

COVER
STORY

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Reforming Our Way to Global Competitiveness

As we aim to grow by tailoring our business to global markets and go head to head with global competitors, we are expecting to face issues that were never evident when our business was mainly focused on Japan. To overcome these challenges, we have made steady progress since 2010 when we embarked on business plans aimed at management reform. Today, we are bolstering our competitiveness and undergoing a major corporate transformation.

Issues to Be Confronted along the Path to Globalization

- **Tough Competition against Powerful Players**

The global market is dominated by “megaplayers,” including prominent European and U.S. companies. We also face increasingly stiff competition as highly cost-competitive manufacturers from emerging countries come to the fore.

- **Increasing Project Complexity and Sophistication**

To avoid losing out in the face of price competition, we will apply our comprehensive strengths to engage proactively in highly difficult, high-value-added businesses. As the number of complex and sophisticated projects increases, we face the risks of ballooning costs and lengthening construction periods.

- **The Need to Conform to Global Markets**

We recognize that past methods of conducting business may not necessarily be globally effective, and that our responses will need to be more broadly based. Furthermore, markets are becoming global, leading to additional and dynamic changes in the business environment.

Increased Risks

To survive in the global market and compete on an equal footing with the megaplayers, we will need to increase the scale of our business. Today, we are striving to grow our existing product businesses and conducting M&A activities to expand this scale from the current level of ¥3 trillion to more than ¥5 trillion. At the same time, we are moving boldly into new fields of business.

However, as we pursue these measures we expect the number of issues we face to rise, as a greater number of large-scale projects and new business initiatives will expose us to business risks we have not yet experienced. To address these risks and resolve the issues confronting us, generating cash flow and using these funds to shore up our financial base will become increasingly important.

Initiatives for Overcoming These Challenges

Expanding Our Business Scale

- Introducing a domain structure
- Departing from vertical integration to promote alliances, mergers and acquisitions

To make maximum use of our management resources in order to respond to the overwhelming scale of our global competitors, we are realigning our businesses internally and proactively promoting business alliances, mergers and acquisitions.

For details ▶ See the President's Message on page 18.

Boosting Capital Efficiency and Financial Strength

- Conducting portfolio management through strategic business evaluations
- Improving efficiency of corporate functions by making use of shared resources

We are securing resources and increasing our ability to respond to risks through cash flow management that assesses the profitability of each business. In addition, through companywide optimization we are reducing fixed costs and enhancing our financial strength.

For details ▶ See the CFO's Message on page 26.

Reforming Corporate Governance and Management Systems to Benefit Global Management

- Introducing a system of chief officers
- Raising the percentage of outside directors and reducing the number of directors

In the area of corporate governance, we have undertaken management system reforms to accelerate decision making, increase the number of outside directors, boost transparency, and introduce diversity.

For details ▶ See Corporate Governance on page 44.

Perpetual Management Reform

In our quest for global growth, we have steadily pursued reforms under our 2010 and 2012 business plans, creating a new structure. As we move away from the model of vertically integrated manufacturing, our management and business structures are evolving to take advantage of comprehensive strengths and achieve high levels of efficiency and maneuverability.

During this period, the business environment has continued to change, with the level of competition increasing. To win out against global competitors, we will need to tirelessly pursue ongoing reforms. Under our newly formulated 2015 Medium-Term Business Plan, we intend to implement further management reforms in our determined quest to become a highly profitable company with a business scale exceeding ¥5 trillion.