

## To Our Shareholders

# Midterm Corporate Strategy 2021 - Achieving Growth Through Business Management Model -



November 2018  
Takehiko Kakiuchi  
President and CEO

On November 2, 2018, we announced our new management strategy, entitled "Midterm Corporate Strategy 2021 – Achieving Growth Through Business Management Model", taking effect from fiscal year 2019 for the next 3 years along with our financial report for the first half of fiscal year 2018.

Societal and economic circumstances are changing rapidly due to developments, such as the geopolitical shift between the US and China, and the rise of the "Fourth Industrial Revolution" through digital technology trends and the evolution of platformers.

Basically, it is comprised of following four sections.

- Section 1, Business Portfolio.
- Section 2, Growth Mechanisms.
- Section 3, HR system Reforms.
- Section 4, Financial Targets & Capital Policy.

True to MC's guiding philosophy, "the Three Corporate Principles," we will do our best to continue meeting the expectations of our many stakeholders, growing our businesses in such a way as to simultaneously generate economic, societal and environmental value.

We thank you for your support and look forward to working together for an even brighter future.

## Portfolio Strategies Aimed at Stimulating More Growth

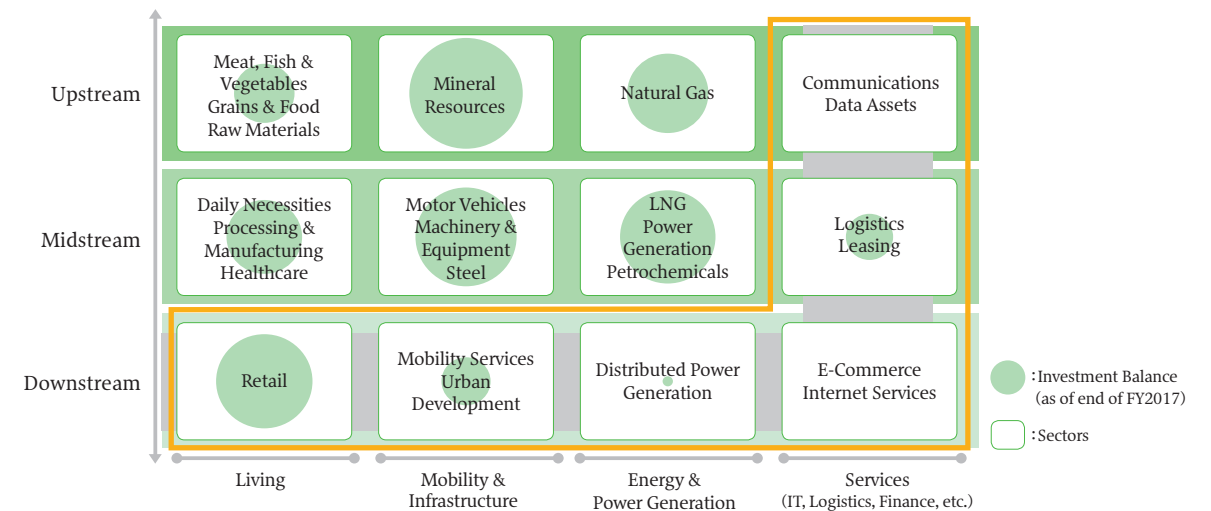
We have a responsibility to adapt to the changing times, and build our envisioned portfolio.

Under the new strategy, MC will be implementing a framework of portfolio-based decision making to enable a holistic view of industry. We will then determine which fields it needs to be more proactive in and where it needs to replace its assets based on changes in the operating environment. MC's portfolio will be structured as a 12-sector matrix.

MC is strong in the Living, Mobility & Infrastructure, and Energy & Power Generation categories, but from

here on, developing businesses in the downstream areas where MC has yet to firmly establish itself will be a matter of urgency.

Meanwhile, more and more heavyweights backed by large customer bases are jostling for position in the Services sectors, where market growth is accelerating due to the rapid deployment of digital technologies. Midterm Corporate Strategy 2021 will give MC a three-year window to determine whether or not it should enter those sectors.



## Growth Mechanisms

### Value-Added Cyclical Growth Model & Improved ROE

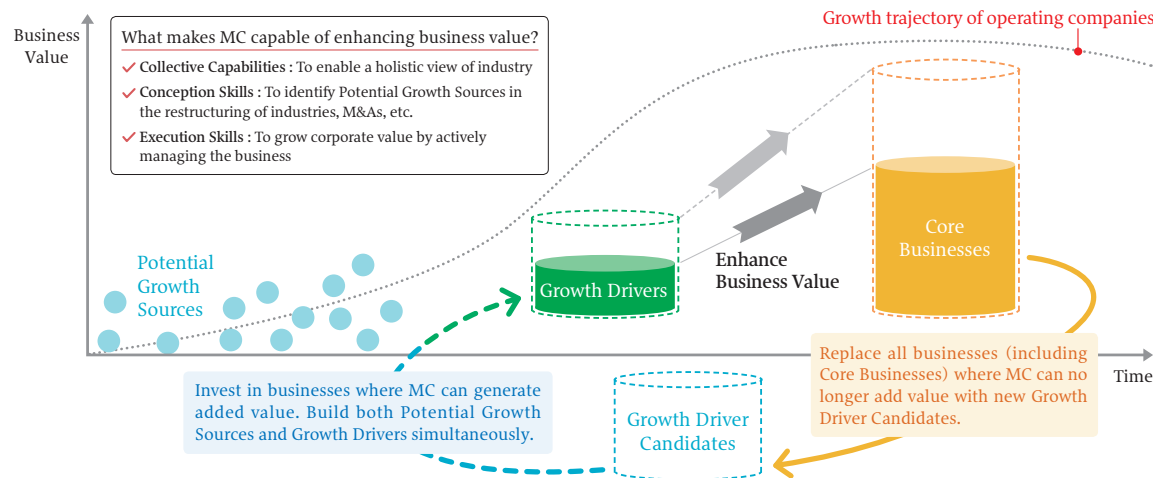
"MC's objective is to identify Potential Growth Sources, nurture them into Growth Drivers, and increase value to create next generation Core Businesses. When we are no longer able to add value in that business, we redirect capital to businesses where we can add value."

Naturally MC will continue this virtuous growth cycle, but moving forward it will be even more focused on maintaining the ideal portfolio balance. Should any of its businesses reach a point when the company is no longer able to

add value, then MC will not hesitate to divest from and replace those businesses, even if they are Core Businesses. MC must be financially disciplined, but at the same time forward-looking in order to identify attractive Growth Driver candidates that could represent the company's next generation Core Businesses. Asset replacements will generate capital gains, meaning that as long as MC can continue this cycle, it can expect to maintain or even grow MC's return on equity (ROE).

Potential Growth Sources → Growth Drivers → Core Businesses

Our new growth model will enhance business value through this divestment-to-reinvestment cycle



### Enhancement of New Business Concepts & Digital Strategies

"To build MC's envisioned portfolio" with enhancing new business concepts, MC will have ten Business Groups, three more than it has at present.

When reviewing the business landscape, we will reassess MC's portfolio from top to bottom from a holistic industry viewpoint while keeping in mind industry restructuring, technical innovations and other global megatrends to identify the Potential Growth Sources.

MC will be appointing General Managers for Business Creation to all ten of its Business Groups. We will also be

setting up a Business Creation Office in our Corporate Strategy & Planning Department. Internal systems and protocols will be put in place to facilitate collaborations between this new office and the Business Groups.

MC will also be newly appointing a Chief Digital Officer (CDO) and setting up a Digital Strategy Department under the CDO's charge. General Managers for Digital Strategy will also be assigned to all of the Business Groups to address the rapid digitalization in the business world.

## HR System Reforms

With the rapid pace of change in MC's operating environment and increasingly common industry integration, societal needs are starting to change in a big way. In order to develop our human resources to provide solutions to such developments, MC will now commit to the first major reform in some 20 years.

We will take following initiatives: accelerating the development of future management professionals through varied experience, being more meritocratic, and ensuring that the right people are assigned to the right positions. A key theme of MC's strategy will be utilizing its management talent more broadly throughout the MC Group.

- From here on the company will ensure that its people gain basic management competencies within their first ten years, so that they can be appointed to management positions at an appropriate time, regardless of their ages.
- MC will be creating broader grade categories that will enable it to appoint and utilize its human assets more

## Financial Targets & Capital Policy

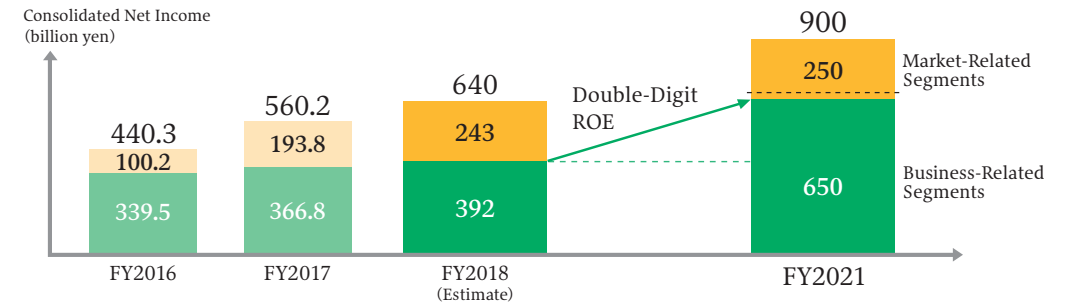
MC's earnings targets for fiscal year 2021, the final year of its new midterm strategy, will be 650 billion yen in business-related segments and 250 billion yen in market-related segments, for a total of 900 billion yen.

MC will be selectively investing to make its existing businesses even more competitive. I am confident that such

flexibly. Posts and personnel above a certain level will be managed companywide rather than at the Business Group level, so as to speed up the development and deployment of management professionals throughout the company.

- MC will also be more meritocratic, and its employee remunerations will be based on the difficulty level of jobs and performance. Furthermore, MC will be including a share-based compensation in addition to the cash remuneration packages to certain employees to foster reciprocal employee-company growth.
- MC's evaluation system will also change. The basis for employee evaluations will be those made by their direct superiors, but the company will introduce a multilayered evaluation framework to ensure that employee performance is assessed by numerous perspectives, which will help MC to assign the right people to the right positions.

### Financial Target



### Dividend Policy

