Mid-term Management Plan

—Value Creation 2018—
Mid-term Management Plan

- Future Vision
- Review of 2015 Vision
- Numerical Targets
- Priority Measures
- New Organization
- Organic Strategy
  - [Sales Strategy]
  - [Domestic/Overseas 3PL]
  - [Forwarding]
  - [Heavy Machinery and Plant Logistics]
  - [Automobile Business]
- Promote Collaborative Innovation and Collaboration with SG Holdings Group
- Investment Plan
- Promote Smart Logistics
- Human Resource Strategy
- Promote CSR
**Mid-term Management Plan (Future Vision)**

**Future Vision: Global Supply Chain Solutions Provider**

- **Drive thorough enhancement** of 3PL business and increase market share
  - Enhance line-haul trucking and delivery capability
  - Enhance cross-border logistics/Intermodal logistics

- **Enhance Forwarding Business**
  - Enhance Heavy Machinery and Plant Logistics

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**Forwarding**

- Unified Forwarding System
- Line-haul trucking, Delivery
  - B to C
  - Last one mile

- Cross-border
  - Intermodal

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**3PL**

- Unified Forwarding System
- Heavy Machinery and Plant Logistics
- 3D Analysis Technology
  - Equipment/Transport equipment

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**IT**

- Information Technology

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**LT**

- Logistics Technology

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**Alliance**

- Japan/China/Asia
- Southeast Asia

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**Europe/The Americas**

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Review of 2015 Vision

Review of 5 years

Operating margin (%): 23.1
Composition ratio of revenues (%): 4.2

Revenues (Billions of yen):
- 2011: 553.9 (Result)
  - Domestic: 405.3
  - Global: 148.6
- 2012: 547.5 (Result)
  - Domestic: 395.0
  - Global: 152.5
- 2013: 624.5 (Result)
  - Domestic: 409.3
  - Global: 215.2
- 2014: 677.1 (Result)
  - Domestic: 418.8
  - Global: 258.4
- 2015: 680.4 (IFRS)
  - Domestic: 427.2
  - Global: 253.1

Structural reforms (Transformation)
- VANTEC struggled
  - Automobile parts
  - Forwarding
- Domestic 3PL struggled
  - Increased startup cost
  - Increased outsourcing cost

Smart Logistics (Technologies)

Project management

Domestic 3PL struggled
- Increased startup cost
- Increased outsourcing cost

Review of 5 years

Operating income (Billions of yen):
- 2011: 23.1
- 2012: 19.5
- 2013: 21.0
- 2014: 21.2
- 2015: 28.3 (IFRS)

VANTEC struggled
- Automobile parts
- Forwarding
Mid-term Management Plan (Numerical Targets)

Operating income:
- FY2015 (Result): 28.3%
- FY2016 (Plan): 28.0%
- FY2018 (Mid-term Management Plan): 31.0%

EBIT:
- FY2015 (Result): 4.1%
- FY2016 (Plan): 4.1%
- FY2018 (Mid-term Management Plan): 4.5%

ROE:
- FY2015 (Result): 7.5%
- FY2016 (Plan): 9.4%
- FY2018 (Mid-term Management Plan): 10.8%

Revenues:
- FY2015 (Result): 680.4 Billion yen
  - Global: 253.1 Billion yen
  - Domestic: 427.2 Billion yen
- FY2016 (Plan): 685.0 Billion yen
  - Global: 255.0 Billion yen
  - Domestic: 430.0 Billion yen
- FY2018 (Mid-term Management Plan): 800.0 Billion yen
  - Global: 310.0 Billion yen
  - Domestic: 490.0 Billion yen

Composition ratio of revenues (%):
- FY2015 (Result): 37%
- FY2016 (Plan): 37%
- FY2018 (Mid-term Management Plan): 39%
Thorough enhancement of core 3PL business

[Domestic] Enhance delivery solutions and develop region-based business (transformation)
Implement smart logistics standard model (standard 3PL)

[Overseas] Expand truck transportation network within the region and strengthen account management

Expand **Forwarding Business**
Improve profitability with global unified management and enhance offshore business

Expand **Heavy Machinery and Plant Logistics business**
Expand business field and scale with engineering + network expansion + reinforce hard assets

Enhance **Automobile business**
Establish robust competitive advantage and gain new customers and projects

Promote **collaborative innovation and collaboration** with SG Holdings Group to realize seamless comprehensive logistics service
Organization and execution system to address management issues

**Collaborative innovation PJ**
- Promote collaboration and structural reforms

**Global Business Management Office**
- Strategic Forwarding Office
- Global Business Office
- Business Planning Office
- North America
- Asia
- Europe
- China

**Business Management Headquarters**
- Business Development Headquarters
- Heavy Cargo Transport and Engineering Headquarters
- Logistics Solution Business Development Headquarters

**Promote collaboration with SG Holdings Group/Dedicated division to promote structural reforms (newly established)**

**Improve global profitability/ enhance governance/enhance forwarding business**
- Incorporate Strategic Forwarding Office (implement growth strategy including forwarding business)
- Set up Marketing Department within Global Business Office
- Support business of overseas companies acquired through M&A and enhance governance
- Incorporate overseas four key management areas (unify overseas business)

**Enhance 3PL business / expand Heavy Machinery and Plant Logistics**
- Reorganize sales functions of Headquarters to focus on cultivating new accounts
- Business Development Headquarters (newly established)
- Heavy Cargo Transport and Engineering Headquarters (newly established)
- Set up System Integration Department
Enhance 3PL (Sales Strategy)

Logistics solution for next generation and total optimization of SCM

- **Concept of next generation model centers**
  - Labor saving: Management plan to avoid shortfall of workforce and steep rise in personnel cost
  - AI technology: “Demand projection” by utilizing big data
  - Enhance logistics: Optimization tool/utilize advanced technology
  - Volume analysis tools/Automation
  - Big data & demand projection by AI
  - Optimizing centers/IoT/Robot

- **Commercialize/package logistics models**
  - Global procurement logistics model
  - SCM Visualization model
  - Factory logistics/3PL efficiency model
  - Optimal location simulation model

- **Propose total solutions directly related to customers’ management strategy with “collaborative innovation” with partners**

<table>
<thead>
<tr>
<th>Customers’ needs</th>
<th>Site location</th>
<th>Development</th>
<th>Design</th>
<th>Procurement</th>
<th>Manufacturing</th>
<th>Shipment</th>
<th>Sales</th>
<th>After service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory reduction</td>
<td>Optimal location for “Production” “Sales” “Logistics”</td>
<td>Reduce parts inventory</td>
<td>Reduce in-process products</td>
<td>Reduce products inventory</td>
<td>Reduce transportation LT</td>
<td>Reduce procurement LT</td>
<td>Catering/JIT delivery</td>
<td></td>
</tr>
<tr>
<td>Increase value (visualization)</td>
<td>Optimal location for “Production” “Sales” “Logistics”</td>
<td>Reduce parts inventory</td>
<td>Reduce in-process products</td>
<td>Reduce products inventory</td>
<td>Reduce transportation LT</td>
<td>Reduce procurement LT</td>
<td>Catering/JIT delivery</td>
<td></td>
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<tr>
<td>Cost reduction</td>
<td>Optimal location for “Production” “Sales” “Logistics”</td>
<td>Reduce parts inventory</td>
<td>Reduce in-process products</td>
<td>Reduce products inventory</td>
<td>Reduce transportation LT</td>
<td>Reduce procurement LT</td>
<td>Catering/JIT delivery</td>
<td></td>
</tr>
</tbody>
</table>

- **Global PSI management (real time)**
- **SCM KPI management**

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Enhance delivery solution

Implement smart logistics and standard model (standard 3PL)

Enhance delivery solution

- Procurement field
- BtoC field
- Manufacturer
- Manufacturer 3PL
- SAGAWA EXPRESS Sales Office
- Distribution 3PL
- Wholesaler
- Regional business company

Develop region-based business (Transformation)

- Create a competitive on-site operation to survive in the regional competition
- Region-based sales (Expand/maintain)
- Site-based KAIZEN activities
- Resource sharing

- Chubu area
- Nishinippon Area Management Headquarters
- Higashinippon Area Management Headquarters
- Regional business company

Operated business company

- Region-based sales
- Site-based KAIZEN activities
- Resource sharing

- Metropolitan Area

Implement smart logistics and standard model (standard 3PL)

- Opened Kansai II Medical Distribution Center: Hi-Spec & Hi-Value
  - GDP-compliant / BCP-compatible
  - Implement new technology (Next generation labor saving center)
    * Managed area per person: 2.2 times more than existing center
  - Medical products delivery company (Night terminal function)

Expand medical business and establish standard new logistics technology

- Expand medical business and establish standard new logistics technology
  - GDP-compliant DC
  - Multi-style DC
  - Shared-style medical DC
  - Existing center [A]
  - Existing center [B]
  - OTC Medical equipment
  - New drug manufactures
  - General route delivery
  - Joint medical delivery

Image: Operations to be started in Jan. 2018

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Enhance 3PL (Overseas 3PL)

Asia

- Expand truck network
  - Bangkok – Yangon
    - Started in 2015
  - Bangkok – Poipet
    - Started in 2011
  - Bangkok – Koh Kong
    - Started in 2015
  - Hanoi
  - Vientiane
  - Savannakhet
  - Da Nang
  - Yangon
  - Penang – Dongguan
    - Started in 2015

Cross-border from Thailand

China

- Expand distribution business
  (Total entrustment with strategic partnership)
- Initiatives for e-commerce business

Europe

- Expand business with intermodal and cross-border logistics
- Cultivate transportation business connecting between Europe and Central Asia

North America

- Expand NAFTA transportation network (Automobile-3PL)
- Expand Non-Automobile business

Global account

3PL area

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Enhance Forwarding Business (Domestic)

- **Implement global core system** (phased introduction from FY2016)
  1. Visualization of business/Standardizing operations (BPR)
  2. Promote E-forwarding: Generate and effectively utilize big data

- **Sea freight business strategy**
  1. Increase global partnership contracts with shipping companies
  2. Expand import/export volume to the Americas
  3. Expand consolidation lanes: Plan to double in 2018
     - (36 → 72 lanes)
  4. B/L integration (new branding strategy)

- **Forwarding business from or to Japan**: Realize further rationalization

- **Air freight business strategy**
  1. Increase global procurement contracts
  2. Increase revenues from master loader business

- **Expand business to new areas**

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>2H of 2016</td>
</tr>
<tr>
<td>Sri Lanka, Bangladesh</td>
<td>1H of 2017</td>
</tr>
<tr>
<td>South Africa</td>
<td>2H of 2017</td>
</tr>
<tr>
<td>Latin America</td>
<td>2018</td>
</tr>
</tbody>
</table>
Enhance Forwarding Business (Offshore)

- **Expand master loader business from China (collaboration with forwarding company)**
- **Expand business from India to Middle East and new areas**

### Freight volume

(Unit: tons (air), TEU (sea))

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air</td>
<td>230,000</td>
<td>260,000</td>
<td>290,000</td>
</tr>
<tr>
<td>Sea</td>
<td>430,000</td>
<td>440,000</td>
<td>470,000</td>
</tr>
</tbody>
</table>

Figures above are simple sum before elimination of intra-company transactions.
Enhance Heavy Machinery and Plant Logistics (Basic Strategy)

- Business field to expand aggressively
  - Create new field
  - Expand network
    - Support collaborative innovation partners’ diversification (3PL)
    - Establish robust cooperative system within the Middle East network
  - Deepen collaborative innovation (capital alliance/M&A)
  - Expand Heavy Machinery and Plant Logistics business
  - Expand 3PL service

- Overseas projects (Southeast Asia / Europe)
- Domestic projects

- Step 1: Expand network
- Step 2: Expand business by promoting diversification
- Step 3: Deepen collaborative innovation

- Electricity Infrastructure business
  - Reinforcement area <3 regions>
    - Europe (Poland/Turkey)
    - Middle East (Egypt/Iran)
    - Southeast Asia (Indonesia/Philippines)

- Develop new sales tool (Secure hardware)
  - Engineering Plant project
    - • Collaboration/collaborative innovation → deepen relationship (Alliance/M&A)
    - • Reinforce hard assets by strategic investment

- Transportation infrastructure
  - Reinforcement area <4 regions>
    - Middle East (Qatar/UAE)
    - India/Southeast Asia
    - Italy
    - U.K.

- Finished car transportation + New business field
  - Maintenance/Service parts
  - Parts procurement (Procurement logistics management system)

- Myanmar
- Central America (Ecuador/Cuba)

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Enhance Automobile Business (VANTEC)

- **Domestic**
  - [Expand business resources in Kanto area]
    - Provide logistics service for “domestic procurement” and “overseas procurement” for automobile manufacturers
    - Re-mobilize human/resources (reverse logistics)
  - [Expand sales with modal shift utilizing main transportation artery]

- **Europe**
  - Expand U.K. business
    (New DCs/new customers)
  - Expand from the U.K. to the continent
  - Increase vendor managed inventory service for agricultural machinery manufacturers

- **The Americas**
  - The U.S.: Expand business fields for automobile manufacturers
    (Operation management of overseas distribution center)
  - Mexico: Deliver automobile parts from suppliers to automobile manufacturers
  - Transportation between the U.S. and Mexico

- **Enter into new areas: Start business in Brazil**

### Key Transportation Artery
- **Land/Sea intermodal transportation**
- **Delivery representative service**
- **Joint delivery service**

### Strategic investment to become a core automobile logistics company
- Expand 3PL in North America
  (Warehouse/WMS/Material handling)
- Increase transport capacity in Mexico (Alliance/M&A)
- Start business in Brazil (Alliance/M&A)
- Strengthen domestic main artery transportation (trailers)
- Promote automation (AGV)

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Promote collaborative innovation and collaboration to realize seamless comprehensive logistics service

1. Strengthen proposal-making ability and expand business through a sales alliance that makes use of mutual customer bases

2. Use focused fleet management and share center usage for improved utilization rate and efficiency

3. Work on advanced logistics using both Companies’ IT and LT technologies

4. Reinforce global business, with a focus on Asia (alliances of forwarding business and cross-border transport, etc.)

5. Reinforce peripheral businesses through utilization of resources (real estate business and system business, etc.) and collaboration

Contribute to customers with new solutions

Contribute to society with labor saving and optimization

3PL Delivery
Provide integrated solution to cover all process from upstream to downstream (pick up/3PL/delivery)
Effects of Collaboration with SG Holdings Group (Forecast)

Revenues

(Billions of yen)

FY2015 (Result)

680.4

▲30.4

Environmental/volume changes, etc.

New orders
M&A, etc.

+30.4

+100.0

Organic

750.0

800.0

FY2018 (Mid-term Management Plan)

【New order/Business expansion】
- Entrusted with delivery business
- Sales expansion of domestic/overseas 3PL
- Sales expansion of forwarding, etc.

<table>
<thead>
<tr>
<th></th>
<th>FY2015 Revenues</th>
<th>FY2018 Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>340.1</td>
<td>367.7</td>
</tr>
<tr>
<td>Overseas</td>
<td>125.6</td>
<td>143.1</td>
</tr>
<tr>
<td>3PL</td>
<td>465.8</td>
<td>510.9</td>
</tr>
<tr>
<td>Domestic</td>
<td>49.3</td>
<td>52.2</td>
</tr>
<tr>
<td>Overseas</td>
<td>59.4</td>
<td>71.1</td>
</tr>
<tr>
<td>Forwarding</td>
<td>108.6</td>
<td>123.2</td>
</tr>
<tr>
<td>Domestic</td>
<td>66.9</td>
<td>71.1</td>
</tr>
<tr>
<td>Overseas</td>
<td>19.0</td>
<td>20.9</td>
</tr>
<tr>
<td>Auto</td>
<td>85.9</td>
<td>92.8</td>
</tr>
<tr>
<td>Other services</td>
<td>20.0</td>
<td>23.1</td>
</tr>
<tr>
<td>Total</td>
<td>680.4</td>
<td>750.0</td>
</tr>
</tbody>
</table>
Strengthen resources toward growth (Capital expenditures/Alliance/M&A)

Approx. 75.0 billion yen
M&A, etc.
(Approx. 19.0 billion)

M&A/ Collaborative innovation, etc.
(Approx. 88.0 billion)

Approx. 140.0 billion yen

Capex
(Approx. 56.0 billion)

Smart Logistics/Safety

Equipment/Vehicles
(Approx. 47.0 billion)

IT, etc.

Capex
(Approx. 52.0 billion)

Smart Logistics/Safety

Equipment/Vehicles
(Approx. 37.0 billion)

IT, etc.

Capex
(Approx. 47.0 billion)

Smart Logistics/Safety

Equipment/Vehicles
(Approx. 2.5 billion)

IT, etc.

Approx. 2.5 billion
Approx. 12.5 billion

Approx. 1.2 billion
Approx. 8.0 billion

Approx. 140.0 billion yen

Turkey: New distribution center

Tsuchiura Phase II

Metropolitan area chemical center

Smart Logistics

Vehicles

Heavy Machinery and Plant Logistics

Collaborative innovation

[Mid-term Management Plan (accumulated)]

[FY2013 → FY2015 (accumulated)]

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Standard WMS*1 Plan / Integrated WCS*2 Plan

- **SAP(ERP)**
- **SCP*3**
- **Data integration base**

**Common EDI (Electronic Data Interchange) Base**

- **Industry VAN**
- **Apparel Company A**
- **Medical Company B**
- **Distributor Company C**

**Cloud environment**

**Modules**
- Issue voucher
- Transportation management system (TMS)
- Calculate transportation cost

**WMS**
- Inventory control by maker/sales company
- Lot inversion control
- Interface by industry
- Delivery control

**RCS**
- Inventory control by location
- Progress management
- Issue various vouchers
- Operation control

**Integrated WMS (Logistics management): Module**

- Global WMS
- Apparel
- Medical
- Distribution

**Work-related RCS*4** (process & progress management/optimization of human resources and material handling)

- Work visualization tool (Warehouse movement management)
- Integrated WCS for material handling
- Wearable equipment
- Smart logistics optimization tool

**IoT of material handling** (Integrated control of material handling)

- Various material handling

**Logistics center**

Smart Logistics: R&D Center

Next generation center/accelerating development of new technology: Open R&D center (plan)

- **Overview of R&D center**
  - **[Reduce set-up/operational risk]**
    - · Verify assumed operation under a similar environment to real operation
  - **[Realize unmanned/labor saving DCs]**
    - · Develop and implement next generation/new element technology
  - **[Experiencing/feeling center]**
    - · Feel/experience the actual technologies

- **Equipment to be implemented (plan)**

<table>
<thead>
<tr>
<th>Equipment</th>
<th>Description of verification/experiment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Racrew®</td>
<td>High density test to improve storage efficiency</td>
</tr>
<tr>
<td>Forklift/Cart</td>
<td>Automating cargo handling/delivery and 24-hour automatic operation</td>
</tr>
<tr>
<td>Inspection-less related equipment</td>
<td>Technology development/verification to eliminate inspection process</td>
</tr>
<tr>
<td>Robot</td>
<td>Technology verification for unmanned picking operation</td>
</tr>
<tr>
<td>Integrated WCS</td>
<td>Information sharing among facilities/development of new control technology</td>
</tr>
</tbody>
</table>

- **Opening schedule: by the end of FY2016**

- **R&D expenses and effects**

  - **Expenses (estimation)**
    - 2014: ¥0.4 billion
    - 2015: ¥0.8 billion
    - 2016: ¥0.9 billion
  - **Effects (estimation)**
    - 2018: Approx. ¥0.1 billion

Before FY2016

- Change layout corresponding to project

- Reduce set-up/operational risk
- Realize unmanned/labor saving DCs
- Experiencing/feeling center

- Improve efficiency and contribute to new business development

During the period of Mid-term Management Plan: over ¥2.0 billion
Three strategies for all-hands operation by all Group employees

■ Improve employee relations/engagement
(1) Active participation by diversified human resources
(2) Working method transformation
(3) Invigorate work place communication

■ Strengthen management base/collaborative innovation
(1) Create optimal organization and structure to achieve business targets
(2) Further improve efficiency of the Group management

■ Reinforce human resources
(1) Classify and define HR types
   (visualization of ideal human resource)
(2) Visualize human resource (capability)
(3) Recruit and develop HR based on the type and definition

- “New” human resource development system to realize management vision (“Training for all employees” “Training for selected employees” “Elective training”)
- Standardize the training curriculum within the Group, etc.

Active participation by diversified human resources: Diversity & Inclusion

Promote recruitment of diversified human resources
- Utilize female workers, foreigners, the disabled, fixed-term workers, experienced and older people
  <Active participation by female worker: Percentage of managers 10% (FY2020 target)>

Create working environment where diversified human resources can demonstrate their ability
- Change employees’ awareness/develop corporate culture
- Create a pleasant working environment (working method transformation)
- Support childcare and nursing care
Ensure safety: “Safety first” “Establish safe working environment”

- Identify and improve potential risks on our own (Preventive maintenance)
- Control/eliminate potential risks utilizing the latest technology
- Visualize on-site situation timely utilizing cockpit

Examples of safety technology

<table>
<thead>
<tr>
<th>Item</th>
<th>Introduced Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collision prevention assist system</td>
<td>Approx. 500</td>
</tr>
<tr>
<td>New digital tachograph</td>
<td>Approx. 180</td>
</tr>
<tr>
<td>Powered exoskeleton</td>
<td>Trial at 15 sites</td>
</tr>
</tbody>
</table>

Corporate Governance

- Improve management transparency and efficiency
  - Enhance consolidated management base (engage the same audit companies, etc.)
  - Management visualization project

- Compliance management and business development based on corporate ethics
  - Thorough “Basics and Ethics”

BCP

- Select key operation sites (9 sites)
  - “Medical” “Food” “Public/Social infrastructure” fields
- Select alternative site for headquarters functions
- Develop BCP of securing fuel during disasters

Symbol Sport (Track & Field Club)

- Interaction with local communities and enhance the Group unity through sports
  - Target: Make top 8 in New year’s marathon relay race