

Governance



For detailed information on corporate governance, refer to [Hitachi Chemical's website](#) ▶ [About Hitachi Chemical](#) ▶ [Corporate Profile](#) ▶ [Corporate Governance](#).

Hitachi Chemical Corporate Governance Guidelines

The Hitachi Chemical Corporate Governance Guidelines have been established based on the principles of the Corporate Governance Code in fiscal year 2015.

Internal audits

In fiscal year 2016, the Auditing Office conducted internal audits of a total of 41 business sites in both Japan and overseas.

Composition of the Board of Directors (As of the end of June 2017)

- Percentage of non-executive Directors **82%** (9 out of 11 Directors)
- *Chairman of the Board does not concurrently serve as an Executive Officer.
- Percentage of Outside Directors **45%** (5 out of 11 Directors)
- Percentage of Outside Directors in Nomination, Compensation and Audit Committees
- Nomination Committee: **60%** (3 out of 5 members)
- Audit Committee: **83%** (5 out of 6 members)
- Compensation Committee: **60%** (3 out of 5 members)

Reinforcing Governance

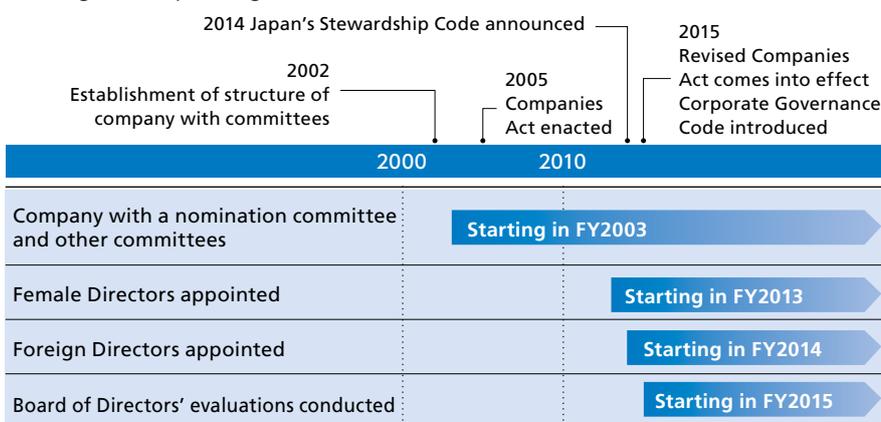
Measures to Strengthen Corporate Governance Structures

In order to achieve a high level of agility, objectivity and transparency in its management, Hitachi Chemical adopts the “company with a nomination committee and other committees” structure that separates executive and supervisory functions. To maximize the advantages of this structure, Hitachi Chemical established an executive framework which enables timely and firm decision-making; it also set up three Board of Directors’ committees—Nomination, Compensation and Audit Committees—with the majority of the members of each committee being Outside Directors, to exercise appropriate oversight over management.

Furthermore, we have ensured diversity among Directors and reflect in management opinions capitalizing on their respective extensive experience and knowledge. We are also reinforcing operational aspects of the Board of Directors through means such as the introduction of a system for evaluating effectiveness. Additionally, in order to attain sustainable growth and increase corporate value, we have established the [Hitachi Chemical Corporate Governance Guidelines](#) and prepared the Corporate Governance Report for submission to the Tokyo Stock Exchange.

For the purpose of bolstering oversight functions over Group companies, we dispatch Directors and Auditors to Group companies as necessary and conduct periodic internal audits of business sites and Group companies.

Changes in corporate governance structures



Corporate governance structure (As of the end of June 2017)



Convocation Status of Important Meetings

In fiscal year 2016, Hitachi Chemical's Board of Directors held 17 meetings and passed resolutions on important matters relating to the basics of management such as management policies, the appointment of Chief Executive Officer and Executive Officers and other such matters. The Board of Directors also periodically received reports on business results and engaged in constructive discussions, as well as promoting the development of appropriate internal control and risk management systems and supervising the effectiveness of the implementation of such systems.

The Executive Officers' Meeting was convened 23 times, where discussions were held by combining the knowledge of all Executive Officers for the Chief Executive Officer to make accurate and prompt decisions on matters of importance that may affect the Company or the Group. In regards to other important meetings, the Nomination Committee held 2 meetings, the Audit Committee held 13 meetings, the Compensation Committee held 4 meetings, the J-SOX Committee held four meetings and the Compliance Management Committee held four meetings.

Some of the agendas discussed at the Board of Directors' meetings in FY2016

- 2018 Medium-term Management Plan
- M&A (FIAMM Energy Technology S.p.A., PCT Cell Therapy LLC, etc.)

Evaluation of Effectiveness of the Board of Directors

In accordance with the Hitachi Chemical Corporate Governance Guidelines, Hitachi Chemical has been evaluating the effectiveness of the Board of Directors every year in order to ensure the effectiveness of the Board's management oversight function and decision-making function. We evaluated the effectiveness of the Board of Directors consisting of Directors elected at the Annual General Shareholders' Meeting held in June 2016, and disclosed the analysis and evaluation results on Hitachi Chemical's website. We will continue to make efforts to improve its effectiveness in fiscal year 2017 as well.

Ensuring the Effectiveness of Audits by the Audit Committee

The Audit Committee consists of 6 Directors including 5 Independent Outside Directors, under whom 4 staff members in positions equivalent or subordinate to general managers of departments are assigned. The Audit Committee held a meeting periodically once a month, and determined audit policies, audit execution plans, etc., and conducted auditing activities including interviewing Executive Officers, attending important internal meetings and performing site audits at major business sites and Group companies. We are also ensuring the effectiveness of audits through collaboration secured by frequent meetings and interviews with the external independent auditor and the internal audit section.

Appointment of Directors and Executive Officers and Independence of Outside Directors

With regard to the reasons for selecting Directors, the Nomination Committee nominates candidates and eligible persons based on its standards, and the General Shareholders' Meeting makes decisions by resolution. Decisions regarding the appointment of Executive Officers are made by the Board of Directors based on standards.

Independent Outside Directors are independent from Hitachi Chemical and ask questions, present opinions and give advice, etc., as appropriate from the perspective of ensuring the lawfulness, appropriateness and efficiency of management and raising corporate value based on their extensive experience and knowledge at meetings including those of the Board of Directors. The Nomination Committee determines the independence of Outside Directors based on its standards for determining their independence.

Rate of attendance at Board of Directors' meetings in FY2016

Name	Attendance rate
Kazuyuki Tanaka	100% (17 out of 17 meetings)
Takemoto Oto	100% (17 out of 17 meetings)
George Olcott	100% (17 out of 17 meetings)
Richard Dyck	100% (14 out of 14 meetings)
Chieko Matsuda	100% (17 out of 17 meetings)
Shigeru Azuhata	100% (17 out of 17 meetings)
Yoshihiro Nomura	100% (17 out of 17 meetings)
Hisashi Maruyama	100% (14 out of 14 meetings)
Masayuki Sarumaru	-
Shinichiro Omori	-
Yoshihito Kitamatsu	-

Hitachi Chemical's
Strength

At a Glance

Our Strategy

Our Initiatives



For the reasons for selecting Directors, refer to **P.47-48**.



For information on the standards for determining the independence of Outside Directors, refer to **Hitachi Chemical's website ▶ About Hitachi Chemical ▶ Corporate Profile ▶ Corporate Governance ▶ Hitachi Chemical Corporate Governance Guidelines**.

Directors' and Executive Officers' Compensation

The compensation of Directors and Executive Officers is determined in accordance with policies for recruiting diverse and exceptional human resources, in order to provide management motivation to pursue higher corporate value not just over the short term, but also over the medium to long term. The Compensation Committee determines Directors and Executive Officers' discusses on the polices regarding the compensation of Directors and Executive Officers and determines their compensation on an annual basis.

Directors' and Executive Officers' Compensation (FY2016)

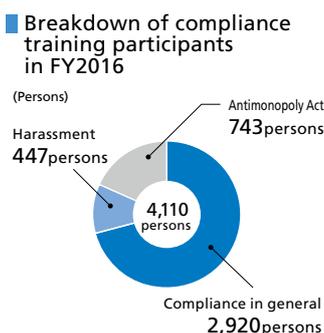
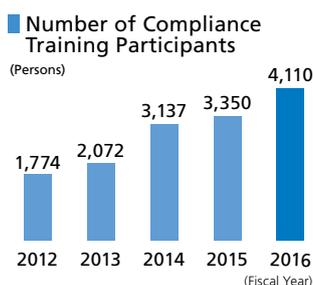
Type of management position	Total compensation (Millions of yen)	Compensation by category (Millions of yen)		Number of eligible persons
		Monthly base salary	Performance-based reward and term-end bonus	
Directors (excluding Outside Directors)	114	101	13	6
Executive Officers	532	346	186	13
Outside Directors	81	72	9	7

Relationship with Parent Company and Ensuring Equality Among Shareholders

As a member of the Hitachi Group, Hitachi Chemical continues to improve cooperative relationships with Hitachi, Ltd. and other Hitachi Group companies through business activities such as management information exchange, R&D, and sharing product supply, and effectively uses management resources including the Hitachi brand strength to increase its corporate value. In order to ensure independence in business operations and transactions, we also pay due consideration to ensure that Directors, who concurrently serve as director of the parent company or its Group company, constitute minority of the Board of Directors, as well as developing measures and an environment to ensure the rights of shareholders and equality among them, including making it our policy to give consideration to minority shareholders.



For detailed information on thorough practicing of compliance, refer to [Hitachi Chemical's website](#) ▶ [About Hitachi Chemical](#) ▶ [CSR](#) ▶ [Governance and CSR Management](#) ▶ [Compliance](#).



Thorough Practicing of Compliance

We define compliance as more than just strict adherence to laws and regulations, and understand it to include observance of industry standards as well as employees' routine activities to comply with and enhance corporate ethics and social norms. Compliance is positioned at the heart of Hitachi Chemical's CSR activities. We distribute the Hitachi Chemical Group Codes of Conduct Handbook—an easy-to-understand explanation of the Codes of Conduct, which serve as a guide for conduct—to all employees and require them to periodically reread and comply with the Handbook. We have also specified every October as the month of corporate ethics, in which a message from the top management is conveyed and a wide range of awareness-raising activities are carried out.

We conduct training and audits to reinforce compliance. In fiscal year 2016, the division responsible for compliance conducted training 100 times, in which 4,110 employees participated. Audits were conducted with respect to two companies in Japan and eight overseas companies, and guidance and education were provided to improve compliance management systems. Plans for fiscal year 2017 include audits of 15 Hitachi Chemical business sites in Japan and overseas.

We have also set up the "Global Hotline," a whistleblowing system in which reports can be made in three languages (Japanese, English and Chinese), with points of contact established inside Hitachi Chemical as well as outside (at a law firm). In fiscal year 2016, 10 inquiries/reports were received including those from overseas, none of which would have led to serious breach of laws or regulations.

Strengthening of Risk Management

Hitachi Chemical requires its officers and employees to keep an eye on a various risks and act by being mindful of preventing such risks from arising. In regards to risks that may have a particularly substantial impact on management, we have established countermeasures by making their financial impact visible in the form of a risk assessment table based on a scenario specifying the types, responding division, scale of damage and frequency of occurrence through risk assessment. These are reported to the Executive Officers' Meeting and the Board of Directors and are also described as "Business-related Risks" in the Securities Reports. Having established the Risk Management Center as an independent organization that reports directly to the President and CEO, we are making efforts to further improve governance systems from the viewpoint of compliance, business continuity, export controls and internal audits.

Risk Management Process



Main Risks and Countermeasures

Category	Main risks	Countermeasures
Health & safety Business continuity	Damage caused by earthquakes and tsunamis Infection with diseases, pandemics	<ul style="list-style-type: none"> Develop manuals on initial response that varies from business site to business site, formulate BCP and conduct drills Formulate BCP against worldwide new-strain influenza, make alternate production arrangements, support preparedness of overseas Group companies
Stable revenue	Recession, fall in demand, intensified competition Failure to detect product defects, leaks to outside	<ul style="list-style-type: none"> Formulate medium/long-term strategies, dynamic business operations by each business division Application to quality management systems, stringently enforce manufacturing processes
Social responsibility	Unfair trading (bid-rigging, bribery) Leakage of customer/client information	<ul style="list-style-type: none"> Promote audits, education, various compliance programs Thoroughly manage information through the development of rules and self-auditing, raise awareness by e-learning Evaluate Information security and execute measures to improve Information security

Business Continuity Management

In order to meet the expectations of customers and society, we are seeking to improve the standard of business continuity management through such efforts as periodic business continuity plan (BCP) simulation training. In fiscal year 2016, a training program was conducted at Hitachi Chemical's Nabari Works based on a Nankai Trough Earthquake scenario. In fiscal year 2017, we plan to hold three training programs in total based on a major earthquake scenario and a worldwide new-strain influenza pandemic scenario, with the participation of around 100 people.

Agreement on Capacitor Business with the U.S. Department of Justice

Since 2014 Hitachi Chemical has been cooperating with the U.S. Department of Justice in its investigation on the violation of the U.S. antitrust Laws by the capacitor business managed by its Group company. In relation to this case, Hitachi Chemical accepted a plea bargain with the Department of Justice in April 2016, which included the payment of a fine amounting to US\$3.8 million (approx. ¥398 million). We deeply apologize for the concerns and inconvenience caused to our customers, shareholders and all other interested parties. As a measure to prevent recurrence, we will endeavor to rebuild the compliance system of the entire Group and conduct education in a thoroughgoing manner, with our division in charge of legal affairs and compliance playing a leading role under the direction of the top management of Hitachi Chemical.



For detailed information on strengthening of risk management, refer to [Hitachi Chemical's website](#) ▶ [About Hitachi Chemical](#) ▶ [CSR](#) ▶ [Governance and CSR Management](#) ▶ [Risk Management](#).

BCP Business Continuity Planning

Number of participants in BCP management simulation training

