

# Corporate Governance

## Basic Principle

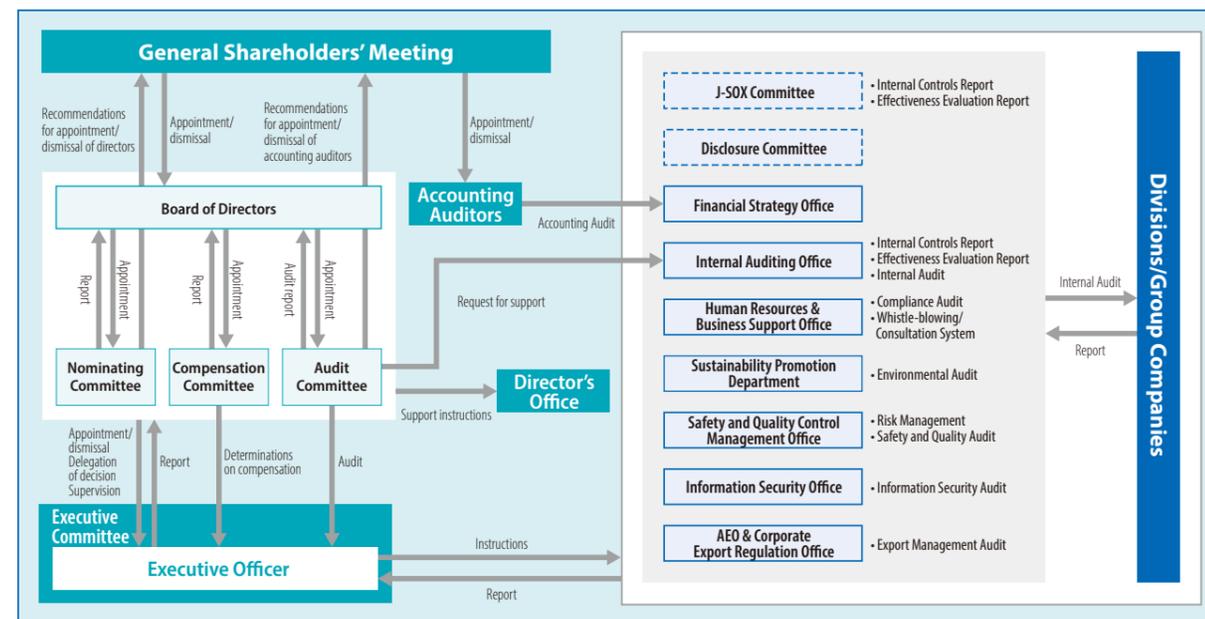
At the HTS group, we consider corporate governance to be key to realizing even greater management transparency and efficiency, as well as ensuring that our business is carried out with compliance and in accordance with correct corporate ethics. By extension, the crux of corporate governance lies in increasing 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 objective 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

Year	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 (FY2022)

<b>Board of Directors</b>	<b>Determines basic management policies, etc. and supervises the execution of duties by directors and executive officers</b> Also passes a resolution by focusing on specific discussions on the Mid-term Management Plan and fiscal budget in addition to matters to be resolved stipulated by laws and regulations, the Articles of Incorporation and the Board of Directors regulations	Male 6 Female 2
<b>Nominating Committee</b>	<b>Elects candidates for director</b> Elects appropriate candidates, considering all relevant factors including their past performance and personality	Male 3 Female 0
<b>Audit Committee</b>	<b>Performs audits of directors and executive officers' business implementation and prepares audit reports</b> 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.	Male 2 Female 2
<b>Compensation Committee</b>	<b>Determines compensation levels, etc. of directors and executive officers</b> 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	Male 2 Female 1

## Primary roles of Executive Committee (FY2022)

<b>Executive Committee</b>	<b>Deliberates on important issues related to business implementation</b> Comprised of executive officers and persons specifically nominated by the Chairman and CEO or the President and COO, and deliberates /reports basic policies on business management, financial results, and business plans, etc.	Male 19 Female 1
----------------------------	---	------------------

### 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-transportssystem.com/en/profile/csr/governance/cg/>

### Responded to the Corporate Governance Code

HTS complies with all principles of the Corporate Governance Code including those for the Prime Market. For details, please visit "Corporate Governance Report" on the Company's website.

### 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, 2022. As of March 31, 2022, the amount of cross-shareholdings accounted for less than 1% of total assets, which is insignificant on the balance sheet.

In addition, the Board of Directors evaluates every year whether to continue holding those shares from the viewpoint of the criteria for investment assessment (ROE, dividend payout ratio, and impairment risk, etc. of individual issues) and the criteria for business assessment (revenues from direct transactions with HTS, 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.

### Succession plan

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



For the development of the next-generation management members, the Company regularly selects and develops candidates, and holds discussions at the Nominating Committee. For President and Chief Operating Officer, we select candidates from the next-generation management 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.

**Corporate Governance Report**  
<https://www.hitachi-transportssystem.com/en/profile/csr/pdf/20220624CGe.pdf>

**Policy on cross-shareholdings**  
<https://www.hitachi-transportssystem.com/en/ir/stock/shareholdings/>

# Corporate Governance

## Initiatives for intellectual property governance

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

In the previous Mid-term Management Plan "LOGISTEED2021," we launched new solution businesses such as "SCDOS," "SSCV," and "Recovice" with the aim of designing a supply chain that unifies the four streams of "Finance, Commerce, Logistics, and Information," working to optimize customers' businesses and solve issues. The Group believes that intellectual property is an important management resource and provides standard protection for new service solutions or business models through the acquisition of industrial property rights including patents. In addition, we will consider protecting and adding high value to data accumulated in the course of our logistics activities, including the protection/utilization of such data to promote strategies capitalizing them on game change. In the Mid-term Management Plan "LOGISTEED2024," by focusing on "Gemba" Power, we will work on visualizing DX, LT, and "Gemba" Power as intangible assets to promote the creation/utilization of further value.



### Specific initiatives for intellectual property/intangible assets governance

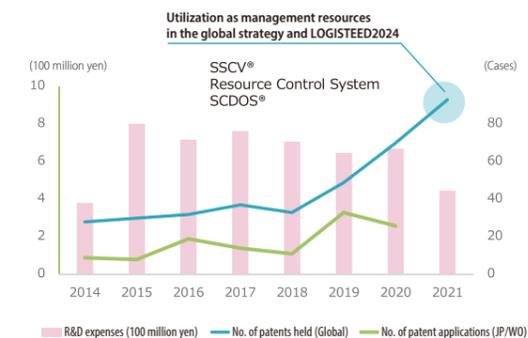
The Group will (1) understand the current situation, (2) create scenarios for decarbonization and reduction of environmental load, (3) formulate a business plan for "game change," (4) acquire intellectual properties/intangible assets, (5) disclose necessary information, and (6) continuously implement intellectual property governance. Regarding (5), we will announce as soon as it is decided.

### Policy on the positioning of material issues

Based on the environmental awareness of "LOGISTEED2024," we are visualizing CO<sub>2</sub> emissions and creating inventions related to decarbonization initiatives. In order to Step up DX from the DX that we have promoted so far, we will conduct necessary surveys and secure the Group's intellectual properties/intangible assets. In addition, we will conduct trend surveys, benchmarking, IP landscaping, etc. from a global perspective, and take necessary measures to expand our business domains.

### Group's current status

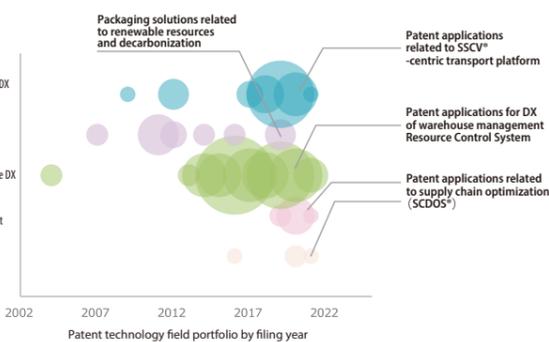
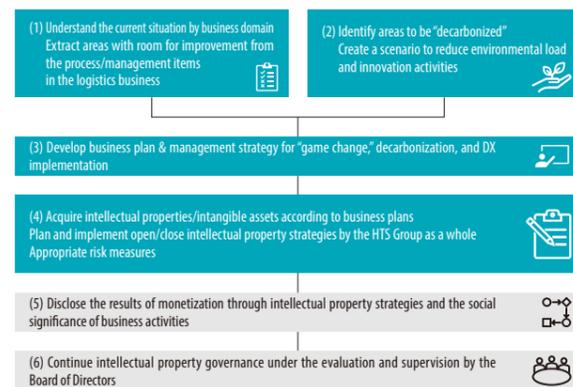
In Smart Logistics®, we have promoted DX centered on 3PL, our core business, and have accumulated knowledge and expertise through "task analysis of the customers' supply chain" and "design and proposal for advanced operation." In line with the results of our research with Hitachi, Ltd., our patent applications in the DX field have increased since 2014. In recent years, we have focused on acquiring patents on on-site DX, new businesses/business models, and applications for business-related inventions accounted for more than 85% to the Group's total applications.



\* No. of patent applications is only for first application (Japan/PCT global applications, %). No. of patents held is on a worldwide basis (global).

### Intellectual property management system

The Intellectual Property Management Committee is established as a decision-making body on intellectual property strategy/management, which supervises the Group's intellectual properties in a cross-organizational manner. In line with the revision of the Corporate Governance Code in June 2021, we will consider evaluation/supervision by the Board of Directors, etc. in the future.



\* First application only. The bubble size is proportional to the number of applications.

### Value creation related to intellectual property strategy-1

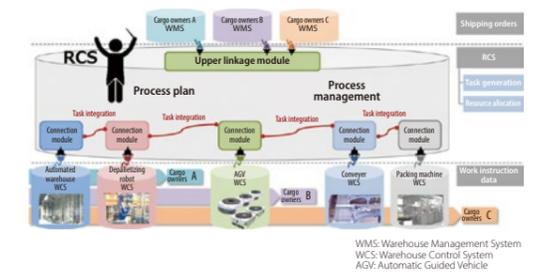
#### Resource Control System (RCS)

#### Patent No. 6876108 "Work Planning System and Work Planning Method"

Resource Control System (RCS), which brings together the expertise/knowledge of automation/labor saving, is a system for total optimization based on data prediction and simulation (orchestration).

In the 3PL business, our core business, including the Resource Control System (RCS), we plan highly productive warehouse operations in the process of promoting DX in warehouses and in the process of incorporating automated/labor-saving equipment. The Group considers such warehouse operation design to be an important intellectual property and asset, and applies for a patent for necessary technologies as business-related inventions. We will accumulate and inherit intellectual properties and intangible assets that are integrated with our business to further strengthen our 3PL business.

### Resource Control System (RCS)



### Value creation related to intellectual property strategy-2

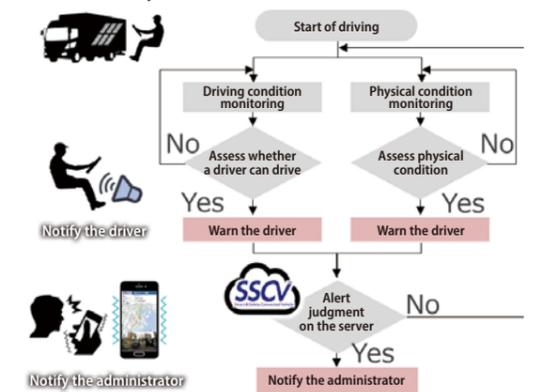
#### SSCV-Safety\*

#### Patent No. 7025457 "Management Support System" Patent No. 6714036 "Management Support System"

In 2016, the Group began studying safe driving support technologies aimed at reducing the risk of accidents involving drivers, and has promoted the commercialization of these technologies as "Smart & Safety Connected Vehicle (SSCV)." With regard to SSCV-Safety, in addition to the basic logic shown in the chart, we have a patent-pending process for accident risk estimation logic (based on fatigue), and plan to develop the knowledge obtained in such process into innovation in various fields in the future.

\* SSCV-Safety is provided to external parties as a solution service in collaboration with Hitachi, Ltd. and Mitsubishi HC Capital Inc.

### SSCV-Safety



### Major Agenda Items and the Reports at the Board of Directors Meeting (FY2021)

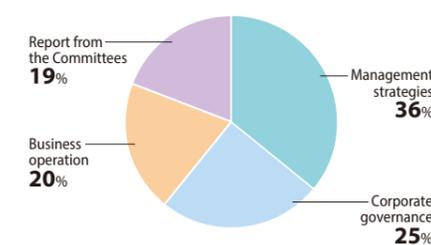
The Board of Directors of the Company deliberates mainly agenda items related to management strategies by leaving those related to individual business execution to the executive side. In addition, in FY2020, we improved the efficiency of the Board of Directors meetings by efforts including providing sufficient explanations prior to the meetings\* and we have secured sufficient time to discuss themes related to particularly important management strategies.

\* For example, since FY2020, an executive officer makes an explanation instead of the secretariat. From FY2021, the monthly business results that were previously reported to the Board of Directors are reported only at preliminary briefings.

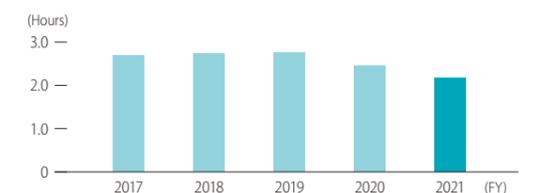
### Major agenda items

Management strategies	Corporate governance	Business operation
<b>Basic policy</b> <ul style="list-style-type: none"> <li>Basic management policy</li> <li>Next Mid-term Management Plan</li> <li>Progress of LOGISTEED2021</li> </ul>	<b>Operation</b> <ul style="list-style-type: none"> <li>Proposed agenda for the General Shareholders' Meeting</li> <li>Evaluation of the effectiveness of the Board of Directors</li> <li>Corporate Governance Report</li> <li>Agenda of the Board of Directors (annual plan)</li> </ul>	<ul style="list-style-type: none"> <li>Collaborative innovation activities</li> <li>VC activities</li> <li>Transport Business Enhancement Project</li> <li>Fire at Maishima Sales Office</li> <li>Report on execution of duties by Executive Officers, etc.</li> </ul>
<b>Management measures</b> <ul style="list-style-type: none"> <li>Capital policy</li> <li>Funding plans (dividend policy, growth investment and borrowings, etc.)</li> <li>Dividends and method of surplus appropriation</li> <li>Business investments</li> <li>Cancellation of treasury stock</li> <li>Human resource strategy</li> <li>Promotion of Diversity</li> <li>Enterprise Risk Management (ERM)</li> <li>Climate change and other sustainability</li> <li>Digital transformation</li> <li>Cybersecurity measures</li> <li>Quality assurance</li> <li>Topline expansion projects</li> <li>Restructuring (Transformation)</li> </ul>	<b>Organization</b> <ul style="list-style-type: none"> <li>Appointment of Executive Officers</li> <li>Appointment and notification of independent officers</li> <li>Conclusion of a limited liability agreement</li> <li>Conclusion of D&amp;O insurance</li> <li>Selection of members of the Special Committee</li> </ul>	<b>Report from the Committees</b> <ul style="list-style-type: none"> <li>Reports from the Nominating, Audit, and Compensation Committees</li> </ul>
<b>Financial results, etc.</b> <ul style="list-style-type: none"> <li>Financial results</li> <li>Approval of financial statements and business reports</li> <li>Annual securities reports</li> <li>Revision of management WACC</li> </ul>	<b>Measures</b> <ul style="list-style-type: none"> <li>Compliance</li> <li>TSE market selection</li> <li>IR activities</li> <li>Making judgement on continuation of cross-shareholdings</li> </ul>	

### Composition ratio by agenda item (FY2021)



### Average length of monthly regular Board of Directors' meetings



# Corporate Governance

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

## Results of Analysis and Evaluation of the Effectiveness of the Board of Directors

The Company, pursuant to Article 4, Section 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 the fiscal year ended March 31, 2022 (FY2021), the Company first asked all its directors to complete a questionnaire survey and then reviewed the results, with a focus on addressing the identified issues and the need to improve the BOD's operation. For the fiscal year ended March 31, 2020 (FY2019), the Company, in addition to conducting a self-assessment of the BOD, engaged 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. Results of the self-assessments by the BOD and the three Committees for FY2021 are as follows:

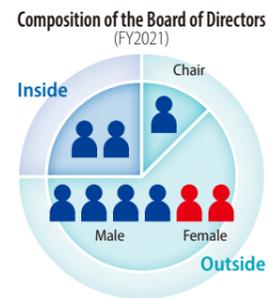
### Self-Assessment by the BOD

Six of the nine BOD members are independent outside directors, two of whom are women. The BOD comprises a certified public accountant, a scholar, two lawyers, and other members with a wealth of professional expertise and experience in a diverse range of fields such as corporate management, finance, and accounting. BOD meetings 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 FY2021 consisted of management strategies (36%), corporate governance (25%), and business operation and others (39%), 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 FY2020. The BOD met 16 times during FY2021. The principle of holding a BOD meeting every month was appropriate, and the annual plan for BOD meetings incorporated prior input from its members and covered all bases.

Reflecting the results of the self-assessment conducted for FY2020, the BOD met five times during FY2021 to have preliminary and high-level discussions on updating the Company's Mid-term Management Plan (MTMP) for FY2022-2024. Prior to the full-member sessions, outside directors provided their expert insights into the following four key initiatives to be incorporated into the MTMP for FY2022-2024: (1) driving the Group's top-line growth; (2) transforming the Group's organizational structure; (3) revisiting the Company's talent management strategy; and (4) implementing DX solutions.

The expert opinions and ideas provided by outside directors helped clarify key issues to be deliberated on at the full BOD meetings. Furthermore, outside directors kept in touch with each other via online sessions to exchange ideas as to how the Company can sustain its business growth and increase its medium- and long-term enterprise value.



### Self-Assessments by the Three Committees

The self-assessments by the Three Committees are stated on the following page.  
 ■ General Shareholders' Meeting (Notice of convocation)  
<https://www.hitachi-transportssystem.com/en/ir/meeting/>

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

Name	Registration	Positions and assignments in the Company in FY2021	Number of attendances for the Board of Directors meetings during FY2021
<b>Miho Aoki</b> <small>Independent Officer</small>	2020	Outside Director <small>Audit Committee 20/20</small>	16/16
<b>Sayoko Izumoto</b> <small>Independent Officer</small>	2017	Outside Director <small>Audit Committee 20/20, Compensation Committee Chair 5/5</small>	16/16
<b>Mitsudo Urano</b> <small>Independent Officer</small>	2014	Outside Director Chair of the Board of Directors <small>Nominating Committee Chair 6/6</small>	16/16
<b>Takashi Nishijima</b> <small>Independent Officer</small>	2020	Outside Director <small>Nominating Committee 6/6, Compensation Committee 5/5</small>	16/16
<b>Tetsu Fusayama</b> <small>Independent Officer</small>	2016	Outside Director <small>Nominating Committee 6/6</small>	16/16
<b>Hiroshi Maruta</b>	2015	Outside Director <small>Audit Committee Chair 20/20</small>	16/16
<b>Hajime Watanabe</b> <small>Independent Officer</small>	2020	Outside Director <small>Audit Committee 20/20</small>	16/16
<b>Takashi Jinguji</b>	2016	Representative Executive Officer Executive Vice President and Executive Officer	16/16
<b>Yasuo Nakatani</b>	2013	Representative Executive Officer President and Chief Executive Officer <small>Nominating Committee 6/6, Compensation Committee 5/5</small>	16/16

\* 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 FY2021.

# 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, Chairman and Chief Executive Officer

The Compensation Committee meetings to determine the compensation amount for the recent fiscal years were held four times in December 2020, March, June 2021 and May 2022, with the Chair and all members attending in all meetings (attendance rate: 100%). For director compensation, etc. for FY2021, the Compensation Committee deliberated and determined compensation, etc. for each director on June 22, 2021 in accordance with the determination policy, established by the Compensation Committee on December 22, 2020. For executive officer compensation, etc. for FY2021, the Compensation Committee deliberated and determined compensation, etc. for each executive officer on March 26, 2021 and performance-linked compensation for each executive officer on May 19, 2022 in accordance with the determination policy, established by the Compensation Committee on December 22, 2020.

### 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**

Composition of compensation	Basic compensation		Performance-linked 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, 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

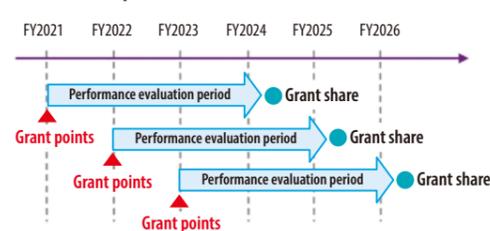
\*1 Calculated as "Adjusted operating income=Revenues - Cost of sales - Selling, general and administrative expenses"

**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 FY2021 to FY2023, 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 "LOGISTEED2021." 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.

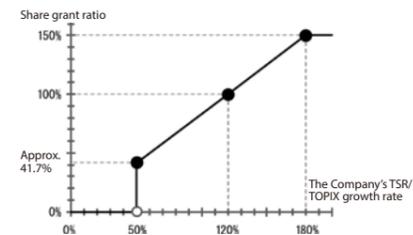
For performance evaluation, based on the incentive curve of each indicator determined by the Compensation Committee at the beginning of the evaluation period, the Compensation Committee evaluates and finalizes using the share grant ratio calculated based on the achieved results after the three-year evaluation period is over. Executive officers who retired during the evaluation period shall be granted Company's Share and paid for based on the share grant ratio calculated during their tenure. In addition, executive officers who are not residents in Japan will be paid money in lieu of Company's Share.

**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 (%)<sup>\*2</sup>/ TOPIX growth rate (%)<sup>\*3</sup>  
(Rounded to the nearest percent)

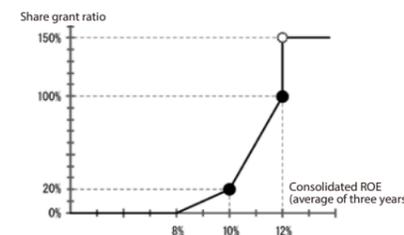
\*2 The Company's TSR (%) = (B+C)/A (rounded to the nearest percent)  
 A: Average closing price of the Company's stock at TSE in May 2021 (rounded down to the nearest yen)  
 B: Average closing price of the Company's stock at TSE in May 2024 (rounded down to the nearest yen)  
 C: Total dividend amount per share of the Company's stock from April 1, 2021 to March 31, 2024  
 \*3 TOPIX growth rate (%) = E/D (rounded to the nearest percent)  
 D: Average closing value of TOPIX at TSE in May 2021 (rounded to the nearest point)  
 E: Average closing value of TOPIX at TSE in May 2024 (rounded to the nearest point)  
 For the purpose of this calculation, we will apply the criteria for TOPIX before the reclassification of the new market segments in April 2022 to ensure consistency at the beginning and end of the evaluation period.



If the performance target for the Company's TSR/TOPIX growth rate of 120% is achieved, the share grant ratio will be 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 FY2021 to FY2023)**

The incentive curve of consolidated ROE is as follows.



If the consolidated ROE (average of three years) of 12% 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 fixed 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	Non-monetary compensation, etc. included in total	
Directors (excluding outside directors)	—	—	—	—	—
Executive Officer	799	504	295	108	19
Outside Director	109	109	—	—	7

(Note)

- The number of eligible officers for directors' compensation, etc. excludes two directors who serve concurrently as executive officers.
- The compensation is based on the resolution at the Compensation Committee for compensation for FY2021 of directors and executive officers who served from April 1, 2021 to March 31, 2022.
- The detail of total non-monetary compensation, etc. for executive officers is 108 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 are comprised of annual bonuses and stock compensation. However, FY2021 compensation is comprised only of annual bonus as stock compensation is based on the performance evaluation from FY2021 to FY2023.

The Compensation Committee deliberated and determined individual annual bonus amount based on the achievement level of FY2021 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 FY2021 are as follows:

**Targets (initial plan)**

Revenues: ¥690.0 billion (YoY +6%)  
 Adjusted operating income: ¥37.5 billion (YoY +2%)

**Results**

Revenues: ¥743.612 billion (YoY +14%)  
 Adjusted operating income: ¥38.696 billion (YoY +5%)

**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 managers/managers, and new directors of domestic group companies, in addition to e-learning for all employees including officers, for the purpose of deepening understanding of anti-corruption laws, warehousing business law, etc. We also have training programs tailored to the business of group companies and the training sessions travelling around sites by the Legal Department.

### Procurement compliance education

To ensure fair procurement activities, we provide e-learning for procurement compliance targeting all employees, as well as special e-learning and group trainings on a regular basis for those engaging in procurement in domestic and overseas group companies.

### Number of companies implementing education for those engaging in procurement (FY2021)

Domestic: **19** companies      Overseas: **35** companies

### Whistle-blowing system

The Group has established a whistle-blowing system with internal and external points of contact for reporting, which allows employees and other stakeholders to report illegal and/or inappropriate actions without hesitation in order to detect and correct them early on.

### Poster for dissemination of whistle-blowing system

To further improve internal awareness of "HTS Group In-company Compliance Reporting System", posters for dissemination were prepared in 20 languages and posted in each office.



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

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

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

### Education and training for personal information protection/information security

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

**Attendance rate of information security training course (FY2021)** **100%**  
 Scope: HTS, domestic/overseas group companies

**Rate of targeted threat emails for simulation trainings opened (FY2021)** **6.0%**  
 Scope: HTS, domestic group companies

### Acquisition and maintenance of third-party certification

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

**Privacy mark acquisition status at HTS and its domestic group companies (As of March 31, 2022)** **12** companies

**ISMS Certification\* (As of March 31, 2022)** **20** departments

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

### Customer privacy

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

**For details of information security, please visit our website.**  
<https://www.hitachi-transportssystem.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.



## 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 COO, with an aim to continue its business operation and provide high quality services to our customers even when faced with these risks.

## Topics

### Preventive Measures Against the Spread of COVID-19

We developed the "Guideline amid the spread of infection" based on the policy released by the Japanese government and Keidanren (Japan Business Federation) and have been working to prevent the spread of infection at workplace. In FY2021, we conducted workplace vaccination three times for employees, other stakeholders, and their family members to increase vaccination rates and also distributed face masks and sanitizers to reduce infection risks. We will continue our efforts to prevent infection and spread of COVID-19.

**As for disaster preparedness measures and BCM/BCP promotion system, please visit our website.**  
<https://www.hitachi-transportssystem.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
<b>Concentration/dependence on specific customers</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Impact on business results and continued employment by losing projects</li> <li>Impact on the HTS Group business of customers' performance fluctuations and business reorganizations</li> <li>Impact on the HTS Group business due to the changes in customers' business environment including drastic changes in the industrial structure and increasing supply chain vulnerability</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Efficient business expansion and able to take advantage of scale</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Downsizing of the business base</li> </ul>	<ul style="list-style-type: none"> <li>Account management through enhanced collaboration among group companies and divisions</li> <li>Monitor customers' business condition</li> <li>Monitor the movements of peer companies</li> <li>Establish and monitor credit limit</li> <li>Perform periodic review of customer dependency</li> <li>Allocate management resources to non-core businesses</li> <li>Develop/provide services beyond conventional logistics domain</li> </ul>
<b>Changes in a business model (technological innovation, etc.)</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Obsolescence of existing services and business models due to rapid development of IT and other digital technologies</li> <li>Obsolescence of existing technologies due to failure to promptly deal with digitalization and introduce new technologies</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Acquisition of growth opportunities through the development of revolutionary technology</li> </ul>	<ul style="list-style-type: none"> <li>Loss of competitive advantages in the logistics industry</li> <li>Decrease in competitiveness due to delayed response to digitalization</li> </ul>	<ul style="list-style-type: none"> <li>Develop new services and unique business models through collaborative innovation with business partners</li> <li>Collect information on new business models including new technologies and different industries as well as benchmark other companies</li> <li>Promote cooperation among industry, government, and academia as well as open innovation</li> <li>Reinforce human resources with IT/digital skills</li> </ul>
<b>Securing human resources</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Labor shortage due to tighter regulation on drivers' overtime work by the Work Style Reform Act</li> <li>Difficulty in securing excellent human resources due to aging population combined with a declining birth rate and intensifying competition in the labor market</li> <li>Loss of momentum for promotion of diversity management which enables diverse employees to participate in the workplace</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Acquisition of new expertise and creation of new businesses</li> </ul>	<ul style="list-style-type: none"> <li>Stagnation of the business</li> <li>Decrease in market competitiveness</li> <li>Slowdown in corporate growth</li> </ul>	<ul style="list-style-type: none"> <li>Expand network of partner companies and secure workforce by enhancing recruitment of in-house drivers (increase company vehicles) including reviewing drivers' benefit</li> <li>Visualize human resource skills using the HR management system and make full use of skills</li> <li>Secure human resources with site management, global, digital, and business management capabilities according to the business strategy (Enhance recruiting and establish a compensation system)</li> <li>Enhance in-house training programs to foster and educate human resources</li> <li>Perform human resource retention control (Create a pleasant working environment)</li> </ul>
<b>Decrease in new orders received and failure to acquire orders in existing projects</b>	<p><b>Decrease in new orders received</b></p> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Difficulty in acquiring new orders due to intensifying competition and market shrinkage</li> <li>Failure to launch a new project</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Business expansion with new orders, and acquisition of new expertise</li> </ul> <p><b>Failure to acquire orders in existing projects</b></p> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Failure to acquire orders in existing projects due to a bidding system, etc.</li> <li>Business plan mistakes</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in market competitiveness</li> <li>Growth slowdown due to a decline in customer trust</li> <li>Decline in profit margin due to unprofitable businesses</li> </ul>	<ul style="list-style-type: none"> <li>Enhance monitoring through wider use of the phase-gate process management</li> <li>Visualize and share information on orders received and not received</li> <li>Set priority targets for new customers</li> <li>Strengthen contact with new customers</li> </ul>

### 2 Environmental change risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
<b>Sharp increase in cost</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Increase in procurement costs (fuel, car allocation expenses, and labor costs)</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Decrease in procurement costs</li> </ul>	<ul style="list-style-type: none"> <li>Deterioration in profitability due to failure to collect adequate fee corresponding to the increase in cost</li> <li>Negative impact on business continuity due to shortage of human resources and vehicles, etc.</li> </ul> <p><b>Reference</b></p> <ul style="list-style-type: none"> <li>Outsourcing costs/labor costs in FY2021</li> <li>Outsourcing costs: 389.3 billion yen</li> <li>Labor costs: 166.9 billion yen</li> </ul>	<ul style="list-style-type: none"> <li>Build close relationships with partner companies</li> <li>Optimize fees based on the movements of peer companies</li> <li>Efficient management by promoting digitalization</li> </ul>
<b>Sharp fluctuation of exchange rates</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Exchange loss</li> <li>Negative impact of translation of business results of overseas subsidiaries into Japanese yen due to sharp fluctuation of exchange rates</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Exchange gain</li> <li>Positive impact of translation of business results of overseas subsidiaries into Japanese yen due to sharp fluctuation of exchange rates</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in profit due to exchange loss (items below EBIT in the income statement)</li> <li>Decrease in revenues and profit due to negative impact of translation of business results of overseas subsidiaries into Japanese yen</li> </ul> <p><b>Reference</b></p> <ul style="list-style-type: none"> <li>Ratio of global business in revenues and adjusted operating income in FY2021: Revenues:42% Adjusted operating income:35%</li> </ul>	<ul style="list-style-type: none"> <li>Concentrate exchange risks (centralize transactions such as forward exchange contracts and currency options in the head office)</li> <li>Enter into hedge transactions including forward exchange contracts with financial institutions</li> <li>Maintain a balance of foreign currencies and continue investment in time deposits</li> </ul>
<b>Climate change</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Impact on realization of sustainable society</li> <li>Rise in greenhouse gas emissions price</li> <li>Increase in extreme weather events such as cyclones and flooding</li> <li>Increase in the average temperature</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Use of more efficient transportation modes and production and distribution processes</li> <li>Ability to diversify business activities</li> <li>Alternative/diversified resources</li> </ul>	<ul style="list-style-type: none"> <li>Increase in tax burden related to climate change and cost increase due to tightening or introduction of regulations on greenhouse gas emissions</li> <li>Stagnation of the logistics business due to intensifying extreme weather</li> </ul>	<ul style="list-style-type: none"> <li>Establish an environmental management system and promote relevant activities</li> <li>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)</li> <li>Develop decarbonizing solutions (visualization of CO<sub>2</sub> emissions) and promote green logistics</li> </ul>

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
<b>Loss of human resources and diversified working-style</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Loss of human resources due to a mismatch between the personnel measures and employees' desire</li> <li>Loss of human resources due to delayed response to diversified working-style, and difficulty in securing human resources</li> <li>Increase in turnover due to the mobilization of human resources</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Secure diversified human resources including highly-skilled personnel and those from different industries, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Fall of governance and business operation ability due to loss of human resources</li> <li>Decrease in market competitiveness and slowdown of corporate growth due to loss of human resources</li> </ul>	<ul style="list-style-type: none"> <li>Realize diversity and inclusion and a work-life balance through use of a broad range of human resources</li> <li>Appoint human resources and provide career education based on a succession plan</li> <li>Improve moral/motivation through periodic interviews at workplace</li> <li>Support active participation of female, elderly, or disabled employees in the workplace</li> <li>Conduct employee surveys and strengthen employee engagement</li> <li>Secure excellent human resources by implementing group common in-house training programs</li> <li>Further promote teleworking</li> </ul> <p><b>Future consideration</b></p> <ul style="list-style-type: none"> <li>Offer opportunities and occasions for growth (talent management and education)</li> <li>Introduce a job-oriented compensation system that reflects "roles/responsibilities" and "achievements"</li> </ul>

### 3 Operational risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
<b>Occurrence of incidents</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Occurrence of industrial accident, fire, vehicle or product accidents</li> </ul>	<ul style="list-style-type: none"> <li>Compensation for losses caused by accidents or fire to products or the affected people, and payment of damage compensation to the affected people</li> <li>Decrease in revenues and profit due to decline in customer and social trust</li> </ul>	<ul style="list-style-type: none"> <li>Enhance disaster prevention/mitigation capabilities by providing education and trainings and installing equipment and systems</li> <li>Maintain proper insurance for assets in custody (inventory)</li> <li>Strengthen communications with employees</li> <li>Actively use disaster prevention technology</li> <li>Develop and implement a facility maintenance plan</li> <li>Establish an initial response and reporting system in case of an accident, and conduct drills</li> <li>Share lessons, insights, and good examples within the Company</li> <li>Create safety workplaces by introducing technology (SSCV, etc.)</li> </ul>
<b>Compliance violations (violation of the labor law, bribery, infringement on human rights, etc.)</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Violation of overtime regulations, etc.</li> <li>Disagreement with the authority on the interpretation of equal pay for equal work</li> <li>Violations of laws and regulations such as bribery and competition law</li> <li>Deviation from social norms</li> <li>Information leakage</li> <li>Infringement on human rights including harassments, child labor, and low wage labor</li> <li>Infringement on intellectual property rights</li> </ul>	<ul style="list-style-type: none"> <li>Impairment of corporate value due to decline in social trust</li> <li>Decrease in revenues and profit due to decline in customer and social trust</li> </ul>	<ul style="list-style-type: none"> <li>Establish the HTS Group Code of Conduct and educate all employees</li> <li>Introduce a whistle-blowing system</li> <li>Conduct investigation and education by legal divisions in each region</li> <li>Establish a structure to manage an attendance management system</li> <li>Clarify wage calculation method</li> <li>Establish a specialized IP division and educate all employees</li> </ul>
<b>Deterioration in service quality</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Loss of customer trust</li> <li>Deterioration in service quality and delays in delivery, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in revenues and profit due to decline in customer and social trust</li> <li>Compensation for losses such as reimbursement due to the incidents</li> </ul>	<ul style="list-style-type: none"> <li>Manage KPIs by quality control divisions</li> <li>Quality control through process management</li> <li>Conduct monitoring based on the internal control system, perform audit, and enhance support</li> </ul>
<b>System failure</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Significant delay in work or suspension of operations due to power outage or system failure caused by natural disasters</li> <li>Significant delay in work or suspension of operations due to system failure at external service providers</li> <li>Delay in operations due to deterioration of system response</li> </ul>	<ul style="list-style-type: none"> <li>Compensation or penalty for customers' opportunity loss due to delay in work</li> <li>Impairment of corporate value due to decline in social trust</li> <li>Decrease in revenues and profit due to decline in customer and social trust</li> <li>Expenses related to recovery or renovation</li> </ul>	<ul style="list-style-type: none"> <li>Introduce redundant system</li> <li>Prepare alternative means in case of failure</li> <li>Strengthen backup measures for system recovery and conduct on-site training</li> <li>Implement measures for each service used and BCP</li> </ul>

### 4 Hazard risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
<b>Severe disasters and global expansion of infectious disease (pandemic)</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Damage to employees</li> <li>Disruption of logistics network</li> <li>Damage to the Group's assets (e.g. buildings and facilities) and customers' products</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in revenues and profit due to impacts on business (e.g. shutdown)</li> <li>Restoration cost and impairment of assets</li> </ul>	<ul style="list-style-type: none"> <li>Assess business interruption risk in each region</li> <li>Develop BCP (business continuity plan) for early business recovery (including prior consultation with customers and business partners)</li> <li>Establish rules for information collection and work regulations as a global organization in case of pandemic</li> <li>Carry out BCM (business continuity management)</li> </ul>
<b>Threat to capital</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Changes in capital policies of major shareholders</li> <li>Change of control as a result of acquisition of large number of the Company's shares by a specific investor</li> </ul>	<ul style="list-style-type: none"> <li>Decline of initiative of the current management</li> <li>Impact on corporate value of material changes in capital structure</li> </ul>	<ul style="list-style-type: none"> <li>Increase corporate value to grow market capitalization</li> <li>Active communication with shareholders</li> <li>Invest in growth opportunities</li> <li>Increase shareholder returns</li> </ul>
<b>Loss/leakage of information</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Loss or leakage of data such as customer information due to an information security incident, cyberattack or large-scale system failure</li> </ul>	<ul style="list-style-type: none"> <li>Impairment of corporate value due to decline in social trust</li> <li>Decrease in revenues and profit due to decline in customer and social trust</li> <li>Restoration cost</li> <li>Claims for compensation damages from customers</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the information asset management through internal audit and in-house trainings, etc.</li> <li>Establish and disseminate information security rules</li> <li>Build a system to deal with cyberattacks and regularly update the technology</li> <li>Increase frequency of monitoring including audit</li> </ul>
<b>War, terrorism, unstable political situation (geopolitical risk)</b>	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>Damage to employees</li> <li>Impact on business</li> <li>Damage to the Group's assets (e.g. buildings and facilities) and customers' products</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in revenues and profit due to impacts on business (e.g. shutdown)</li> <li>Restoration cost and impairment of assets</li> </ul>	<ul style="list-style-type: none"> <li>Conduct routine situation analyses and monitoring</li> <li>Accelerate decision-making in case of emergency</li> <li>Develop BCP for overseas locations</li> </ul>

As for risk factors other than priority risks, please visit our website. <https://www.hitachi-transportssystem.com/en/profile/csr/governance/riskmanagement/>