

[Translation for reference and convenience purposes]

## Corporate Governance Report

Last Update: November 28, 2018

**Shin-Etsu Chemical Co., Ltd.**

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The corporate governance of Shin-Etsu Chemical Co., Ltd. (the “Company”) is described below.

### I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

#### 1. Basic Views

It is our fundamental management policy to continue enhancing corporate value, thereby meeting the expectations of our shareholders. In order to realize this policy, our basic approach for corporate governance is to work on accurate and timely information disclosure to our shareholders and investors in terms of improving management transparency and strengthening monitoring functions, as well as to develop an efficient organizational structure and various systems able to quickly respond to changes in the business environment. The Company regards the aforementioned idea as one of our most important management priorities.

#### [Reasons for Non-compliance with the Principles of the Corporate Governance Code] (Updated)

The Company complies with all principles of the Corporate Governance Code.

#### [Disclosure Based on the Principles of the Corporate Governance Code] (Updated)

##### 【Principle 1-4: Cross-Shareholding】

(Policy on cross-shareholding)

The Company may hold shares of the other parties for the purpose of maintaining and strengthening stable relationships therewith. However, the Company will sell the stocks of the parties which it judges not to be beneficial considering the above purposes.

(Verification on significance of ownership and rationality)

At the Board of Directors meetings, the Company verifies medium- and long-term economic rationality of individual policy holdings at least once a year after considering the maintenance and strengthening of relationships and whether the risks associated with the holding of the stocks are commensurate with the capital cost.

As of the end of March 2018, the number of shares owned by policies, which had 86 issues, was 83 issues as of the end of September of the same year. The Company will continue to sell stocks which it judged not to be beneficial, and will continue to reduce policy holdings.

(Exercise of voting rights)

The Company exercises voting rights through comprehensive judgment after considering whether each individual proposal will lead to the damage of shareholder value or whether it will contribute to the improvement of corporate value based on the Company's sustainable growth and to the enhancement of the corporate value of the investee.

**【Principle 1-7: Related Party Transactions】**

Pursuant to the Companies Act and the Regulations of the Board of Directors of the Company, any transaction between the Company and a Director shall require the approval of the Board of Directors, and such Director shall not participate in the discussion or the resolution.

In addition, pursuant to the “Accounting Standard for Related Party Disclosures” and the “Guidance on Accounting Standard for Related Party Disclosures,” we confirm with each Director every year about the existence of any transactions with related parties and the importance of any such transactions. We disclose any such transactions if there is a requirement to do so.

**【Principle 2-6: Roles of Corporate Pension Funds as Asset Owners】**

Since the Company does not offer a defined benefits plan, the Company does not assign persons to manage corporate pension funds.

The Company regularly offers its employees briefing sessions concerning the operation of its defined contribution plan, and is implementing measures to assist employees in the management of their pension assets.

**【Principle 3-1: Full Disclosure】**

(i) Our business principle and management policies are as follows. For management strategies, please see management messages from the “Annual Report” posted on our website.

([https://www.shinetsu.co.jp/jp/ir/pdf/2017/AR2018\\_3.pdf](https://www.shinetsu.co.jp/jp/ir/pdf/2017/AR2018_3.pdf))

The Shin-Etsu Group’s Business Principle: We contribute to people’s living, society and industry through value creation in materials and technologies, while observing all laws and regulations as well as conducting fair corporate activities.

Management Policies:

**(1)Basic Management Policies**

As fundamental principles of its conduct, the Shin-Etsu Group makes safety its utmost priority, performs fair corporate activities and contributes to people’s daily lives, society and industry by creating value through providing key materials and technologies. Through these contributions, we aim to meet the expectations of all of our shareholders. Towards this end, our management policy is to pursue the world’s highest level of technology and product quality while, at the same time, continuing to make constant improvements in productivity. We endeavor to build a stable business relationship with our customers around the world, and we strive to appropriately respond to changes in the market and the economic situation.

In addition, keeping the Sustainable Development Goals (SDGs) in mind, we will carry out our business activities in order to contribute to the furtherance of these goals in multifaceted ways. We recognize that our Group’s products, our businesses and way of conducting business operations by their very nature are compatible with the SDGs, and we wish to further deepen this harmonious aspect.

**(2)Targeting Our Management Objectives: Shin-Etsu’s Mid-to Long-term Management Strategies**

The Management Objectives that we are targeting are annual increases in sales and in profit. Among our main products, there are products that are subject to the influence of changes in the business environment, starting with market conditions. In order to carry out the management of each business under market conditions in which sudden changes may occur in a short period of time, it is necessary to speedily respond to the changes in the external environment. Based on the policies stated in the previous “Basic Management Policies” section, we will steadily carry out every day’s, every month’s and every year’s management, and we will concentrate on making sales and profit grow.

ii) Basic views on corporate governance

Please see “I 1. Basic Views” of this report.

iii) Policies and procedures in determining the remuneration of Directors

Please see “Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods” of “II 1. Organizational Structure and Operation, etc.” of this report.

iv) Policies and procedures with respect to the nomination of Directors/Audit & Supervisory Board Members candidates and appointment/dismissal of executives

The appointment of Director/Audit & Supervisory Board Member candidates and appointment/dismissal of executives (a) are discussed at meetings of the Officers' Remuneration Committee, which was voluntarily established as an advisory body to the Board of Directors and is headed by an Independent Outside Director to enhance objectivity/transparency, and (b) are decided by the Board of Directors based on the Committee's reports. In addition, Audit & Supervisory Board Member candidates are subject to approval by the Audit & Supervisory Board.

The policies concerning appointment of Director/Audit & Supervisory Board Member candidates are as follows.

[Policy concerning appointment of Director candidates]

With respect to both Internal Directors in charge of the execution of business and Outside Directors, candidates are chosen irrespective of nationality or gender and are required to have good character and relevant expertise.

Secondly, candidates for Internal Director positions in charge of the execution of business are required to have considerable business knowledge and experience. Candidates for Outside Director positions are required to have considerable management experience or advanced knowledge and experience in their field of expertise.

[Policy concerning appointment of Audit & Supervisory Board Member candidates]

With respect to both Internal Audit & Supervisory Board Members and Outside Audit & Supervisory Board Members, candidates are chosen irrespective of nationality or gender and are required to have good character, relevant expertise, and necessary knowledge of financial, accounting, and legal matters.

Secondly, candidates for Internal Audit & Supervisory Board Member positions are required to have a wide-ranging familiarity with the Company's business, general business practices and industry practices. Candidates for Outside Audit & Supervisory Board Member positions are required to have advanced knowledge and experience in a field such as law, finance or accounting, or wide-ranging expertise in general management matters.

v) Explanations with respect to the individual appointments/dismissals and nominations for the nomination of Director/Audit & Supervisory Board Member candidates and appointment/dismissal of executives

Reasons for the appointment/dismissal of each Outside Officer are described in "II 1. Organizational Structure and Operation, etc." of this Corporate Governance Report.

Reasons for the appointment/dismissal of all Directors and Audit & Supervisory Board Members are described in the "Notice of Convocation of the General Meeting of Shareholders" posted on our website.

([https://www.shinetsu.co.jp/en/ir/ir\\_general\\_meeting.html](https://www.shinetsu.co.jp/en/ir/ir_general_meeting.html))

#### 【Supplementary Principle 4-1-1: Roles and Responsibilities of the Board of Directors (1)】

The Company determines that the matters requiring a resolution of the Board of Directors under laws and regulations and other important matters relating to its business, as listed below, must be decided by resolution of the Board of Directors:

(1) Matters set forth in the Companies Act and other laws and regulations; (2) Matters set forth in the Articles of Incorporation; (3) Matters delegated by a resolution of the General Meeting of Shareholders; and (4) Important business matters and other matters set forth in the Regulations of the Board of Directors of the Company.

In addition, the following matters must be reported to the Board of Directors:

(1) Status of execution of business and other matters set forth in the Companies Act and other laws and regulations; (2) Matters set forth in the Regulations of the Board of Directors; and (3) Other matters which the Board of Directors considers necessary.

**【Principle 4-9: Independence Standards and Qualification for Independent Outside Directors】**

Independent Outside Directors are elected in accordance with the requirements for Outside Directors set forth in the Companies Act and the "Standards for Independence of Outside Directors/Audit & Supervisory Board Members" which the Company adopted based on the independence standard set forth by the Financial Instruments Exchange. The "Standards for Independence of Outside Directors/Audit & Supervisory Board Members" adopted by the Company are described in "Matters relating to Independent Directors/Audit & Supervisory Board Members" in "II 1. Organizational Structure and Operation, etc." of this Corporate Governance Report.

**【Principle 4-11/Supplementary Principle 4-11-1: Preconditions for Board and Audit & Supervisory Board Effectiveness】**

The Company's corporate group globally develops its various businesses relating to the materials industry. To enable the Board of Directors to make correct and timely decisions about these business activities and provide sufficient supervision, the Company's basic policy is (a) to elect, regardless of their nationality or gender, Internal Directors who have business expertise in sales, manufacturing, research and development, etc. and several Outside Directors who can proactively provide their opinions about enhancing growth strategies and governance from a comprehensive viewpoint and (b) to have an appropriate number of Internal and Outside Directors on its Board of Directors, considering the Company's business scale.

We have appointed four Outside Directors (including one foreign Director) with achievements and extensive experience in a variety of industries.

The Audit & Supervisory Board consists of five Audit & Supervisory Board Members, including three Outside Audit & Supervisory Board Members, one of whom is a lawyer (a specialist in legal issues), and one of whom is a certified public accountant (a specialist in accounting issues).

Currently, we do not have any women Directors/Audit & Supervisory Board Members. However, if we encounter a suitable person, we will appoint her to the appropriate Officer position, and we aim to promote the appointment of diverse human resources to Officer positions.

**【Supplementary Principle 4-11-2: Preconditions for Board and Audit & Supervisory Board Effectiveness】**

For the status of concurrent Directors and Audit & Supervisory Board Members as Officers of other listed companies, please see "II 1. Organizational Structure and Operation, etc." of this report.

**【Supplementary Principle 4-11-3: Preconditions for Board and Audit & Supervisory Board Effectiveness】**

The Company's major discussion and decision-making bodies for business execution include the Board of Directors, as stipulated by law, and the Managing Directors' Committee. All Directors and Audit & Supervisory Board Members including Outside Directors and Audit & Supervisory Board Members are able to attend these meetings. In fiscal year 2017, the Board of Directors' meeting was held 14 times and discussed all the matters stipulated under the laws and regulations, Articles of Incorporation and the Regulations of the Board of Directors of the Company.

The Company's Board of Directors assesses that important issues are appropriately and speedily determined and reported in consideration of opinions of each Director.

**【Supplementary Principle 4-14-2: Director and Audit & Supervisory Board Member Training】**

In order to realize the business principle, "we contribute to people's living, society and industry through value creation in materials and technologies, while observing all laws and regulations as well as conducting fair corporate activities," we provide the Directors and the Audit & Supervisory Board Members with training and seminars focusing particularly on compliance at the time of their appointment and at other appropriate times.

The Audit & Supervisory Board Members also attend external training events to acquire necessary knowledge and improve their skills.

**【Principle 5-1: Policy for Constructive Dialogue with Shareholders】**

The Company recognizes that constructive communication with the shareholders is very important for improving corporate value based on the Company's sustainable growth and has determined the following policies:

- 1) Shareholders' requests for communication are handled mainly by (i) the Chairman, (ii) the President, (iii) the Officers in charge of each Division, Finance & Accounting or Public Relations and (iv) the full-time persons in charge of Investor Relations (IR) in the Public Relations Department.
- 2) For promoting constructive communication with the shareholders, the Public Relations Department, which is in charge of IR, shares information as needed with each Division, the Office of the President and the Finance & Accounting Department, and ensures an organized cooperation within the Company.
- 3) We hold Company-sponsored financial result briefings (twice a year), conference calls (twice a year), business briefings and plant tours (held as needed), and also participate in the meetings held by securities companies for the investors, etc.
- 4) The opinions, etc. acquired through communication with the shareholders and investors are reported as needed to the management and relevant Divisions.
- 5) We endeavor to perform fair and transparent information disclosure and set a "silent period (from the day following the date of quarterly financial settlement to the date of publication of financial settlement)" during which we decline any communication regarding the information of the financial results and, during such period, we decline any inquiries about the financial results and interaction with news media so as to securely prevent any insider information leakage.

## 2. Capital Structure

|                            |               |
|----------------------------|---------------|
| Foreign Shareholding Ratio | More than 30% |
|----------------------------|---------------|

### [Status of Major Shareholders] (Updated)

| Name / Company Name                                  | Number of Shares Owned | Percentage (%) |
|--|------------------------|----------------|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 48,936,000             | 11.47          |
| Japan Trustee Services Bank, Ltd. (Trust Account)    | 35,433,100             | 8.31           |
| Nippon Life Insurance Company                        | 21,933,030             | 5.14           |
| Japan Trustee Services Bank, Ltd. (Trust Account 4)  | 12,209,200             | 2.86           |
| The Hachijuni Bank, Ltd.                             | 11,790,677             | 2.76           |
| Meiji Yasuda Life Insurance Company                  | 10,687,919             | 2.51           |
| SSBTC CLIENT OMNIBUS ACCOUNT                         | 10,015,643             | 2.35           |
| Japan Trustee Services Bank, Ltd. (Trust Account 5)  | 6,727,000              | 1.58           |
| JP MORGAN CHASE BANK 380055                          | 6,068,631              | 1.42           |
| JP MORGAN CHASE BANK 385151                          | 5,963,119              | 1.40           |

|   |      |
|---|------|
| Controlling Shareholder (except for Parent Company) | —    |
| Parent Company                                      | None |

### Supplementary Explanation (Updated)

- (i) The above mentioned status of major shareholders states the situation as of September 30, 2018.
- (ii) The percentage is calculated after deducting the number of treasury stocks from that of total outstanding shares.

### 3. Corporate Attributes

|   |   |
|---|---|
| Listed Stock Market and Market Section  | Tokyo Stock Exchange<br>First Section /<br>Nagoya Stock Exchange<br>First Section |
| Fiscal Year-End   | March   |
| Type of Business  | Chemicals   |
| Number of Employees (consolidated) as of the End of the Previous Fiscal Year  | More than 1000  |
| Sales (consolidated) as of the End of the Previous Fiscal Year                | More than ¥1 trillion   |
| Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year | From 50 to less than 100  |

### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

|   |
|---|
| — |
|---|

### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

The shares of Shin-Etsu Polymer Co., Ltd., which is one of the Company's subsidiaries, are listed on the First Section of the Tokyo Stock Exchange. The Company's objective is to develop comprehensive business activities of the Group as a whole. However, the Company basically respects the autonomy of Shin-Etsu Polymer Co., Ltd. in its business operation as an independent business entity, while maintaining cooperation through exchanging information on product development technology and management.

In addition, when the Company sells products to Shin-Etsu Polymer Co., Ltd., the terms and conditions of such transactions are determined based on market prices.

## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Supervision in Management

### 1. Organizational Structure and Operation, etc.

|                   |  |
|-------------------|--|
| Organization Form | Company with Audit & Supervisory Board |
|-------------------|--|

#### [Directors]

|   |          |
|---|----------|
| Maximum Number of Directors Stipulated in Articles of Incorporation | 26       |
| Term of Office Stipulated in Articles of Incorporation              | 2        |
| Chairperson of the Board  | Chairman |
| Number of Directors   | 22       |
| Election of Outside Directors                                       | Elected  |
| Number of Outside Directors   | 4        |
| Number of Independent Directors                                     | 4        |

Outside Directors' Relationship with the Company (1)

| Name               | Attribute            | Relationship with the Company* |   |   |   |   |   |   |   |   |   |   |   |
|--------------------|----------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|---|
|                    |                      | a                              | b | c | d | e | f | g | h | i | j | k |   |
| Frank Peter Popoff | From another company |                                |   |   |   |   |   |   |   |   |   |   | ○ |
| Tsuyoshi Miyazaki  | From another company |                                |   |   |   |   |   |   |   |   |   |   | ○ |
| Toshihiko Fukui    | Other                |                                |   |   |   |   |   |   |   |   |   |   | ○ |
| Hiroshi Komiyama   | Other                |                                |   |   |   |   |   |   |   |   |   |   | ○ |

\* Categories for "Relationship with the Company"

\* "○" when the Director presently falls or has recently fallen under the category;

"△" when the Director fell under the category in the past

\* "●" when a close relative of the Director presently falls or has recently fallen under the category;

"▲" when a close relative of the Director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive Director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a Director/Audit & Supervisory Board Member

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the Director himself/herself only)

i. Executive of a company, between which and the Company Outside Directors/Audit & Supervisory Board Members are mutually appointed (the Director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the Director himself/herself only)

k. Others

#### Outside Directors' Relationship with the Company (2)

| Name               | Designation as Independent Director | Supplementary Explanation of the Relationship  | Reasons for Election   |
|--------------------|-------------------------------------|--|--|
| Frank Peter Popoff | ○                                   | Former CEO, former The Dow Chemical Company<br>Former Director, Indiana University Foundation<br>Former Director, United Technologies<br>Former Director, Qwest Communications International<br>Former Director and present Senior Advisor, American Express | The Company has been aggressively promoting its business development overseas through the establishment of business locations all over the world, including in the U.S., Asia, and Europe. Mr. Popoff's opinions and practical advice, from a broad perspective based on his management experience as CEO of former The Dow Chemical Company, a U.S. company that has a long history as a global company, have been of significant importance for the Company to expand its business overseas and enhance its corporate value. He also serves as the commissioner of the Officers' Remuneration Committee, and his work so far includes repealing the Officers' Retirement Benefits Program and making other significant revisions to the officer's remuneration system, thus striving to achieve an appropriate |

|                   |   |   |  |
|-------------------|---|---|--|
|                   |   |   | <p>corporate governance structure with regard to the officer's remuneration system.</p> <p>The Company elected Frank Peter Popoff as an Outside Director with the expectation of continuing advice and supervision as well as further contributions in establishing appropriate corporate governance structures. Furthermore, he was appointed as an Independent Officer for the reason that he has been judged to maintain a high independence taking into account that he has fulfilled the aforementioned duties and has performed a satisfactory supervision from an independent standpoint since he became an Outside Director.</p>   |
| Tsuyoshi Miyazaki | ○ | <p>Former Representative Director and President, Mitsubishi Logistics Corporation</p> <p>Former Representative Director and Chairman, Mitsubishi Logistics Corporation</p> <p>Advisor, Mitsubishi Logistics Corporation</p> | <p>The Company elected Tsuyoshi Miyazaki as an Outside Director with the expectation of not only the supervision from an independent standpoint, but also advice on overall management by capitalizing on his management experience at Mitsubishi Logistics Corporation. Furthermore, he was appointed as an Independent Officer for the reason that he has been judged to maintain a high independence taking into account that he has provided useful advice from a broad high-level perspective by capitalizing on his management experience at Mitsubishi Logistics Corporation and has also performed a satisfactory supervision from an independent standpoint since he became an Outside Director.</p>  |
| Toshihiko Fukui   | ○ | <p>Former Governor, the Bank of Japan</p> <p>President, the Canon Institute for Global Studies</p> <p>Outside Director, Kikkoman Corporation</p>  | <p>The Company elected Toshihiko Fukui as an Outside Director with the expectation of not only the supervision from an independent standpoint, but also advice on overall management by capitalizing on his experience he acquired through his service at the Bank of Japan. Furthermore, he was appointed as an Independent Officer for the reason that he has been judged to maintain a high independence taking into account that he, who was a former Governor of the Bank of Japan, etc., has provided useful advice from a broad high-level perspective by capitalizing on his outstanding knowledge and wealth of experience related to global finance and the economy, and has also performed a satisfactory supervision from an independent standpoint since he became an Outside Director.</p> |
| Hiroshi Komiyama  | ○ | <p>Former President, the University of Tokyo</p> <p>Chairman, Mitsubishi Research Institute, Inc.</p>   | <p>The Company elected Hiroshi Komiyama as an Outside Director with the expectation of not only the supervision from an independent standpoint, but also advice on overall</p>   |



|  |  |                                       |  |
|--|--|---------------------------------------|--|
|  |  | Outside Director, Imagineer Co., Ltd. | management by capitalizing on his wealth of experience he acquired through his service as a former president of the University of Tokyo. Furthermore, he was appointed as an Independent Officer for the reason that he has been judged to maintain a high independence taking into account that he has provided useful advice from a board high-level perspective by capitalizing on his outstanding knowledge and wealth of experience in a wide range of disciplines, including chemical engineering, the global environment, and natural resources and energy, and has also performed a satisfactory supervision from an independent standpoint since he became an Outside Director. |
|--|--|---------------------------------------|--|

|   |             |
|---|-------------|
| Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee | Established |
|---|-------------|

**Committee's Name, Composition, and Attributes of Chairperson (Updated)**

|                       | Committee Corresponding to Nomination Committee | Committee Corresponding to Remuneration Committee |
|-----------------------|---|---|
| Committee's Name      | Officers' Remuneration Committee                | Officers' Remuneration Committee                  |
| All Committee Members | 5   | 5   |
| Full-time Members     | 0   | 0   |
| Inside Directors      | 4   | 4   |
| Outside Directors     | 1   | 1   |
| Outside Experts       | 0   | 0   |
| Other                 | 0   | 0   |
| Chairperson           | Outside Director                                | Outside Director                                  |

**Supplementary Explanation (Updated)**

To ensure the transparency and fairness in determining Officer's remuneration and nominating executives and Director/Audit & Supervisory Board Member candidates, the Officers' Remuneration Committee was established as an advisory body to the Board of Directors. This Committee, chaired by the Independent Outside Director, Frank Peter Popoff, reviews and assesses the overall degree of contribution by each Director with respect to performance and general management for each fiscal year and reports the results of these evaluations to the Board of Directors.

**[Audit & Supervisory Board Members]**

|   |             |
|---|-------------|
| Establishment of Audit & Supervisory Board  | Established |
| Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation | 5           |
| Number of Audit & Supervisory Board Members   | 5           |

Cooperation among Audit & Supervisory Board Members, Accounting Auditors and Internal Audit Departments

The Company's Audit & Supervisory Board Members conduct audits aiming to further enhance the effectiveness of governance through mutual cooperation with the Accounting Auditor such as observing audits of the Accounting Auditor as necessary and exchanging information or having discussions by occasionally seeking reports and explanations on audits. The Auditing Department is a dedicated department responsible for conducting the Company's internal audits, and conducts such audits independently from other Departments and Administrative Divisions. The Audit & Supervisory Board Members hold regular monthly meetings with the Auditing Department where they receive progress reports on activities, internal auditing results and other matters. They provide advice and make request regarding these activities and the selection of auditing themes and other topics. In addition, they hold meetings as needed in order to share issues. The Auditing Department also attends meetings where the Audit & Supervisory Board Members receive reports and explanations regarding auditing plans and accounting audits from the Accounting Auditor in an effort to strengthen auditing functions based on more effective tripartite cooperation.

|   |         |
|---|---------|
| Election of Outside Audit & Supervisory Board Members   | Elected |
| Number of Outside Audit & Supervisory Board Members     | 3       |
| Number of Independent Audit & Supervisory Board Members | 3       |

Outside Audit & Supervisory Board Members' Relationship with the Company (1)

| Name             | Attribute            | Relationship with the Company* |   |   |   |   |   |   |   |   |   |   |   |   |
|------------------|----------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|---|---|
|                  |                      | a                              | b | c | d | e | f | g | h | i | j | k | l | m |
| Taku Fukui       | Lawyer               |                                |   |   |   |   |   |   |   |   | ○ |   |   |   |
| Yoshihito Kosaka | CPA                  |                                |   |   |   |   |   |   |   |   |   |   |   | ○ |
| Kiyoshi Nagano   | From another company |                                |   |   |   |   |   |   |   |   |   |   |   | ○ |

\* Categories for "Relationship with the Company"

- \* "○" when the Audit & Supervisory Board Member presently falls or has recently fallen under the category;
- \* "△" when the Audit & Supervisory Board Member fell under the category in the past
- \* "●" when a close relative of the Audit & Supervisory Board Member presently falls or has recently fallen under the category;
- \* "▲" when a close relative of the Audit & Supervisory Board Member fell under the category in the past

- a. Executive of the Company or its subsidiaries
- b. Non-executive Director or accounting advisor of the Company or its subsidiaries
- c. Non-executive Director or executive of a parent company of the Company
- d. Audit & Supervisory Board Member of a parent company of the Company
- e. Executive of a fellow subsidiary company of the Company
- f. A party whose major client or supplier is the Company or an executive thereof
- g. Major client or supplier of the Company or an executive thereof
- h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an Audit & Supervisory Board Member
- i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board Member himself/herself only)
- k. Executive of a company, between which and the Company Outside Directors/Audit & Supervisory Board Member are mutually appointed (the Audit & Supervisory Board Member himself/herself only)

- l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board Member himself/herself only)  
m. Others

Outside Audit & Supervisory Board Members' Relationship with the Company (2)

| Name             | Designation as Independent Audit & Supervisory Board Member | Supplementary Explanation of the Relationship  | Reasons for Election   |
|------------------|---|--|--|
| Taku Fukui       | ○   | <p>Lawyer<br/>Managing Partner, Kashiwagi Sogo Law Offices<br/>Professor, Keio University Law School<br/>Outside Director, YAMAHA CORPORATION</p> <p>(Note) Although the Company has entrusted certain individual legal matters to Kashiwagi Sogo Law Offices, to which Mr. Fukui belongs, the Company determined that, due to the volume and nature of such legal matters, this relationship will have no impact on his duties and independence as an Audit &amp; Supervisory Board Member. Consequently, the details of such legal matters are omitted here.</p> | <p>The Company elected Taku Fukui as an Outside Audit &amp; Supervisory Board Member to conduct audits from an independent standpoint based on his professional knowledge and wealth of experience as a lawyer. He has taught Corporate Law and Business Transactions, Antitrust, and Competition Law as a professor at Keio University Law School, and also has served on compliance review and recommendation committees (as an outside member) for several listed companies. He has a wealth of experience and knowledge in the field of corporate compliance. Mr. Fukui was appointed as an Independent Officer because management regards him as highly independent. Since becoming an Outside Audit &amp; Supervisory Board Member, he has performed a satisfactory job in auditing from a professional perspective as a lawyer and has contributed to the establishment of a compliance structure for the Company from an independent standpoint.</p> |
| Yoshihito Kosaka | ○   | <p>CPA<br/>Certified Public Tax Accountant<br/>Counselor, Kisaragi Audit Corporation<br/>Audit &amp; Supervisory Committee Member, Star Mica Co., Ltd.<br/>Outside Audit &amp; Supervisory Board Member, ASTMAX Co., Ltd.</p>  | <p>The Company elected Yoshihito Kosaka as an Outside Audit &amp; Supervisory Board Member to conduct audits from an independent standpoint based on his professional knowledge and abundant experience as a certified public accountant and a certified public tax accountant. Mr. Kosaka was appointed as an Independent Officer because the management regards him as highly independent. Since becoming an Outside Audit &amp; Supervisory Board Member, he has performed a satisfactory job in auditing from a professional perspective as a certified public accountant and a certified public tax accountant and has contributed to the establishment of a compliance structure for the Company from an independent standpoint.</p>   |
| Kiyoshi Nagano   | ○   | <p>Former Representative Director, Chairman and</p>  | <p>The Company elected Kiyoshi Nagano as an Outside Audit &amp; Supervisory Board Member to conduct audits from an independent</p>   |

|  |  |  |  |
|--|--|--|--|
|  |  | President, former Jasdaq Securities Exchange, Inc. Outside Director, LEC, INC. | standpoint as he has wide range of knowledge and wealth of experience based on his management experience at former Jasdaq Securities Exchange, Inc. Mr. Nagano was appointed as an Independent Officer because management regards him as highly independent. Since becoming an Outside Audit & Supervisory Board Member, he has performed a satisfactory job of auditing from a broad perspective based on his management experience at former Jasdaq Securities Exchange, Inc. and has contributed to the establishment of a compliance structure for the Company from an independent standpoint. |
|--|--|--|--|

**[Independent Directors/Audit & Supervisory Board Members]**

|   |   |
|---|---|
| Number of Independent Directors/Audit & Supervisory Board Members | 7 |
|---|---|

Matters relating to Independent Directors/Audit & Supervisory Board Members

|   |
|---|
| <p>The Company has appointed all Outside Directors/Audit &amp; Supervisory Board Members as Independent Directors/Audit &amp; Supervisory Board Members, insofar as they meet the qualifications thereof. In addition, the Company stipulates “Standards for Independence of Outside Directors/Audit &amp; Supervisory Board Members”, and Outside Directors/Audit &amp; Supervisory Board Members who do not fall under any of the following items shall be regarded as independent.</p> <ol style="list-style-type: none"> <li>1. Executives (the Directors (excluding the Outside Directors), Corporate Officers, Executive Officers, the equivalents thereof and employees; the same applies hereafter) or those who were executives in the Company, its subsidiaries and affiliated companies.</li> <li>2. Executives of legal persons, etc. that the Company is a major shareholder of.</li> <li>3. Major shareholders of the Company or executives of legal persons, etc. that are major shareholders of the Company.</li> <li>4. Major clients or suppliers of the Company or those to whom the Company is a major client or supplier. (In the case of legal persons, etc., executives of the said legal persons, etc.)</li> <li>5. Those who belong to audit firms acting as the Accounting Auditors of the Company.</li> <li>6. Those who render professional services, such as legal, financial, tax and other fields, or consulting work to the Company and receive a large amount of monetary compensation (In the case of legal persons, etc., those who belong to the said legal persons, etc.)</li> <li>7. Those who receive large donations from the Company (In the case of legal persons, etc., executives of the said legal persons, etc.)</li> <li>8. Those who have fallen under any of the above items 2 through 7 until recently.</li> <li>9. Those who are relatives within the second degree of kinship to the persons described in any of the following items (limited to important persons <sup>(Note)</sup>) <ol style="list-style-type: none"> <li>(1) Executives of the Company, its subsidiaries and affiliated companies.</li> <li>(2) Those who fall under any of the above items 2 through 7.</li> </ol> </li> </ol> |
|---|

(3) Those who have fallen under the above items (1) and (2) until recently.

(Note) “Important persons”

1) In case of executives, include the Directors (excluding the Outside Directors), Corporate Officers, Executive Directors and any employee with a senior managerial position of general manager or higher.

2) Includes certified public accountants among those who belong to audit firms or accounting audit offices, attorneys-at-law among those who belong to legal offices and Officers (including councilors, board members and auditors) among those who belong to incorporated foundations, incorporated associations, educational institutions and other legal persons.

#### [Incentives]

Incentive Policies for Directors

Stock Options

Supplementary Explanation

The level of remuneration is comprehensively determined based on the review conducted by the Officers’ Remuneration Committee.

Recipients of Stock Options

Inside Directors / Employee

Supplementary Explanation

Stock options are for the Directors of the Company (excluding the Outside Directors) and executive-level employees who are deeply involved in corporate management for the purpose of enhancing the willingness and the morale to improve the Company’s business performance.

#### [Director Remuneration]

Disclosure of Individual Directors’ Remuneration

Selected Directors

Supplementary Explanation

The total amount of remuneration of the Directors of the Company (excluding the Outside Directors) for the fiscal year ended March 31, 2018 was 1,615 million yen for 19 Directors (including one Director who retired at the conclusion of the 140th Ordinary General Meeting of Shareholders held on June 29, 2017).

The above amount does not include the amount of salary (including bonuses) in relation to the employee position payable to the Directors who are concurrently serving as employees.

In addition, for the fiscal year ended March 31, 2018, pursuant to a resolution adopted by the Board of Directors on September 6, 2017, 18 Directors (excluding the Outside Directors) were granted stock acquisition rights intended as incentive stock options, which were valued at 198 million yen.

The total amount of remuneration to the Outside Directors/Audit & Supervisory Board Members (four Outside Directors and three Outside Audit & Supervisory Board Members) for the fiscal year ended March 31, 2018 was 149 million yen.

Details for those who were awarded remuneration of 100 million yen or more are separately disclosed in the Annual Securities Report (Japanese only).

Policy on Determining Remuneration Amounts and Calculation Methods

Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods **(Updated)**

The Company's Director remuneration is within the scope of the compensation framework approved by the General Shareholder's Meeting and is determined by the Board of Directors in light of the assessments and evaluations by the voluntary Officers' Remuneration Committee chaired by an Independent Outside Director. The Director remuneration consists of "basic remuneration" reflecting position and duties, etc., a "bonus" based on annual performance and "stock options."

The Audit & Supervisory Board Member remuneration is within the scope of the compensation framework approved by the General Shareholders' Meeting and is determined through consultation within the Audit & Supervisory Board Members. The Audit & Supervisory Board Member remuneration consists of "basic remuneration" reflecting duties and a "bonus."

Moreover, the Outside Directors and the Audit & Supervisory Board Members do not receive "stock options." The Outside Directors and the Outside Audit & Supervisory Board Members also do not receive "bonus."

#### **[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]**

The Outside Directors and the Outside Audit & Supervisory Board Members are assisted by the staffs of the related divisions. The Company receives appropriate opinions from the Outside Directors, by communicating and giving explanations on the agenda in advance as necessary, at any important internal meetings such as the Board of Directors. In addition, the Company reports the matters discussed in the Board of Directors to those Outside Directors and Outside Audit & Supervisory Board Members who were unable to attend the meeting by sending the copies of the minutes.

## **2. Matters on Functions of Business Execution, Auditing, Supervision, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) (Updated)**

#### **[Execution of Business Processes]**

The Company has principle organs, called the Board of Directors and Managing Directors' Committee, for considering and deciding the execution of business processes. Each organ holds a meeting once a month as a general rule, where high-priority issues are discussed and resolved.

#### **[Audit and Supervision]**

The Company's Audit & Supervisory Board Members conduct audits concerning the execution of operations by the Directors through the attendance of important internal meetings including those mentioned above and the review of important documents and physical observation of plants in Japan and overseas. The Company's Audit & Supervisory Board Members conduct audits aiming to further enhance the effectiveness of governance through mutual cooperation with the Accounting Auditor such as observing audits of the Accounting Auditor as necessary and exchanging information or having discussions by occasionally seeking reports and explanations on audits. The Company is making every effort to prepare appropriate personnel and structures to support audits by the Audit & Supervisory Board Members, by allocating dedicated staffs to assist the Audit & Supervisory Board Members, where the appointment, termination and other actions concerning such staffs require the consent of the Audit & Supervisory Board Members to be obtained in accordance with the procedure set out in the internal rules and regulations. In addition, the Company elected three Outside Audit & Supervisory Board Members who are highly independent, one of whom has legal knowledge as a lawyer and one of whom has knowledge of finance and accounting as a certified public accountant and a certified public tax accountant.

In terms of the internal audit, the Auditing Department (a dedicated department) is engaged in the operational auditing of each department from the perspectives of legal compliance and the rationality of business activities. The results of the audits are reported to management, the Outside Directors and the Audit & Supervisory Board Members, etc., thereby ensuring cooperation between the Internal Audit Department, the Outside Directors and the Audit & Supervisory Board Members.

The Accounting Auditor of the Company for the year ended March 31, 2018 is Ernst & Young ShinNihon LLC. The certified public accountants who conducted audits are Yuji Mukaide, Ryogo Ichikawa and Yasuyuki Kitamura, all of whom are designated members with limited liabilities / executive members whose number of years of continuous service is one year, three years and two years, respectively. The composition of audit

engagement assistants is 12 certified public accountants and 38 other staffs involved in the engagement, for a total of 50 people. Furthermore, the remuneration for such audit work under Article 2, Paragraph 1 of the Certified Public Accountants Law is 104 million yen (consisting of 81 million yen for the Company and 23 million yen for its consolidated subsidiaries) and the remuneration for other work is 22 million yen (consisting of 11 million yen for the Company and 10 million yen for its consolidated subsidiaries). As other significant remuneration, 16 foreign subsidiaries among the Company's consolidated subsidiaries paid 81 million yen for the audit certification work carried out by ERNST & YOUNG, which belongs to the same network as the Accounting Auditor of the Company.

With regard to the Outside Directors, the Company invited Frank Peter Popoff, former CEO of former The Dow Chemical Company in the United States, Tsuyoshi Miyazaki, former Representative Director and President as well as former Representative Director and Chairman of Mitsubishi Logistics Corporation, Toshihiko Fukui, former Governor of the Bank of Japan, and Hiroshi Komiyama, former President of the University of Tokyo, all of whom have advised us on overall corporate management as well as monitoring and supervision from independent standpoints.

[Nomination/Determination of remuneration]

In accordance with the Regulations of the Remuneration Committee, the Remuneration Committee, which is chaired by Independent Outside Director Frank Peter Popoff and consists of four other, assesses the remuneration for Directors and the nomination of executives and Director/Audit & Supervisory Board Member candidates through regular meetings held twice a year and telephone conferences held as needed and then report to the Board of Directors.

[Agreements limiting liability]

The Company, in accordance with the provision of Paragraph 1 of Article 427 of the Companies Act, concludes agreements with all Outside Directors and all Audit & Supervisory Board Members limiting their liability for damages, as described in Paragraph 1 of Article 423 of the Companies Act; provided that the limitation of liability for damages in the agreements shall be based on the amount prescribed by relevant laws and regulations.

### **3. Reasons for Adoption of Current Corporate Governance System**

The Company has adopted the corporate structure under which it established the Audit & Supervisory Board. The audits to be conducted by the Audit & Supervisory Board Members regarding the execution of duties by the Directors is stipulated under the Companies Act and the Audit & Supervisory Board comprises five Audit & Supervisory Board Members in total, including three highly independent Outside Audit & Supervisory Board Members. In addition to the aforementioned effort to prepare appropriate personnel and structures to support audits by the Audit & Supervisory Board Members, the Company ensures that audits by the Audit & Supervisory Board Members sufficiently serve their function, under the coordination of the Audit & Supervisory Board Members and the Internal Audit Department. Furthermore, the Company elected four highly independent Outside Directors, who conduct satisfactory supervision over corporate management under the coordination of the Audit & Supervisory Board Members and the Internal Audit Department. As mentioned above, the Company has established the framework to strengthen supervisory function over corporate management, effectively utilizing the functions carried out by the Audit & Supervisory Board Members. The Company selected the aforementioned system as a company with the Audit & Supervisory Board Members, in the belief that such system can establish the governance structure desirable for the Company and also ensure the trust of the shareholders and investors.

[Role and function of the Company's Outside Directors]

The Company's Outside Directors provide thorough supervision from an independent standpoint and also shared their comments from a broad, high-level perspective capitalizing on their wealth of experience and outstanding knowledge.

And Outside Director Frank Peter Popoff serves as the commissioner of the Officers' Remuneration Committee.

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholders' Meetings and Smooth Exercise of Voting Rights

|   | Supplementary Explanations  |
|---|---|
| Early Notification of General Shareholder Meeting | The Notice of Convocation of the Ordinary General Shareholders' Meeting is sent no later than approximately three weeks prior to the Ordinary General Shareholders' Meeting. In addition, such notices are posted on TDnet and the Company's website before the day they are sent in order to ensure enough time for shareholders to consider the agenda. |
| Allowing Electronic Exercise of Voting Rights     | The Company implements a system for exercising voting rights via the Internet.  |
| Participation in Electronic Voting Platform       | The Company participates in electronic voting platform for institutional investors operated by ICJ, Inc.  |
| Providing Convocation Notice in English           | In order to facilitate the exercise of voting rights by non-Japanese shareholders, the Company prepares and posts an English version of the Notice of Convocation of the Ordinary General Shareholders' Meeting on its website on the same day the Japanese version is posted.  |
| Other   | The results of the exercise of voting rights at the General Shareholders' Meeting are disclosed in the Extraordinary Report and are also posted on the Company's website (together with an English version).  |

#### 2. IR Activities (Updated)

|   | Supplementary Explanations  | Personal explanation by representative |
|---|---|--|
| Preparation and Publication of Disclosure Policy                    | We ensure fair and transparent disclosure to our shareholders and investors in accordance with Financial Instruments and Exchange Act and the Securities Listing Regulations stipulated by the Stock Exchange on which our stocks are listed. This is based on our understanding that timely and accurate disclosure of the Company's corporate information to the shareholders and investors facilitates the understanding of the Company and brings appropriate evaluation from the market. The Company's information disclosure policy is posted on its website. |  |
| Regular Investor Briefings for Individual Investors                 | The Company holds briefings for individual investors at the bases of securities companies, etc. (around the Tokyo metropolitan area and in major cities) several times a year. In addition, the Company has opened a website for individual investors and provides information for them.  | No                                     |
| Regular Investor Briefings for Analysts and Institutional Investors | The Company holds financial results briefings (year-end and interim) and conference calls (the first quarter and the third quarter), as well as plant tours, which includes business briefings.   | Yes                                    |
| Posting of IR Materials on Website                                  | The Company posts financial results summaries, explanatory materials concerning financial results, Q&A Summaries of the Business Results Explanatory Meeting and the Annual Securities Reports, etc. on its website. Financial results summaries are posted on its website on   |  |



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|  | the date the results are announced, and explanatory materials concerning financial results are posted on its website on the date the full-year results and the half-year results are announced.  |  |
| Establishment of Department and/or Manager in Charge of IR | As the Company believes that “IR is the responsibility of senior executives,” Chihiro Kanagawa, Representative Director and Chairman, and Yasuhiko Saitoh, Representative Director and President, are proactively involved in IR activities. IR activities are carried out by Public Relations Department, for which the Director in charge is Toshiya Akimoto, Managing Director, and the IR administration manager is Yukihiro Adachi, General Manager of Public Relations Department. |  |

### 3. Measures to Ensure Due Respect for Stakeholders

|  | Supplementary Explanations   |
|--|--|
| Environmental Conservation Activities, CSR Activities and others | <p>Shin-Etsu Group’s business principle is “The Group strictly complies with all laws and regulations, conducts fair business practices and contributes to people’s daily lives as well as to the advance of industry and society by creating value through providing key materials and technologies.” We share the recognition that social and environmental considerations are indispensable in our business activities for the sustained growth of corporate earnings.</p> <p>The Shin-Etsu Group’s product line up contributes to the United Nation’s “SDGs.” The Group’s core products such as PVC, semiconductor silicon, silicones, cellulose derivatives and rare earth magnets contribute to the future of the earth by addressing issues on climate change, preservation of ecosystems and biodiversity. We will accelerate the development of product application as well as the development of new products in order to further contribute to the SDGs.</p> <p>To achieve the business principle, we formulated the Basic CSR Policy and internal regulations, and are carrying out CSR activities. In order to promote CSR activities on a company-wide level in all aspects of corporate activity, we have set up an ESG Promotion Committee comprising managers from the relevant divisions and departments, and President Saitoh serves as the Committee Chairman.</p> <p>In addition, the Group announced its support for and implementation of the Responsible Care Global Charter of the International Council of Chemical Associations (ICCA) in 2006. In 2014, the Company also signed the revised Responsible Care Global Charter. Furthermore, the Group became a participant in the United Nations Global Compact (UNGC) in 2010, where it announced its support for and implementation of the UNGC’s Ten Principles with regard to the four areas; human rights, labor standards, the environment and the prevention of corruption. The Company continues to promote business activities in line with these principles in order to obtain the trust of many people.</p> <p>The Group’s CSR activities are disclosed on the Company’s website. (<a href="http://www.shinetsu.co.jp/en/csr/">http://www.shinetsu.co.jp/en/csr/</a>)</p> |
| Other  | <p>The Group has been promoting the success of diverse human resources. As one example, in order to promote women’s participation and advancement, in the next five years from the fiscal year ending March 31, 2017, the Company will target that:</p> <ol style="list-style-type: none"> <li>1. The rate of hiring women is 40% for administrative positions and 10% for engineering positions.</li> </ol>   |

|  |   |
|--|---|
|  | <p>2. The number of women in managerial positions including junior manager level will be doubled compared to the number in the fiscal year ending March 31, 2015. Based on the above goals, the Group will continue promoting employees to management positions, regardless of gender.</p> <p>Also, in order to enable employees to demonstrate their abilities while raising children, we have established a Childcare Leave System and a Short-time Working System that exceed legal requirements. Childcare Leave System can be acquired until the child is 3 years old. In addition, Short-time Work System that shortens work hours by up to two hours per day can be used until the child graduates from elementary school.</p> |
|--|---|

**IV. Matters Related to the Internal Control System**

**1. Basic Views on Internal Control System and the Progress of System Development**

The Company has formulated a Basic Policy on Internal Controls to help put in place a “structure to ensure that the execution of duties by the Directors is fully compliant with applicable laws and regulations and the Articles of Incorporation, and other structures to ensure the propriety of business operations of the company and its subsidiaries,” Article 362, Paragraph 4, Item 6 of the Companies Act. We recognize the establishment, operation and maintenance of an internal control system as an important management obligation. In line with this basic policy, we have established and operate an internal control system, which is subject to constant review, in an effort to enhance its appropriateness and efficiency.

**1. System to Ensure That the Company’s and Its Subsidiaries’ Directors and Employees Perform Their Work Duties in Accordance with Applicable Laws and the Company’s and Its Subsidiaries’ Articles of Incorporation**

The Company and its subsidiaries (hereinafter the “Group Companies”) have a business principle of taking appropriate corporate actions, based on a desire to act in a lawful manner.

The Company will maintain regulations concerning the Group Companies’ compliance system, and the Group Companies’ Directors and employees will perform their work duties in accordance with these regulations. The Internal Audit Department and other departments that are related to the contents of the audits will perform internal audits concerning the status of the operation of the compliance system.

In order to uncover illegal activities at an early stage and correct such situations, the Company will establish a compliance consultation office and administer a compliance consulting/reporting system for Group Company executives and employees in accordance with the relevant internal regulations. Also, the Company will provide compliance training in an appropriate manner.

The Company will appoint independent Outside Directors and Outside Audit & Supervisory Board Members, who will endeavor to preserve the compliance system from an independent point of view, by attending meetings of the Board of Directors and Managing Directors’ meetings and/or by other actions.

**2. System to Preserve and Administer Information Concerning the Company’s Directors’ Performance of Their Work Duties**

Based on the regulations of information management and other internal regulations, the Company will prepare and preserve written and other records concerning the Directors’ performance of their work duties. The Company will promptly provide these records in response to a request from the Directors or Audit & Supervisory Board Members.

**3. Regulations Concerning Management of Risk of Damage to the Company and Its Subsidiaries, and Other Systems**

Along with maintaining regulations concerning the Group Companies’ risk management system, the Company will establish a Risk Management Committee and facilitate the committee’s work across the Group Companies, in order to discover and prevent risks that may occur in conjunction with the execution of the Group Companies’ business.

The Company will appoint Outside Directors and Outside Audit & Supervisory Board Members, who will endeavor to ensure the exchange of relevant information and appropriate risk management, by attending meetings

of the Board of Directors and Managing Directors' meetings and/or by other actions.

#### **4. System to Ensure That the Company's and Its Subsidiaries' Directors Perform Their Work Duties in an Effective Manner**

The Company will establish a system to ensure that the Group Companies' Directors and employees perform their work duties in an effective manner, in accordance with (i) decision-making rules and division of work duties based on the regulations of the Board of Directors, division of duties, the Group Companies' management regulations, and other internal regulations and (ii) the holding of meetings of Group Companies and meetings of Presidents of Group Companies (hereinafter "Group Company Meetings").

Also, in order to increase the effectiveness of the Directors' performance of their work duties, the Company will appoint Outside Directors, and these Outside Directors will not only observe and manage the Company's affairs from an independent viewpoint but also provide suggestions concerning all aspects of the Company's corporate management.

#### **5. System to Ensure the Propriety of the Activities of the Corporate Group Consisting of the Company and Its Subsidiaries**

The Group Companies have a business principle of taking appropriate corporate actions, based on a desire to act in a lawful manner.

The Company's Group Company Management Department, based on the Group Companies' management regulations and the Group Company Meetings, will require Group Companies to report to them important matters relating to the business of the subsidiaries. Also, the Company's Internal Audit Department and other departments that are related to the contents of the audits will, as necessary, work together with the Internal Audit Departments and other departments of the subsidiaries to perform internal audits of the relevant subsidiaries.

The Company will establish an Audit & Supervisory Board Member Liaison Committee and Group Audit & Supervisory Board Member Liaison Committee comprised of Full-time Audit & Supervisory Board Members and others from the Company and its main subsidiaries, and the Company's Full-time Audit & Supervisory Board Members will gather relevant information by attending Group Company Meetings and/or by other actions, together with other Audit & Supervisory Board Members (including Outside Audit & Supervisory Board Members).

#### **6. Matters Concerning Employees Who Are Requested by Audit & Supervisory Board Members to Assist with the Work Duties of the Audit & Supervisory Board Members**

The Company will appoint audit staff from among its employees, in accordance with the methods set forth in the Company's internal regulations, to assist the Audit & Supervisory Board Members with their work duties.

#### **7. Matters Concerning the Independence from the Directors of the Employees Referenced in the Previous Item and Ensuring of Such Employees' Compliance with the Instructions of the Audit & Supervisory Board Members**

The Company will appoint, terminate, and take other actions concerning the audit staff, in accordance with the methods set forth in the Company's internal regulations, with the consent of the Audit & Supervisory Board Members.

The audit staff will comply with the instructions and orders of the Audit & Supervisory Board Members and assist with the work of the Audit & Supervisory Board Members.

#### **8. System for Reporting to the Audit & Supervisory Board Members and for Ensuring that Persons Making Such Reports Are Not Treated in an Unfavorable Manner for Making Such Reports**

The Company's Directors and employees and the Company's subsidiaries' Directors, Audit & Supervisory Board Members, and employees, as well as any persons who received reports from any of the above-referenced persons, shall promptly report the following matters to the Company's Audit & Supervisory Board Members, in accordance with the methods set forth in the Company's internal regulations:

- (1) matters that will cause substantial damage to the Company or which have the potential of doing so;
- (2) important matters concerning management or financial information;
- (3) the status of the performance of internal audits;
- (4) material breaches of law or the Company's Articles of Incorporation;
- (5) the status of the administration of the compliance consulting/reporting system and the contents of reports made in connection with the system.

Also, the Group Companies shall not unfavorably evaluate (in internal personnel records) or otherwise treat in

an unfavorable manner, any of the above-referenced persons who makes a report, because of the making of such report.

**9. System for the Purpose of Otherwise Ensuring That the Audits Performed by the Audit & Supervisory Board Members Will Be Performed Effectively**

The Audit & Supervisory Board Members will hold periodic meetings with the Company's Accounting Auditors to exchange opinions, hold regular reporting meetings with the Company's Internal Audit Department, and take other measures to facilitate collaboration with them.

**10. Matters Concerning Procedures for Advance Payment/ Reimbursement of Expenses Arising From the Work of Audit & Supervisory Board Members and Other Matters Relating to the Treatment of Expenses and Other Financial Obligations Arising from Such Work**

If the Audit & Supervisory Board Members requests prepayment or reimbursement of any amounts necessarily incurred in the course of their audit work, the Company shall pay such amounts within a reasonable time and in a reasonable manner, unless it is clearly proven that such expenses were not necessarily incurred in the course of the audit work.

**11. System to cut ties with anti-social forces**

The Company's group shall adopt a consistently resolute attitude towards anti-social forces and shall take all measures necessary to cut itself off from any and all associations with anti-social forces.

In accordance with this policy, our group will endeavor to develop internal systems under the leadership of the department in charge of managing these issues. Working closely with the police and other external organizations addressing these issues, our group will strongly push forward initiatives aimed at eradicating anti-social forces.

**2. Basic Views on Eliminating Anti-Social Forces**

(1) Basic views on eliminating anti-social forces

The Group has adopted to strictly comply with all laws and regulations and to conduct fair business practices as a business principle, and confronts with a resolute attitude towards anti-social forces that threaten wholesome social order and safety, thereby striving for the elimination of any relationship with anti-social forces.

(2) Status of establishing a system for eliminating anti-social forces

In order to further facilitate initiatives to eliminate any relationship with anti-social forces, the Company established a dedicated division to handle such matters within the General Affairs Department, and assigned a person in charge preventing the Company from being subject to any undue demands. This establishment enables to organize and strengthen the internal systems and ensures that the Auditing Department and the related divisions serve a checking function from the perspectives of internal control and risk management. Furthermore, the General Affairs Department plays a central role in building a close cooperative relationship with the police and its external organizations as well as external professional bodies such as lawyers on a regular basis, endeavors to share information concerning anti-social forces and work on the central management and accumulation of the gathered information, as well as to participate in seminars held by the said professional bodies and to provide information and warnings within the Company as necessary.

**V. Other**

**1. Adoption of Anti-Takeover Measures**

|                                    |             |
|------------------------------------|-------------|
| Adoption of Anti-Takeover Measures | Not Adopted |
|------------------------------------|-------------|

Supplementary Explanation

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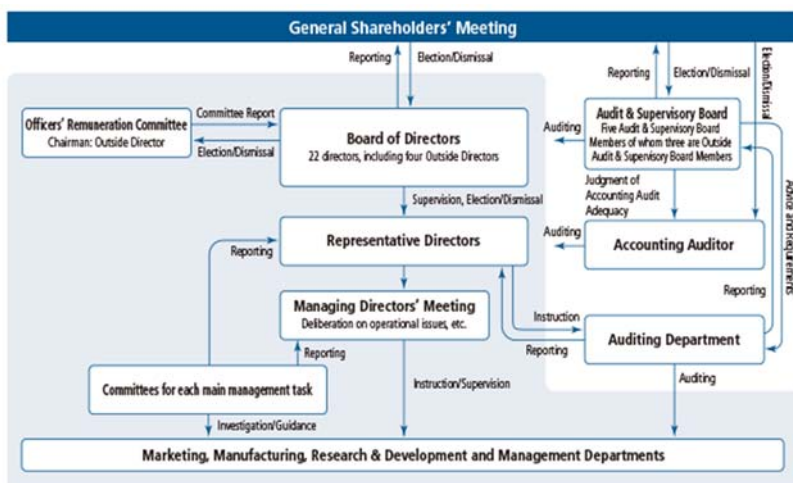
## 2. Other Matters Concerning to Corporate Governance System

The status of the internal system for the timely disclosure of the Company's corporate information is as follows.

In accordance with the regulations regarding information disclosure prescribed by the Stock Exchange, the Company sets out and informs the Company and Group Companies of the internal rules for the understanding, management and timely disclosure of corporate information, such as "the Rules on Timely Disclosure of Corporate Information" and "the Rules on Insider Trading Regulations." The Company strives for seamless operation through the following initiatives.

- 1) The Company informs employees of internal regulations by posting them on the Intranet.
- 2) The Company defines the department, based on the type of information, that is in charge of each type of material corporate information, which includes decisions made and occurrence of material facts, etc.
- 3) When material corporate information comes up, the Department in charge or the applicable subsidiary verifies such information and immediately reports the details to the Officers and employees whose responsibilities are related to such information as well as to the Office of the President. The Office of the President, upon receiving the report, immediately communicates the information to the Public Relations Department, which is in charge of timely disclosure.
- 4) The Public Relations Department determines whether such information needs to be disclosed in a timely manner and, if it needs to be disclosed, the Department immediately reports to each of the Directors, the Audit & Supervisory Board Members or the Board of Directors.
- 5) Announcements shall be made as early as possible and at an appropriate timing. The Public Relations Department should discuss the exact timing with the related Departments including the Department in charge.
- 6) The Finance & Accounting Department shall carry out administrative procedures for disclosing information in a timely manner.

### Corporate Governance System at Shin-Etsu Chemical



### State of the internal system for timely disclosure

