

(2) Environmental change risk

Risk factors	Description of risk/opportunity	Impacts when risk occurs	Group's measures
1) Sharp increase in cost [Priority risk]	<p><Risk></p> <ul style="list-style-type: none"> • Increase in procurement costs (fuel, car allocation expenses, and labor costs) <p><Opportunity></p> <ul style="list-style-type: none"> • Decrease in procurement costs 	<ul style="list-style-type: none"> • 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. <p>(Reference)</p> <p>Outsourcing costs/labor costs in FY2020</p> <ul style="list-style-type: none"> • Outsourcing costs: 316.5 billion yen • Labor costs: 157.5 billion yen 	<ul style="list-style-type: none"> • Build close relationships with partner companies • Optimize fees based on the movements of competitors • Efficient management by promoting digitalization
2) Sharp fluctuation of exchange rates [Priority risk]	<p><Risk></p> <ul style="list-style-type: none"> • Exchange loss • Negative impact of translation of business results of overseas subsidiaries into Japanese yen due to sharp fluctuation of exchange rates <p><Opportunity></p> <ul style="list-style-type: none"> • Exchange gain • Positive impact of translation of business results of overseas subsidiaries into Japanese yen due to sharp fluctuation of exchange rates 	<ul style="list-style-type: none"> • 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 <p>(Reference)</p> <p>Ratio of global business in revenues and adjusted operating income in FY2020: Revenues: 33% Adjusted operating income: 28%</p>	<ul style="list-style-type: none"> • 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
3) Climate change [Priority risk]	<p><Risk></p> <ul style="list-style-type: none"> • 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 <p><Opportunity></p> <ul style="list-style-type: none"> • Use of more efficient transportation modes and production and distribution processes • Ability to diversify business activities • Alternative/diversified resources 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 CO₂) and promote green logistics

<p>4) Loss of human resources and diversified working-style [Priority risk]</p>	<p><Risk></p> <ul style="list-style-type: none"> •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 <p><Opportunity></p> <ul style="list-style-type: none"> •Secure diversified human resources including highly-skilled personnel and those from different industries, etc. 	<ul style="list-style-type: none"> •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 	<ul style="list-style-type: none"> •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 <p><Future consideration></p> <ul style="list-style-type: none"> •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"
<p>5) Impact of the U.S.-China trade friction on international trade</p>	<p><Risk></p> <ul style="list-style-type: none"> •Stagnation of international cargo transport due to protection or preferential treatment of the domestic industries (e.g. subsidy, tax reduction, and increased tariff on imported goods) <p><Opportunity></p> <ul style="list-style-type: none"> •Increase in business opportunities within the regions 	<ul style="list-style-type: none"> •Downsizing of businesses in the relevant regions 	<ul style="list-style-type: none"> •Enhance information collection system and analyze the impacts •Monitor macroeconomic indicators and security information in major countries where the Group operates •Review business regions •Acquire new customers within the regions
<p>6) Tightening of policies and public regulations</p>	<p><Risk></p> <ul style="list-style-type: none"> •Response to changes in policies and regulations (environmental assessment, acquisition of permission/approval, SDGs, etc.) <p><Opportunity></p> <ul style="list-style-type: none"> •Improvement of competitive advantage •Development of new businesses and services 	<ul style="list-style-type: none"> •Additional expenses due to prolonged response efforts •Loss of business opportunities due to a decline in customer trust •Decreases in revenues and profit due to partial restriction on our businesses, etc. by public regulations 	<ul style="list-style-type: none"> •Set CO₂ emission reduction targets in the medium-to-long-term environmental targets and strengthen measures toward their achievement •Collect information to comply with environment-related laws and systems and determine and implement specific measures •Acquire external certification and ensure strict management using third party examinations at businesses and divisions closely related to environmental issues •Integrate SDGs with the management strategies

7) Changes in funding environment	<p><Risk></p> <ul style="list-style-type: none"> •Deterioration in funding environment due to financial market turmoil •Integration, reorganization or bankruptcy of financial institutions due to increased financial volatility <p><Opportunity></p> <ul style="list-style-type: none"> •Diversification of funding measures (e.g. supply chain finance and crowdfunding) 	<ul style="list-style-type: none"> •Increase in interest payments due to a rise in interest rates at the time of funding <p>(Reference) Interest bearing debt in FY2020: 444.6 billion yen</p>	<ul style="list-style-type: none"> •Optimum capital level (optimize debt/equity finance) •Adjust the ratio of fixed- and floating-rate borrowings
8) Retirement benefit obligations	<p><Risk></p> <ul style="list-style-type: none"> •Decline in rates of return due to unexpected market fluctuations •Changes in actuarial assumptions including discount rates and mortality rates <p><Opportunity></p> <ul style="list-style-type: none"> •Increase in rates of return due to unexpected market fluctuations 	<ul style="list-style-type: none"> •Increase in the Company's payments due to increases in contributions and reserves <p>(Reference) Retirement and severance benefits at the end of FY2020: 37.1 billion yen</p>	<ul style="list-style-type: none"> •Periodic review of asset management based on the future projections of retirement benefit obligations <p><Future consideration></p> <ul style="list-style-type: none"> •Introduce a defined contribution pension scheme