Mid-term Management Plan –LOGISTEED 2021–

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

Progress of the Mid-term Management Plan

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

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

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

**Collaborative Innovation Activities with SG Holdings Group and AIT Group**

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

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

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

**Collaborative Innovation Activities with Maersk**
In FY2020, we newly started collaborative innovation activities with A.P. Møller-Maersk (“Maersk”), a leading marine shipping company in the world. We aim to build a service to seamlessly link customers’ global supply chains by offering a one-stop service including global logistics services of Maersk centered on ocean transport and 3PL of the Group.
We will also collaborate in import procedures for air cargo in Japan as well as jointly work on the verification in order to one-stop service including global logistics services of Maersk centered on ocean transport and 3PL of the Group.

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

<table>
<thead>
<tr>
<th>Collaborative innovation activities in FY2020 (100 million yen)</th>
<th>Domestic</th>
<th>Global</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional contributions generated by collaborative innovation activities in FY2020 (100 million yen)</td>
<td>25</td>
<td>6</td>
<td>1</td>
<td>32</td>
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</table>

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

**Major new collaborative innovation projects**

**Opened “LOGISTEED CAFÉ”**
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**Contents (as of September 2021)**

- Facility information: A place where collaborative innovation takes place
- Co-Creation: A place where partners share passion for collaborative innovation
- Services: Relevant literature and materials including “smart warehouse,” “LxHUB,” and “SCDOS”
- Events/Seminar: Information on events and seminars to be held by the Company and for registration for events
- Downloads: Materials about our advanced services available for download
- Insight: Latest information on logistics and interview articles, etc.

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

**Facility description**

- **LxHUB**: Collaborative innovation space for seminars and workshops
- **Theatre S**: A 270-degree theatre which offers collaboration between freight forwarding and 3PL.
- **Project Room**: Space for meetings and workshops
- **Solution**: Exhibits of the latest solutions that make up LOGISTEED and development solutions with collaborative innovation partner
- **Exhibition**: Introduction of the history and businesses of the Group

**LOGISTEED CAFÉ**

Progress of the Mid-term Management Plan

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

**Promotion of Digital Transformation (DX)**

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

- Basic policy of DX strategy
  - Value creation through collaborative innovation with Cyber Physical System (CPS)
  - We will collect and accumulate various data in logistics sites (physical space) through the sensor network and systems. We will use AI, etc. to analyze these big data and turn them into knowledges in the cyber space. We will provide these accumulated information and value to the logistics sites to further strengthen our “Gemba” Power. In addition, we will use these data to visualize open innovation with various collaborative innovation partners with the aim of creating new businesses and business models.

- Priority measures
  1. External DX cases
     - We commercialized three solutions.
     - In 2021, we added “function to visualize CO2 emissions” in SCDOs and promoted decentralization at both customers and the company.

- SCDOs²
  - Centrally manage and visualize supply chain information supporting processes to reduce uncertainties.
  - Combine the automation, labor-saving expertise, and digital technologies and standardize them for each industry.

- SWH²
  - Help transport companies improve operational efficiency and achieve zero accidents by making full use of IoT technology.

- SSCV³
  - Centrally manage and visualize supply chain information supporting processes to reduce uncertainties.
  - Combine the automation, labor-saving expertise, and digital technologies and standardize them for each industry.

- Internal DX cases
  - We have promoted the standardization of WMS* and the core system renewal to aggregate data in a digital business platform.
  - We have also been promoting RPA as part of VR2 activity aimed at operational improvement through company-wide bottom-up initiatives and working on initiatives to spread DX at sites.
  - Through RPA, we have developed 536 types of robots in the entire Group until March 31, 2021, which enabled us to save approximately 6,600 hours of work per month.

- Responded to the Digital Governance Code
  - "Digital Governance Code" is a document prepared and released by the Ministry of Economy, Trade and Industry (METI) of Japan, which summarizes responses required of managements to encourage company voluntary efforts for DX.
  - In response to the Digital Governance Code, the Company is implementing measures such as development and execution of DX strategy, establishment of a governance system including the involvement of the Board of Directors, and information disclosure to stakeholders. The Company was recognized for these efforts and selected as a “DX Certified Operator” in May 2021.

- Development of DX human resources
  - We have established a system to develop DX human resources and promoted development of highly skilled personnel as well as providing basic education to all employees including executives in order to raise the level of digital literacy.
  - We also focus on fostering data analysts capable of practical data analysis at logistics sites and are working on operational analysis/improvement using actual data. In order to secure human resources, we promote long-term, stable retention of human resources from partner companies in addition to hiring experienced personnel.

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

**Message from the officer in charge**

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

Shunsuke Yonekura
Executive Officer
General Manager, Automation Solutions Business Development Headquarters
General Manager, Logistics Solution Business Development Headquarters
General Manager, Transport Business Development Project Team

Message from the officer in charge

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

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Our Future

Progress of the Mid-term Management Plan

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

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

**Building a Transport Digital Platform**

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

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

**Promote expansion into the entire transport business (land, passenger, etc.)**

Use big data obtained to create new services/businesses

Our Future

**Start of external sales of SSCV-Safety**

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

**Start of Providing SSCV-Smart**

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

**Enhancement of Transport Business**

**Launch of the Transport Business Enhancement Project**

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

- **Start of external sales of SSCV-Safety**
- **Start of Providing SSCV-Smart**
- **Enhancement of Transport Business**

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

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

*Creating Shared Value (CSV) refers to practices that balance activities to create economic benefits with solutions to social issues, or management strategies to achieve them.*

**Note:** SSCV refers to a platform consisting of three solutions: SSCV-Smart, SSCV-Safety, and SSCV-Vehicle.
Progress of the Mid-term Management Plan

Promotion of VC21 Activities

Outline of activities
The HTS Group has been working on “VC 21 Activities” as daily improvement activities to implement the HB WAY. The aim of these activities is that “the Company continues to grow and employees find their work rewarding.” We have been repeating a cycle where employees in each site and department exchange ideas under different themes, register initiatives in a dedicated system and carry out and follow up the improvement activities systematically.

We share initiatives of all sites among the entire Group via the dedicated system and carry out and follow up the improvement activities. Each employee has been working on “VC 21 Activities” with a sense of “personal ownership,” and the accumulation of such efforts has taken root as the improvement culture and has become the foundation to support our business model and the source of value creation.

We have enhanced our organization and ability to accomplish operations through a cycle where we have human-centered deep dialogue, enjoy learning, generate ideas, and implement improvements. We have been repeating a cycle where employees in each site and department find their work rewarding.”

The HTS Group has been working on “VC 21 Activities” as daily improvement activities to implement the HB WAY.

Outline

1. Promotion of VC21 Activities
2. Improvement education
3. Improvement by digitalization
4. Good Job cards
5. Workshop for generating ideas
6. Dialogue café
7. Logistics OPEX

Improvement culture through “visualization of improvement activities” and “cultivation of the culture of praise.”

Let’s enjoy repeating VC21 Activity cycle!

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

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

Number of applications: 164

VC21 Award Grand Prize: 19 cases

Themes (excerpt)

• Introduction of “Pictograms (Notices)” at sites
• Enjoy and challenge! Can we move a 300kW super heavy wagon easily?• Development of one-way stacking jig

Improvement by digitalization

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

Digital dialogue session

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

Our History

Our Future

Hitachi Transport System, Ltd. Integrated Report 2021

Hitachi Transport System, Ltd. Integrated Report 2021
Progress of the Mid-term Management Plan

**Initiatives for SDGs — Four Objectives**

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

**Contribution to SDGs**

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

**Four objectives**

1. Pursue Next-generation Industries and Lifestyles
2. Enhance Occupational Safety and Productivity
3. Ensure Excellent Quality and Resilience*
4. Realize Decarbonized Business Processes

*Defined as “the capability of a people or things to recover quickly from difficult conditions such as shock and injury” or “the ability to retain or regain normal function after being penalized, threatened or compromised”

Towards the Realization of Sustainable Society

- **Objective 1**: Pursue Next-generation Industries and Lifestyles
- **Objective 2**: Enhance Occupational Safety and Productivity
- **Objective 3**: Ensure Excellent Quality and Resilience*
- **Objective 4**: Realize Decarbonized Business Processes

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**ESG Initiatives**

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

**Initiatives from FY2021**

**E: Environment**

- Realize decarbonized business processes
  - Establish a model site to measure the effects and examine how to access (accumulating expertise)
  - Visually CO2 emissions using SDGs and promote a sense of personal ownership for environmental activities through VCIJ Activities Adequate disclosure of the Company’s initiatives (endorsement of TCFD*¹ recommendations, Integrated Report)

**S: Social**

- Accelerate diversity & inclusion and working-style reform
  - Increase the ratio of female managers in the entire Group (PFY2023 target: 10%*)
- Promote investment in human capital
  - Observe and evaluate employee engagement, and develop and secure HR human resources
- Ensure to keep in mind “Basics and Ethics”
  - Improve operational efficiency and enhance governance through core system renewal (Develop digital audit environment, etc.)
  - Appoint risk owners and risk response managers
  - Conduct in-depth discussion on the essence of management at the Board of Directors (sustainability, E, etc.)

**G: Governance**

- Ensure to keep in mind “Basics and Ethics”
  - Improve operational efficiency and enhance governance through core system renewal (Develop digital audit environment, etc.)
  - Appoint risk owners and risk response managers
  - Conduct in-depth discussion on the essence of management at the Board of Directors (sustainability, E, etc.)

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**Objectives from ESG perspectives**

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<th>S: Social</th>
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<td><strong>Objective 1</strong></td>
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**Toward the Realization of Sustainable Society**

- **Objective 1**: Pursue Next-generation Industries and Lifestyles
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**Participated in the United Nations Global Compact**

- Response to COP*² (climate change rating: A-)
- Signed to endorse TCFD recommendations

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**Accelerate contribution to SDGs**

- Participated in the United Nations Global Compact
- Response to COP*² (climate change rating: A-)
- Signed to endorse TCFD recommendations

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

Investment Strategy for Change and Evolution into "LOGISTEED"

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

Business Investments

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

Major Investments in FY2020

- Operations started June 2020: Oragadam Logistics Center (India)
- Operations started February 2021: East Japan II Medical DC (Saitama Prefecture)
- Operations started March 2021: Mito Transport Center (Ibaraki Prefecture)
- Renewal of vehicles, etc. (North America/Turkey and other areas)

Strategic Investments

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

Investment Plan

Future Plans to Expand Logistics Sites and Equipment

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

Domestic Business

- Manufacturing parts logistics center (Start of operation: FY2021)
- Materials logistics center (Start of operation: FY2021)
- Introduction of automated/labor-saving equipment

Overseas Business

- Automobile related JD Center (Order expansion) (Start of operation: FY2021)
- Enhancement of center (Order expansion) (Start of operation: FY2021)
- Chilled warehouse (Cold chain) (Start of operation: FY2023)

Total investments: Over ¥53 billion (Cumulative total of key plans*)

Further enhancement/higher added value of 3PL

Total investments: Over ¥12 billion (Cumulative total of key plans*)

Acceleration of global growth strategy (including joint investment with collaborative innovation partners)