

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

Hitachi Transport System, Ltd. (herein called HTS), 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, 2021 (FY2020), HTS 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), HTS, 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. HTS 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 FY2020 are as follows:

1. 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 HTS'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 HTS's digital transformation (DX) strategy, including defining HTS's IT governance code, and asked HTS's executive officers to establish key performance indicators (KPIs) for the code that would drive HTS's enterprise 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* activities and address climate change in HTS's operations.

*Value Change & Creation 2021, an initiative to encourage every employee to take ownership of self-improvement, which collectively will contribute to HTS's success

BOD members held small meetings to discuss important management issues facing HTS, including defining the direction and approach that HTS should take to ensure its sustained growth and increase its medium- and long-term enterprise 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 enterprise value, how to implement initiatives for DX, sustainability, and groupwide governance, and how to expand the Group's global business.

2. Self-Assessments by the Three Committees

During FY2020, the Nominating Committee met six times, the Audit Committee 17 times, and the Compensation Committee six times. Each committee meeting was chaired by an outside director. Results of the self-assessments by the three Committees for FY2020 are as follows:

(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 HTS'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 HTS's directors and executive officers performed their duties.

To meet the new regulatory requirements for disclosing key audit matters (KAMs) in HTS'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 HTS'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 affiliated companies. 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, HTS's medium-term business concept including DX initiatives, and ROIC-driven management practices to increase the Group's medium- and long-term enterprise 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 HTS's Internal Auditing Office. Eight dedicated corporate auditors now exercise governance over major Group companies, which enables them to conduct internal audits more efficiently and effectively and, in turn, helps 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** 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 enterprise 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 Office, which oversees the Group's businesses in Asia, China, Europe, and North America.

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

(3) Compensation Committee

The Compensation Committee resolved to adopt a performance share plan for HTS's executive officers and started to implement it at the beginning of FY2020. The plan links compensation for executive officers more tightly to HTS's financial performance and equity value to motivate them to make a greater contribution to HTS's medium- and long-term financial success and enterprise value, as they share risks with shareholders arising from changes in HTS's stock price. For the compensation policy for FY2021, the Committee determines that HTS'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 compensation for HTS's directors and executive officers.