

Corporate Governance

Corporate governance structure

Since becoming a “Company with Committee System” in June 2003, Hitachi Chemical has endeavored to establish a sound and highly transparent management system that can quickly respond to changing markets.

The Board of Directors delegated substantial decision-making authority for business operations to the Executive Officers and separated executive and supervisory functions to establish a quick, responsive management system. Furthermore, we seek to strengthen the Board’s supervisory functions and achieve objective, highly transparent management by placing the nominating, compensation and audit committees led by Outside Directors under the Board of Directors.

We will assign Outside Directors from Hitachi Chemical to the Group companies that adopt the “Committee System” to establish a sense of Group unity in

overall management while enhancing supervision of these companies.

Strengthening internal controls

Internal control system

Hitachi Chemical has developed and manages a system for ensuring that the execution of operations complies with the law and its own corporate standards and that other activities are conducted appropriately.

In concrete terms, we have established the “Hitachi Chemical Standards of Corporate Conduct” (see p. 4), our basic code of conduct, as the common standard for the entire Group. While sharing critical parts of other important rules and basic systems, each Group company remains independent. Consistent, open communication increases the efficiency of internal audits and ensures the effectiveness of the internal control system.

Restructuring internal control by adopting the COSO framework^{*1}

As a member of the Hitachi Group, the Hitachi Chemical Group adopted the COSO framework in 2004 to restructure its internal controls. The move was sparked by the U.S. Sarbanes-Oxley Act (SOX)^{*2}, which will be applied to the Hitachi Group in 2006 and requires companies to conduct self-evaluations of internal controls related to financial reporting.

Adopting the COSO framework enables us to objectively evaluate internal controls and systematically explain the results to external auditing firms and stakeholders.

^{*1} **COSO framework:** The integrated control framework announced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO); currently the de facto standard for evaluating internal controls. The framework is intended to achieve operational efficacy and efficiency, safeguard the credibility of financial reports and ensure compliance with relevant laws and regulations.

^{*2} **Sarbanes-Oxley Act:** Enacted in 2002 in the United States. Under the Act, top management is responsible for establishing and maintaining internal controls and evaluations by external auditing firms are required.

