Nominating Committee, etc. System	**To comply with the amended Companies Act**
	Responded to the Corporate Governance Code Established Corporate Governance Guidelines of Hitachi Transport System	**To strengthen governance**
2016	Evaluated the effectiveness of the Board of Directors	**To strengthen functions of the Board of Directors**
2017	Appointed the second female director	**To diversify the Board of Directors**
2019	Evaluated the effectiveness of the Board of Directors by a third-party assessor	**Ensured the neutrality and objectivity of the evaluation of the Board of Directors' effectiveness**
2020	Appointed the third female director (accumulated)	**To diversify the Board of Directors**
	Appointed an outside director as Chair of the Board of Directors	**To strengthen functions of the Board of Directors**

The Current Corporate Governance System and Internal Control System



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

(1) Board of Directors

Determines the Company's basic management policy and supervises execution of duties by directors and executive officers (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)

(2) Nominating Committee

Elects candidates for director (elects appropriate candidates, considering all relevant factors including their past performance and personality)

(3) Audit Committee

Performs audit of execution of duties by directors and executive officers and prepares an audit report (performs audit of execution of duties by directors and executive officers from the viewpoint of legal compliance and appropriate performance of duties in cooperation with independent auditors and internal audit department, with an aim of establishing a high-quality corporate governance system to maintain social trust)

(4) Compensation Committee

Determines compensation, etc. of directors and executive officers (determines the compensation level, etc. for each position commensurate with the ability and responsibilities required of the Company's directors and executive officers and the Company's performance, taking into consideration the compensation level of other companies)

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.

Corporate Governance Guidelines
https://www.hitachi-transportsystem.com/en/profile/csr/governance/cg/

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 Executive Officer and business reporting and evaluation by executive officers at the Board of Directors.

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 Executive Officer, we select candidates from the next-generation management member candidates based on the president 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.

Relationship between HTS and outside directors

There are no special interests involved between seven outside directors appointed at the HTS 62nd Regular General Shareholders' Meeting held on June 22, 2021 and HTS, as stipulated under the Companies Act Clause 74, Section 2-3. With a view to boosting our corporate governance—and ensuring better transparency and subjectivity—HTS appoints independent directors with subjective opinions, extensive experience in and knowledge of management, and more. Further, to objectively assess the neutrality of outside directors, we have established Criteria for Independence of Outside Directors based on neutrality criteria employed by entities such as the Tokyo Stock Exchange Securities Listing Regulations, proxy advisory firms, and more. Outside directors who are qualified to be independent under the criteria are considered independent officers; specifically, they hold no risk of conflict of interest with general shareholders. (Miho Aoki, Sayoko Izumoto, Mitsudo Urano, Takashi Nishijima, Tetsu Fusayama, and Hajime Watanabe are registered as independent officers in accordance with Tokyo Stock Exchange regulations.) The criteria for independence of outside directors are noted on the HTS website.

Criteria for Independence of Outside Directors
https://www.hitachi-transportsystem.com/en/profile/csr/governance/cg/

Executive Committee

- Deliberates on important issues related to business implementation
- Comprised entirely of executive officers or individuals appointed by the company president
- Executive Committee meeting held once a month in principle (additional sessions held as necessary)
- Total of 19 executive officers (as of April 1, 2021)

Internal Controls

Based on the relevant laws and ordinances, we have established an Audit Committee to supervise the work of our directors and executive officers, while our Board of Directors implements comprehensive systems related to internal controls. The HTS Group has set up an Internal Controls Committee, through which internal controls related to financial reporting are documented and also assessed for effectiveness throughout the HTS Group. By adhering to internal control reporting systems on financial reporting as stipulated in the Financial Instruments and Exchange Act, our financial reporting earns the optimal trust level.

Corporate Governance

Responded to the Corporate Governance Code

HTS complies with all principles of the Corporate Governance Code. The status of our cross-shareholdings are as follows:

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 issue in October 2016 and one issue in June 2017, and we purchased one issue in March 2019; and as a result, we held 11 issues of shares as of March 31, 2021. As of March 31, 2021, 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, comparison with the capital cost of core businesses, credit information by third party agencies, and compliance, etc.).

· Exercise of voting rights

HTS exercises its voting rights from the perspective of its medium-to-long-term sustainable growth and increase of corporate value.

Policy on cross-shareholdings
https://www.hitachi-transportsystem.com/en/ir/stock/shareholdings/index.html

Major Agenda Items and the Reports at the Board of Directors Meeting (FY2020)

Major agenda items

Management strategies

General management	• Basic management policy • Report on the progress of LOGISTEED 2021 • Report on Enterprise Risk Management (ERM) • Report on business investments • Report on IR initiatives • Report on transition to TSE's new market segments • Restructuring of Group companies • Matters on business alliances, etc.
Financial management	• Financial results, etc. • Funding plans (dividend policy, growth investment and borrowings, etc.) • Dividends and method of surplus appropriation • Making judgement on continuation of cross-shareholdings • Acquisition of treasury shares
Others	• Report on Digital Governance Code • Report on working-style reform and diversity • Report on human resource strategy

Corporate governance

General Shareholders' Meeting	• Proposed agenda for the General Shareholders' Meeting, etc.
Directors, Executive Officers, Board of Directors	• Appointment of Executive Officers • Evaluation of the effectiveness of the Board of Directors • Appointment of independent officers • Corporate Governance Report
Other	• Report on compliance • Report on cybersecurity • Report on quality assurance • Report on SDGs initiatives and ESG management • Annual Securities Report

Business operation

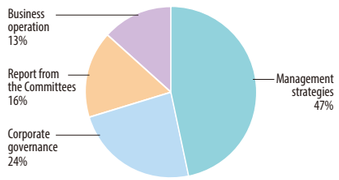
• Report on execution of duties by Executive Officers, etc.

Report from the Committees

• Reports from the Nominating, Audit, and Compensation Committees

Discussion status by agenda item (FY2020)

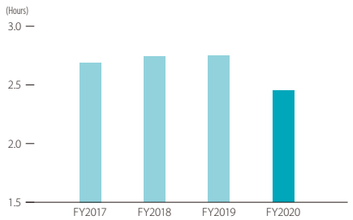
The proportion of the agenda items related to management strategies increased to 47% of the total items from the previous year's 39% as we reduced the proportion of items related to the determination of individual business executions and added those related to the essence of management.



Average length of monthly regular meetings

In FY2020, we improved the efficiency of the Board of Directors meetings by providing sufficient explanations prior to the meetings*

*Change of presenters from the secretariat staff to executive officers and other measures



Corporate Governance (Analysis and Evaluation of Effectiveness of the Entire Board of Directors, and the Result)

Analysis and Evaluation of Effectiveness of the Entire Board of Directors, and the Result

The Company, pursuant to Article 4, Section 7 "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 FY2020, 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 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 its BOD every third year.

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 convened during 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 FY2020 consisted of management strategies (47%), corporate governance (24%), and business operation and others (29%), 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 FY2019. The BOD met 13 times during FY2020. 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.
Based on the results of the self-assessment for FY2019, the BOD took up the following two additional matters for deliberation:
(1) An initiative to meet the requirements of the Digital Governance Code, established by the Ministry of Economy, Trade and Industry: The BOD reviewed the DX*1 strategy, including defining the Company's IT Governance Code, and asked the Company's executive officers to establish key performance indicators (KPIs) for the code that would drive the Company's corporate value.
(2) An initiative to meet the requirements of SDGs and implement ESG (environmental, social, and governance) management practices: The BOD reviewed the progress of the initiative and asked the executive officers to step up their efforts to bolster employee motivation through VC21*2 activities and address climate change in the Company's operations.
BOD members held small meetings to discuss important management issues facing the Company, including defining the direction and approach that the Company should take to ensure its sustainable growth and increase its medium-to-long-term corporate value.
For FY2021 and beyond, the BOD intends to exchange ideas with external experts and have off-site meetings more often to discuss fundamental management issues, such as how to increase the Group's long-term corporate value, how to implement initiatives for DX, sustainability, and groupwide governance, and how to expand the Group's global business.

*1 Digital Transformation
*2 Value Change & Creation 2021: Promotion of a sense of personal ownership through company-wide bottom-up initiatives

Self-Assessments by the Three Committees

(1) Nominating Committee

The Nominating Committee discussed candidates for next-generation members of the management team and executive officers. The Committee had no objections to reappointing the current President and Chief Executive Officer for another term for FY2021, upon deliberation based on the Process of Reappointing the President and Chief Executive Officer, which had been established by the Committee. In reviewing the composition of the BOD, the Committee created and used an executive skill matrix to define the requirements for professional expertise to be fulfilled by future BOD members. In reviewing a succession plan for directors, the Committee established a process for appointing an outside director, based on which the Committee would narrow down a long list of candidates for directors. The Committee intends to fulfill its responsibilities more actively by discussing intensively the composition of the BOD and succession plans for the CEO and directors and sharing the outcome of deliberation with the BOD.

(2) Audit Committee

The Audit Committee's audit policy for FY2020 was to evaluate the effectiveness of the Company's reactive and proactive governance as well as its governance over ESG risks. Based on this policy, the Committee audited the legal compliance, appropriateness, and efficiency of the ways in which the Company's directors and executive officers performed their duties.
To meet the new regulatory requirements for disclosing key audit matters (KAMs) in the Company's financial statements for FY2020, the Committee agreed with an independent accounting auditor, following a two-year consultation, regarding the appropriateness and consistency of disclosing information necessary for investors' decision making.
Amid the COVID-19 pandemic, the Committee canceled on-site audits of Group companies outside Japan scheduled for FY2020. The Committee conducted on-site audits of the Company's two Area Management Headquarters for East Japan and West Japan as well as nine Group companies in Japan. The Committee and the two Area Management Headquarters jointly confirmed the effectiveness of their governance over their associates. In particular, the Committee evaluated the effectiveness of Enterprise Risk Management (ERM) programs implemented by these audited units to manage growing business risks brought about by fast-changing business environments. The Committee also evaluated the progress that these units were making in implementing LOGISTEED, the Company's medium-term business concept including DX initiatives, and ROIC-driven management practices to increase the Group's medium-to-long-term corporate value. From these evaluations, the Committee identified management issues with each of the units and offered recommendations for improvement, for which they submitted plans for proposed actions.
The Committee conducts on-site audits to evaluate the effectiveness of the BODs of 81 Group companies around the globe, which collectively play a central role in practicing groupwide governance. The Committee recommends that executive

officers of each Group company take corrective actions based on the results of those audits, as well as on regular audit reports submitted by their corporate auditors and those submitted by the Company's Internal Auditing Office. Eight dedicated corporate auditors now exercise governance over major subsidiaries, which enables them to conduct internal audits more efficiently and effectively and, in turn, helped enhance the groupwide governance.
The Committee acknowledges that the Group companies' executive officers were quick to act upon the recommendations offered by the Committee, which indicates that the effectiveness of audits was at an adequate level. The three auditing bodies—the Audit Committee, the Internal Auditing Office, and an independent accounting auditor—worked together and shared information at regularly scheduled meetings to identify risks across the Group and improve the quality of the audits they perform, which ensured the effectiveness and efficiency of the audits based on the division of roles among the three bodies. The three auditing bodies have agreed to consider establishing an environment for digital audits to achieve greater efficiency and comprehensiveness of the audits they perform.
For FY2021, the Committee intends to focus its audits on the following two areas: (1) verifying that the Group steps up its efforts to disclose information about its climate change initiatives and to promote greater diversity*3 among employees, both as part of implementing ESG management practices; and (2) verifying that the Group takes steps to manage greater capital efficiency and allocate human resources strategically, both as part of its efforts to better manage capital cost, which is the basis for increasing the Group's corporate value. For FY2021, the Committee plans to resume on-site audits of Group companies outside Japan, which were postponed in FY2020, if the COVID-19 pandemic subsides, and to audit the Global Business Management Headquarters, which oversees the Group's businesses in North America, Europe, China, and Asia.

*3 Diversity in sociodemographic attributes including gender and age as well as in skill sets

(3) Compensation Committee

The Compensation Committee resolved to introduce the performance-linked stock compensation plan for executive officers of the Company and started its operation from FY2020. The plan links compensation for executive officers more tightly to the Company's financial performance and equity value to motivate them to make a greater contribution to the Company's medium-to-long-term financial success and corporate value, as they share risks with shareholders arising from changes in the Company's stock price. For the compensation policy for FY2021, the Committee determines that the Company's compensation level and structure for its directors and executive officers are appropriate, based on a benchmark analysis of those offered by other companies of comparable size to their directors and executive officers, and that its compensation plan is administered appropriately and stringently.
The Committee intends to achieve greater objectivity and transparency based on the policy and procedure for determining the amount of compensation for the Company's directors and executive officers.

Attendance record of Board of Directors meetings and Committee meetings in FY2020

Name	Registration	Positions and assignments in the Company in FY2020	Number of attendances for the Board of Directors meetings during FY2020
Independent Officer **Miho Aoki**	2020	Outside Director; Audit Committee 12/12	11/11
Independent Officer **Sayoko Izumoto**	2017	Outside Director; Audit Committee 17/17; Compensation Committee Chair 6/6*3	13/13
Independent Officer **Mitsudo Urano**	2014	Outside Director, Chair of the Board of Directors; Nominating Committee Chair 6/6; Compensation Committee Chair 2/2*4	13/13
Independent Officer **Takashi Nishijima**	2020	Outside Director; Nominating Committee 4/4; Compensation Committee 4/4	11/11
Independent Officer **Tetsu Fusayama**	2016	Outside Director; Nominating Committee 6/6; Audit Committee 5/5*4	13/13
Hiroshi Maruta	2015	Outside Director; Audit Committee Chair 17/17	13/13
Independent Officer **Hajime Watanabe**	2020	Outside Director; Audit Committee 12/12	11/11
Takashi Jinguji	2016	Representative Executive Officer, Executive Vice President and Executive Officer	13/13
Yasuo Nakatani	2013	Representative Executive Officer, President and Chief Executive Officer; Nominating Committee 6/6; Compensation Committee 6/6	13/13

*1 Attendance record of the director whose term of office is one year is for the period after the appointment.
*2 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 FY2020.
*3 Attended two Compensation Committee meetings held during the period from April 1, 2020 to the Regular General Shareholders' Meeting on June 23, 2020 as a Compensation Committee member and four meetings held after that as the Chair of the Compensation Committee.
*4 Total number of meetings of each Committee held during the period from April 1, 2020 to the Regular General Shareholders' Meeting on June 23, 2020. On June 23, 2020, Mr. Urano, Director, retired from the Chair and a member of the Compensation Committee, and Mr. Fusayama, Director, retired from an Auditing Committee member.

Corporate Governance (Officers' Compensation, etc.)

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

As the HTS Group positions officers' compensation, etc. as one of the 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 "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, etc.

Compensation Governance

Operation policy, etc. for the Compensation Committee

We are in compliance with the Companies Act pertaining to a 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 followings:

- 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 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 years 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, President and Chief Executive Officer

The Compensation Committee meetings to determine the compensation amount for the recent fiscal years were held five times in December 2019, March, May, and June 2020 and May 2021, with the Chair and all members attending in all meetings (attendance rate: 100%).
For director compensation, etc. for FY2020, the Compensation Committee deliberated and determined compensation, etc. for each director on June 23, 2020 in accordance with the determination policy, established by the Compensation Committee on December 25, 2019.
For executive officer compensation, etc. for FY2020, the Compensation Committee deliberated and determined compensation, etc. for each executive officer on March 26, 2020 and performance-linked compensation for each executive officer on May 20, 2021 in accordance with the determination policy, established by the Compensation Committee on December 25, 2019.

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 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 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 is paid at a certain time every month.
Directors who also 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

	Basic compensation	Performance-linked compensation				
Composition of compensation		Annual bonus			Stock compensation	
		Consolidated performance	Division missions	Individual missions	Relative TSR	ROE
Payment method	Cash				Share + Cash	

The composition ratio of executive officers' compensation, etc. by type reflects the level of management responsibility with higher ratio of performance-linked compensation for senior officers.
The table below shows the ratio of each compensation element by position with basic compensation being 100. 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

	Basic compensation	Performance-linked compensation		Basic compensation: Performance-linked compensation
		Annual bonus	Stock compensation	
President	100	50	50	100:100
Executive vice president	100	40-41	40-41	100:80-82
Senior vice president/Vice president	100	30	30	100:60
Executive officer	100	34-38	14-16	100:48-54

The ratio of performance-linked compensation is calculated using the standard amount assuming an 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 which are determined at the beginning of the fiscal year after the deliberation and verification for appropriateness by the Compensation Committee, 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

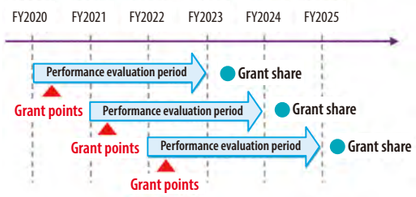
Elements	Eligible officers	KPIs	Reasons for selection
Consolidated performance	All executive officers	Revenues for a single year	Because it is a financial indicator of the business scale
		Adjusted operating income for a single year*1	Because it is a financial indicator of the results from the main business activities
Division missions	Executive officers in charge of profit centers	Revenues of the division in charge for a single year	
		Adjusted operating income of the division in charge for a single year*1	
Individual missions	All executive officers	Indicators, etc. that do not show up on the financial results, etc.	Because they evaluate management efforts that do not show up on the financial results, such as improvement of the Company's social position

*1 Calculated as "Adjusted operating income=Revenues - Cost of sales - Selling, general and administrative expenses"

Stock compensation

Stock compensation aims to raise executive officers' awareness to contribute to improving medium-to-long-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 FY2020 to FY2022, officers are granted the base points (1 point = 1 share) calculated as the standard amount determined for each position divided by the Company's stock price in the trust before the start of the evaluation period (average of the closing prices in March), and such number of the Company's common stock as is calculated by multiplying the base points by the share grant ratio reflecting the performance evaluation (the "Company's Share") are granted after the evaluation period. When the Company's Share is granted, approx. 50% of them are sold at the stock market to secure cash for tax payment, and the proceeds will be paid.

Evaluation period



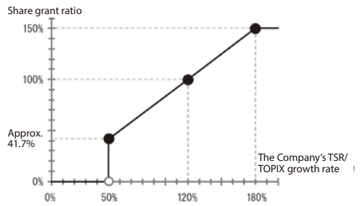
Performance evaluation indicators are the Company's TSR/TOPIX growth rate and consolidated ROE (ratio of net income to equity attributable to stockholders of the parent company). The reason for selecting these indicators is that the Company's TSR/TOPIX growth rate directly reflects the result of our efforts to create corporate value, and consolidated ROE is one of our important indicators of our management strategies with the target of over 10% for FY2021 included in the Mid-term Management Plan "LOGISTEED 2021." For the evaluation based on consolidated ROE, a three-year average value is used to evaluate our corporate management which aims to maintain and improve efficiency continuously. A 50% evaluation weight is given to each of the Company's TSR/TOPIX growth rate and consolidated ROE for all positions.
For performance evaluation, based on the incentive curve of each indicator determined by the Compensation Committee at the beginning of the evaluation period, the Compensation Committee evaluates and finalizes using the share grant ratio calculated based on the achieved results after the three-year evaluation period is over. For executive officers retired during the evaluation period, adjustments are made depending on the reason, considering their tenure during the evaluation period, subject to the deliberation at the Compensation Committee.

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

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

The Company's TSR/TOPIX growth rate (%)
= The Company's TSR (%)*2/ TOPIX growth rate (%)*3
(Rounded to the nearest percent)

*2 The Company's TSR (%) = (B+C)/A (rounded to the nearest percent)
A: Average closing price of the Company's stock at TSE in May 2020 (rounded down to the nearest yen)
B: Average closing price of the Company's stock at TSE in May 2023 (rounded down to the nearest yen)
C: Total dividend amount per share of the Company's stock from April 1, 2020 to March 31, 2023
*3 TOPIX growth rate (%) = E/D (rounded to the nearest percent)
D: Average closing value of TOPIX at TSE in May 2020 (rounded to the nearest point)
E: Average closing value of TOPIX at TSE in May 2023 (rounded to the nearest point).
For the purpose of this calculation, we will apply the criteria before the transition to the new market segments scheduled in 2022 to ensure consistency at the beginning and end of the evaluation period.

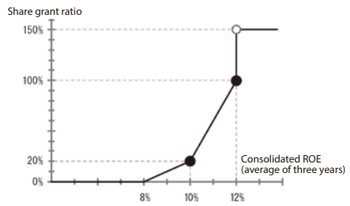


The performance target for the Company's TSR/TOPIX growth rate is set at 120%, and when it is achieved, the share grant ratio is 100%. If the Company's TSR/TOPIX growth rate is 180% or more, the share grant ratio is the maximum of 150%, and if less than 50%, the share grant ratio is 0%.

Incentive curve of consolidated ROE

(Average consolidated ROE for the period from FY2020 to FY2022)

The incentive curve of consolidated ROE is as follows.



The performance target of consolidated ROE (average of three years) is set at 12%, and if it is achieved, the share grant ratio is 100%. If consolidated ROE (average of three years) is over 12%, the share grant ratio is the maximum of 150%, and if 8% or less, the share grant ratio is 0%.

Compensation amount of directors and executive officers

■ Relationship between actual compensation and performance

● Total compensation amount by officer category and total amount by type of compensation

Total compensation amount by officer category and total amount by type of compensation for directors and executive officers are as follows:

Officer category	Total amount of compensation, etc. (Million yen)	Total amount by type of compensation, etc. (Million yen)				Number of eligible officers (person)
		Fixed compensation	Performance-linked compensation	Retirement benefits	Non-monetary compensation, etc. included in total	
Directors (excluding outside directors)	—	—	—	—	—	—
Executive officers	674	462	212	—	31	18
Outside directors	103	103	—	—	—	9

(Note)
1. The number of eligible officers for directors' compensation, etc. excludes two directors who serve concurrently as executive officers.
2. The compensation is based on the resolution at the Compensation Committee for compensation for FY2020 of directors and executive officers who served from April 1, 2020 to March 31, 2021.
3. There are no directors or executive officers with total consolidated compensation, etc. exceeding 100 million yen.
4. The detail of total non-monetary compensation, etc. for executive officers is 31 million yen of performance-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 is comprised only of annual bonus.
The Compensation Committee deliberated and determined individual annual bonus amount based on the achievement level of FY2020 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 FY2020 are as follows:

Targets (initial plan)

Revenues: ¥651.0 billion (YoY -3%)
Adjusted operating income: ¥31.5 billion (YoY -6%)

Results

Revenues: ¥652.38 billion (YoY -3%)
Adjusted operating income: ¥36.711 billion (YoY +10%)

■ 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.

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 mangers/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 (FY2020)

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 and other stakeholders to report illegal and/or inappropriate actions without hesitation in order to detect and correct them early on.

● Whistleblowing Compliance Management System (WCMS) certification

Whistleblowing Compliance Management System

In June 2021, we become a registered company of "Whistleblowing Compliance Management System certification (self-declaration of conformity registration system)" under the jurisdiction of Consumer Affairs Agency of Japan. We will continue to strengthen our compliance system.

HTS Group Code of Conduct (Japanese version only)
https://www.hitachi-transportsystem.com/jp/profile/policy/pdf/koudoukihan.pdf

For details of compliance information, please visit our website.
https://www.hitachi-transportsystem.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 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 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.

* GDPR (General Data Protection Regulation): 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 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 (FY2020) **100%**
Scope: HTS, domestic/overseas group companies

Rate of targeted threat emails for simulation trainings opened (FY2020) **9.6%**
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, 2021) **12 companies**

ISMS Certification* (As of March 31, 2021) **26 departments**

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

Customer privacy

In FY2020, there were no complaints filed for the violation of customer privacy.

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

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.

	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	

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).

*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.

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 them based on the BCP policies and measures determined by the Business Continuity Management Committee (BCM), chaired by the President and CEO, with an aim to continue its business operation and provide high quality services to our customers even when faced with these risks.

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

Risk Management

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

1 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 HTS Group business of customers' performance fluctuations and business reorganizations **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 interdivisional collaboration • 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
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 **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	• Develop new services and 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** • Difficulty in securing excellent 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	• Secure human resources with global, digital, and 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)
Decrease in new orders received and failure to acquire orders in existing projects	**Risk** • Difficulty in acquiring new orders due to intensifying competition and market shrinkage • Failure to acquire orders in existing projects due to a bidding system, etc. • Failure to launch a new project • Business plan mistakes **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 customers' risk information • Visualize and share information on orders received and not received • Understand trend, analyze potential impact on businesses, and develop/implement responsive plans

2 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, and labor costs) **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 FY2020 • Outsourcing costs: 316.5 billion yen • Labor costs: 157.5 billion yen	• Build close relationships with partner companies • Optimize fees based on the movements of competitors • Efficient management by promoting digitalization
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 FY2020: Revenues: 33% Adjusted operating income: 28%	• 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 • Increase in extreme weather events such as cyclones and flooding • 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
Loss of human resources and diversified working-style	**Risk** • Loss of human resources due to a mismatch between the personnel measures and employees' desire • 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 **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 • 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 **Future consideration** • Develop a succession plan and appoint and foster human resources based on the plan • Offer opportunities and occasions for growth (talent management and education) • Introduce a job-oriented compensation system that reflects "roles/responsibilities" and "achievements"

3 Operational risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
Occurrence of incidents	**Risk** • Occurrence of industrial accident, fire, vehicle or product accidents	• 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	• 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 safety technology (SSCV, etc.)
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	• Establish the HTS 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
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 • 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
System failure	**Risk** • Significant delay in work or suspension of operations due to power outage or system 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 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

4 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 **Reference** COVID-19 impact in FY2020 (YoY) • Revenues: -¥25.6 billion • Adjusted operating income: -¥5 billion	• Assess business interruption risk in each region • Develop BCP (business continuity plan) 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 BCM (business continuity management)
Threat to capital	**Risk** • Changes in capital policies of major shareholders • Change of control as a result of acquisition of large number of the Company's shares by a specific investor	• Decline of initiative of the current management • Impact on corporate value of material changes in capital structure	• Increase corporate value to grow market capitalization • Active communication with shareholders • Invest in growth opportunities • Increase shareholder returns
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

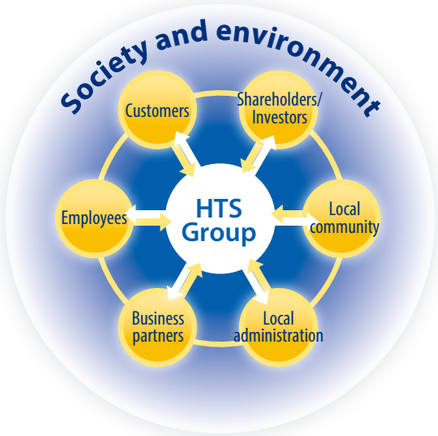
As for risk factors other than priority risks, please visit our website.
https://www.hitachi-transportsystem.com/en/profile/csr/pdf/htsgroup_riskfactor.pdf

HTS Group Sustainability

At the HTS Group, we are all about treating people and nature with great respect. In this connection, our fundamental policy is to do our part to help create an affluent society through fair business practices, as we boost our value for all of our stakeholders.

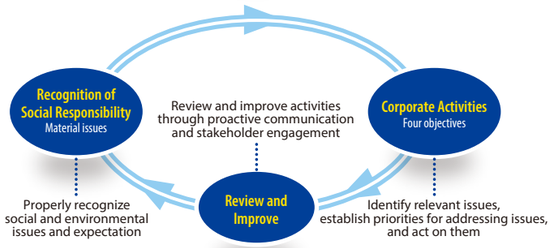
HTS Group's Stakeholders

The HTS Group manages and maintains its business activities through interaction with our broad array of stakeholders including customers, shareholders, local communities, and local administrations.



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.



Sustainability Promotion Structure

In order to promote sustainability on a group-wide level, the Group has set up the "Sustainability Promotion Committee," chaired by Senior Vice President and Executive Officer, General Manager of Corporate Strategy Office, and holds meetings regularly.

Recognition of Social Responsibility: Material Issues

Taking into consideration opinions of external experts, we understood and prioritized social/environmental issues and expectations to identify material issues in 2017 after assessment and examination for adequacy by CSR Promotion Committee (predecessor of the Sustainability Promotion Committee) and the management, as well as approval of the Executive Committee. With the recognition of the identified material issues as the social responsibility that the HTS Group should fulfill, we promote effective activities toward solving social issues.

Identification process

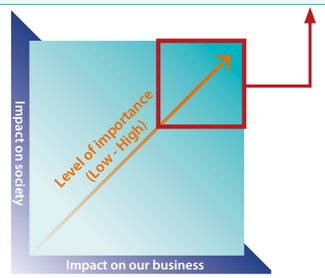
Step 1: Understood issues
With reference to global common standards including Global Reporting Initiative (GRI) guideline, ISO26000, UN Global Compact, SDGs, and priority issues in transportation sector by ESG rating agencies, we created a list of 73 items of relevant environmental, social and economic issues.

Step 2: Prioritized issues
We evaluated "impact on society" and "impact on the HTS Group's business" of the 73 issues on the list on a scale of one to five through workshops with external experts and mapped them in a matrix. Then, we categorized items with high impact into 15 proposed material issues.

Step 3: Validated and identified
After those 15 proposed material issues were assessed and examined for adequacy by CSR Promotion Committee and the management, taking into consideration opinions of external experts, they were identified as the Group's material issues with an approval of the Executive Committee.

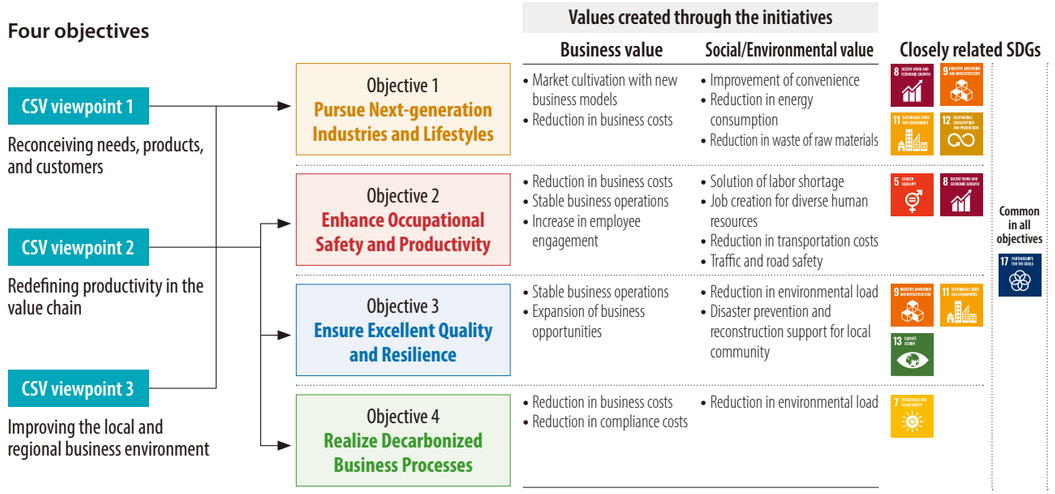
Material issues

- **Social**
  Safe and healthy work environment (occupational Health and Safety)/ Social and environmental responsibility in supply chains (socially responsible procurement)/New technologies (creating/utilizing innovations and cutting-edge technologies)/Diversity and employee development/Job creation (promoting employment in the local community)/Dialog with employees (labor-management relations, collective bargaining)/Respect for human rights (addressing global human rights issues)/Quality and safety (service quality and safety)/ Environmentally and socially responsible logistics services
- **Environment**
  Carbon (decarbonization)/Stopping pollution/Renewable energy (use of clean energy)
- **Governance**
  Compliance/governance/BCP <including climate change adaptation>/ Information disclosure (operational transparency)



Corporate Activities: Four Objectives

To decide specific activities for the issues that we should address with priority, we developed four objectives based on the material issues with CSV viewpoint. In FY2018, the HTS Group set specific themes and relevant KPIs for each objective, based on which we are strengthening our initiatives using PDCA cycle since FY2019. ➡ P.77-78



Review and Improvement: Information Disclosure and Communication

We review and improve our activities through disclosure of ESG information and dialogues with stakeholders based on objectives. By repeating a cycle of Basic CSR Policy, we will promote effective activities toward a resolution of social issues and facilitate integration of sustainability and management.

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

SUSTAINABLE DEVELOPMENT GOALS

Participation in International Initiatives

In 2020, the HTS Group signed the "UN Global Compact ("UNGC") advocated by the United Nations. The UNGC is a voluntary initiative to participate in creating a global framework for the sustainable growth. Participating companies and organizations are required to support the ten principles related to protection of human rights, elimination of unfair labour, response to environmental issues and anti-corruption, and take actions in their business activities. 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.

WE SUPPORT UN GLOBAL COMPACT

For details on sustainability, please visit our website.
https://www.hitachi-transportsystem.com/en/profile/csr/sustainability/

Four Objectives of the HTS Group and Key Performance Indicators (KPIs)

Closely related SDGs	Objectives	Themes	Initiatives	KPIs	HTS	Domestic	Overseas	Achievements/progress in FY2020 and evaluation for FY2020 targets/plans		Targets/plans for FY2021	Reference
8, 9, 11, 12, 17	1 Pursue Next-generation Industries and Lifestyles	(1) Promote total optimization of supply chain by making full use of advanced technologies	Enhancement of logistics platform	Type of SSCV-Safety functions	●	●		Enhanced the overall system performance by enhancing 7 types of functions such as vital signs alert	★★	Enhance the overall system performance by enhancing 7 types of functions such as immediacy of alert for drivers	P31-32/Website
				Increase of EC platform centers	●	●		Completed functional verification of Kasukabe EC Platform Center with a view to increasing EC platform centers		Expand the scope of business model for EC platform	Website
				Number of cases of manufacturing/sales control support (demand forecast)	●	●		Conducted on-site PoC for the inventory and supply optimization solution (1case)/Introduced and developed the logistics forecasting tool at logistics sites (20 cases)		Expand the scope of proof of concept (PoC) for the inventory and supply optimization solution (2 cases) and introducing the logistics forecasting tool at logistics sites (30 cases: cumulative 50 cases)	P86/Website
				Expansion of use case of blockchain technology	●	●		Completed development of hypothesis for trade operations and PoC for accelerating payment of transportation cost		Conduct hypothesis verification for trade operations and PoC for financial services for transportation and delivery	Website
			Development of trainings that promptly meet business needs	Number of attendees of data scientist training course	●	●		Total 16 (cumulative 72)		Development of data scientists	P9/Website
		(2) Respond to local logistics needs and issues while further boosting response capability	Expansion of high-quality logistics services	Storage and transportation/delivery conforming to GDP Guidelines	●	●		Opened East Japan II Medical DC/Enhanced quality assurance through internal audit/Conducted transport tests with a view to building transport network conforming to GDP	Not subject to assessment	Enhance functions of medical DCs, and expand transportation conforming to GDP	P86/Website
			Optimization/management of supply chains	On-site implementation of RFID system	●	●		Provided asset management solution service for experiential consumption using RFID system		Consider on-site implementation of RFID system	P86/Website
			Promotion of transportation of social infrastructure-related equipment	Transportation of social infrastructure-related equipment	●	●	●	Transported 3 finished subway cars from Japan to Vietnam		Complete the project to transport social infrastructure-related equipment	P86/Website
5, 8, 17	2 Enhance Occupational Safety and Productivity	(1) Secure safety in operation and transportation	Enhancement of occupational Health and Safety management	Workplace accident index/frequency rate, severity rate	●	●		Frequency rate: 0.78(0) Severity rate: 0.019(0) *Inside the parentheses are non-consolidated figures	★★★	Reduce frequency rate/severity rate by enhancing initiatives such as safety educations, safety caravan, and introduction of safety technology	P14, 85/Website
			Strengthening of transport safety management	Number of traffic accidents (those defined in Article 2 of the Transportation Safety Management Regulation)	●	●*1		Number of traffic accidents: None		Maintain zero traffic accidents each year by introducing SSCV and strengthening various safety activities	P85/Website
		(2) Minimize workload at logistics sites	Promotion of automation/labor saving in logistics centers	Expansion of the use of automated/labor-saving equipment	●	●		Implemented various automated/labor-saving equipment (e.g. AGV) in domestic and overseas logistics centers	Not subject to assessment	Expansion of the use of automated/labor-saving equipment	P45-46/Website
		(3) Promote diversity of the workplace	Systematic development of female employees	Ratio of female managers	●			Ratio of female managers: 4.9%	★★	Continue systematic development of female employees (ratio of female managers in FY2023: 10%)	P14, 87/Website
			Support for career formulation of female employees	Suggest various role models/career path and set up networking events with female managers	●	●		Participated in a career seminar organized by Hitachi, Ltd. for young female employees of the Hitachi Group		Hold rank-based trial training for female employees	Website
				Manager-level training to encourage active participation of women in the workplace	●	●		Held a diversity seminar focusing on active participation of women by external lectures (approx. 1,000 attendees including online)		Continue to hold diversity seminars/Conduct trial training for superiors of female candidates for managers/assistant managers	P87/Website
			Encouragement for male employees to take childcare leave	Rate of childcare leave taken by male employees	●			Rate of leave taken: 2.2%		Change male employees' mindset and create work environment that makes it easier for employees to take leave (Rate of leave taken in FY2023: 20%)	P87/Website
				Rate of childbirth leave for prospective fathers taken	●			Rate of leave taken: 15.6%		Change male employees' mindset and create work environment that makes it easier for employees to take leave	P87/Website
			Reduction of overtime hours	Measures to reduce overtime hours	●	●		Reduced work hours by enhancing domestic group-wide initiatives such as to visualize achievements and follow up by executive meetings and by promoting working from home under the state of emergency (Average overtime in FY2020: 28.1h, a decrease of 0.5h year on year*2)		Enhance group-wide initiatives such as to visualize achievements of the entire domestic group and follow up by executive meetings of each company	P87/Website
			Encouragement to take annual paid leave	Measures to take annual paid leave	●	●		Achieved zero violation of laws and regulations in the entire domestic group by enhancing initiatives to encourage employees to take paid leave for more than 5 days (No. of days and rate of paid leave taken in FY2020: 16.7 days and 69.8%*2)		Enhance group-wide initiatives such as to visualize achievements of the entire domestic group and follow up by executive meetings of each company	P87/Website
			Dialogue through Logistics OPEX	Number of OPEX designers developed (by FY2020) Number of participants in the Digital Dialogue Café*3 (from FY2021)	●	●		Number of OPEX designers developed: cumulative 47		Dialogue through Logistics OPEX	P33-34/Website
			Implementation of social contribution activities for local community	Activities based on the social contribution activity guideline	●	●	●	Continued supports in 3 areas and initiated new supports in 2 areas based on the social contribution activity guideline		Continue and expand existing supports	P88/Website
9, 11, 13, 17	3 Ensure Excellent Quality and Resilience	(1) Pursue high quality logistics service	Enhancement of compliance framework	Measures to enhance compliance	●	●	●	Conducted various education and compliance meetings as planned to spread the HTS Group Code of Conduct among employees	★★	Implement measures to enhance compliance	P71/Website
			Boosting information security level/ management structure	Rate of attendance for information security training course	●	●	●	Attendance rate: 100%		Rate of attendance for information security training course:100%	P71/Website
				Rate of targeted threat emails for simulation trainings opened	●	●		Open rate: 9.6%		Rate of targeted threat emails for simulation trainings opened: less than 5%	P71/Website
			Strengthening of BCP system	Number of disaster response training implemented	●	●		Implemented once in Hokuriku area while taking measures to prevent the spread of COVID-19		Implement disaster prevention training	P88/Website
				Overseas BCP Caravan			●	Canceled to prevent the spread of COVID-19		Consider implementation of overseas BCP Caravan (group company in Turkey)	P88/Website
			Enhancement of domestic and overseas procurement compliance	Procurement compliance education to those engaging in procurement in Japan and overseas	●	●	●	Provided procurement compliance education to those engaging in procurement in 19 domestic companies and 35 overseas companies		Enhance and continue to provide procurement compliance education to those engaging in procurement in Japan and overseas	P71/Website
		(2) Consideration for disposal and emission	Reduction of air pollutants	Ownership ratio of vehicles in compliance with environmental standards	●	●		Eco-friendly vehicle ownership ratio:100% Ownership ratio of the advanced eco-friendly vehicles: 97%	★★	Eco-friendly vehicle ownership ratio:100% Ownership ratio of the advanced eco-friendly vehicles: 99%	P83/Website
			Promotion of resource recycling	Recycling rate	●	●		Recycling rate: 99.0%		Recycling rate: 99.0%	P83/Website
				Number of non-compliance with environmental laws and regulations	●	●		Number of non-compliance with environmental laws and regulations: 0		Number of non-compliance with environmental laws and regulations: 0	Website
				Reduction of water consumption intensity per floor space	●	●		Intensity: down 6.1% year on year		Reduce intensity: down 1% from FY2020	Website
				Green purchasing rate	●	●		Purchasing rate: 87.6%		Green purchasing rate: 85%	Website
			Protection of forest timber resources	Rate of reducing copy paper consumption	●	●		Reduction rate: ±0% year on year		Rate of reducing copy paper consumption: down 1% from FY2020	Website
		(3) Contribution to disaster recovery assistance	Strengthening of BCP system	Dissemination of behavioral standard in the event of a disaster to employees	●	●		Distributed "Emergency Handbook" to all domestic group employees	★★★	Disseminate "Disaster Initial Response Manual"	Website
			Implementation of social contribution activities for local community	Activities based on the social contribution activity guideline	●	●	●	Continued supports in 3 areas and initiated new supports in 2 areas based on the social contribution activity guideline		Continue and expand existing supports	P88/Website
7, 17	4 Realize Decarbonized Business Processes	(1) Increase energy efficiency	Reduction of electricity consumption in "buildings"	Number of sites with LED lighting fixtures	●	●	●	Number of sites: 24	★★	Install LED in all the Group sites by FY2022	P84/Website
				Reduction of electricity consumption per floor space (intensity) in "buildings"	●	●		Reduction rate: down 8.3% from FY2018		Electricity consumption per floor space in "buildings": down 1.76% from FY2020	Website
				Number of sites subjected to energy-saving inspections	●	●		Number of sites: 169		Conduct energy-saving inspections	Website
			Increase of vehicle fuel efficiency	Increase of vehicle fuel efficiency by vehicle type	●	●		Vehicle fuel efficiency: down 2.3% from FY2018		Increase of vehicle fuel efficiency by vehicle type: up 1.76 % from FY2020	P83/Website
			Promotion of introducing double-trailer trucks	Support of introducing double-trailer trucks	●	●		Continued operation between Shizuoka and Kyoto prefectures		Continue operation of double-trailer trucks	Website
			Promotion of joint use of logistics and transportation equipment/facilities	Joint use of logistics and transportation equipment/facilities	●	●	●	Carried out logistics operation of multiple EC business operators at Kasukabe EC Platform Center		Expand the scope of shared use of logistics facilities and transport equipment/facilities	P84/Website
			Development of new customers/routes for modal shift	Development of new customers/routes	●	●	●	Transported industrial equipment, etc. from Chiba Prefecture to various locations in Japan by using 12-foot containers		Expand the scope of and enhance modal shift	Website
			Promotion of streamlining transportation through establishing platform and integrated delivery sites, etc.	New shared transportation	●	●		Opened a joint terminal "Mito Transport Center" in Ibaraki Prefecture in February/Expanded the scope of existing initiatives		Expand streamlining of transportation range through establishing platform, integrating delivery sites, and container round use, etc.	P32, 84/Website
		(2) Introduce renewable energy	Shift to eco-friendly vehicles with better environmental performance	Maintenance of 100% ownership ratio of eco-friendly vehicles	●	●		Maintained 100% ownership ratio of eco-friendly vehicles since the end of FY2016	★★	Maintenance of 100% ownership ratio of eco-friendly vehicles	P83/Website
				Ownership ratio of the advanced eco-friendly vehicles	●	●		Ownership ratio of the advanced eco-friendly vehicles: 97%		Ownership ratio of the advanced eco-friendly vehicles: 99%	P83/Website
			Ongoing eco-friendly driving training	Eco-friendly driving training in each site	●	●		Cancelled group trainings to prevent the spread of COVID-19		Implement eco-friendly driving training in each site	Website
		(3) Strengthen environmental management	Performance of internal environmental audit	Performance of internal environmental audit	●	●		Performed internal environmental audit in 84 domestic group sites	★★★	Perform periodic internal environmental audit	P79/Website
			Development of voluntary environmental activities in each site	Promotion of environmental activities in each site	●	●		Number of sites: 184		Development of voluntary environmental activities in each site	Website
			Review of the environmental management system	Consideration of the design of the environmental management system	●	●		Started new operation of the industrial waste management system		Improve vehicle management system	Website
			Enhancement of overseas environmental management	Identification of key environmental laws and holding of global environment meetings			●	Conducted a survey on Australia, Philippines, Vietnam, and Hong Kong/Held two Environment Officers Meetings		Identify key environmental laws of all relevant countries and regions, and hold Overseas Environment Officers Meetings	P79/Website
			Promotion of continuous improvement by the environmental management system	Continuous implementation of "Eco Stage 2" obtained by the head office to other domestic offices	●	●		Renewed certification since FY2017/Hitachi Transport System Central Japan Co., Ltd. renewed its certification acquired in FY2019		Renew and continue implementation of "Eco Stage 2" obtained by the head office and Hitachi Transport System Central Japan Co., Ltd. to other domestic offices	P79/Website
			Promotion of employees' understanding through education and enlightenment activities to raise their environmental awareness	Attendance rate of environmental e-learning courses	●	●		Attendance rate: 99.5%		Attendance rate of environmental e-learning courses: 99%	Website
				Communicate environmental-related information to employees	●	●		Reported environmental activities in the Group magazine/Shared environment-related information at executive management meetings		Communication of environmental-related information to employees	Website
				Clean-up activities outside the Company and the light-down campaign	●	●		Implemented in each site at a different timing from the HTS Group Environment Month due to the spread of COVID-19		Clean-up activities outside the Company and the light-down campaign	Website
				Environmental advertisement and disclosure of environmental information	●	●		Responded to CDP (A minus rating)/Enhanced disclosure of environmental information via the website		Continue to respond to CDP and prepare to endorse TCFD recommendations	P90/Website

*1 Covers 13 group companies: Hitachi Transport System East Japan Co., Ltd., Hitachi Transport System Kanto Co., Ltd., Hitachi Transport System Metropolitan Co., Ltd., Hitachi Transport System South Kanto Co., Ltd., Hitachi Transport System Central Japan Co., Ltd., Hitachi Transport System West Japan Co., Ltd., Hitachi Transport System Kyushu Co., Ltd., and Hitachi Transport Direx Co., Ltd., VANTEC CORPORATION, VANTEC EAST LOGISTICS CORPORATION, VANTEC CENTRAL LOGISTICS CORPORATION, VANTEC KYUSHU LOGISTICS CORPORATION, and TOKIWA KAIUN COMPANY LIMITED. *2 Actual results of Hitachi Transport System, Ltd. only *3 Dialogue Café: Place to develop human resources who can lead the communication at workplace

★★★ : Achieved the target/plan for FY2020, showing results
★★ : Almost achieved the target/plan for FY2020, showing some results
★ : Failed to achieve the target/plan for FY2020, not showing results

The HTS Group Environmental Management

Environmental Policy

The HTS Group is promoting "business activities with less environmental load" based on the following four policies. As for 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 our places of business
Reduce consumption of electricity, gasoline and LP gas and recycle waste, etc.

2. Provide logistics/services with less environmental load
Contribute to customers through CO_2 emission reduction and resource recycling.

3. Improve Eco-Mind level and enhance Eco-Management system
Increase global environmental awareness. Observe environmental laws/ordinances and company regulations.

4. Promote symbiosis with nature and environmental communications
Promote symbiosis with nature and environmental communications. Preserve biodiversity and ecosystem. Maintain environmental collaboration with customers and local communities.

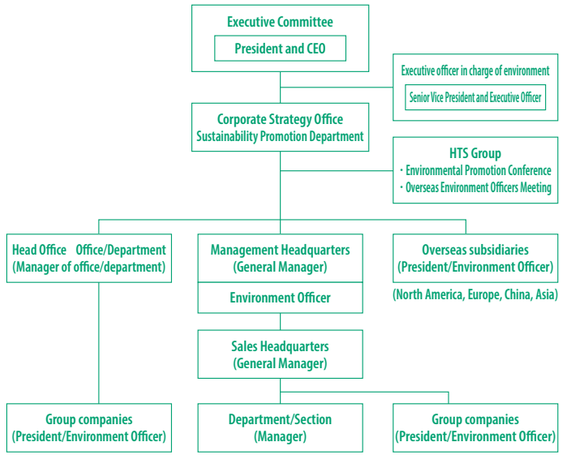
Material issues in the environmental field

Material issues identified in the environmental field are as follows.

(1) Carbon (decarbonization)　(2) Stopping pollution　(3) Renewable energy

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 Senior 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 environment conferences held (FY2020)

Domestic: Environmental Promotion Conference **2 times**

Overseas: Environment Officers Meeting **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: FY2020) **84**

Ensuring compliance in overseas offices

We identify important environmental laws and regulations related to "Transport and Warehouse Business" in overseas sites and conduct research on their outline in 29 countries and regions from FY2017 to ensure proper operations management in each site. In FY2020, we completed research on Australia, Philippines, Vietnam, and Hong Kong, bringing the total number of researched countries and regions to 18.

Third-party certification initiatives

The Group seeks third-party certification and Sustainability Promotion Department has acquired the "Eco Stage" certification. From FY2017, we have upgraded the certification level to "Eco Stage II" which is equivalent to ISO14001.

Update of the HTS Group Medium-to-Long-term Environmental Targets 2030/2050

The HTS Group developed the medium-to-long-term environmental targets 2030/2050 in FY2020 to contribute to the realization of sustainable society, and are striving to reduce CO_2 emissions. Movements to realize a decarbonized society are accelerating around the world, and the Japanese government revised its CO_2 emission reduction target to a more ambitious one last year. To work on the initiatives to realize a decarbonized society more proactively, we have updated our reduction targets.

Medium-to-Long-term Environmental Targets

Reduction of CO_2 emissions (Scope 1 and 2 in Japan*1)

FY2030 target (base year: FY2013)	FY2050 target
Aim to reduce CO_2 emissions by **50%** compared to the base year	Strive to achieve **Net Zero** Carbon*2

● Scope of emission: CO_2 emitted from energy consumption by the Group through its business operation　● Type of energy: Electricity, fuel for vehicle, etc.

*1 Definition of scope
Scope 1: Direct emissions from in-house energy (fuel, etc.) use (e.g. CO_2 released by company vehicles)
Scope 2: Indirect emissions from the use of energy supplied by other companies (e.g. CO_2 released by a third party power plant due to electricity use in the company's facility)
Scope 3: Indirect emissions by supply chain other than Scope 1 and 2 (total of 15 categories including transportation outsourcing and business trip of employees)
*2 Net Zero Carbon: To balance emissions of CO_2, one of greenhouse gases, and its absorption/removal

Approach toward the Achievement of the Medium-to-Long-term Environmental Targets

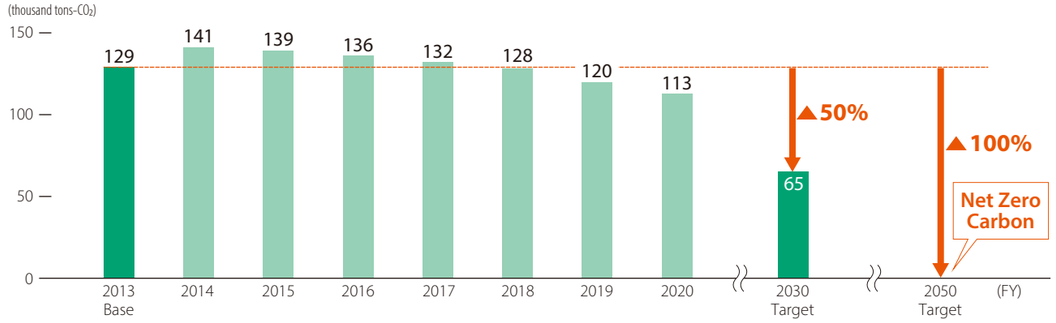
The HTS Group strives to reduce CO_2 emissions by average 2.94% annually in and after FY2022 through initiatives with five methods toward the achievement of its new medium-to-long-term environmental targets.

Five methods to reduce CO_2 emissions

- **Renewable energy** — Purchase of green power, etc.
- **Energy saving** — Introduction of high-efficiency equipment, etc.
- **Energy creation** — Introduction of solar panels, etc.
- **Electrification** — Electric vehicles, fuel cell vehicles, etc.
- **Emissions trading** — Purchase of environmental value certification

Trend of HTS Group CO_2 emissions*

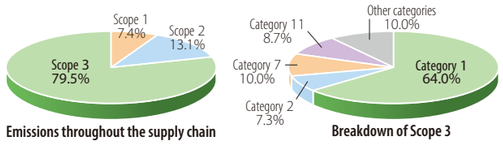
*Total of Scope 1 and 2　Scope: HTS, domestic group companies



CO_2 emissions throughout the supply chain

We started to calculate "Scope 3" from FY2017 to identify and reduce CO_2 emissions from the entire supply chain.

Scope: HTS, domestic group companies



For details about environmental information, please visit our website.
https://www.hitachi-transportsystem.com/en/profile/csr/environment/

For details of the categories, please visit our website.
https://www.hitachi-transportsystem.com/en/profile/csr/environment/plan.html

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

Basic Policy on Climate Change

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," and we position climate change response as one of our highest priority management issues. The Group is fully aware of the importance of initiatives to reduce CO_2 emissions required by both in Japan and overseas, including SDGs which are universal goals for the international community as well as targets set by the Paris Agreement and the Japanese government. Accordingly, we have announced our endorsement of TCFD recommendations in September 2021 and are responding to climate change 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 by the President and CEO who is responsible for climate change initiatives. It also supervises the target setting for greenhouse gas (CO_2) emission reduction and the determination of specific climate change responses such as energy-saving investments and budget allocation for them.
The executive officer in charge reports to the Board of Directors the progress of the initiatives to address management issues related to climate change annually or as needed.
Sustainability Promotion Department, Corporate Strategy Office in the head office oversees overall environmental management work under the supervision of Chief Strategy Officer (CSO) who is responsible for sustainability strategy. The Environmental Promotion Conference comprised of the Group's environment officers including CSO is held semiannually to confirm the achievement level of climate change responses including reduction of energy consumption and CO_2 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 status of initiatives to address climate change and the proposed strategy in the future are reported to the Executive Committee semiannually or as needed.

Meeting bodies/ Departments	Roles
Board of Directors	· Provides guidance and supervises initiatives to address management issues related to climate change · Approves reduction targets/ measures/budgets
Executive Officer	· Understands the status of initiatives to address management issues related to climate change, and reports to the Board of Directors
Environmental Promotion Conference	· Confirms the achievement level of measures related to climate change, determines corrective measures and discusses proposed measures
Sustainability Promotion Department	· Oversees overall environmental management work · Holds Sustainability Promotion Committee, reports/proposes to the Executive Committee based on decisions at the Committee

Risk management

The Group selected CSR material issues in consideration of all management risks identified. Sustainability Promotion Department, Corporate Strategy Office in the head office has selected risks and opportunities according to climate change response, one of the CSR material issues, and has identified items having large financial impacts as material risks and opportunities. Sustainability Promotion Department is responsible for incorporating responses to such risks and opportunities in each of the climate change-related plans and manages the execution 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 (CO_2) emissions

In July 2021, the Group reviewed the medium-to-long-term targets for CO_2 emission reduction to respond to risks and opportunities related to climate change. ➡ P.80

Area	Scope	Targets (Base year: FY2013)
Domestic	Scope 1+2	(1)FY2030: 50% reduction (2)FY2050: Net Zero Carbon

● Greenhouse gas (CO_2) emissions

⇒ P.80 Trend of HTS Group CO_2 emissions/P.93 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. Under the scenario that assumes the goal of the Paris Agreement is achieved (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.

Step1	Step2	Step3	Step4
Identified material climate-related risks and opportunities	Set climate-related scenarios (2°C scenario/4°C scenario)*	Assessed the financial impacts under each scenario	Assessed strategic resilience for climate-related risks and opportunities and examined additional response measures

(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.

Categories	Types	Potential risks/opportunities	Potential impacts on business and response measures
Transition 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 or introduction of regulations on CO_2 emissions	Impact: Cost increase due to carbon pricing (2°C scenario > 4°C scenario) Measures: Develop and implement systematic environment strategies toward decarbonization (1. Introduce renewable energy, 2. Introduce non-fossil fuel vehicles (e.g. EV/FCV), 3. Procure green power, and 4. Introduce Internal Carbon Pricing (ICP))
	Technology	· Risk of increasing CO_2 emission reduction cost and losing customers due to delay/failure in introducing environmental technology	Impact: Medium-to-long-term cost increase or earnings decrease due to delay in introducing renewable energy and low carbon vehicles (2°C scenario > 4°C scenario) Measures: Introduce advanced technologies toward decarbonization (1. Introduce renewable energy, 2. Introduce non-fossil fuel vehicles, and 3. Promote DX and IoT in warehouse operations)
	Market	· Risk of losing customers due to inadequate response to customers who emphasize low-carbon or carbon-neutral transportation	Impact: 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) (2°C scenario > 4°C scenario) Measures: Promote decarbonization measures in logistics services and strengthen information disclosure to stakeholders
	Reputation	· Risk of losing corporate reputation due to insufficient climate change initiatives and information disclosure	
Physical risks	Acute	· Risk of logistics operation being suspended due to intensifying wind and flood damage caused by extreme weather	Impact: Cost increase due to repairment or recovery of facilities damaged by wind and flood (2°C scenario < 4°C scenario) Measures: Strengthen BCP measures against hazard risks including wind and flood damage (1. Decentralize business sites, 2. Install solar power generation system /storage batteries, etc. and 3. Relocate sites to low-risk regions)
	Chronic	· Risk that deterioration of working environment due to a rise in average temperature makes it difficult to secure human resources	Impact: Cost increase due to creation of a pleasant workplace (2°C scenario < 4°C scenario) Measures: Promote worker-friendly logistics operation (1. Promote automated/labor-saving/ unmanned operations and 2. Provide a pleasant working environment)
Opportunities	Resource efficiency	· Opportunity to reduce energy consumption by vehicles and CO_2 emissions with advanced environmental technology · Opportunity to introduce efficient logistics operations using Smart Logistics and shared logistics services	Impact: Decrease in energy cost due to efficiency improvement in logistics services (2°C scenario > 4°C scenario) Measures: 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)
	Products and services	· Opportunity associated with diversification of business activities	Impact: Revenues increase due to diversification of business activities (2°C scenario > 4°C scenario) Measures: Provide logistics services using the Company's unique Smart Logistics (1. Smart Warehouse, 2. SCDOS, and 3. SSCV)
	Resilience	· Opportunity associated with energy diversification	Impact: Cost decrease due to introduction of solar power generation system (2°C scenario > 4°C scenario) Measures: Reduce electricity procurement cost by introducing renewable energy and secure electric power source in case of emergency

* Reference scenario:
2°C scenario: IEA's Sustainable Development Scenario/IPCC RCP2.6
4°C scenario: IEA's Stated Policies Scenario/IPCC RCP8.5

Consideration for Disposal and Emission

Manufactured Capital | Natural Capital | Objective 3 | Objective 4

KPI

- Ownership ratio of vehicles in compliance with environmental standards
- Recycling rate and others

Financial Impacts (Example)

- Reduction in future environmental tax due to reduction in environmental load
- Rise in cost due to an introduction of advanced eco-friendly vehicles
- Rise in cost due to an introduction of environmental load data aggregation system

We are working to reduce CO_2 emissions and wastes generated by supply chain, with an aim to offer the eco-friendly next-generation logistics solutions expected by society.

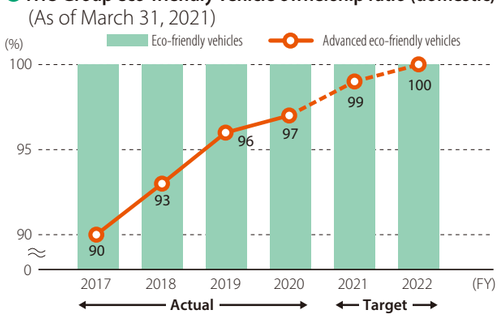
Energy Saving and Global Warming Countermeasures of Vehicles

The HTS Group strives to reduce CO_2 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 vehicles). We achieved the eco-friendly vehicle ownership ratio of 100% at the end of FY2016, except for certain special vehicles. We will further promote the shift to the advanced eco-friendly vehicles with better environmental performance in order to reduce air 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, 2021)



*1: Totals shown are business and personal vehicles combined (excludes special vehicles)
*2: 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

Vehicle fuel efficiency (domestic)

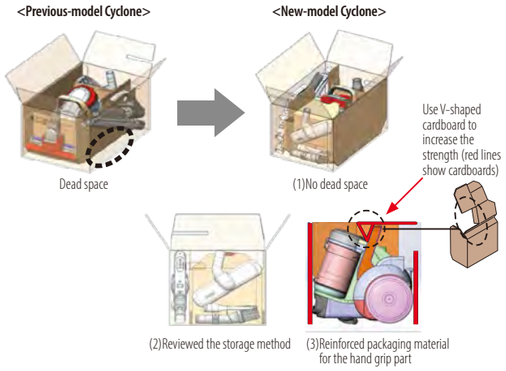
Increase of vehicle fuel efficiency by vehicle type (driving distance/fuel consumption) [FY2020 target and result for CO_2 emission reduction]

Target: compared to FY2018	Result: compared to FY2018
+2%	-2.3%

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 case of "Appropriate Packaging of a New-Model Cyclone Cleaner" which received "Appropriate Packaging Award" at the "Japan Packaging Contest 2020" hosted by Japan Packaging Institute, we reviewed the dead space in the box, storage and layout method and achieved a 20% reduction in packaging size compared to the traditional method. As a result, we were able to improve transport efficiency with an increase in the truckload quantity by 33% and reduce CO_2 emissions by 27%.



Received "Director-General, Manufacturing Industries Bureau, Ministry of Economy, Trade and Industry Award," "Appropriate Packaging Award," and "Large-sized Equipment Packaging Award" at the Japan Packaging Contest 2020
https://www.hitachi-transportsystem.com/jp/news/20201014.html (Japanese version only)

Recycling of plastic pallet

PALENET CO., LTD., our group company engaging in sales and rental of plastic pallets, provides returned pallets, that are broken and unusable, as materials for new pallets to a recycled plastic pallet manufacturing company in which the company holds a stake, instead of disposing them. In FY2020, the company sold approximately 22,000 waste pallets and contributed to the reduction of waste plastic.

Increase Energy Efficiency

Manufactured Capital | Natural Capital | Objective 4

KPI

- Reduction of electricity consumption per floor space in "buildings"
- Joint use of logistics and transportation equipment/facilities and others

Financial Impacts (Example)

- Improvement in profitability due to a reduction in energy consumption
- Rise in cost due to an introduction of high efficiency facilities and renewable energy

We are steadily carrying out initiatives to improve energy/resource efficiency for the realization of decarbonized business processes.

Energy Saving and Global Warming Countermeasures Implemented in Buildings

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.

	FY2020
Number of sites with LED lighting fixtures	New site: 1
	Existing sites: 23
CO_2 emissions suppressed with LED lighting fixtures	1,471 t-CO_2

Scope: HTS, domestic/overseas group companies

Reduction of Environmental Load of Vehicles

Introduction of electric truck

—Hitachi Transport System (China), Ltd. Beijing Branch—

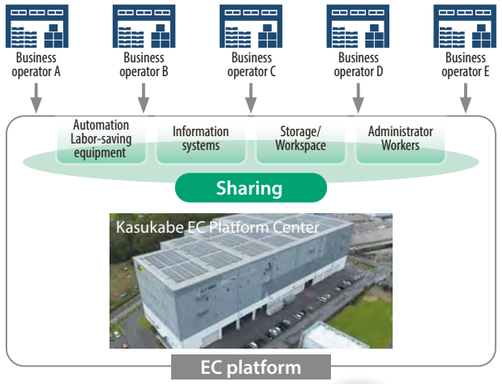
In China, the "Law on the Prevention and Control of Air Pollution" was revised in 2018, and environment related regulations have been tightened including frequent car exhaust emission inspections on the road. Under such circumstances, Hitachi Transport System (China), Ltd., our group company, introduced a 3-ton electric truck in March 2021 and is using it to deliver imported goods in Beijing and collect discarded ATMs.
As the driving range per charge of this truck is approximately 200 kilometers, and there are not yet sufficient charging stations in Beijing, we are now creating operation rules including checking the remaining battery charge and planning a round-trip route before driving. Going forward, we will encourage partner transport companies to purchase electric trucks by sharing operation expertise in an effort to expand the use of electric trucks and achieve decarbonized society with partner transport companies.

Received "Advanced Technology Award" at the 22nd Logistics Environment Awards
https://www.hitachi-transportsystem.com/jp/news/20210705.html (Japanese version only)

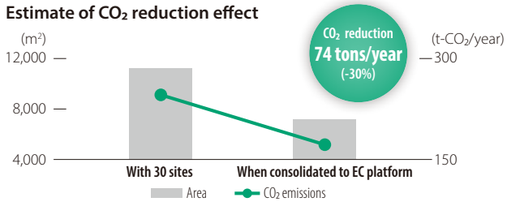
Shared Use of Equipment/Facilities

Operation of shared automated warehouse for EC logistics

HTS launched an EC platform center engaging in logistics services for EC operators in 2019. This center has achieved long hour operation, including at night, with standardized operation and automated equipment, allowing us to carry out logistics operations of multiple EC operators with one platform and to improve logistics efficiency and reduce environmental load by sharing facilities and equipment.
When comparing with the CO_2 emissions of the traditional logistics which uses multiple sites for each EC operator, although there are some increasing factors including a rise in electricity consumption due to expanded use of labor-saving and automated equipment, if we consolidate sites of up to 30 operators to the EC platform, we can expect an approximately 30 % reduction in emissions in one year through improvement of energy efficiency. This initiative was recognized, and we received "Advanced Technology Award" in the "22nd Logistics Environment Awards."



Estimate of CO_2 reduction effect



Shared use of transport equipment

We also focus on improving transport efficiency through transport equipment sharing including delivery of multiple customers' cargoes with one truck.

Secure Safety in Operation and Transportation

Human and Organizational Capital | Objective 2

KPI

Frequency rate/severity rate of workplace accidents and others

Financial Impacts (Example)

- Maintain profitability through stable operation
- Rise in cost due to an introduction of new equipment to prevent accidents

Under the policy that "Safety is our number one 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 secure services.

Safety Slogan
"Safety First"

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 president 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, but we will consider resuming them in light of the situation.

Safety Initiatives

Boosting safety knowledge and driving and operation skill

Sending contestants to non-HTS forklift and trucking competition

Each year, we send contestants in the National Forklift Driving Contest*1 and the National Truck Driver Contest*2 for the purpose of acquiring specialized knowledge, improving driving skills and inspection skills, and boosting awareness of safety issues. In FY2020, both contests were cancelled due to the spread of COVID-19, but we are continuing to work on the initiatives to improve our skills, technology, and safety awareness in preparation for the next contest.

*1 National Forklift Driving Contest: An event organized by the Land Transportation Safety & Health Association designed to achieve even better safety and to effectively prevent on-the-job accidents

*2 National Truck Driver Contest: An event organized by the Japan Trucking Association, in which contestants compete for the title of Number One Truck Driver in Japan

Adoption of safety technology

Installation of SSCV-Safety (safety operation management solution)

In order to protect drivers as an organization and not to become either the victim or assailant, we are promoting the installation of "SSCV-Safety," a solution to prevent accidents due to absent-minded driving. In Japan, we have completed the installation of SSCV-Safety in the Group's all business vehicles including 1,272 trucks and 37 personal vehicles by FY2020. The installation of "SSCV-Safety" has allowed us to provide drivers with guidance based on the daily review, reducing the number of incidents by 80% in one year after the installation. It has also contributed to enhancing compliance by raising drivers' safety awareness and realizing stable and systematic vehicle assignment by raising awareness on health management. ➡ P.39-44

Installation target of SSCV-Safety
Commercial trucks and personal vehicles of all domestic group companies as well as trucks of partner transport companies

Approx. 6,000 by FY2023

Adoption of safety technology to forklifts

The HTS Group has installed dashboard cameras not only in trucks but also in forklifts owned in Japan for daily safety activities such as confirmation with finger pointing and calling during operation. We are also installing dashboard cameras in overseas group companies. In FY2020, we have completed its installation in all forklifts owned by the HTS Group, achieving a year-on-year decrease in the number of forklift accidents by 40% in western Japan.

Forklift equipped with dashboard camera (as of March 31, 2021)
Approx. 4,600
Scope: HTS, domestic/overseas group companies

Workplace accident index of the HTS Group (Domestic results in FY2020)

Frequency rate:	Severity rate:
Inside the parentheses are non-consolidated figures	Inside the parentheses are non-consolidated figures
0.78(0)	0.019(0)

For details of our safety initiatives, please visit our website.
https://www.hitachi-transportsystem.com/en/profile/csr/social/safety/

Pursue Next-generation Industries and Lifestyles

Manufactured Capital | Intellectual Capital | Objective 1

KPI

- Storage and transportation/delivery conforming to GDP
- Transportation of social infrastructure-related equipment
- On-site implementation of RFID system
- Utilize artificial intelligence and develop supply chain solutions and others

Financial Impacts (Example)

- Acquisition of business opportunities through vitalization of regional economy
- Creation of new businesses through new expertise and accumulation of technologies
- Increase in technology development and R&D costs

With the power of logistics, we will develop businesses to support the realization of the next-generation sustainable industries and social infrastructure in various areas across the globe.

Respond to Local Logistics Needs and Issues While Further Boosting Response Capability

Adequate storage and transportation/delivery of medical supplies

The HTS Group has enhanced medical DCs across the country and provides storage and shipping services specialized in pharmaceutical logistics. In order to enhance intangible aspects of GDP, we are working to strengthen quality assurance system in the pharmaceutical logistics. For example, we set up an organization dedicated to promoting GDP, which is developing a quality management system for GDP management and also conducting verification experiments such as for the next-generation temperature sensor to monitor temperature during transportation. In FY2020, East Japan II Medical DC, a cutting-edge medical DC, began operation in Kazo City, Saitama Prefecture, to expand the scope of our services. ➡ P.46

Transportation of social infrastructure-related equipment/ One-stop car transportation from factory to site

-Transport of finished railway cars for the Ho Chi Minh City Metro Rail System-

Ho Chi Minh City, the largest city in Vietnam, is facing issues such as traffic jam and air pollution due to an increase in cars and motorcycles associated with the country's economic development and fast-growing population. To cope with these issues, the Vietnamese government, with the cooperation of Japan International Cooperation Agency (JICA), developed a plan for infrastructure development aimed at mitigating traffic jam and launched the construction of the country's first underground rail system in 2012. Under such circumstances, HTS was engaged in the one-stop transportation covering from shipment of 51 railway cars that have been manufactured in Kasado Works, Hitachi, Ltd. since 2020 to ocean transportation and delivery to the local site. These railway cars will be used for an approx. 19.7 kilometer-long line connecting 14 stations from the center of Ho Chi Minh City to Suoi Tien in the eastern area of the city. As an expert of rail transportation, we have developed a safe and timely transport plan and successfully delivered railway cars for one organization of three-car train in collaboration with Hitachi, Ltd. in FY2020. The project is still underway. ➡ P.51-52

Introduction of RFID* technology to logistics services

Recently, introducing RFID technology which is near field communication is expected to become a solution for product management in the retail industry, but its high cost is now preventing it from spreading. HTS has continued to study toward the introduction of the RFID technology to logistics site since FY2017, and in FY2020, we successfully achieved it by introducing the RFID technology to the logistics services for customers that provide the use/experience-type services including rental, subscription, and sharing. RFID technology can be used to manage the status of individual items such as receiving/shipping, return or maintenance of rental products, etc. solving issues such as complicated management and timely data visualization, which contributes to establishing a new consumption cycle of the cyclical use of products and improving convenience of providers and users of rental/subscription services.

* Radio Frequency Identification: Contactless automatic recognition technology that reads information via radio waves

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.

Volume forecast

We aim to improve operational efficiency by optimizing inventories at logistics centers based on high-accuracy volume forecast using AI. In FY2020, we improved the precision of the volume forecasting tool which was designed and tested in FY2019 and successfully introduced it in 20 logistics sites.

No. of cases using volume forecasting system (as of March 31, 2021): **20**

Inventory control

We aim at contributing to supply-chain optimization with the calculation of standard inventory and development of order plans suitable for the customer's supply chain. In FY2020, we tested an inventory/supply optimization solution at the actual logistics site under the joint development with a customer and verified an improvement in storage and transportation efficiency.

For details of initiatives described on this page, please visit our website.
https://www.hitachi-transportsystem.com/en/profile/csr/social/customer

Promote Diversity of the Workplace

Human and Organizational Capital | Objective 2

KPI

- Ratio of female managers
- Rate of childcare leave taken by male employees

and others

Financial Impacts (Example)

- Acquisition of new expertise and creation of new businesses by securing diversified human resources
- Reduction of recruiting cost by increasing the employee retention rate
- Cost increase due to creation of a pleasant workplace

The HTS Group aims to be an organization where diverse human resources of different "gender," "race," "religion," "age," "disability," "sexual/religious/political orientation," "nationality," "social/cultural background" having various attributes, values, and backgrounds can fully demonstrate their potential and play an active role.

Respect for Human Rights

Human right education

As the process of globalization continues, it has become critically important to deepen understanding of the concepts of co-existence and co-prosperity—that is, to develop a mutual appreciation of a range of values and different cultures. The HTS Group creates opportunities for its employees to acquire accurate understanding of human rights, including providing training in accordance with employee rank, at meetings and seminars, with an aim to boost individual awareness of human rights by using "HTS Group Code of Conduct," which incorporates "Respect for human rights" into basic behavioral guideline, as a manual.

Promotion of Diversity

Decreasing working population in Japan is a serious management issue. In particular, the logistics industry faces noticeable labor shortage, and thus, active participation of diverse human resources is essential for the HTS Group to contribute to society through logistics more than ever. In 2012, we established the Diversity Promotion Center with the aim of embedding and promoting diversity and inclusion.

Boosting understanding of diversity

Since FY2014, we have invited external lecturers to hold seminars for executives and managers aimed at deepening their understanding of diversity, facilitating systematic approaches, and changing employees' mindset. In FY2020, approximately 1,000 employees including those of domestic group companies attended seminars focused on the active participation of women.

Held online simultaneously

Promotion of women's participation in the workplace

HTS positions the active participation of women as an essential issue for a global company and has implemented various initiatives. In FY2013, we established KPIs for the active participation of women to accelerate our initiatives to achieve the targets.

Ratio of female managers FY2020 result **4.9%**

Target: Achieve 10% by FY2023

Scope: HTS

Support for balancing work and childrearing/nursing care

The HTS Group believes that it is essential to establish a workplace where employees can maintain a work-life balance even when they face a serious life event. We strive to develop an environment and workplace that allow diversified working-styles by, for example, establishing a system to provide more support for employees' work-life balance than the legal requirements to ensure employees can continue working with a sense of security while raising their children or caring for their family members and also trying to raise the profile of the system by actively providing employees with relevant information.

Rate of childcare leave taken by male employees (FY2020) **2.2%**

Scope: HTS

Creating a Workplace Where Employees Can Work in Good Health with a Sense of Security

Initiatives for working-style reform

The HTS Group complies with local laws and regulations on working hours and overtime work in countries and regions where we operate. To reduce overtime hours in Japan, we are encouraging employees and managers to change their mindsets by managing objective records such as computer log management and biometric recognition, and also actively encouraging employees to take annual paid leave. In addition, we are also encouraging to improve work efficiency through operational reform such as office digitization using RPA, etc. Labor-saving equipment such as automated guided vehicles and automated forklifts are gradually introduced in the logistics centers. During truck transportation, "SSCV-Safety" using IoT manages the driving status in real time, helping protect the drivers from accidents.

Training Upcoming Generations of Employees

The HTS Group College

We have established the HTS Group College as an educational system for all of our employees, designed to draw out the strengths of each individual through practical and specialized training courses. In addition to training by rank, on-site operations, and manager-level training, we also institute general training for all employees to enhance their basic skills. Furthermore, we have developed training systems including our Managerial Personnel Training, which fosters core personnel of 3PL business. These personnel development programs are implemented to further solidify our business base.

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

Social Contribution/Strengthening of BCP

Social and Relationship Capital | Objective 2 | Objective 3

KPI

- Activities based on the social contribution activity guideline
- Implement disaster prevention training

and others

Financial Impacts (Example)

- Stable operation as a result of earning local community's trust
- Increase in disaster and infection prevention costs

We strive to create a community where diverse people have stronger connection and feel affluent, safe and secure, by collaborating with a variety of organizations.

Social Contribution

Basic principle

The HTS Group aims to be a good corporate citizen by supporting various activities in such fields as "traffic and road safety," "training a new generation of people," "innovation," "environmental protection," and "contribution to local community" both in Japan and overseas under the basic principle of "Objectives of Social Contribution Activities."

For activities in each field, please visit our website.

Development of the next generation through donation

Support for children

To support as a global company the activities for sound growth of children around the world who will unlock the future, we made a donation in FY2020 to Save the Children Japan, an NGO dedicated to supporting children with a parent organization having a 100-year history as a pioneer for children's rights.

Support to develop human resources for innovation research

Under the belief that the advancement of mobility-related technologies will contribute not only to the development of the Company's business but also to the improvement of convenience and safety of society, in FY2020, we made a donation to Global Research Institute for Mobility in Society, Institutes of Innovation for Future Society, Nagoya University, that is conducting research in three areas of "Advanced vehicles," "Mobility services," and "Social values."

Encouragement of employees' social contribution activities

The HTS Group Magokoro (Sincere Heart) Fund

The HTS Group established a social action program called "Magokoro" (Sincere Heart) program in 2008 as a scheme to encourage employees' social contribution activities. The "Magokoro" program is a matching gift system where funds donated by our group employees and officers are matched by the Company to meet the cost for the activity, allowing employees and the Company to engage in activities together.

Example of support activities
Supported "Children's Forest" Program of the Organization for Industrial, Spiritual and Cultural Advancement (OISCA) (public interest incorporated foundation), to install rainwater harvesting systems
(Za Ya Ma Primary School/Myanmar)

For details of social contribution activities, please visit our website.
https://www.hitachi-transportsystem.com/en/profile/csr/social/contribution/

Disaster Preparedness Measures

Promotion of BCP

Natural disasters and infectious diseases which occur often in recent years have significant impacts on corporate activities as well as threaten our daily life. Amid such circumstances, we believe that the BCP in the logistics business is not just a plan to continue our business but a preparation to make contributions by delivering medical supplies and foods to the affected regions and restoring social infrastructure to protect people's lives, which is our social mission.

Strengthening of BCP system

For prompt restoration and continuation of our business at the time of a large-scale disaster, we conduct trainings to enhance coordination between disaster prevention headquarters of the head office, management headquarters, and group companies on a regular basis, and we are also establishing emergency contact systems with overseas group companies.

Disaster prevention training in Japan

In Japan, we have BCPs mainly assuming large-scale natural disasters that threaten our business continuity. To enhance BCPs' effectiveness, we had conducted a disaster prevention headquarter training (desktop simulation) systematically in several sites every year, assuming a large-scale earthquake hit, but we had to postpone it in FY2020 to prevent the spread of COVID-19. Under such circumstances, in March 2021, a site in Ishikawa Prefecture conducted the training safely by thorough infection prevention measures and using online tools. We will share the training expertise amid the pandemic across the entire Group to further improve the effectiveness of BCP.

Strengthening risk management system in overseas

In overseas, we send BCP Caravan from Japan to our major sites in North America, Europe, China, and other parts of Asia to establish and develop risk management system. In FY2020, we postponed BCP caravan to prevent the spread of COVID-19. In FY2021, we will plan to conduct the caravan while considering the situation.

For more information about BCPs, please visit our website.
https://www.hitachi-transportsystem.com/en/profile/csr/governance/riskmanagement/

Stakeholder Engagement

Responsible Dialogue with Stakeholders

The HTS Group manages and maintains its business activities through interaction with our broad array of stakeholders including customers, shareholders, local communities, and local administrations. We provide various 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.

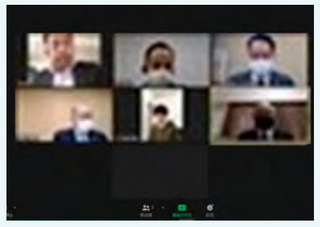
Stakeholders	Purpose	Communication channels/methods	No. of conduct*1 or frequency
Customers	▶ Improve customer satisfaction ▶ Raise corporate brand value	Web seminars/briefings	17 times, 522 attendees
		EC platform tours	468 visitors*2
		Networking events using LOGISTEED CAFÉ	49 times, 42 companies attended*2
		Participation in large-scale exhibition	Annually
		Customer survey	As needed
Employees	▶ Enhance employee motivation ▶ Create a workplace full of smiles and vibrance ▶ Constantly maintain good employer-employee relationship	Presentation and commendation of excellent improvement cases (VC21 Award)	Annually
		Roundtable discussion with the management (dialogue session)	3 times 230 attendees in total
		Setting up of intranet site for improvement assistance (VC JUMP)	Regularly
		Health and Safety Committee	Monthly
		Employee engagement survey	Annually
Business partners	▶ Build good relationships with partners beyond the logistics domain ▶ Maintain long-term, stable, and effective relationships with partner transport companies	EC platform tours	468 visitors*2
		Networking events using LOGISTEED CAFÉ	49 times, 42 companies attended*2
		Seminars for partner transport companies	Semiannually in various locations*3
		Setting up of inquiry contact for suppliers	Regularly
		Setting up of dedicated inquiry contact for existing suppliers	Regularly
Shareholders/ Investors	▶ Achieve sustainable growth and increase corporate value over the medium-to-long-term with active dialogue through fair and highly transparent information disclosure in a timely and appropriate manner	Results briefings	4 times
		Small-scale meetings	3 times
		Individual meetings by executives (including overseas investors and ESG investment interviews)	17 times
		IR seminars for individual investors	Once
		Regular General Shareholders' Meeting	Annually
		Exercise of voting rights	93.78%*4
Local administration/ Industry associations	▶ Share recognition of cross-sectoral issues related to logistics ▶ Contribute to solving issues through collaboration and solidarity and realize sustainable logistics	Participation in committees/conferences/meetings	As needed
		Participation in economic associations/industry groups	As needed
Local community	▶ Contribute to sustainable lifestyles and society through support for logistics innovation, etc. ▶ Raise awareness on social role of logistics toward the next generation	Individual dialogues with NGOs/NPOs, etc.	30 times
		Support for holding sporting events/sports promotion	As needed/Establishment of Track and Field Club
		Dialogue with local governments	21 times
		Participation in volunteer activities	As needed

*1: Counted as of March 31, 2021 *2: The number of visitors and companies is the total of customers and business partners. *3: We refrained from holding seminars in FY2020 to prevent the spread of COVID-19. *4: Ratio of exercise of voting rights at the Regular General Shareholders' Meeting held on June 22, 2021.

Efforts for Constructive Dialogues with Shareholders and Investors

The Group actively holds financial results briefings, small-scale meetings, and individual meetings targeting analysts and institutional investors to enhance constructive dialogues with shareholders and investors.
In FY2020, in light of the spread of COVID-19, we held individual meetings, financial results briefings, and small-scale meetings with investors including shareholders online.
We also participated in the IR seminar for individual investors held in Osaka by taking thorough measures against infectious diseases.
In addition, we strived to promote dialogues with shareholders and investors and improved information disclosure through Shareholder Relations (SR) interviews and posting of Q&As at the small-scale meetings on our IR site.

Financial results briefing (online)


Individual meeting (online)

IR seminar for individual investors (Osaka)

External Evaluation

Commendations/recognition from outside the Company

2020

July: Received "Logistics Environment Special Award" at the 21st Logistics Environment Awards

October: Received "Director-General, Manufacturing Industries Bureau, Ministry of Economy, Trade and Industry Award," "Appropriate Packaging Award," and "Large-sized Equipment Packaging Award" at the Japan Packaging Contest 2020

November: Two companies received "2020 Excellent Business Entities Working on Modal Shift (effective use category)"

2021

January: Our "Investor Relations" site received awards in major IR website evaluations

<Logistics Environment Special Award at the 21st Logistics Environment Awards>

Appearance of a new special container

Award certificate

Rating information

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

Rating (Announced on December 25, 2020): Issuer rating: A Rating outlook: Stable

ESG evaluations

2021 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)
2021 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

S&P/JPX Carbon Efficient Index

CDP DISCLOSURE INSIGHT ACTION
Received "A-" on the Climate Change Report 2020

IR website evaluations

企業ホームページ 最優秀サイト 2020 日興アイ・アール 総合ランキング
Corporate Websites "AAA Website" (2020) Nikko Investor Relations Ranking in all listed companies in Japan

Gomez IR Site Ranking IRサイト総合ランキング 銀賞 2020年
IR Site Overall Ranking "Silver Award" (2020) Gomez

Internet IR 優良賞 2020 Daiwa Investor Relations
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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.

(As of March 31, 2021)

(FY)	J-GAAP 2011	2012	2013	2014	IFRS 2014	2015	2016	2017	2018	2019*7	2020
				Millions of yen							Millions of yen
For the year:											
Revenues (Service Revenues)*1	¥553,934	¥547,517	¥624,504	¥677,108	¥678,573	¥680,354	¥665,377	¥700,391	¥708,831	¥672,286	¥652,380
Domestic logistics	386,448	375,560	388,765	397,844	397,954	405,080	411,796	417,835	432,793	435,311	421,190
Global logistics	148,610	152,485	215,193	258,354	258,231	253,144	231,727	260,285	255,828	219,761	216,258
Other services (logistics related businesses)	18,876	19,472	20,546	20,910	22,388	22,130	21,854	22,271	20,210	17,214	14,932
Operating income*5	23,131	19,535	20,992	21,198	21,465	28,320	29,466	29,803	31,192	33,483	36,711
Domestic logistics	29,146	27,452	28,523	26,082	14,071	20,333	21,830	21,740	22,099	26,063	25,176
Global logistics	2,763	1,123	2,910	5,897	4,848	5,652	5,693	6,280	7,108	6,502	10,340
Other services (logistics related businesses)	2,246	2,619	2,743	2,883	2,546	2,335	1,943	1,783	1,985	918	1,195
Elimination or company-wide expenses*2	(11,024)	(11,659)	(13,184)	(13,664)	—	—	—	—	—	—	—
Net income attributable to stockholders of the parent company (Net income)*1	12,563	11,156	5,433	10,932	13,250	14,011	18,703	20,916	22,786	21,614	22,873
At year-end:											
Total assets	¥365,013	¥374,206	¥427,733	¥450,048	¥459,386	¥464,399	¥549,924	¥564,903	¥612,535	¥879,144	¥787,936
Total equity (Net assets)*1	164,640	174,904	181,401	188,935	176,726	178,552	190,919	208,291	228,949	239,257	162,107
Equity attributable to stockholders of the parent company (Stockholders' equity)	156,622	169,327	168,683	176,714	173,720	175,543	187,482	204,328	222,346	232,861	155,158
Consolidated Cash Flows:											
Cash flows from operating activities	¥26,020	¥24,689	¥25,689	¥31,578	¥32,266	¥38,820	¥26,372	¥27,924	¥37,812	¥78,204	¥55,309
Cash flows from investing activities	(58,948)	(16,759)	(24,595)	(19,860)	(19,886)	(10,373)	(69,004)	(6,178)	(13,892)	(1,162)	69,779
Cash flows from financing activities	37,215	(7,522)	(2,038)	(11,648)	(12,065)	(16,712)	55,592	(16,445)	21,104	(45,707)	(161,056)
Cash and cash equivalents at end of year	31,081	33,052	33,614	34,542	34,544	45,146	57,483	63,497	108,412	139,021	104,815
Per share data (Yen):											
Net income attributable to stockholders of the parent company (Net income)*1	¥112.62	¥100.01	¥48.70	¥98.00	¥118.78	¥125.60	¥167.66	¥187.50	¥204.27	¥193.76	¥240.02
Equity attributable to stockholders of the parent company (Net assets)*1	1,404.03	1,517.93	1,512.16	1,584.16	1,557.32	1,573.67	1,680.70	1,831.72	1,993.25	2,087.52	1,854.01
Cash dividends	24.00	25.00	26.00	28.00	28.00	30.00	34.00	36.00	40.00	43.00	50.00
Share price at year-end	1,505	1,500	1,676	1,817	1,817	1,882	2,313	2,990	3,285	2,349	3,720
Capital expenditures:											
Capital expenditures*3	¥16,857	¥17,854	¥27,948	¥26,528	¥26,528	¥33,755	¥21,961	¥17,355	¥27,559	¥32,242	¥68,100
Purchased assets*4	14,664	15,187	21,622	13,601	13,601	22,340	15,670	13,010	17,760	18,250	24,080
Depreciation and amortization	14,003	14,958	16,579	18,403	18,715	19,125	18,741	19,030	19,059	52,815	52,159
Financial ratios:											
Operating margin (%)*5	4.2	3.6	3.4	3.1	3.2	4.2	4.4	4.3	4.4	5.0	5.6
ROE (%)	8.3	6.8	3.2	6.3	8.0	8.0	10.3	10.7	10.7	9.5	11.8
Other data:											
Number of employees (excluding senior employees, part-time or temporary employees)	21,104	22,793	24,425	24,728	24,728	24,744	25,274	25,074	24,139	23,837	22,682
Total floor space of warehouse (Ten-thousand square meters)*6	516	564	637	691	691	709	719	731	734	741	753
Domestic	394	426	461	500	500	496	497	499	513	509	527
Overseas	122	138	176	191	191	213	222	231	221	232	226

*1 Terms in parentheses are used for J-GAAP. *2 From the FY2015 (IFRS), the Group altered to allocate company-wide expenses to each business segment. The segment information of the FY2014 (IFRS) had also reflected the alternation above. *3 Based on tangible and intangible assets accepted *4 Based on non-current assets recorded

*5 In order to present business conditions more appropriately, the HTS Group started to use "Adjusted operating income" as a major indicator from FY2016 and also presented "Adjusted operating income" for FY2015. *6 Excluding AIT Group *7 Effective April 1, 2019, the Group adopted IFRS 16 *Leases*.

Environment

Category/Item	Scope: HTS	Scope: Domestic group	Scope: Overseas group	FY2016	FY2017	FY2018	FY2019	FY2020
Environmental Management								
Coverage of environmental management system (ISO14001) (percentage of certification acquisition)	●	●		Head office acquired "Eco Stage 2" (equivalent to ISO14001) and implemented it in domestic group companies.				
			●	—	3.8%	3.8%	3.6%	**3.6%**
Number of non-compliance with environmental laws and regulations (environmental compliance)	●			0	0	0	0	**0**
Attendance rate of environmental e-learning courses	●	●		99.4%	99.8%	99.8%	99.7%	**99.5%**
Reduction of Environmental Load by Products and Services								
Eco-friendly vehicle ownership ratio	●	●		100%	100%	100%	100%	**100%**
Advanced eco-friendly vehicle ownership ratio	●	●		—	90%	93%	96%	**97%**
Greenhouse Gas (GHG)								
Improve fuel efficiency by vehicle type (driving distance/fuel consumption)*1 [CO_2 emission reduction target *2]	●	●		Compared to FY2014: -2%	Compared to FY2014: -3%	Compared to FY2014: +4%	Compared to FY2018: +1%	**Compared to FY2018: +2%**
Improve fuel efficiency by vehicle type (driving distance/fuel consumption)*1 [Result of reduction of CO_2 emission]	●	●		Compared to FY2014: +1.1%	Compared to FY2014: +2.5%	Compared to FY2014: +1.2%	Compared to FY2018: +0.4%	**Compared to FY2018: -2.3%**
CO_2 emission reduction by modal shift (t-CO_2)*3	●	●		Modal shift to railway transport for precision instruments from Aichi Prefecture to other areas in Japan 25.4*4	Modal shift to sea transport for recyclable resources waste from Kanto area to Hokkaido and Kyushu 320*5	Modal shift to railway transport for household medicine from Toyama area to other areas in Japan 45.8	Modal shift to vessel for transportation of recyclable resource waste 31.9*6	**Modal shift to railway transport for imported foods from Kanagawa Prefecture to other areas in Japan 98.6**
Total of above CO_2 reductions in comparison with truck transport				-86%	-50%	-79%	-28%*7	**-71.5%**
CO_2 emissions suppressed with LED lighting fixtures (t-CO_2)	●	●	●	227	1,300	2,730	141.2	**1,471**
Total GHG emissions (Scope 1) (t-CO_2)	●	●		46,891	44,290	43,656	42,207	**40,669**
Total GHG emissions (Scope 1&2) (t-CO_2)	●	●		135,690	132,122	127,561	119,753	**112,995**
Total GHG emissions (Scope 3) (t-CO_2)	●	●		563,622 (partial tally)	537,272	557,860	527,187	**437,045**
Air/Chemicals								
Emissions of NOx, SOx and other significant air emissions	●	●		Since 1992, we purchased only the vehicles equipped with measures against NOx and SOx to comply with emission regulations.				
Energy								
Electricity consumption per "floor space" in "buildings" [Reduction target for energy consumption intensity]	●	●		Compared to FY2014: -2%	Compared to FY2014: -3%	Compared to FY2014: -4%	Compared to FY2018: -1%	**Compared to FY2018: -2%**
Electricity consumption per "floor space" in "buildings" [Result of reduction of energy consumption intensity]	●	●		Compared to FY2014: -0.7%	Compared to FY2014: -1.0%	Compared to FY2014: +0.9%	Compared to FY2018: -3%	**Compared to FY2018: -8.3%**
Total energy input/consumption (amount used) (GJ)	●	●		2,417,036	2,454,703	2,462,590	2,409,865	**2,327,399**
Waste/Recycling								
Total waste emissions (t)	●	●		34,564	33,304	30,527	29,892	**29,533**
Reduction target for copy paper consumption [reduction of resource use]	●	●		YoY: -1%	YoY: -1%	YoY: -1%	YoY: -1%	**YoY: -1%**
Results of copy paper consumption [reduction of resource use]	●	●		YoY: -2.9%	YoY: -2.9%	YoY: -2.4%	YoY: -5.3%	**YoY: ±0%**
Recycling rate target [waste reduction]	●	●		99%	99%	99%	99%	**99%**
Actual recycling rate [waste reduction]	●	●		99.4%	99.6%	99.4%	99.0%	**99.0%**
Amount of non-recycled waste (t)	●	●		206	133	121	246	**323**
Amount of recycled waste (recycled amount: total) (t)	●	●		34,358	33,171	30,406	29,564	**29,124**
Emissions of hazardous waste (total volume) (t)	●	●		Although we do not keep track of the exact amount of PCB, other waste oil and polluted mud because their amount is low, we manage them properly in accordance with laws.				
Green Purchasing								
Green purchasing rate	●	●		88.3%	90.0%	88.3%	86.0%	**87.6%**
Water								
Input of water resources (m^3)	●	●		337,765	333,803	340,129	318,916	**306,770**

Social

Category/Item	Scope: HTS	Scope: Domestic group	Scope: Overseas group	FY2016	FY2017	FY2018	FY2019	FY2020
Employee Basic Data								
Number of employees (excluding senior employees, part-time or temporary employees)	●			1,886	1,781	1,571	1,374	**1,328**
Male	●			1,602	1,498	1,309	1,126	**1,056**
Female	●			284	283	262	248	**272**
Total personnel *8	●	●	●	47,939	47,784	46,295	45,328	**43,729**
Senior employees, part-time or temporary employees				22,665	22,710	22,156	21,491	**21,047**
Domestic	●	●		29,513	29,669	29,440	28,950	**28,671**
Overseas			●	18,426	18,115	16,855	16,378	**15,058**
Average age (full-time employees) (years old)	●			40.5	41.1	41.7	42.3	**42.6**
Average service years (full-time employees) (years)	●			16.9	17.3	18.4	19.3	**19.8**
Number of employee turnover (full-time employee only, excluding those retired or transferred to group companies) (persons)	●			43	32	41	50	**31**
Turnover rate (full-time employees only, No. of employees left/No. of employees at the beginning of FY x 100)	●			2.0%	1.6%	2.0%	2.5%	**1.6%**
Diversity								
Ratio of female new graduates hired	●			Joined on April 1, 2017: 33.3%	Joined on April 1, 2018: 33.3%	Joined on April 1, 2019: 47.8%	Joined on April 1, 2020: 39.1%	**Joined on April 1, 2021: 50.0%**
Ratio of female new graduates hired	●	●		Joined on April 1, 2017: 38.1%	Joined on April 1, 2018: 35.2%	Joined on April 1, 2019: 37.9%	Joined on April 1, 2020: 36.4%	**Joined on April 1, 2021: 48.3%**
Numbers of female managers (persons)	●			19	19	26	34	**37**
Ratio of female managers	●			2.7%	2.7%	3.7%	4.7%	**4.9%**
Number of female assistant managers (persons)	●			48	56	66	61	**71**
Ratio of female assistant managers	●			8.1%	9.7%	11.5%	11.1%	**13.1%**
Number of foreign employees (persons)	●			31	38	48	42	**43**
Ratio of foreign employees	●			2.0%	2.3%	2.4%	2.2%	**2.3%**
Number of foreign managers (persons)	●			1	1	3	3	**3**
Ratio of persons with disabilities hired (as of June each year)	●	●		2.30%	2.35%	2.46%	2.57%	**2.48%**
Ratio of re-employment of the elderly (only those who requested)	●			100%	100%	100%	100%	**100%**

Social

Category/Item	Scope: HTS	Scope: Domestic group	Scope: Overseas group	FY2016	FY2017	FY2018	FY2019	FY2020
Job Creation								
Number of new graduates hired/members of the Track and Field Club (persons)	●			Joined on April 1, 2017: 29/2	Joined on April 1, 2018: 34/4	Joined on April 1, 2019: 24/1	Joined on April 1, 2020: 28/3*9	**Joined on April 1, 2021: 36/4**
Number of female new graduates hired (persons)	●			9	10	11	10	**16**
Number of new graduates hired who remained for three years (excluding those in the Track and Field Club) (persons)	●			Joined in April 2014: 56 Remained as of April 1, 2017: 51	Joined in April 2015: 51 Remained as of April 1, 2018: 47	Joined in April 2016: 38 Remained as of April 1, 2019: 35	Joined in April 2017: 27 Remained as of April 1, 2020: 25	**Joined in April 2018: 30 Remained as of April 1, 2021: 30**
Retention rate of new graduates hired after three years	●			91.1%	92.2%	92.1%	92.6%	**100.0%**
Number of experienced workers hired (persons)	●			10	19	20	23	**14**
Number of female experienced workers hired (persons)	●			5	9	9	5	**6**
Ratio of experienced workers hired	●			21%	41%	40%	50%	**36%**
Work-life Balance								
Number of those who took maternity leave (persons)	●			4	12	11	17	**15**
Number of those who took childcare leave (persons)	●			9	16	14	19	**15**
Number of male employees (persons)	●			4	3	4	4	**1**
Ratio of those who returned to work after childcare leave	●			100%	94.4%	100%	100%	**100%**
Number of those who took nursing care leave (persons)	●			1	0	2	2	**2**
Number of paid leave taken (days)	●			17.4	17.4	18.5	18.5	**16.7**
Rate of paid leave taken	●			72.5%	72.5%	78.0%	77.3%	**69.8%**
Overtime hours (average of full-time employees excluding managers) (hours/month)	●			32.8	32.2	30.2	28.6	**28.1**
Occupational Health and Safety								
Frequency rate of workplace accidents*10	●	●		(0)	(0)	0.85(0)	0.93(0)	**0.78(0)**
Severity rate of workplace accidents*10	●	●		(0)	(0)	0.022(0)	0.013(0)	**0.019(0)**
Number of traffic accidents defined in Article 2 of the Transportation Safety Management Regulation (incidents)	●	●*11		1	1	0	0	**0**
Social Contribution								
Total expenditure for social contribution (millions of yen) *12	●			12.0	9.0	18.0	29.0	**69.7***13
Open Innovation								
Number of visitors to the Company's facilities (persons)*14	●			150	1,336	573	709	**468**

Governance

Category/Item	Scope: HTS	Scope: Domestic group	Scope: Overseas group	FY2016	FY2017	FY2018	FY2019	FY2020
Corporate Governance								
Number of directors/female (persons)	●			8/1	8/2	8/2	8/2	**9/2**
Outside Director	●			6/1	6/2	6/2	6/2	**7/2**
Independent Officer	●			4/1	4/2	4/2	4/2	**6/2**
Number of executive officers/female (persons)	●			18/0	16/0	15/0	18/0	**18/0**
Compliance								
Number of compliance training conducted *15	●	●		39(1)	25(3)	24(9)	30(2)	**25(4)**
Number of compliance meeting held	●	●	●	4	4	8	6	**7**
Number of whistle-blowing reports/consultations (cases)	●	●	●	19	17	42	44	**54**
Risk Management								
Areas which conducted BCP simulation trainings and number of attendees (persons)	●	●		Total of Tokyo, Kansai, Chugoku, and Kyushu areas 55*16	Kyushu area 22 Saitama area 20	Kansai area 31	Kanto area 17*17	**Hokuriku area 14***18
Overseas sites which conducted BCP Caravan and number of attendees (persons)*19			●	—	China area 6 Thailand area 8	Indonesia area 23 *20	—*21	—*21
Information Security								
Number of attendees of information security training course (persons)	●	●	●	35,581	36,508	37,497	37,778	**38,267**
Rate of targeted threat emails for simulation trainings opened	●	●		4.3%	8.0%	0.7%	5.0%	**9.6%**
Number of sites which obtained third-party certifications for information security	●	●		ISO27001: 34 departments Privacy mark: 13 companies	ISMS: 35 departments Privacy mark: 13 companies	ISMS: 36 departments Privacy mark: 13 companies	ISMS: 36 departments Privacy mark: 12 companies	**ISMS: 26 departments Privacy mark: 12 companies**
Number of departments which conducted information security audit	●	●		798	767	782	729	**715**
Intellectual Properties								
Number of patent applications	●	●	●	19	15	17	46	**28**
Number of patents held	●	●	●	28	27	31	49	**78**

*1 Large, Medium, and Small size (fuel efficiency km/ℓ) *2 CO_2 emission reduction target was changed from "Reduction of CO_2 emission intensity"(until FY2017) to "Improvement of fuel efficiency" (from FY2018). *3 Specific case *4 Please refer to page 26 of Annual Report 2017 for details. *5 Please refer to page 28 of Annual Report 2018 for details. *6 Please refer to page 64 of Integrated Report 2020 for details. *7 Comparison with transport by former container *8 Excluding employees of associates accounted for by the equity method *9 One male and one female employees joined the Company in December due to the spread of COVID-19. *10 Started aggregating data of domestic group companies from FY2018. Figures in parenthesis are on a non-consolidated basis. *11 Covers 13 group companies: Hitachi Transport System East Japan Co., Ltd., Hitachi Transport System Kanto Co., Ltd., Hitachi Transport System Metropolitan Co., Ltd., Hitachi Transport System South Kanto Co., Ltd., Hitachi Transport System Central Japan Co., Ltd., Hitachi Transport System West Japan Co., Ltd., Hitachi Transport System Kyushu Co., Ltd., and Hitachi Transport Direx Co., Ltd., VANTEC CORPORATION, VANTEC EAST LOGISTICS CORPORATION, VANTEC CENTRAL LOGISTICS CORPORATION, VANTEC KYUSHU LOGISTICS CORPORATION, TOKIWA KAIUN COMPANY LIMITED *12 Includes donation and matching gifts *13 The scope is changed to HTS and domestic and overseas group companies *14 Number of visitors to R&D Center (opened in March 2016) until FY2018 (FY2016: from July 2016 to March 2017) and number of visitors to Kasukabe EC Platform Center (started operation in September 2019) from FY2019 *15 Includes e-learning for all employees of domestic group companies: number shown in ( ) *16 Includes attendees via video conference system. *17 Trainings in Hokuriku area and at Hitachi Collabonext Transport System Co., Ltd., originally scheduled in March 2020 were postponed to FY2020 or later due to the spread of COVID-19. *18 Hitachi Transport System Central Japan Co., Ltd. conducted an online training in March 2021 *19 Started from FY2017 *20 Includes attendees via video conference system *21 Postponed due to the spread of COVID-19

Consolidated Statement of Financial Position

Hitachi Transport System, Ltd. and subsidiaries

(Millions of yen)

Assets	As of March 31, 2021	As of March 31, 2020
Current assets		
Cash and cash equivalents	¥ 104,815	¥ 139,021
Trade receivables and contract assets	123,681	115,419
Inventories	1,083	1,066
Other financial assets	4,378	5,102
Other current assets	13,393	6,801
Total current assets	247,350	267,409
Non-current assets		
Investments accounted for using the equity method	6,372	89,271
Property, plant and equipment	159,981	148,232
Right-of-use assets	288,030	288,441
Goodwill	25,228	24,112
Intangible assets	23,824	24,397
Deferred tax assets	11,732	10,123
Other financial assets	18,459	21,274
Other non-current assets	6,960	5,885
Total non-current assets	540,586	611,735
Total assets	¥ 787,936	¥ 879,144

(Millions of yen)

Liabilities	As of March 31, 2021	As of March 31, 2020
Current liabilities		
Trade payables	¥ 51,733	¥ 45,410
Short-term debt	2,152	3,546
Current portion of long-term debt	10,320	10,416
Lease liabilities	30,600	33,209
Income tax payable	6,089	8,232
Other financial liabilities	24,202	37,886
Other current liabilities	31,559	29,062
Total current liabilities	156,655	167,761
Non-current liabilities		
Long-term debt	140,303	150,502
Lease liabilities	261,220	261,031
Retirement and severance benefits	37,071	34,825
Deferred tax liabilities	7,467	10,123
Other financial liabilities	20,075	12,299
Other non-current liabilities	3,038	3,346
Total non-current liabilities	469,174	472,126
Total liabilities	625,829	639,887
Equity		
Equity attributable to stockholders of the parent company		
Common stock	16,803	16,803
Retained earnings	236,311	220,829
Accumulated other comprehensive income	1,861	(4,587)
Treasury stock, at cost	(99,817)	(184)
Total equity attributable to stockholders of the parent company	155,158	232,861
Non-controlling interests	6,949	6,396
Total equity	162,107	239,257
Total liabilities and equity	¥ 787,936	¥ 879,144

Consolidated Statement of Profit or Loss

Hitachi Transport System, Ltd. and subsidiaries

(Millions of yen)

	2021	2020
Revenues	¥ 652,380	¥ 672,286
Cost of sales	(566,582)	(588,078)
Gross profit	85,798	84,208
Selling, general and administrative expenses	(49,087)	(50,725)
Adjusted operating income	36,711	33,483
Other income	10,787	10,579
Other expenses	(6,448)	(9,706)
Operating income	41,050	34,356
Financial income	413	88
Financial expenses	(44)	(1,701)
Share of profits of investments accounted for using the equity method	3,010	6,864
EBIT (Earnings before interest and taxes)	44,429	39,607
Interest income	1,197	1,186
Interest expenses	(6,492)	(6,964)
Income before income taxes	39,134	33,829
Income taxes	(15,180)	(11,344)
Net income	¥ 23,954	¥ 22,485
Net income attributable to:		
Stockholders of the parent company	22,873	21,614
Non-controlling interests	1,081	871

(yen)

	2021	2020
Earnings per share attributable to stockholders of the parent company		
Basic	¥ 240.02	¥ 193.76
Diluted	–	–

Consolidated Statement of Comprehensive Income

Hitachi Transport System, Ltd. and subsidiaries

(Millions of yen)

	2021	2020
Net income	¥ 23,954	¥ 22,485
Other comprehensive income (OCI)		
Items not to be reclassified into net income		
Net changes in financial assets measured at fair value through OCI	475	(49)
Remeasurements of defined benefit plans	213	284
Share of OCI of investments accounted for using the equity method	18	(93)
Total items not to be reclassified into net income	706	142
Items that can be reclassified into net income		
Foreign currency translation adjustments	6,274	(4,344)
Net changes in cash flow hedges	2	4
Share of OCI of investments accounted for using the equity method	20	(21)
Total items that can be reclassified into net income	6,296	(4,361)
Other comprehensive income (OCI)	7,002	(4,219)
Comprehensive income	¥ 30,956	¥ 18,266
Comprehensive income attributable to:		
Stockholders of the parent company	29,211	17,878
Non-controlling interests	1,745	388

Consolidated Statement of Cash Flows

Hitachi Transport System, Ltd. and subsidiaries

(Millions of yen)

	2021	2020
Cash flows from operating activities:		
Net income	¥ 23,954	¥ 22,485
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	52,159	52,815
Impairment losses	1,339	4,169
Income taxes	15,180	11,344
Share of profits of investments accounted for using the equity method	(3,010)	(6,864)
Gain on sale of investments in associates	(4,945)	–
Gain on business reorganization	–	(1,244)
Gains on sale of property, plant and equipment	(2,769)	(8,371)
Interest and dividends income	(1,270)	(1,267)
Interest expenses	6,492	6,964
(Increase) decrease in trade receivables and contract assets	(4,366)	16,692
Decrease in inventories	77	60
Increase (decrease) in trade payables	3,084	(8,303)
Increase in retirement and severance benefits	1,976	2,741
Changes in other assets and other liabilities	(5,203)	(3,256)
Other	996	1,145
Subtotal	83,694	89,110
Interest and dividends received	4,145	3,896
Interest paid	(6,399)	(6,880)
Income taxes paid	(26,131)	(7,922)
Net cash provided by operating activities	55,309	78,204
Cash flows from investing activities:		
Purchase of property, plant and equipment and intangible assets	(19,792)	(12,709)
Proceeds from sale of property, plant and equipment and intangible assets	3,814	13,105
Proceeds from sale of investments in associates	87,183	–
Purchase of subsidiaries' shares	(1,476)	(666)
Decrease due to a loss of control of subsidiaries	–	(384)
Other	50	(508)
Net cash provided by (used in) investing activities	69,779	(1,162)
Cash flows from financing activities:		
Decrease in short-term debt, net	(1,575)	(2,075)
Repayments of long-term debt	(10,409)	(739)
Repayments of lease liabilities	(36,648)	(37,103)
Proceeds from sale of shares of consolidated subsidiaries to non-controlling interests	114	–
Acquisition of shares of consolidated subsidiaries from non-controlling interests	(7,541)	(199)
Dividends paid to stockholders of the parent company	(4,299)	(4,686)
Dividends paid to non-controlling interests	(121)	(180)
Acquisition of treasury stock	(99,633)	(2)
Other	(944)	(723)
Net cash used in financing activities	(161,056)	(45,707)
Effect of exchange rate changes on cash and cash equivalents	1,762	(726)
Net (decrease) increase in cash and cash equivalents	(34,206)	30,609
Cash and cash equivalents at beginning of year	139,021	108,412
Cash and cash equivalents at end of year	¥ 104,815	¥ 139,021

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.
Reverse logistics	Logistics related to disposal of used products as well as return/collection of unneeded products to be reused, resold, and recycled.
Palletizer/ Depalletizer	Equipment to automatically load cargoes on pallets or roll box pallets. Depalletizer is equipment to automatically remove loaded cargoes.
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 CO_2 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 CO_2 emissions and climate change initiatives through questionnaires and analyzing/scoring their responses, with an aim to improve engagement in environmental issues.
CEIV Pharma	Stands for the Center of Excellence for Independent Validators in Pharmaceutical Logistics. It is a uniform international standard of quality certification for air transport of pharmaceutical products at controlled temperatures developed by International Air Transport Association (IATA).
CSV	Stands for Creating Shared Value, a concept advocated by Michael Porter, an American scholar in business management specializing in corporate competitive strategy. It refers to practices that balance activities to create economic benefits with solutions to social issues, or management strategies to achieve them.
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."

* Listed in Japanese or English alphabetical order

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.
RFID	Stands for Radio Frequency Identification and refers to contactless automatic recognition technology that reads information via radio waves. The use of RFID technology is expected to improve efficiency of merchandise management, expiration check at stores, and inventory management, etc. at logistics centers.
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 Kasukabe, 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.
VC21 Activities	Stands for Value Change & Creation 2021 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.
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.

SCDOS and SSCV are registered trademarks of Hitachi Transport System, Ltd.

(As of March 31, 2021)

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: 43,729

Main businesses:
- 3PL Business [integrated logistics services for corporate customers]
  (Logistics System Building, Information Control, Inventory Control, Orders Control, Processing for Distribution, Logistics Center Operation, Factory Logistics, Transportation, Customs Clearance, International Nonstop Delivery through Land/Ocean/Air Transportation)
- Transportation, Installation and Setting of General Cargo, Heavy Machineries, and Artworks
- Factory and Office Moving
- Warehousing and Trunk Room Services
- Collection and Transportation of Industrial Waste
- Logistics Consulting, etc.

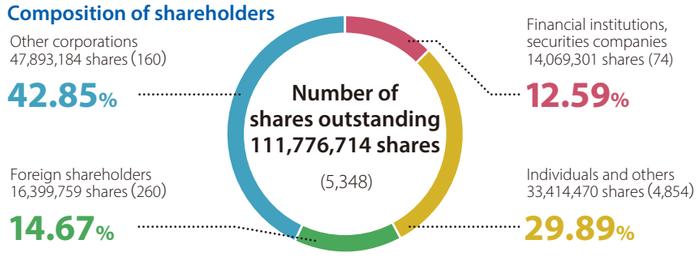
Stock Information

Stock Exchange
First Section of Tokyo
Securities Code: TSE-9086

Number of shares outstanding
111,776,714 shares

Number of shares per unit
100 shares

Composition of shareholders



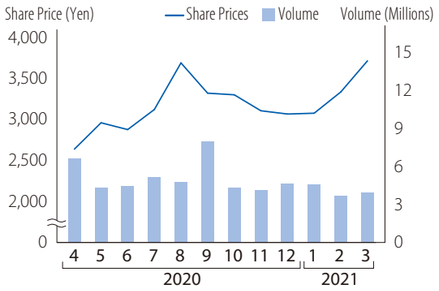
(Note) 1. Numbers inside parentheses are number of shareholders. 2. Individuals and others include treasury stock (27,903,145 shares).

Major shareholders (top 10)

Name of shareholder	Number of shares held (thousands)	Percentage of shares held
Hitachi, Ltd.	33,471	39.91 %
SG Holdings Co., Ltd.	12,810	15.27
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,756	4.48
State Street Bank and Trust Company 510312	2,334	2.78
State Street Bank and Trust Company 510311	2,075	2.47
Custody Bank of Japan, Ltd. (Trust Account)	1,795	2.14
Hitachi Transport System, Ltd. Employees' Shareholding Association	1,318	1.57
National Mutual Insurance Federation of Agricultural Cooperatives	1,122	1.34
FUKUYAMA TRANSPORTING CO., LTD.	1,038	1.24
GOLDMAN SACHS INTERNATIONAL	798	0.95

(Note) 1. The Company holds treasury stock (27,903,145 shares), which is not shown in this table.
2. The percentage of shares held is calculated based on the number of shares excluding treasury stock (27,903,145 shares).
3. The number of shares held by Custody Bank of Japan, Ltd. (Trust Account) includes 185,600 shares of the Company's share held by a trust for the performance-linked stock compensation plan for the Company's executive officers.

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



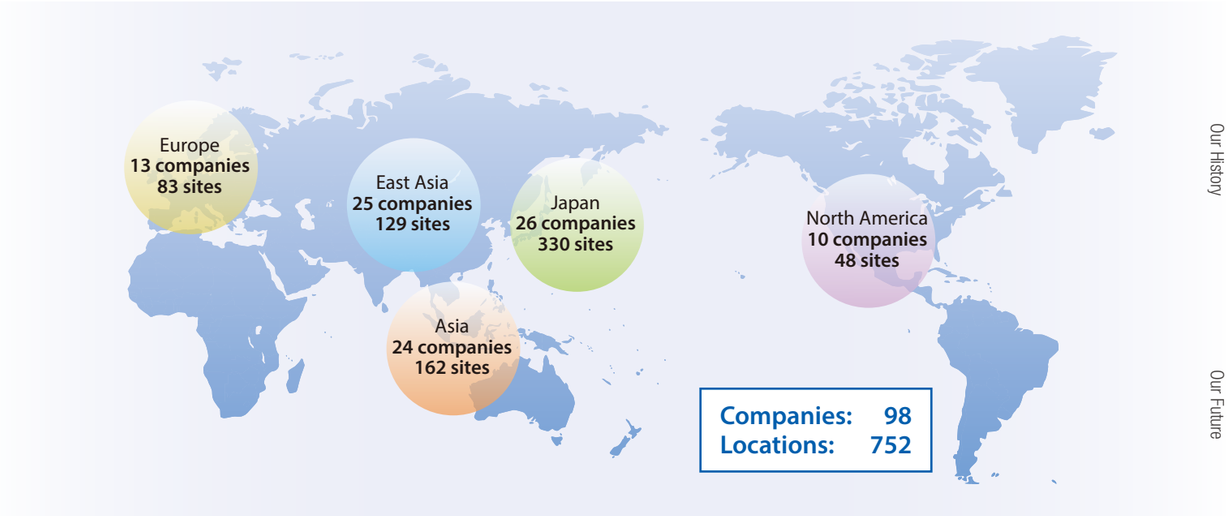
(Reference) Cancellation of treasury shares

The Company cancelled 6,975,786 shares of its treasury stock on June 4, 2021, 20,699,214 shares on September 3, 2021. The number of treasury shares after the cancellation is 228,308 shares (as of August 19, 2021). Please refer to the Company's news releases shown below.

Announced on May 20, 2021 "Cancellation of Treasury Shares"
https://www.hitachi-transportsystem.com/en/news/pdf/20210520_Cancellation%20of%20Treasury%20Shares.pdf

Announced on August 19, 2021 "Cancellation of Treasury Shares"
https://www.hitachi-transportsystem.com/en/news/pdf/20210819_Cancellation%20of%20Treasury%20Shares.pdf

Network Extending to 29 Countries and Regions



*Number of companies includes associates accounted for using the equity method.
*Number of sites excludes AIT Group and HTB-BCD Travel Group.

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/UChfA_IsMeJpFIGI1OQq_1Kg (Japanese version only)

● Twitter official channel:
https://twitter.com/hb_logisteed (Japanese version only)

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