

President and
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Further promoting changes to how we compete and creating continuous innovation in order to realize “where we want to be in ten years’ time”

2018 Medium-term Management Plan stemming from discussions at the 50th anniversary

The 2018 Medium-term Management Plan (from FY2016 to FY2018) was formulated by determining “where we want to be in ten years’ time” first and backcasting from that specific point. “Where we want to be in ten years’ time” in this context was envisioned to realize the Hitachi Chemical Group Vision, an expression of what Hitachi Chemical aims to be, which was born from discussions that took place at the 50th anniversary of Hitachi Chemical’s foundation. Let me remind you what we will be aiming for in the next 50 years, and our passion for the future of Hitachi Chemical.

The 50th anniversary of Hitachi Chemical in 2012 served as an opportunity for us to hold a “communication workshop” to share what we aim to be in 50 years’ time with the entire workforce of the Group. To begin with, all Executive Officers engaged in a series of discussions on the past, present and future of Hitachi Chemical and summarized them in the form of “Management Message Looks to the Future,” shared it with employees worldwide, and made each employee think how we should act from here onwards based on his/her own understanding through the workshop. This is because we wanted it to serve as the springboard for the management team and all employees to work as one to take on challenges for the next 50 years.

The Management Message was “expand our business beyond “Chemical” to create value for the future.” From here on, there is no need to be fixated on this domain called “Chemical.” However, we will stick to this field called “Materials,” which is in our DNA. I believe we have been able to share with everyone our passion to expand our business domains from this field into systems and services, and even from BtoB into BtoC. Based on these discussions, we established the Hitachi Chemical Group Vision to portray what Hitachi Chemical aims to be.

What we also realized in this process is that the conventional method of formulating medium-term management plans had given priority to performance targets in the near term and failed to create plans from a long-term perspective, including the direction we wish to pursue in the future and what kind of entity we are aspiring to be. That said, 50 years is too long of a time period for this context. We therefore held discussions on “where we want to be in ten years’ time.” For this, the 10-year Strategy serves as a roadmap in order to reach the decided destination. Additionally, we decided to formulate a Medium-term Management Plan for the three-year period in consideration of the discussions.



For information on the 2018 Medium-term Management Plan, refer to [P.25-28](#).



For information on “where we want to be in ten years’ time,” refer to [P.25](#).



For information on “Management Message Looks to the Future,” refer to [P.21-22](#).



For information on the 10-year Strategy, refer to [P.25-28](#).

What became evident by changing how we compete



For product examples relating to “Improve Quality of Life (QOL)” and “Realize Sustainable Environment,” refer to the initiatives of key businesses on [P.29-36](#).

A year has passed since the launch of the 2018 Medium-term Management Plan. I believe the process of envisioning where we want to be in the future and formulating strategies to achieve that has become widely accepted within the organization. To achieve the targets set forth in the 10-year Strategy, we will review the Medium-term Management Plan every three years and execute milestone management.

What is also different from before is that we have described our business activities not only in terms of fulfilling financial indicators but also in terms of being beneficial in resolving social issues in reference to the values we wish to realize, i.e., “quality of life (QOL) improvement” and “realization of a Sustainable environment.” We wanted to make the Medium-term Management Plan capable of explaining that the work performed by each and every employee is linked to social issues, or put differently, Hitachi Chemical’s business activities are contributing to society through the creation of value.

A year in which seeds for growth were steadily sown

At Hitachi Chemical, “where we want to be in ten years’ time” is to be “a globally developing innovative solutions beyond the boundaries of chemistry, with advanced functional materials as core and extending to devices, systems and services.” We are seeking to become a company that generates a stable operating margin exceeding 14%. The first stage of this process is the 2018 Medium-term Management Plan, in which the key strategies are specified as the development of global top share businesses by the Niche and Cluster Strategies, the establishment of new business centering on Open Innovation through collaborative creation with stakeholders, and the strengthening of the management base that provides underlying support to such efforts. The operating margin target is 11%. We are executing alliances and M&As that absorb outside resources and are proactively making investments in growth fields.

While we will conduct a more detailed analysis on what kind of effects such measures have had in specific terms, I believe the original targets have more or less been achieved for fiscal year 2016—the first year of the 2018 Medium-term Management Plan. Despite an extremely strong yen, we posted higher revenue and profits, driven by the expansion of businesses in growth fields, the continuous reduction of costs and the success of measures including M&As.



For information on Open Innovation, refer to [P.41](#).



For progress on the 2018 Medium-term Management Plan, refer to [P.26-28](#).
For information on M&As in detail, refer to the initiatives of key businesses on [P.29-36](#).

2018 Medium-term Management Plan Targets

Revenue			Operating Margin		
FY2016 result	FY2017 forecast	FY2018 target	FY2016 result	FY2017 forecast	FY2018 target
554.1 billion yen	610 billion yen	CAGR 7-8%	9.6%	9.5%	11%
Up 1.4% year on year		Target from FY2015 to FY2018			



Making a breakthrough by continuous innovation based on a diverse range of resources

On the other hand, what turned out to be most regrettable for us in fiscal year 2016 is the delay in the launch of new products and the poor performance of some high-end products. While intensified competition over the past few years has led to increased commoditization of electronics-related products that had maintained a high profit margin, the release of new next-generation products has been slow. Having been appointed to President at such time, my mission is to overcome this situation and put Hitachi Chemical on a new growth trajectory.

Hitachi Chemical is not unique in companies that are having difficulty in envisioning growth as an extension of their traditional operations, so in that sense, at no other time has innovation ever been a greater requirement than it is today. At present, we are working on building a new business model by promoting Open Innovation through collaborative creation with customers, clients, industry peers, research institutions and other external parties.

Specifically, in addition to absorbing outside resources through alliances and M&As, a different approach, i.e., our Open Laboratory Strategy in the semiconductor packaging materials business has started to gain traction. Many customers have visited the Open Laboratory to date; in addition to advances made in the development of many next-generation materials, there have even been the cases in which the certification period was shortened to one-third of the original period. In response, we have decided to relocate the Open Laboratory to Kawasaki City, Kanagawa Prefecture (Shinkawasaki area), which is easily accessible by a wide range of domestic and overseas partners. It will be approximately three times bigger in scale, and substantial enhancements will be made to the facilities including introducing state-of-the-art semiconductor packaging equipment. The Open Laboratory is due to open in August 2018, and is expected to play a significant role not only as a venue for collaborative creation with customers as well as other companies in the industry but also as a strategic base for the functional materials business.

In January 2017, we opened the Innovation Center near Tokyo Station as a place for customers, suppliers, equipment manufacturers and research institutions including universities to explore new innovation agendas and examine ways to realize innovation. The Innovation Center has been visited by many more customers than expected, and has already started showing its broad business potential. For example, it has already received inquiries from major manufacturers seeking advice on specific development projects. Through such efforts, we intend to bring forth new agendas beyond Hitachi Chemical's existing business domains to help create new businesses.

Open Laboratory

The Open Laboratory was established ahead of other electronic materials manufacturers with the aim of promoting Open Innovation in semiconductor packaging materials and processes, among others, through collaboration with customers, equipment manufacturers and materials manufacturers. The new Open Laboratory for Semiconductor Packaging Materials is scheduled to start operating in August 2018.



Innovation Center

A facility to introduce technology through experiential exhibits and to explore new co-create innovation for the future.



Far-sighted financial strategies to stabilize management base

Expanding business scale to contribute to stable management

In order to build a stable business foundation that is insusceptible to changes in the environment, we need to quickly expand our revenue to the level of 700 billion yen. It is also necessary to generate a stable two-digit operating margin. To achieve this, we will proactively implement financial strategies by utilizing our financial base, which is currently in a healthy state.

The 2018 Medium-term Management Plan sets forth policies to form alliances and execute M&As with large-scale transactions on the scale of 100 billion yen in mind, in addition to making plant and equipment investments aggressively focusing on growth business sectors. In fiscal year 2016, Hitachi Chemical acquired multiple businesses through M&As. We also have deals that are currently in the process of negotiation. Going forward, we will continue to proactively acquire new businesses by distinguishing transactions that translate into growth.

In fiscal year 2016, our capital expenditures were in the amount of 39.9 billion yen. In fiscal year 2017, we plan to substantially increase the amount to 60 billion yen, mainly due to investments in the relocation of the Open Laboratory, the generation of synergies with group companies that have newly become consolidated subsidiaries, the construction of facilities for contracted manufacturing of regenerative medicine cells and “Work Life Innovation” in indirect operations (such as IT investments). Needless to say, these investments would be meaningless if they do not lead to the growth of businesses, but taking a look at Hitachi Chemical’s stock price trends, I believe M&As and other developments at Hitachi Chemical over the past year has made the stock market see how serious we are.

Efficient utilization of funds is a key responsibility of the top management. As the criteria for determining efficiency, we have set our eyes on Return On Invested Capital (ROIC). ROIC is an index that indicates how efficiently invested capital is generating profit, and it does not lie. We basically do not invest in projects that generate ROIC below the industry average or less than the amount of capital cost.



For information on the investment strategies including alliances and M&As, refer to **P.05-06, 27, 29-36**.



For detailed information on capital expenditures, refer to **P.27**.



For ROIC of each business (excluding Life Sciences), refer to **P.29-34**.



In regard to raising funds from capital markets, our basic rule for the time being is to use internal reserves as the source of financing. That said, in consideration of the current financial environment in which negative interest rates are expected to continue, to ensure solid business growth, it will be necessary to consider raising funds from capital markets as one of the options.

With respect to shareholder returns, our basic policy is to pay stable dividends targeting a dividend payout ratio of around 30%. In fiscal year 2016, we increased the annual dividend by 5 yen from the previous fiscal year to 55 yen. In fiscal year 2017, we have our sights set on increasing the annual dividend by another 5 yen to 60 yen.

Of note, the Hitachi Chemical Corporate Governance Guidelines announced in fiscal year 2015 set forth our basic stance not to have any cross-shareholdings that do not contribute to higher corporate value. Shares that failed to meet the Guidelines were sold during fiscal year 2016.

“Aggressive” ESG management to tackle social issues

Environmental, social and governance (ESG) management used to give a strong impression of having “defensive” aspects in terms of meeting social requirements. Recently, however, this perception has been changing dramatically among society, shifting towards its “aggressive” aspects that translate into higher corporate value. In this context, Hitachi Chemical conducts materiality analysis to recognize issues not only with stakeholders but also in its business operations, and engages in ESG management in both aggressive and defensive terms. We are also enhancing ESG efforts based on the key performance indicators (KPIs) we have set forth in the 2018 Medium-term Management Plan with respect to two items, including the reduction of CO₂ emissions. Furthermore, we have launched an in-house CSV project based on our approach to achieve business growth while resolving social issues, including from the perspective of SDGs.

As for CO₂ emissions, we are engaging in activities to minimize environmental impact by setting emissions reduction targets under the 2018 Medium-term Management Plan. In fiscal year 2016, however, CO₂ emissions increased in conjunction with the expansion of business scale and for other factors, and CO₂ emissions per unit of sales worsened at some business sites. Although Hitachi Chemical has been proactively working on reducing CO₂ emissions and raising awareness within the organization through the introduction of a unique Carbon Management Strategy, we regret that our policy could not penetrate all corners of our operations during the process of expanding business on a global scale. For the future, we will strengthen countermeasures at our business sites where CO₂ emissions per unit of sales have deteriorated.

■ 2018 Medium-term Management Plan Targets

Return on Invested Capital (ROIC)		Return on Equity Attributable to Owners of Parent Ratio (ROE)	
FY2016 result	FY2018 target	FY2016 result	FY2018 target
12.3%	→ 15%	11.1%	→ 12%



For detailed information on the dividend, refer to **P.28**.



For detailed information on materiality analysis, refer to **P.21-22**.



For the review of ESG efforts in FY2016 and measures for FY2017, refer to **P.28, 37-46**.

CSV
Creating Shared Value

SDGs
United Nations “Sustainable Development Goals”



For detailed information on the Carbon Management Strategy, refer to **Hitachi Chemical’s website ▶ About Hitachi Chemical ▶ CSR ▶ Environmental Report ▶ Environmental Performance ▶ Minimizing the Environmental Impact of Our Business Activities**.

ESG management: A strategy to realize higher corporate value

LCA
Life Cycle Assessment

In fiscal year 2017, we will push ahead with initiatives to reduce environmental burden through LCA, which has already been implemented with respect to some products. We will expand the scope of products subject to LCA, identify and reduce the environmental burden in the value chain as a whole, and develop it into a group-wide initiative in the medium and long run.

Pursuing further growth by deepening communication and logical thinking

Hitachi Chemical has been placing greater importance on diverse points of view in the course of proactively expanding on a global scale. We believe that diversity and inclusion is an important management strategy for the Group to absorb diverse viewpoints.

Hitachi Chemical's slogan is to build a "culture of dialogue and taking on challenges." A key factor of success that supports the growth of a company is deeper communication. When people with various points of view confront each other and engage in repeated dialogue, it gives rise to deeper understanding and creates new values. A company cannot make progress without this. The fact that I have been appointed to be in charge of the management of Hitachi Chemical—despite not having an engineering background or any experience in working at a factory—may be attributed to diversity and inclusion. You must make a logical judgment of dialogues and the information they convey. You must determine whether or not the information or outcome derived from dialogues is rational, whether it was derived after sufficient discussions with everyone, and whether it is not absurd in light of social norms. I believe this is the management tool that will bring about further growth while preventing the Company from going in the wrong direction.

As part of promoting diversity and inclusion, we are implementing various measures for promoting career opportunities for women as well, in terms of system, environment and awareness. Having been highly rated for such efforts, we were selected for "Nadeshiko Brands" by the Ministry of Economy, Trade and Industry, and the Tokyo Stock Exchange, Inc. as a company excelling in the promotion of active participation of women in fiscal year 2016. While we are extremely honored to have received this title, many issues still remain. In fiscal year 2017, we will accelerate the change in mindset within the organization, develop an environment to train, produce women candidates for management positions, and enable them to play an active role, in order to evolve into a company that is highly rated both in name and in substance.

Engaging in management from an outsider's point of view

The Board of Directors of Hitachi Chemical, which is subject to application of the Corporate Governance Code, reviewed its Basic Management Policies in 2015 and stipulated the Hitachi Chemical Corporate Governance Guidelines in the same year. In order to execute management in the interests of shareholders and all other stakeholders in practice, we are striving to enhance corporate governance on an ongoing basis in accordance with the Guidelines. Accordingly, lively discussions are taking place at meetings of the Board of Directors on many proposals that help increase



For information on the promotion of diversity and inclusion, refer to **P.38**.

Nadeshiko Brands

For "Nadeshiko Brands," companies that excelled in promoting the active participation of women including developing an environment for women to continue working were selected on an industry-by-industry basis from among companies listed on the First and Second Sections of the Tokyo Stock Exchange, Mothers and JASDAQ as of September 30, 2016. In addition to scores given for "women's career promotion," "support for work-family balance" and other such measures to promote the active participation of women, financial performance (ROE) is also a factor subject to evaluation.



For examples of proposals in fiscal year 2016, refer to **P.44**.

Hitachi Chemical's corporate value.

In fiscal year 2016, the number of Independent Outside Directors was increased in an effort to further strengthen governance functions. We are appointing a diverse range of Outside Directors in terms of nationality, gender, and other criteria, so that suggestions from diverse viewpoints can be reflected in management at all times. As members of the Audit Committee, Independent Outside Directors audit all Group companies including those overseas and give detailed suggestions to them. As measures for fiscal year 2017, we have started establishing processes for selecting and training candidates for successors to management for the next period.

On the other hand, in regards to the strict enforcement of compliance, our capacitor-related cartel case is still pending at present: we are implementing recurrence prevention measures in a thoroughgoing manner across the entire Group so that such incidents will never arise again. If a compliance problem arises, we may face a situation where the survival of our business is put at risk in the worst case scenario due to monetary loss, tarnished brand, etc. While it is important to establish a system to stringently enforce compliance with laws and regulations, it is also crucial for the top management to take the initiative and reiterate the importance of compliance. I am endeavoring to call attention and raise awareness in relation to compliance at meetings of the Group Environment and CSR Committee held on a quarterly basis, as well as by sending out various messages.

“Wonders” beyond expectations

What I would like to say to stakeholders boils down to one phrase: “Working On Wonders.” This phrase, which explains the Hitachi Chemical Group Vision in a nutshell, is our declaration to create new value and make “WOW (wonders)” a reality for stakeholders.

“We were able to resolve such-and-such issue only because of Hitachi Chemical products.” “The impossible became possible purely due to Hitachi Chemical's technology.” “What we could not do previously became a reality thanks to Hitachi Chemical.” Hitachi Chemical's vision is to continue providing society with “wonders” that exceed expectations as reflected in such comments. We will continue providing new value to society by growing ourselves into the future.



For information on the capacitor-related cartel case, refer to **P.46**.

Working On Wonders

“Working On Wonders” is Hitachi Chemical's declaration to continue creating wonders through the development of innovative technologies and products for customers, shareholders, business partners and local community members.



For the Hitachi Chemical Group Vision, refer to **P.02**.

2018 Medium-term Management Plan Targets

CO ₂ Emissions* ¹		Proportion of Female Managerial Positions* ²	
FY2016 result	FY2018 target	FY2016 result	FY2018 target
101%	→ 96%	11.6%	→ 12.0%

*1: Per unit of sales compared to the FY2014 results (major domestic production sites)

*2: Non-consolidated, under age of 45