

Governance

Hitachi Chemical will carry out management in the interests of shareholders and all other stakeholders by establishing the Hitachi Chemical Corporate Governance Guidelines in order to achieve sustainable growth and increase corporate value.



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 of Japan in fiscal year 2015.



The Corporate Governance Guidelines and Corporate Governance Report (Japanese only) can be downloaded in PDF format from the [Hitachi Chemical's website](#) ▶ [About Hitachi Chemical](#) ▶ [Corporate Profile](#) ▶ [Corporate Governance](#).

Internal audits

In fiscal year 2017, the Auditing Office conducted internal audits of a total of 50 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
80% (8 out of 10 Directors)
 * Chairman of the Board does not concurrently serve as an Executive Officer.

Percentage of Outside Directors
50% (5 out of 10 Directors)

Percentage of Outside Directors in Nomination, Compensation and Audit Committees

Nomination Committee: **60%**
 (3 out of 5 members)
 Compensation Committee: **60%**
 (3 out of 5 members)

Audit Committee: **83%**
 (5 out of 6 members)

* Changed name to EY ShinNihon LLC from July 1, 2018.

Reinforcing Governance

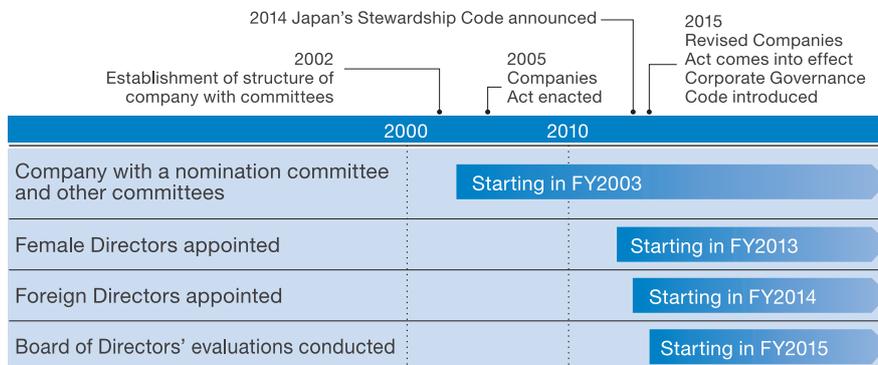
Measures to Strengthen Corporate Governance Structures

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 supervision over management.

Furthermore, Hitachi Chemical has 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 2018)



Convocation Status of Important Meetings

In fiscal year 2017, Hitachi Chemical's Board of Directors held 15 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 24 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 3 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 4 meetings.

Some of the agendas discussed at the Board of Directors' meetings in FY2017

- Conclusion of a final agreement for the acquisition of ISOLITE GmbH
- Conclusion of a final agreement for the acquisition of Kyowa Medex Co., Ltd.
- Augmentation of production capacity for advanced functional materials
- Augmentation of production capacity for CMP Slurry

Ensuring the Effectiveness of Audits by the Audit Committee

The Audit Committee consists of six Directors including five Independent Outside Directors, under whom three staff members in positions equivalent or subordinate to general managers of departments are assigned. The Audit Committee holds a meeting every month and determines audit policies, audit execution plans, etc. Also, together with Independent Outside Directors, it conducts auditing activities including interviewing Executive Officers, attending important internal meetings and performing audits at the head office, division, business sites and Group companies. In fiscal year 2017, audits were performed at five business sites, three regional and branch offices and 29 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.



Onsite audits of HCMX and HCD by Outside Director Chieko Matsuda and Outside Director Richard Dyck

Rate of attendance at Board of Directors' meetings in FY2017

| Name | Attendance rate |
|---------------------|---------------------------------|
| Kazuyuki Tanaka | 100% (15 out of 15 meetings) |
| Takemoto Oto | 100% (15 out of 15 meetings) |
| George Olcott | 100% (15 out of 15 meetings) |
| Masayuki Sarumaru | 100% (12 out of 12 meetings) |
| Richard Dyck | 100% (15 out of 15 meetings) |
| Chieko Matsuda | 100% (15 out of 15 meetings) |
| Yoshihito Kitamatsu | 100% (12 out of 12 meetings) |
| Yoshihiro Nomura | 100% (15 out of 15 meetings) |
| Hisashi Maruyama | 100% (15 out of 15 meetings) |
| Koji Tanaka* | - |

* Elected at General Meeting of Shareholders held in June 2018.

HCMX
Hitachi Chemical Mexico, S.A. de C.V.

HCD
Hitachi Chemical Diagnostics, Inc.

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. Based on the evaluation results, the Company takes measures to improve governance every year according to the results of the evaluation of effectiveness.

As a result of undertaking a self-evaluation using a questionnaire survey in the evaluation of effectiveness of the Board of Directors in fiscal year 2016, "Development of a successor to the President and CEO" and "Deliberation of important strategies" were cited as challenges. In light of these challenges, we promoted new initiatives including holding the Off-site Meeting at which the Directors and Executive Officers deliberated important strategies in December 2017.

In fiscal year 2017, we also introduced an interview, in addition to a questionnaire, to evaluate the effectiveness of the Board of Directors that consisted of Directors who were elected at the Annual General Shareholders Meeting held in June 2017. With respect to the effectiveness, the result showed that it was "Generally effective." Given that some issues were also identified in the evaluation, we will make efforts to improve the effectiveness in fiscal year 2018 based on the evaluation of effectiveness in fiscal year 2017.

Overview of the Evaluation of Effectiveness of the Board of Directors in FY2017

Overview

We conducted a self-evaluation of all 11 Directors using a questionnaire survey as in the past in cooperation with outside advisors. We then held interviews with seven Directors (one Chairman, five Outside Directors and one President and CEO) based on the results of the questionnaire. Based on the analytical findings in the responses, we held discussions at the Board of Directors Meeting in May 2018.

Results of Analysis and Evaluation

- 1 Given that positive evaluations of effectiveness accounted for more than half (61%) while negative evaluations made up a small amount (7%) in the results of the questionnaire, we have determined that the effectiveness of the Board of Directors has been generally secured (also improved from the evaluation last year (I agree (55%), I don't agree (11%)).
- 2 As a result of the interviews, it was established that the following are key issues to address in the future: "Structure of the Board of Directors based on the direction of medium- to long-term management strategies," "Strengthening of monitoring over business operation and governance under the business division profit system" and "Implementation of more effective audit activities by the Audit Committee."

Given the results above, we have confirmed that the Board of Directors of the Company fulfills the roles and duties stipulated in the Guidelines for the sustainable growth of the Group and the enhancement of its corporate value and evaluates that the Board of Directors was "generally effective" in fiscal year 2017 as well.

Efforts to Improve Effectiveness

As a result of performing the evaluation of effectiveness, Directors expressed numerous constructive opinions about issues and measures for increasing effectiveness.

The Company will ensure the effectiveness of the operation method and the management oversight function and decision-making function of the Board of Directors and continue to achieve a high level of agility, objectivity and transparency in its management by revising the Guidelines, etc. by reference to the constructive opinions expressed by the Directors.

Questionnaire

Respondents undertake a self-evaluation (selection from three-grade evaluation) for each question in the categories of "Structure and operation of the Board of Directors," "Management strategies and business strategies," "Corporate ethics and risk management," "Performance monitoring and the evaluation and compensation of Executive Officers, etc." and "Dialogues with shareholders, etc." and record the reasons and improvements. Three questions including "Roles of the Chairman of the Board" were added to the questions in the previous fiscal year, and the total number of questions came to 21.

Interview

Based on the reasons for the evaluations and improvements stated in the questionnaires, individual interviews lasting about 60 minutes each were conducted by an outside advisor on the background and reasons, etc. for the comments.

Implementation of Plan to Develop Successors

Hitachi Chemical is making efforts to elaborate “Leaders to Win” by securing the management leaders that are necessary for achieving its growth strategies globally on a group-wide basis.

With respect to the excavation and selection of candidates for successors by the Executive Officers, taking diversity into consideration along with plans for their development, the Nominating Committee holds discussions and undertakes confirmation based on the Hitachi Chemical Corporate Governance Guidelines, and the Board of Directors exercises the continuous oversight of the overall efforts by obtaining advice from the Nominating Committee.

■ Roles of the Nominating Committee

- Discussion of human resources requirements for the President and CEO
- Confirmation of the profile and development policy of candidates
- Confirmation of the individual development of candidates for the President and CEO, and the status of their assignment

■ Roles of the Board of Directors

- Discussion of human resources requirements for the President and CEO and the development policy of candidates <consultation from the Nominating Committee>
- Confirmation of the individual development of candidates for the President and CEO, and the status of their assignment <report from the Nominating Committee>
- Determination of appointment standards for Executive Officer
- Overall process management and progress management of candidates for Executive Officer

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 the Board of Directors Meeting, etc. The Nomination Committee determines the independence of Outside Directors based on its standards for determining their independence.

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 discusses and determines compensation of Directors and Executive Officers based on the Policy for Determination of Directors’ and Executive Officers’ Compensation on an annual basis.

■ Directors’ and Executive Officers’ Compensation (FY2017)

| 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 | 8 |
| Executive Officers | 632 | 414 | 218 | 15 |
| Outside Directors | 81 | 72 | 9 | 6 |



For detailed information on Plan to Develop Successors, refer to [Hitachi Chemical's website](#) ▶ [About Hitachi Chemical](#) ▶ [Corporate Profile](#) ▶ [Corporate Governance](#) ▶ [Hitachi Chemical Corporate Governance Guidelines](#).



For detailed information on reasons for selecting Directors, refer to [Hitachi Chemical's website](#) ▶ [About Hitachi Chemical](#) ▶ [Corporate Profile](#) ▶ [Corporate Governance](#) ▶ [Hitachi Chemical Corporate Governance Guidelines](#).



For the reasons for selecting Directors, refer to [P.45-46](#).



For detailed information on cross-held shares, refer to [Hitachi Chemical's website](#) ▶ [About Hitachi Chemical](#) ▶ [Corporate Profile](#) ▶ [Corporate Governance](#) ▶ [Hitachi Chemical Corporate Governance Guidelines](#).

Shareholding Status

Hitachi Chemical has decided to hold shares of other companies if the Company has determined based on the Hitachi Chemical Corporate Governance Guidelines that there is a reason for holding shares from the standpoint of business operation and that the continuous holding will contribute to the enhancement of corporate value. We do not hold shares of other companies merely for investment purposes. We hold 39 stocks as of the end of June 2018, and their total amount on the balance sheet is ¥9,804 million. Whether or not we can acquire shares of other companies is determined by the Executive Officers or Board of Directors, which is the decision-making body, in accordance with the Standards for Submissions to the Board of Directors.

We also regularly check the aim and reasonability of important cross-held shares through deliberations at the Executive Officers' Meetings and report the checking results to the Board of Directors.

Relationship with Parent Company and Ensuring Equality Among Shareholders

As a member of the Hitachi Group, Hitachi Chemical continues to maintain 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.



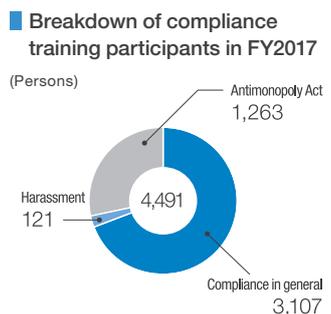
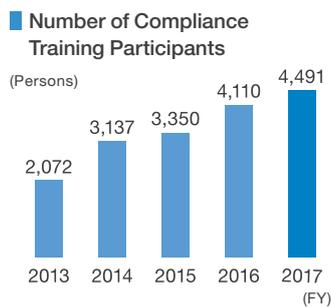
For detailed information on thorough practicing of compliance, refer to [Hitachi Chemical's website](#) ▶ [About Hitachi Chemical](#) ▶ [CSR](#) ▶ [Governance and CSR Management](#) ▶ [Compliance](#).

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 Corporate Ethics Month, in which a message from the top management translated in 11 languages is conveyed for all the Group employees, and a wide range of awareness-raising activities are carried out.

We conduct training and audits to reinforce compliance. In fiscal year 2017, the Risk Management Center provided trainings 113 times, in which 4,491 employees participated. Audits were conducted with respect to 2 companies in Japan and 11 overseas companies, and guidance and education were provided to improve compliance management systems. Plans for fiscal year 2018 include audits of 12 Hitachi Chemical business sites in Japan and overseas.

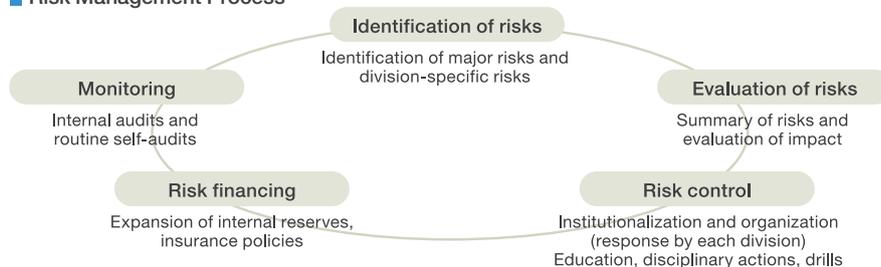
We have also set up the "Global Hotline," a whistleblowing system in which reports can be made in three languages (Japanese, English and Chinese), with points of contact established inside Hitachi Chemical as well as outside (at a law firm). In fiscal year 2017, 32 inquiries/reports were received including 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 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 (bidrigging, 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 drill. In fiscal year 2017, a simulated emergency drill was conducted at Hitachi Chemical's Yamazaki Works to respond to a direct-hit earthquake and a worldwide new-strain influenza pandemic scenario. The learnings from these exercises were reported to the Executive Officers' Meeting, shared among the entire management including Executive Officers and utilized to improve next year's BCP.

Past Cartel Acts related to the Capacitor Business

Since 2014, the Company has been investigated by the competition authorities in several countries and regions regarding its past cartel acts related to the capacitor business of the Group, and it was ordered by the European Commission to pay financial penalties in March 2018 because the Company had violated the European competition law. In the United States, civil suits to seek compensation for damages because the Company was involved in a cartel and had violated the US anti-trust law were filed by plaintiffs who had purchased capacitors, and the Company concluded a settlement agreement to pay settlement compensation in fiscal year 2017.

We offer our heartfelt apologies to all the affected parties, including our shareholders, for the concern and inconvenience caused. The Group has deep remorse on its involvement in the cartel acts and will continue to fully enforce measures to prevent recurrence and regain our trust by enhancing training and governance in the Group.

* Please refer to the page 12 for more information on inappropriate entries of figures in inspection reports of some products among lead-acid batteries for industrial use.



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



For detailed information on Business-related Risks, refer to [Hitachi Chemical's website](#) ▶ [Investor Relations](#) ▶ [IR Library](#) ▶ [Financial Summaries](#) ▶ [Results for the Year](#).

BCP
Business Continuity Plan

Number of participants in BCP management simulation drill

