

Message from the President



Hitoshi Ochi, the president, here. Our FY2017 performance was an all-time high of 380.5 billion yen in core operating income (24% increase from the previous period), 17.8% in ROE, and increase in dividends from 20 yen in FY2016 to 32 yen. This is in part due to more favourable market conditions, but personally I am convinced that we would not have been able to accomplish the goal of 380 billion yen, which we put up for FY2020 in the medium-term management plan, so early if not for the closing down of underperforming businesses and M&A structural reforms that we have been undertaking since the founding of the Mitsubishi Chemical Holdings Corporation (MCHC) in 2005. At the same time, in order to become a company that does not miss out on the

accelerating development of technology and that can achieve sustainable growth despite slow global economic growth, we have plenty of challenges to overcome and so a record income should not make us complacent. Without slowing down, we will be doing our very best to achieve the income level of 430 billion yen in core operating income, which we have put up for March 2021.

Becoming a Stronger Holding Company by Increasing Corporate Value in the Mid-to-Long Term

It has been four years since I became president of MCHC, and this April, I stepped down from my concurrent post as president of Mitsubishi Chemical Corporation (MCC) to focus solely on my

responsibilities at MCHC. I was well aware of my tasks as president of MCHC on the one hand, thinking about how to increase corporate value for the Group as a whole over the medium to long terms, and as the president of an operating company on the other, managing day-to-day business. Yet with MCC running smoothly now, I decided it was time to put that job aside and focus on strengthening the functions of MCHC as a holding company.

In fact, even though it has only been a few months, my time management has changed drastically. Previously, I had to spend time overseeing daily operations as the president of an operating company, but right now my time is spent on thinking about corporate strategy and measures for the medium to long terms. I

Long-Term Management with an Eye to 30 Years into the Future

Striving for the Well-Being of the Whole World

Hitoshi Ochi

Representative Corporate Executive
Officer, President and CEO

feel like I am one step closer to the ideal in terms of increasing the corporate value of the Group as a whole. What we are aiming for is a strong holding company. In general, I think the role of a holding company is limited to creating suitable business portfolios, IR, financial affairs, corporate governance, and so forth. When MCHC was founded in 2005, we were not able to work out a strong strategic policy as a holding company. Then, up until 2017, we implemented a variety of reforms to strengthen our profile as a holding company, such as selling and closing down businesses worth about 600 billion yen and bringing in businesses on a 1.45 trillion yen scale. Our businesses in the fields of chemistry, industrial gases, pharmaceuticals, and life science

showed reasonable growth, and we saw an increase in core operating income from about 130 billion yen in FY2005 to about 380 billion yen in FY2017. In April 2017, we merged three chemical operating companies and founded MCC, laying the groundwork for the coming reforms. In this way, the company's business stage changed, and I think it was a time of many changes in the respective roles of the holding company and the operating companies, which happened against a background of accelerating digital technological and chemical technological development around the world.

Specifically, we had previously divided up responsibilities so that operating companies focused on their own strategies for the next 3–7 years while

the MCHC consolidated those efforts and decided on the overall direction. We will change this to a properly implemented system where the MCHC decides on the direction of the Group as a whole with an eye to developments 10–15 years in the future, creating a basic strategic framework that becomes the basis of the operating companies' strategies for the next 3–7 years. It was for this reason that we founded the Emerging Technology and Business Development Office (ETBDO) in 2017, to operate like a think-tank and innovator for corporate strategy.

Message from the President

Realizing that we were at a stage where we must think seriously about the connections between our corporate activities and the SDGs*, we decided to really rethink KAITEKI.

We redefined KAITEKI, which is our goal, as “the sustainable well-being of people, society and our planet Earth.”

It contains our wish to realize good health and well-being not only in our company or society, for all humanity and all over the world.

*Sustainable Development Goals

On to the Third Phase of KAITEKI Management

KAITEKI Management aims for sustainable growth and has now reached its third phase. The starting point of KAITEKI Management, its first phase, was Project 10/20 that started in 2006. As part of that project, we kept asking ourselves what role we can play in the world as a chemical company, thinking about where we should be in 10 years and what the world will be like in 20 years. We also identified seven businesses that contribute to sustainable development.

The second phase started around the time of the 2008 financial crisis. Back then, we thought that “CSR is about realizing sustainable development through the core businesses.” The Japanese word “kaiteki” means “comfortable” in English, but we decided to stylize it as “KAITEKI” as a way to broaden our perception of the values shared by our company and society (CSV : Creating Shared Value). Moreover, we proposed that KAITEKI Management should be implemented along three axes (MOE: Management of Economics, MOT: Management of Technology, MOS: Management of Sustainability) to spread awareness about how the company is creating value.

And now we have reached the third phase. With the UN’s announcement of the SDGs in 2015, the scope of issues requiring solutions by society was expanded from the climate, water, and food to areas including poverty, discrimination, education, and so forth. We had previously been performing materiality assessments to get an overview of stakeholders and company priorities in a matrix format, but realizing that we were at a stage where we must think seriously about the connections between our corporate activities and the SDGs, we decided to really rethink KAITEKI. We redefined KAITEKI, which is our goal, as “the sustainable well-being of people, society and our planet Earth.” It contains our wish to realize good health and well-being not only in our company or society, for all humanity and all over the world.

Preparing for the Future

Our management is long-term oriented. Looking ahead 20–30 years, we founded the KAITEKI Institute, Inc. (TKI) in 2009 to think about what our theme is for the next generation (see page 64). We were faced with the task of how to utilize the long-term perspective of the TKI for our short-to-medium term business strategies, but as we were strengthening

the strategic functions of the MCHC, for example by establishing the ETBDO, we could create a framework in which the TKI looks 20–30 years into future, the MCHC thinks about ways to innovate in the next 5–20 years, and the operating companies make plans for the next 3–7 years.

When it comes to the digital transformation (see page 66), we invited a CDO (Chief Digital Officer) from outside and started thinking broadly about what the MCHC Group needs. The team consists of inside and outside members, and will be working on how to apply digital shift from a diverse range of perspectives. We have 70–80 themes, but will start by developing and implementing about 10 trial projects. Through the sharing and implementation of digital innovation knowledge centering on younger employees, we are also bringing up new human resources. Circular economy is another theme that is important to the MCHC Group. In recent years, we have seen the spread of ocean pollution from microplastics and other causes, a problem that is especially serious along the shores of developing countries that lack systems for collecting garbage. Recycling and reuse activities are not a new thing in the industry, but it is our responsibility as a



material manufacturer as well as a growth opportunity to create mechanisms for a more substantial recycling society.

Promoting Organizational and Individual “Health Management”

An important policy that forms part of the KAITEKI Management is health management (see page 73). We are making major improvements to our ability to generate income by linking operational effectivization and increased productivity to health assistance and work-style reforms, as well as by enhancing our ability to innovate and compete in business. We have been implementing employee awareness surveys in the last few years, which has taught us that promoting health and improving workplace communication can increase individual ability and satisfaction as well as vitalize the organization and boost creativity. Work-style reforms across the world tend to focus on overtime work. We monitor working times as well of course, but we also use original KPI, such as indicators for energy, health, and work style. We are also investing in office environments and welfare facilities to train human resources and improve communication. Investments in human resources count as expenses in the

accounts, but I am confident that developing human resources by energizing communication, improving health, and sharing experiences is something that definitely will bear fruit.

Safety and Compliance Are the Foundation of Everything in the Company

Safety and compliance are the foundation of everything in the company. Overlooking those aspects will threaten the company’s very survival. In the area of safety, we will definitely not let past experiences go to waste, including the lessons from the 2007 accident at the MCC Kashima Plant. We are working to prevent accidents involving old equipment by making suitable maintenance investments and introducing new technologies. In the area of compliance, we are constantly monitoring and adapting to the rapid changes taking place across the world, including personal information protection rules in Europe and environmental regulations in China. It is not enough for us to think and act by ourselves. We must work to understand the needs of the times and uphold a global standard. We also cannot stop at simply upholding it, but must engage with it creatively.

Committed to Increasing Corporate Value in the Mid-to-Long Term

The first time I became involved in IR activities was in 2008. I was in the Corporate Strategy Office and assisted the then President Yoshimitsu Kobayashi as he called on international investors. I received many questions about the low profitability of petrochemical and other industries as well as about the incomprehensibility of the “integrated” chemical industry. Nowadays, I get more substantial questions about how we can survive in this age and how we can generate growth organically under the current Medium-Term Management Plan. Investors appreciate the structural reforms that we have conducted as well as the stability and improvements we have achieved in terms of income, but I also feel that they are developing a keener interest in ESG and the SDGs. The dialogs we have with all our stakeholders will continue to be a priority, and it is our ambition to repay your trust by implementing measures for enhancement of medium- to long-term corporate value and facilitate corporate growth. I hope to have your continued support in this.