

2014

Environmental
and
Social Report

2014 Environmental and Social Report
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welcomed at our website:
URL: <http://www.shinetsu.co.jp/en/company/csr.html#environment>

Corporate Mission Statement

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 advancement of industry and society by providing key materials and technologies.

Basic CSR Policy

The Shin-Etsu Group:

- 1 Will do our best to increase the Group's corporate value through sustained growth and make multifaceted contributions to society.
- 2 Will carry out all of our company activities by making safety always our utmost priority.
- 3 Will constantly pursue energy-saving, resources-saving and the reduction of the environmental impact, and seek to help create a sustainable future world in which we all live in harmony with the Earth.
- 4 Will endeavor to contribute to the prevention of global warming and the conservation of biodiversity by means of our cutting-edge technologies and products.
- 5 Will strive to respect human dignity, assure equality in employment opportunities and support the self-fulfillment of our employees.
- 6 Will appropriately disclose information in a timely manner.
- 7 Will carry out trustworthy corporate activities that are based on the integrity of the Group's ethical values.

Global Compact Ten Principles

The Shin-Etsu Group joined the United Nations Global Compact (UNGC) in November 2010. The Group upholds the ten principles advanced by the UNGC in the four areas of human rights, labor, environment and anti-corruption.

The Global Compact asks that businesses should:

- Principle 1: Support and respect the protection of internationally proclaimed human rights
- Principle 2: Make sure they are not complicit in human rights abuses
- Principle 3: Uphold the freedom of association and the effective recognition of the right to collective bargaining
- Principle 4: Uphold the elimination of all forms of forced and compulsory labour
- Principle 5: Uphold the effective abolition of child labour
- Principle 6: Uphold the elimination of discrimination in respect of employment and occupation

- Principle 7: Support a precautionary approach to environmental challenges
- Principle 8: Undertake initiatives to promote greater environmental responsibility
- Principle 9: Encourage the development and diffusion of environmentally friendly technologies
- Principle 10: Work against corruption in all its forms, including extortion and bribery



Editorial Policy

The *Environmental and Social Report* provides information on environmental, safety and quality control programs and CSR initiatives carried out by the Shin-Etsu Group. The Report also describes Responsible Care programs¹ at the Shin-Etsu Group. The Report has been compiled in accordance with the *Environmental Accounting Guidelines 2005* and *Environmental Reporting Guidelines FY2012* released by the Ministry of the Environment, Japan, and the *GRI Sustainability Reporting Guidelines*.

Period Covered by the Report (indicated where otherwise)

Japan: April 1, 2013 to March 31, 2014
Overseas: January 1, 2013 to December 31, 2013

Organizations Covered by the Report

The report covers the 145 companies of the Shin-Etsu Group. The range of entities from which data were collected is in principle as stated below. Where otherwise, this is indicated in a separate note.

(1) Environmental Activity Report

The report includes data from the 123 companies of the Shin-Etsu Group (an increase of 6). Compared to the coverage of the 2013 report, there is thus an expansion in scope and a difference in content.

- 63 domestic manufacturing bases
- 114 domestic non-manufacturing bases (increase of 4)
- 46 overseas manufacturing bases (decrease of 1)
- 57 overseas non-manufacturing bases

(2) Environmental Accounting

Shin-Etsu Chemical Co., Ltd.

(3) Management Structures, Relations with Society

Shin-Etsu Group, except for the Shin-Etsu Polymer Group²

1 Responsible Care program

A campaign encouraging enterprises that handle chemical substances to voluntarily ensure protection of the environment, safety and health in all processes, from the development of chemical substances through manufacture, distribution and utilization to final consumption, disposal or recycling, to publish the results of their activity, and to engage in dialog and communication with society.

² For a report on the Shin-Etsu Polymer Group, see "Shin-Etsu Polymer Sustainability Report 2014" (to be published at end of September 2014).



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Carrying out fair and transparent corporate activities, we contribute to the development of society through our key materials and technologies

The Shin-Etsu Group as a materials manufacturer aims to contribute to the development of society as we strive to meet the requirements of our customers with our production bases located in many countries. Putting our highest priority on safety and strictly complying with all laws and regulations is our basic policy for all of our corporate activities. We are proactively addressing important global social issues such as environmental conservation. Through all our corporate activities, we are continuing to make concerted efforts to support people's lives, industry and society's development.

Placing our highest priority on safety

All of our board members and employees carry out their work with safety as their highest priority. When designing or modifying facilities, we consistently incorporate a stringent safety assessments. In the manufacturing process, we set up work operation procedures that ensure safety, and strictly adhere to these procedures. Furthermore, we constantly work on further improving our production technologies, and at the same time, we continue to improve our facilities and work procedures, by keeping work manuals in good order, focusing on eliminating potential risks in the workplace and doing everything possible to prevent accidents from occurring. In addition, when any employee feels that there is any risk in his or her daily work, we immediately take action to eliminate the risk and release reports on such "close-call" incidents on our website. By sharing this information throughout the entire company, we seek to further improve our safety practices.

Multiple approach working to protect the environment

• Promoting environmental conservation and reducing the environmental impact

As we develop and improve the Group's manufacturing technologies, the Group's horizontally-organized technology committee regularly conducts studies from the point-of-view of environmental performance. In addition, we are making a strong effort to develop and improve products that will contribute to energy saving and reduce greenhouse gas emissions. Also, we are carefully analyzing the quantity of our Group's emissions from raw materials production to the disposal

of the final products, as we implement comprehensive measures to reduce greenhouse gas emissions.

• Recycling resources and protecting biodiversity

The Shin-Etsu Group continues to focus on technological innovations, for both our products and technologies. We endeavor to contribute to energy savings and other savings as well as the recycling of resources in a wide diversity of fields. Simultaneously, we are focusing on such important issues as the protecting biodiversity and the control of environmental pollution.

Practicing fair and highly transparent management

In order to implement strict internal controls, we have put in place an internal control and audit system that precisely meet the requirements of the Reporting System on Internal Control Over Financial Reporting stipulated by the Japanese Financial Instruments and Exchange Act. In addition, we are making strong efforts to assure the timely release of important information to the public. Furthermore, we receive objective advice and supervision of management from an objective, independent standpoint from our Outside Directors and Outside Audit & Supervisory Board Members, all of whom have deep insight and a wealth of business experience and knowledge. Moreover, we have made our Auditing Department an independent organization and have put in place a fair, strict and objective auditing system.

Strengthening our business continuity foundation

The Shin-Etsu Group is providing its customers with products that have very large shares in the world market. For this reason, we consider the stable supply of our products to our customers as our most important social mission. For quite some time we have been implementing our strategy of geographically dispersing our production bases and diversifying our sources of raw materials procurement. We are also working to prepare in advance for such unforeseeable events as natural disasters.

Participating in the U. N. Global Compact

Declaring its strong support, the Shin-Etsu Group signed the Responsible Care Global Charter of the International Council of Chemical Associations (ICCA) in 2006. The Group has been actively supporting and implementing these Responsible Care activities. In 2010, the Group became a participant in the United Nations Global Compact (UNGC) and has been voluntarily supporting and practicing in its business operations and strategies the UNGC's ten universally accepted principles with regard to the four areas of human rights, labor standards, the environment and the prevention of corruption. These principles are all in line with the Shin-Etsu Group's corporate mission and basic CSR (corporate social responsibility) policies. Going forward, the Shin-Etsu Group will continue to uphold these commitments and will endeavor to build an even stronger trust relationship with people around the world.

Contributing to local communities around the world

The Shin-Etsu Group is conducting carrying out many different kinds of social contribution activities in countries around the world. One example of such activities is the many staff members of Shintech Inc. in the U.S. who are participating in the activities of non-profit charitable organizations. By such means, the Group is deepening its trust relationship with the local communities in which it operates. In the future as well, the Shin-Etsu Group will sincerely and proactively address the issues with which society is seeking to deal and will continually make vigorous efforts to carry out its corporate social responsibilities as a good corporate citizen.

We sincerely hope that this Environment and Social Report 2014 has provided you with a better understanding of the extensive range of the Shin-Etsu Group's social contribution activities as it fulfills its role as a good corporate citizen. We would like to ask for your continued strong support in the coming years.

June 2014



C. Kanagawa

Chihiro Kanagawa, Ph. D.
Chairman



Shunzo Mori

Shunzo Mori
President

Overview of the Shin-Etsu Group

Contributing to the development of society through the product, sales force, production technology, and development capability that we have cultivated

As of March 31, 2014, the Shin-Etsu Group comprises Shin-Etsu Chemical and 144 Group companies, which share responsibility for sales, manufacturing and other operations and cooperate to develop their respective business activities.

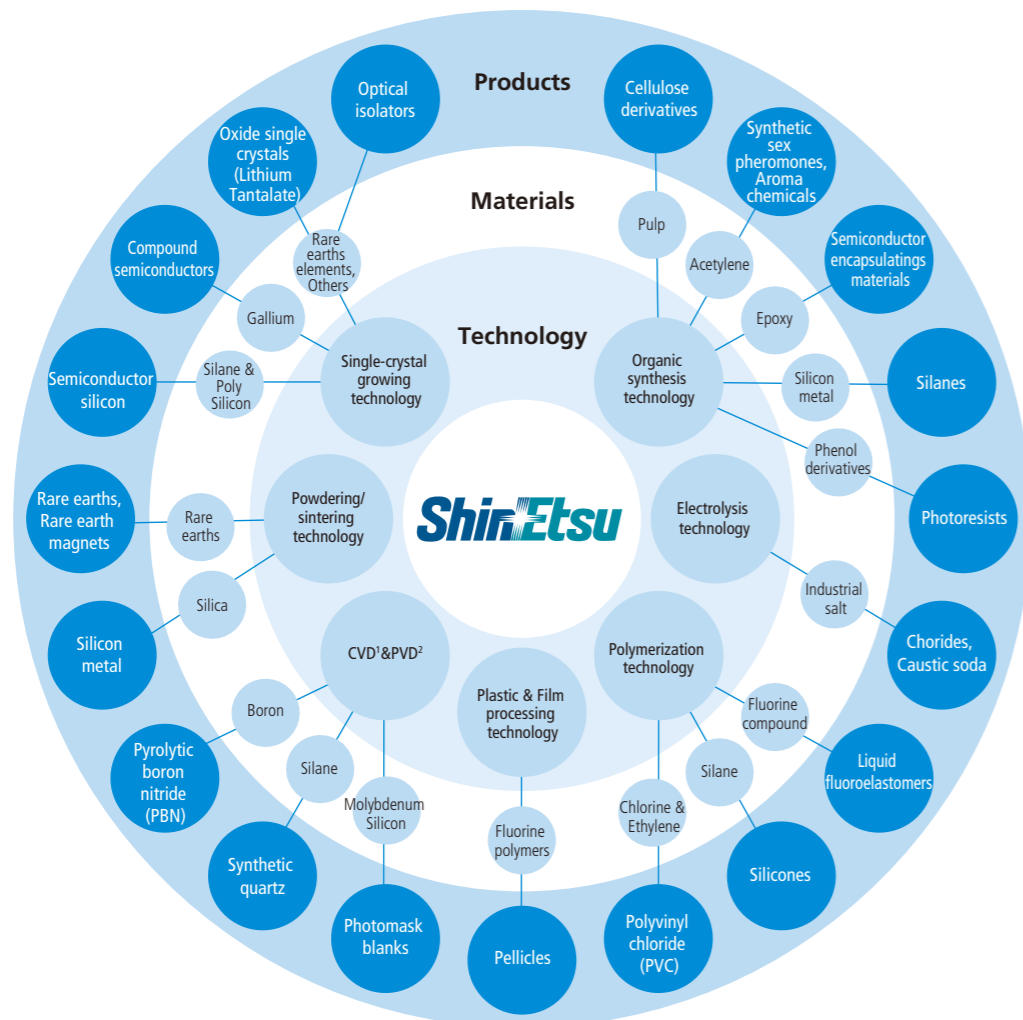
These business activities are divided into six fields: PVC/Chlor-Alkali Business; Silicones Business; Specialty Chemicals Business; Semiconductor Silicon Business;

Electronics and Functional Materials Business; and Diversified Business. In each of these fields, we have products with strong market share, with the world's top share in polyvinyl chloride (PVC), semiconductor silicones, photomask substrates for LCDs, and the top domestic share for silicones.

Shin-Etsu products are a familiar part of our everyday lives and they play an essential role in society.

Technology, Materials, Products Chart

Outstanding materials come from outstanding technology. The Shin-Etsu Group evolve into a variety of sophisticated technologies developed in the process of creating products that meet ever advancing and diversifying needs.

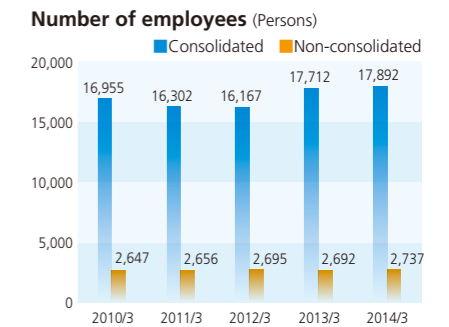


1 Chemical Vapor Deposition (CVD)
A process for forming thin films on a substrate, involving gas energized by thermal, optical, or electromagnetic radiation to cause excitation or decomposition, and involving steps such as attraction, reaction, and dissociation.
2 Physical Vapor Deposition (PVD)
A method for forming thin films of material on a substrate, using originally solid substances vaporized by thermal or plasma energy.

Corporate Overview

Overview of Operations

Trading name Shin-Etsu Chemical Co., Ltd.
Location 6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, Japan
Established September 16, 1926
Capital 119,419 million yen
Representative Shunzo Mori, President
Number of employees 17,892 (consolidated) 2,737 (non-consolidated)
Business activities Production and sales of polyvinyl chloride, semiconductor silicones, silicones, rare earth magnets, synthetic quartz, cellulose derivatives and other products



Principal Shin-Etsu Group Companies

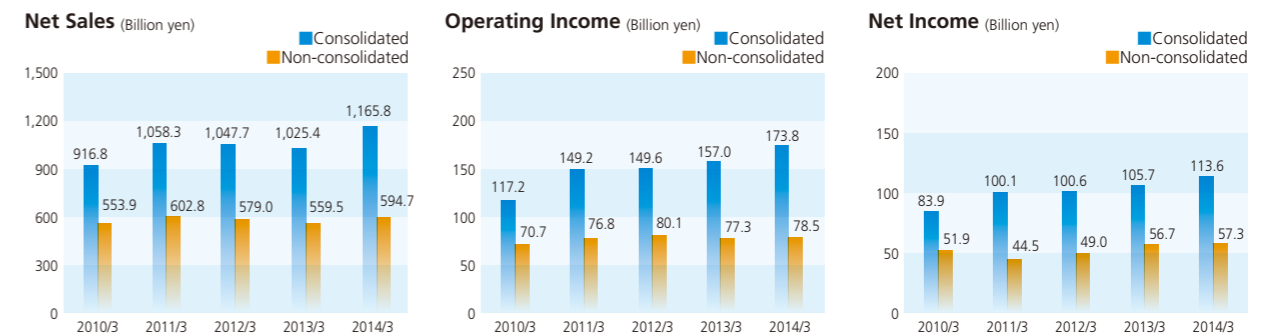
- Domestic**
Shin-Etsu Chemical Co., Ltd., Shin-Etsu Handotai Co., Ltd., Shin-Etsu Polymer Co., Ltd., Shin-Etsu Engineering Co., Ltd., Nagano Electronics Industrial Co., Ltd., Naoetsu Electronics Co., Ltd., Shin-Etsu Astech Co., Ltd., and others
- Overseas**
Shintech Inc., Shin-Etsu Handotai America Inc., S.E.H. Malaysia SDN. BHD., Shin-Etsu PVC B.V., SE Tylose GmbH & Co. KG, Shin-Etsu Handotai Europe Ltd., Shin-Etsu Handotai Taiwan Co., Ltd., and others

Rating: Aa3 long-term debt rating received from Moody's Investors Services

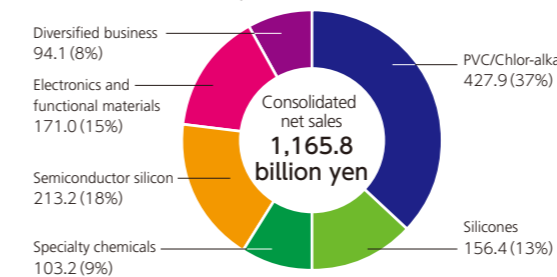
Indices for Socially Responsible Investment



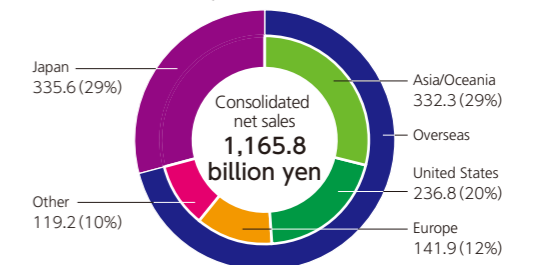
Financial Highlights



Net Sales by Segment (Fiscal year ended March 2014)



Net Sales by Region (Fiscal year ended March 2014)



Full details of Shin-Etsu Group companies
<http://www.shinetsu.co.jp/en/company/profile.html>

Financial and IR information
<http://www.shinetsu.co.jp/en/ir/>

TOPICS Shin-Etsu Group Products and Technologies that Contribute to Environmental Conservation

The Shin-Etsu Group not only strives to reduce its environmental impact during the product manufacturing stage, but also designs product with a focus on reducing environmental impact, energy usage, and resource usage during product usage.

These products are used in a wide range of fields, including industry, daily life, and renewable energy.

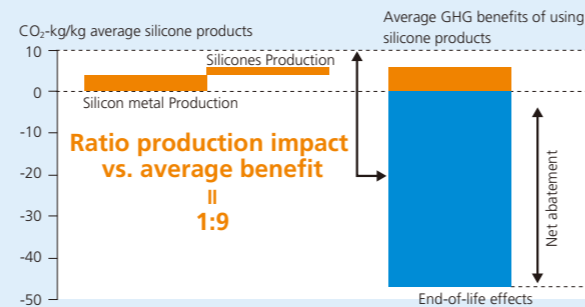
Silicones

The Group produces over 5,000 silicone products, used in familiar products used in daily life, such as household products, automobiles, construction, and solar cells. While being put to each of their uses, these products are contributing to reductions in greenhouse gas emissions.

In 2012, we, together with other members of the global silicone industry, carried out a study of the entire silicone market, examining silicone greenhouse gas emissions and how much greenhouse gas emissions are curbed by the use of silicone, in comparison to silicone substitutes and alternative methods. The study found that the amount of greenhouse gas emissions eliminated through the use of silicone was **9 times greater** than the amount of greenhouse gasses produced by the manufacture and disposal of silicone. It also found that the use of silicone products in Europe, North America, and Japan has made it possible to **reduce greenhouse gas emissions by 54 million tons of CO₂ per year.**

Silicone used in automobiles, construction, and solar cells account for the greatest share of overall silicone greenhouse gas emissions reductions. Silicone is contributing significantly to improved sustainability.

1 Greenhouse Gas Reduction Effects

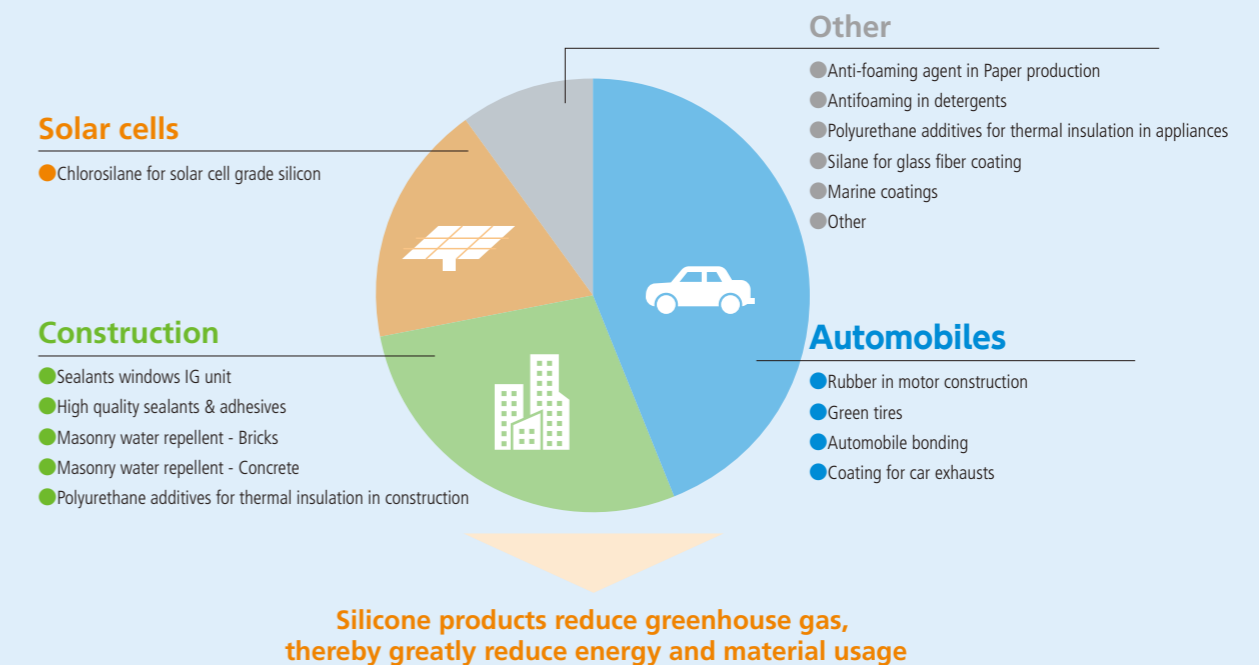


2 Examples of Greenhouse Gas Reductions

The **54 million tons of CO₂** greenhouse gas emissions cut each year through the use of silicone in Europe, North America, and Japan are



Fields in Which Silicone Use is Reducing Greenhouse Gas Emissions, and Major Silicone Uses



Source: Silicone Industry Association of Japan "Silicone-Chemistry Carbon Balance"

Global Silicones Council
<http://globalsilicones.org/>

Silicone Industry Association of Japan
<http://www.siaj.jp/en/>

Polyvinyl Chloride

Polyvinyl chloride (PVC) is a general purpose resin that is less dependent than other types of resin on petroleum resources, being composed, by weight, of roughly 40% petroleum and 60% chlorine, which is found in abundance on earth. Its production has less environmental impact than other types of resin, and the production process uses only around 60% of the energy used to produce other general purpose resins. It is highly durable and easily recyclable, leading to its widespread use in construction materials such as PVC windows and water and sewage pipework.

PVC windows have superior insulation properties, and are resistant to fogging, making them mainstays in developed nations in Europe and North America. Their use is also accelerating in China. In Japan, as well, they are popular in mainly cold regions. Compared to ductile

cast-iron pipes*¹, PVC pipes have lower total carbon-dioxide emissions*² over their lifecycles, contributing to the prevention of global warming.

*¹ Ductile cast-iron pipe
Pipes made of spheroidal graphite and iron.

*² Lifecycle carbon-dioxide emissions
Total carbon dioxide emissions for a product, from the gathering of raw materials, through the production, use, disposal, and recycling stages.

Source: Japan Chemical Industry Association "Lifecycle Analysis of Chemical Products in Japan and around the World", third edition
Vinyl Environmental Council website "Living with PVC Windows"

Japan Chemical Industry Association
<http://www.nikkakyo.org/>

Vinyl Environmental Council
<http://www.vec.gr.jp/english/index.html>

Rare Earth Magnets

Rare-earth magnets are roughly 10 times as strong as conventional ferrite magnets, offering a great deal of magnetic force despite their compact size. These properties allow them to contribute to making motors for hybrid and electric vehicles, energy saving air conditioning compressor motors, and the like more compact, lightweight, and high powered.

For example, using rare-earth magnets in air conditioning compressors can improve energy efficiency by 5 to 10%. This cuts overall power usage, helping to reduce carbon-dioxide emissions. Rare-earth magnets are also used in wind power generation motors, contributing to the field of renewable energy.

Shin-Etsu rare-earth magnets
<http://www.shinetsu-rare-earth-magnet.jp/e/index.html>



CSR Promotion Structure

Shin-Etsu Group implements various activities to fulfill its corporate social responsibility

CSR Promotion Initiatives

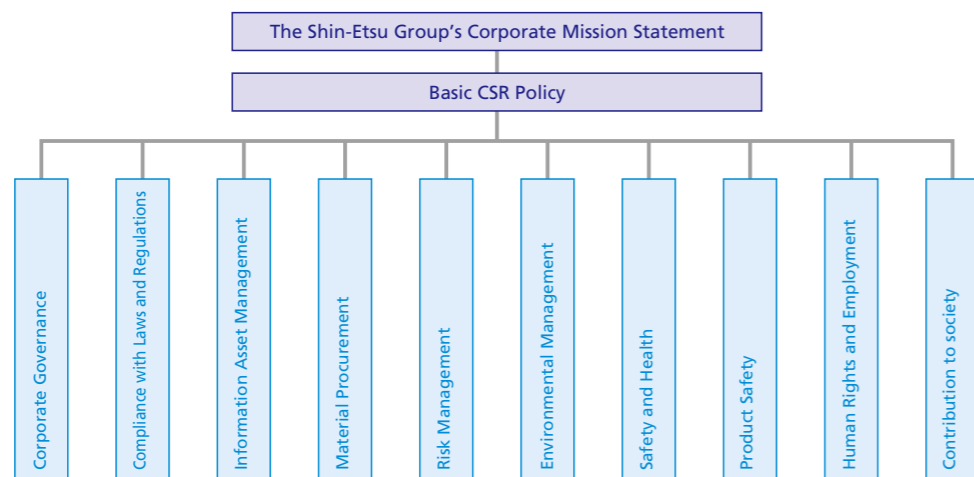
The mission of the Shin-Etsu Group is “strictly to comply with all laws and regulations, to conduct fair business practices and to contribute to people’s daily lives as well as to the advance of society and industry by providing key materials and technologies”. We believe we have a social responsibility to contribute to our many stakeholders, including all of our shareholders and investors, customers, business partners, local communities and employees, by realizing this vision.

To achieve this, we formulated our Basic CSR Policy and internal regulations, and are implementing various CSR activities. In order to promote the Basic CSR Policy in an effective and appropriate manner at a company-wide level in all aspects of corporate activity, we have set up a CSR Promotion Committee comprising managers from the relevant divisions and departments, and have appointed an officer responsible for CSR.

Diagram of the Shin-Etsu Group’s Various Relationships



Outline of the Corporate Mission Statement, Basic CSR Policy, and Our Activities



Corporate Governance

Corporate governance is one of our most important management tasks

Shin-Etsu Chemical aims to meet the expectations of shareholders by continually enhancing corporate value. To this end, we have instituted an efficient structural framework and systems designed to enable a more prompt response to changes in the business environment. Moreover, Shin-Etsu Chemical accurately discloses information to shareholders and investors as a means of improving management transparency and strengthening audit systems.

monthly basis as a general rule. The Board of Directors sets out the Company principle and deliberates and makes decisions regarding key aspects of Company operations in accordance with the Companies Act, the Shin-Etsu articles of incorporation, etc. Meanwhile, the Managing Directors’ Meeting makes deliberations and decisions on a variety of other operational issues.

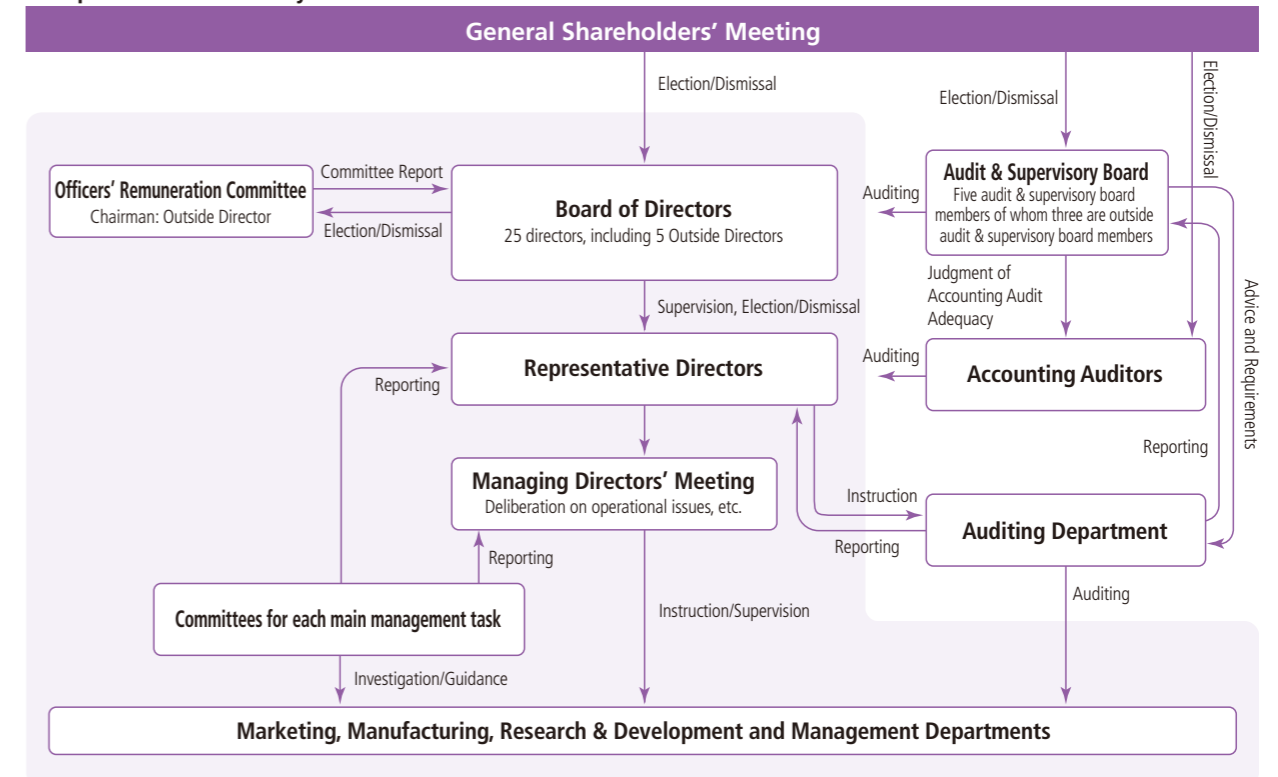
Board of Directors, Managing Directors’ Meeting and Audit & Supervisory Board

Shin-Etsu Chemical has adopted an Audit & Supervisory Board Member system. The Board of Directors consists of 25 members, of whom five are Outside Directors with extensive management experience and a high level of expertise.

The Audit & Supervisory Board consists of five members including three Outside Audit & Supervisory Board Members. As well as attending the Board of Directors meetings, Managing Directors’ Meetings, and other important internal meetings, the Audit & Supervisory Board Members inspect documents and carry out other tasks in order to audit the execution of operations by the directors. Furthermore the Audit & Supervisory Board Members also hold monthly meetings with the Auditing Department where they receive progress reports on activities, internal auditing results, and other matters. They also provide advice on topics including these activities and the selection of key auditing topics, and request investigations if necessary.

Two organizations to discuss and decide on the execution of operations: the Board of Directors and the Managing Directors’ Meeting, which are each held on a

Corporate Governance System at Shin-Etsu Chemical



As of June 27, 2014



Outside Directors and Outside Audit & Supervisory Board Members

For the purpose of the fulfilled advisory and supervisory functions on management independently, Shin-Etsu Chemical engages the Outside Directors and Outside Audit & Supervisory Board Members listed below.

Since their appointment, the Outside Directors have not only provided adequate supervision from an independent perspective, but have also provided advice across the full range of management operations from the points of their broad view. The Outside Audit & Supervisory Board Members bring to the audits high levels of specialist knowledge and broad experience, which contributes to maintain our company's legal compliance system.

Outside Directors and Outside Audit & Supervisory Board Members have a high degree of independence

and are not former employees of our parent company, subsidiaries, major shareholders or major business partners.

Support services for the Outside Directors and Outside Audit & Supervisory Board Members are provided by staff from the relevant divisions. When a meeting of the Board of Directors or other important internal meeting is to be held, Outside Directors are informed in advance of the agenda and provided with an explanation of its content as necessary, in response to which they express opinions as appropriate.

Outside Directors and Outside Audit & Supervisory Board Members who have been unable to attend a meeting of the Board of Directors receive a report of the meeting in the form of the minutes.

List of Outside Directors and Outside Audit & Supervisory Board Members

Position	Name	Significant other positions held
Outside Directors	Frank Peter Popoff	Former CEO, The Dow Chemical Company (US)
	Masashi Kaneko	Former Director and Chairman of the Executive Board, former Nikko Cordial Corporation Director and Chairman of the Board, Ikyu Corporation
	Tsuyoshi Miyazaki	Former Representative Director and President, Mitsubishi Logistics Corporation Former Representative Director and Chairman, the above Advisor, the above
	Toshihiko Fukui	Former Governor, Bank of Japan Outside Director, Kikkoman Corporation President, The Canon Institute for Global Studies
	Hiroshi Komiyama	Former President, The University of Tokyo Chairman, Mitsubishi Research Institute, Inc. Outside Director, JX Holdings, Inc.
Outside Audit & Supervisory Board Members	Taku Fukui	Lawyer Managing Partner, Kashiwagi Sogo Law Offices Professor, Keio University Law School
	Yoshihito Kosaka	Certified Public Accountant, Certified Public Tax Accountant Partner, Grant Thornton Taiyo ASG Representative Partner, HIYU Certified Tax Accountants' Corporation
	Kiyoshi Nagano	Former Representative Director, Chairman and President, former JASDAQ Securities Exchange, Inc. Outside Director, SBI Holdings, Inc. Outside Audit & Supervisory Board Member, LEC, INC.

As of June 27, 2014

Directors' Remuneration

The Officers' Remuneration Committee, chaired by an Outside Director Frank Peter Popoff together with three directors as committee members, meets regularly twice a year and conducts conference calls as necessary to review and assess directors' remuneration and make recommendations to the Board of Directors in accordance with the Regulations of the Officers' Remuneration Committee.

Internal Control System and Operational Audit

Shin-Etsu Chemical has formulated a Basic Policy on Internal Controls to help put in place "structures to ensure that the execution of duties by the directors is fully compliant with relevant legislation and the articles of incorporation and that other duties are performed appropriately", as stipulated in Article 362, Paragraph 4, Item 6 of the Companies Act.

Internal controls are an important management responsibility at Shin-Etsu Chemical. Accordingly, the internal control system is structured and implemented in accordance with the above policy. It is subjected to constant review to make the system more appropriate and efficient.

Internal operation audits and assessment of internal controls over financial reporting are handled by the Auditing Department. The results of these audits and assessments are reported to board members including Outside Directors and Audit & Supervisory Board Members to strengthen coordination between internal audit departments and Outside Directors and Audit & Supervisory Board.

In addition, with respect to the Internal Control Report System for Financial Reporting applicable under the Financial Instruments and Exchange Act, the Company's Internal Control Promotion Team takes a leading role in implementing the internal control system in order to ensure the reliability and transparency of the Company's financial reporting.

Operation of Group Companies

In the spirit of respect for the autonomy of Group companies, Shin-Etsu Chemical works for their growth and development so as to promote mutual benefit in the interest of the business development of the Group as a whole.

Group companies are managed on the basis of the Shin-Etsu Chemical Group Company Operational Regulations. Companies with strong ties to Shin-Etsu Chemical in terms of capital, personnel, or materials undertake prior consultation and submit reports to the parent company with respect to items such as capital increase or decrease, merger, liquidation, amendment of articles of incorporation, proposal of draft budgets and financial results, planning of new businesses or facilities, and business conditions.

Furthermore, by holding meetings which are attended by the presidents of our main Group companies three times each year, we actively promote sharing and exchange of information among Group companies.



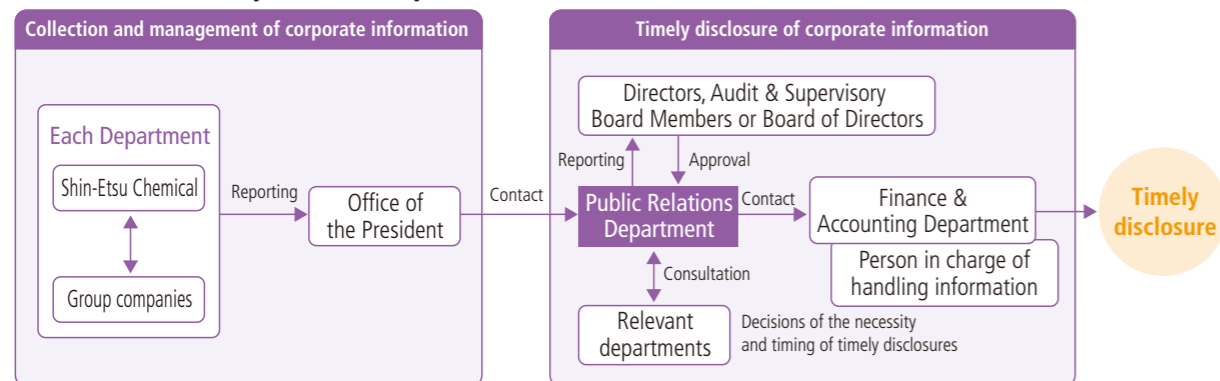
The Shin-Etsu Group strictly complies with laws and regulations

Internal System for Timely Disclosure of Corporate Information

In accordance with the regulations regarding information disclosure set by the stock exchange and the Financial Instruments and Exchange Act, Shin-Etsu Chemical has formulated internal regulations regarding collection, management, and timely disclosure of corporate information. These regulations include the

Regulations on Timely Disclosure of Corporate Information and the Rules on Regulation of Insider Trading, which are communicated to all Shin-Etsu Chemical departments and Group companies to promote smooth operations.

State of the internal system for timely disclosure



Ensuring Full Compliance Awareness

In order to comply with laws and regulations, compliance is incorporated into the Shin-Etsu Group's Corporate Mission Statement and its periodical management objectives as a means of working to ensure compliance.

In the event of promulgation of or amendments to legislation pertaining to corporate activities, the Legal Department serves in a central role in issuing internal bulletins and disseminating knowledge of these changes. In addition, to raise awareness of compliance with laws and regulations, internal bulletins are issued to draw attention to violations of laws or regulations.

Compliance Pledge/ Compliance Consultation Office

Directors, Audit & Supervisory Board Members and employees make a Compliance Pledge to the Company which represents their commitment as individuals to practice compliance in their daily work. For the eventuality of inappropriate action occurring, disciplinary measures are available.

We have set up a Compliance Consultation Office, which is available whenever required to provide consultations or accept notifications regarding compliance. In accordance with the Compliance Consultation and Notification Regulations, the Compliance Consultation Office maintains strict confidentiality to ensure that no employee consulting the office suffers disadvantage. The office then carries out investigations in response to the information received and takes corrective action where necessary. No employee suffers any form of disadvantage on the grounds of having made a consultation or notification.

Initiatives Aimed at Preventing Corruption

The Shin-Etsu Group has created the Guideline on Fair Corporate Activities and prohibits actions that involve unfair transfer of profit from or to parties such as civil servants and business partners. Moreover, by having a Compliance Pledge, we assuredly prevent unfair benefits or unfair demands in respect to our customers and business partners. In addition, regular internal audits for corruption, embezzlement, and bribery are carried out, and the status of compliance with ethical standards is one item included in personnel evaluations.

Cutting Ties with Anti-social Forces

The Shin-Etsu Group declares in its Basic Policy on Internal Controls that the Group shall adopt a consistently resolute attitude towards anti-social forces and shall take measures necessary to cut itself off from any and all associations with antisocial forces. In accordance with this policy, we will endeavor to develop internal systems under the leadership of the department in charge of managing these issues. Working closely with external organizations addressing these issues, we will strongly push forward initiatives aimed at eradicating anti-social forces through the signing of letters of confirmation and memorandums with business partners.

Export Control

From the viewpoint of maintaining world peace and security, Shin-Etsu Chemical complies with the Foreign Exchange and Foreign Trade Act and other export-related legislation. To that end, the Internal Control Program on Security Export Control has been established to classify categories of goods and implement screening procedures for customers and transactions. The Company also conducts internal audits and provides training and guidance for officers and employees as well as instruction to Group companies.

Holding of Competition Laws Lectures

Yasuhiro Maenaka, Legal Department, Shin-Etsu Chemical

The Legal Department creates and examines various contracts, handles litigation, and engages in legal education and awareness cultivation. It is also focused on compliance with the Competition Laws, and has defined guidelines such as Competition Laws compliance guidelines and behavioral guidelines for overseas Group companies. Furthermore, it regularly invites lawyer and Outside Audit & Supervisory Board Member Taku Fukui to give lectures on topics such as compliance with the Anti-Monopoly Act.





We appropriately manage and protect information assets

Initiatives for Information Asset Management

The Information Asset Management Regulations have been formulated under the Basic Policy on Information Asset Management established to maintain the confidentiality¹, integrity², and availability³ of information possessed by the Shin-Etsu Group. These regulations stipulate how to protect, utilize, manage and apply information assets.

Details concerning issues such as the handling, management, retention periods, and deletion of all information regarding customers and business partners are set out in the Information Asset Management Standards and the Trade Secrets Management Standards. In order to prevent unintentional leaks of technologies due to business development into regions with weak protections for intellectual property rights, we have formulated the Standards for Preventing Technology Leaks.

We also carry out training and implementation related to the Information Asset Management Department, regularly conduct checks of the status of compliance with the Information Asset Management Regulations and other regulations, and perform internal audits.

¹ Confidentiality
Information is to be protected from unauthorized users.
² Integrity
Information is to be protected from falsification, deletion, destruction and loss.
³ Availability
Ensure authorized users have access to information when needed.

Protection of Personal Information

In order to properly protect personal information in accordance with the Act on the Protection of Personal Information, we have established our Privacy Policy, which is available on our website.

Moreover, the Group is making exhaustive efforts in the appropriate handling and protection of the personal information of customers, business partners, and other contacts through measures such as conducting education on laws and regulations and holding lectures regarding personal information protection during stratified training sessions.

Initiatives Concerning Intellectual Property

In order to accomplish strategic business management centered on intellectual property, the Shin-Etsu Group has established the Basic Regulations for Intellectual Property, which set out regulations regarding acquisition, management, and application of intellectual property. In addition to protecting the Group's intellectual property from violation by third parties, these regulations also require respect for the rights regarding all intellectual property of third parties.

Moreover, information in forms such as an annual report is disclosed to allow all persons involved with the Group to have a precise collection of the status of the Group's intellectual property assets.

Initiatives Concerning the Intellectual Property of Third Parties

Seiko Funahashi, Yutaka Ishizuka, Patent Department, Shin-Etsu Chemical

In order to take patents and avoid the infringement of the intellectual property of third parties, Shin-Etsu Chemical performs careful investigations of third-party intellectual property before developing products or technologies or submitting patent applications.

We maintain a database containing all patents released inside Japan and abroad that we discover through these investigations. The information in the database is updated monthly through collaboration with the Industry Information Center, a Group company. This database is used when considering the commercialization of new products or the submission of patent applications to confirm whether or not there exist any similar products or technologies which are the intellectual property of another companies.

Similar initiatives are carried out by Shin-Etsu Handotai Co., Ltd. and other Group companies.



We make preparations to counter the risks surrounding the Company

Risk Management Regulations

Shin-Etsu Chemical has established the Risk Management Regulations, precisely defined the potential risks to the Company and the Group, created management systems related to preventing those risks and other matters, and set out how to respond to risks after they occur.

Risk Management Committee

According to the Risk Management Regulations, the Risk Management Committee has been created and is chaired by a director in charge. It constructs risk management structures, establishes regulations, and works to identify and prevent potential risks arising in connection with the operations of the Company.

The Risk Management Committee also promotes broad-based activities in risk management areas such as business continuity planning, education, and information provision. The Committee reports directly to the Board of Directors, the Audit & Supervisory Board, and the Managing Directors' Meeting on major issues.

Business Continuity Plans

The Shin-Etsu Group considers the supply of high quality materials based on superior technologies to be an important contribution to society, and regards ensuring continuity of supply as a major corporate responsibility. Many of the Group's products have high market share not only in Japan but also globally, and

our products are often used for highly specialized applications in cutting-edge industries. An interruption of the supply of these products would therefore have a major social impact.

The Company-wide Business Continuity Management Regulations have been established so the Company can fulfill its responsibility to supply important products even in the event of a large-scale earthquake, explosion, fire, or other serious disaster. The Company establishes a business continuity plan and sets out matters such as operations management. Moreover, divisionspecific and plant-specific business continuity plans have been formulated that take these matters into consideration.

Systems in the Event of an Emergency

In the event of an emergency, a Company-Wide Headquarters for Countermeasures headed by the Company president will be set up immediately in line with the Regulations of Disaster Countermeasures Headquarters. Below this will be set up Head Office Supervisory Departments attached to the Company-Wide Headquarters for Countermeasures, Division Headquarters for Countermeasures headed by the relevant divisional general manager, and the Headquarters for Countermeasures of the relevant plant headed by the relevant plant manager.

Under this system, each countermeasure headquarters and organization is responsible for implementing emergency action procedures in accordance with predefined operational criteria and for taking measures to ensure continuity of business.

Risks Defined in Risk Management Regulations

(1) Risk factors related to business activities		
(1) Business risks	(6) Finance and accounting risks	(11) Fraud risks
(2) Research and development risks	(7) Personnel and labor risks	(12) Country risks
(3) Production and quality management risks	(8) Environment and safety risks	(13) Legal risks
(4) Sales risks	(9) Information management risks	(14) Other
(5) Purchasing risks	(10) Intellectual property, contract, and litigation risks	
(2) Risk factors not related to business activities		
(1) Risks caused by economic factors	(3) Risks caused by governmental factors	(5) Risks caused by natural environmental factors and/or disasters
(2) Risks caused by social factors	(4) Risks caused by scientific and/or technical factors	(6) Other



Environmental Management Promotion: Reducing the Environmental Impact of Business Activities

We are working to reduce the environmental impact of society as a whole by developing advanced technologies

Environmental Management Promotion Structure

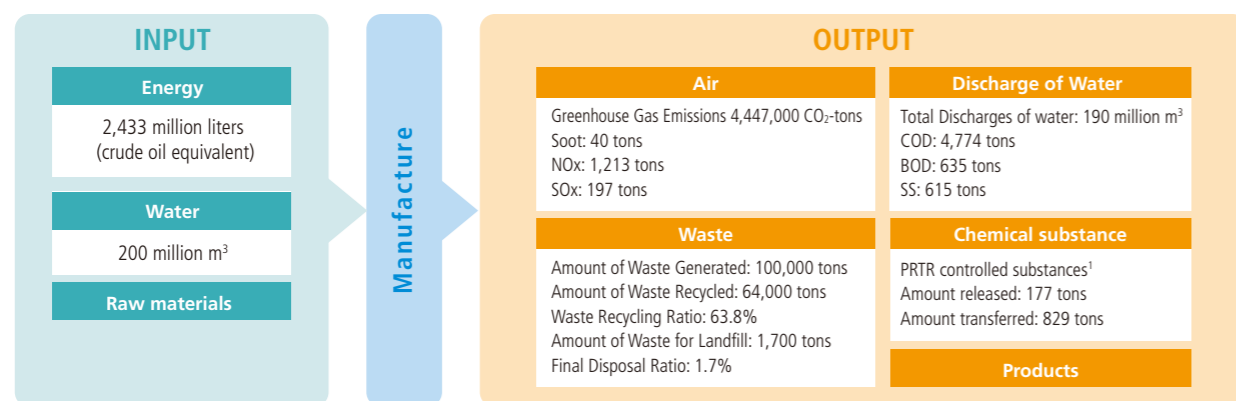
The Shin-Etsu Group incorporates environmental considerations into all aspects of its corporate activities, with the aim of helping to prevent global warming and working towards the establishment of a sustainable society. We are striving to reduce greenhouse gases and other environmental impacts associated with production processes by setting ambitious targets and working towards clean production processes. As a key materials manufacturer, our staff in the three areas of research, manufacture and sales are working in unison and are highly committed to the development and expansion of products and technologies designed to reduce environmental impact. We see this as a means of contributing to the conservation of the global

environment. We recognize that responding appropriately to all environmental laws and regulations in our product development and manufacture is paramount. The officer responsible for environmental control and safety has overall company responsibility for this area and is dedicated to earning our customers' trust.

Promoting the Reduction of Environmental Impact

Based on the Shin-Etsu Group's CSR Basic Policy, we promote the research and development of products that contribute to energy-saving, resource-saving, and the reduction of environmental impact. (See pages 7 - 8 of this report)

Reducing the Environmental Impact of Business Activities



¹ PRTR controlled substances
426 substances designated as Class I designated chemical substances from the "Pollutant Release and Transfer Register in the Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management."
* In order to clearly define the reduction efforts, the average power CO₂ conversion factor from 2000-2009 is used.
* As industrial waste standards and PRTR controlled substances vary from country to country, the figures shown represent the aggregated data from the Shin-Etsu Group's Japanese domestic operations only.
* Waste recycling ratio indicates the ratio of an amount recycled to total waste generated.
* Final disposal ratio indicates the ratio of an amount of landfill waste to total waste generated.

The Shin-Etsu Group's Promotion of Environmental Management

The Shin-Etsu Group has formulated a basic management policy for environmental safety that reflects our corporate principle of "Safety and Environment First," and communicated this policy to all companies throughout the group, both in Japan and abroad, through Group environment and safety meetings. Group companies create improvement targets based on this policy, and use it to implement year-long initiatives.

Group companies conduct several internal audits each year. During these audits, the validity of their targets is considered, and their progress in achieving them is confirmed in order to further raise the level of these initiatives. The contents and progress of these initiatives are also confirmed during the environmental safety audits which are carried out regularly for Japanese and overseas Group companies.

Environmental Data
<http://www.shinetsu.co.jp/en/company/csr.html#houkoku>



Environmental Accounting

We quantitatively measure environmental conservation costs and economic benefits

Environmental Accounting

In fiscal 2013, Shin-Etsu Chemical applied the Environmental Accounting Guidelines 2005 prepared by the Ministry of the Environment, Japan, to calculate the investments and expenditures involved in reduction of the environmental impact of air pollution, water

pollution, environmental release of chemical substances, etc.; energy-saving measures to conserve the global environment; and waste reduction and recycling to improve reuse of resources.

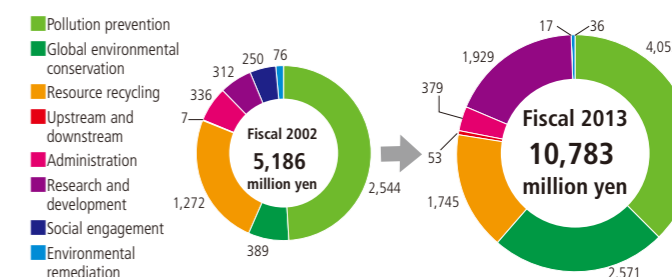
Environmental Conservation Costs in Fiscal 2013

Category	Details	Investment	Expenditure
Plant area costs:		1,621	8,368
(1) Pollution prevention costs	Prevention measures for air, water, noise and other types of pollution	417	4,052
(2) Global environmental conservation costs	Energy saving and global warming mitigation measures	930	2,571
(3) Resource recycling costs	Waste reduction, recycling and other measures	274	1,745
Upstream and downstream costs	Green purchasing and container and packaging measures	0	53
Administration costs	Environmental management, environmental impact monitoring and environmental education measures	0	379
Research and development costs	Research and development of environmentally conscious products and processes	0	1,929
Social engagement costs	Donations and contributions to environmental saving	0	17
Environmental remediation costs	Assessment, handling and other costs related to environmental pollution	0	36
Total		1,621	10,783

Economic Benefits of Environmental Accounting in Fiscal 2013

Details of benefits	Economic benefit (Millions of Yen)
Energy savings	591
Improved production efficiency	1,320
Production process	1,224
Secondary materials costs	95
Reduction in waste treatment costs	38
Profit from sale of valuable resources	145
Total	2,093

Cost of Environmental Conservation (millions of yen)



Examples of Environmental Conservation Initiatives Carried out in Fiscal 2013 - Treated Water SS Value Countermeasures

The Shin-Etsu Chemical Gunma Complex is located upstream of reservoirs along the Tone river. Not only does the treatment of water used at the plant need to meet exacting discharge regulatory standards, but we are constantly engaging in efforts to further reduce the plant's environmental impact.

The treated water from the Gunma Complex meets a high level of discharge standards, but there was a period of SS value¹ instability. In 2007 filtration equipment was installed to lower SS values and improves discharge treatment operation technologies. This resulted in the successful stabilization of treated water clarity.

The filtration facilities were enhanced in order further to improve treated water clarity, and the new, upgraded system went into operation from June 2014.

In the future, we will continue to reduce the amount of power and other energy required to treat water, conducting studies and making improvements in order to produce treated water that falls far below discharge standards.

¹ SS value
Suspended solids. This number indicates how clouded water is.



Environmental Initiatives

The Shin-Etsu Group is addressing all issues that are relevant to realizing energy saving and mitigating global warming, including reducing environmental impact, protecting the environment and recycling resources

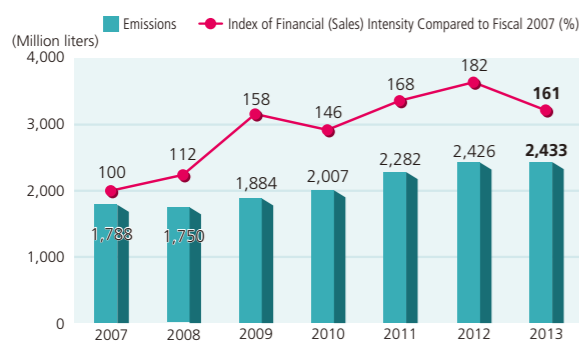
Countering Climate Change

Mid-term target Shin-Etsu Chemical reduce greenhouse gas emissions intensity to 50% of 1990 level by 2015

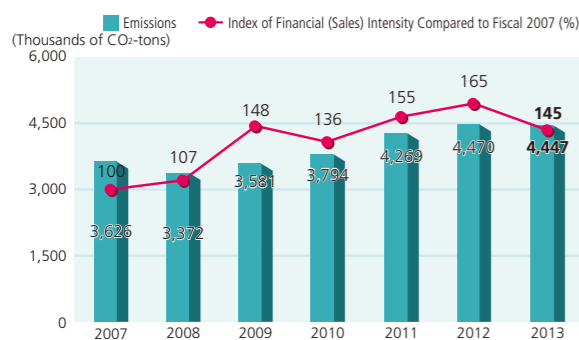
Fiscal 2013 target: Achieve 1% average yearly reduction in energy consumption intensity
Fiscal 2013 results: Shin-Etsu Chemical: reduction to 58.5% of 1990 level (1.1% reduction from fiscal 2012), Shin-Etsu Group: reduction to 57.9% of 1990 level (5.1% reduction from fiscal 2012)
Fiscal 2013 evaluation: Shintech Inc.'s energy-saving efforts and highly efficient operation contributed greatly to overall Group energy consumption reductions. Shin-Etsu Chemical's energy-saving efforts are also contributing, producing positive results
Fiscal 2014 target: Achieve 1% average yearly reduction in energy consumption intensity

As a result of the productivity, heat recovery and yield improvements of the entire Shin-Etsu Group, Group-wide production volume of the reference product increased by 8.3% versus fiscal 2012, but greenhouse gas emissions decreased by 0.5%.

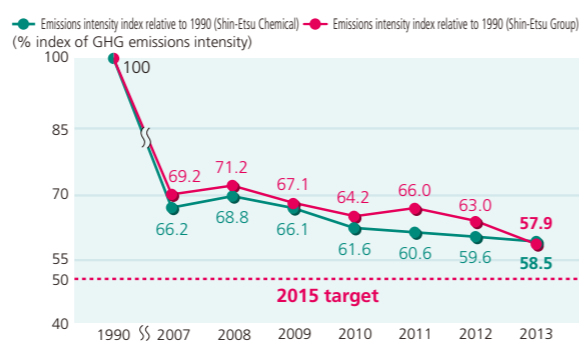
Energy Consumption (crude oil equivalent)



Greenhouse Gas Emission Volume Trends



Changes in Greenhouse Gas Emissions Intensity Relative to Fiscal 1990 Levels



Detailed Chart of Energy Consumption by Energy Type (converted to heat quantity)

Unit: peta joule

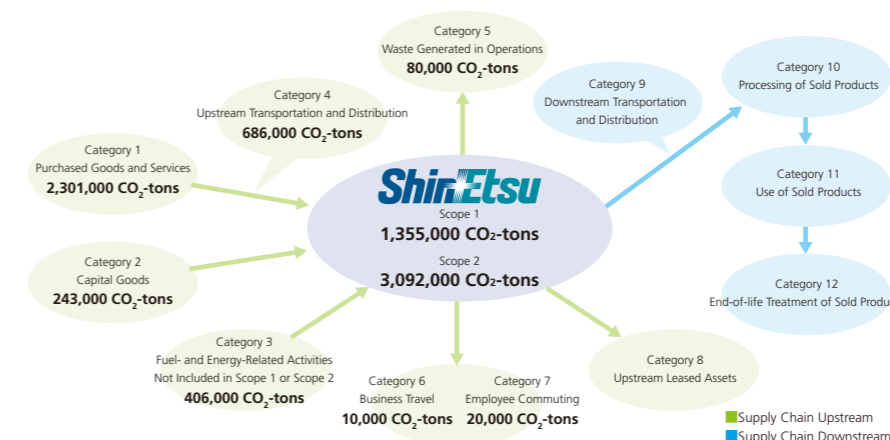
	2007	2008	2009	2010	2011	2012	2013
SCOPE 1	Natural Gas	12.9	15.5	18.3	20.3	24.1	21.1
	Heavy Oil A + Heavy Oil C	2.6	1.1	0.6	0.6	0.7	0.3
	LPG + LNG	2.2	1.4	1.9	1.5	1.5	1.6
	Other	1.1	1.0	0.8	0.8	0.5	0.8
SCOPE 2	Purchased Electric Power	43.3	42.3	45.2	48.3	55.6	61.3
	Purchased Steam	6.9	6.3	6.0	6.1	5.8	5.6
Total	69.1	67.6	72.8	77.6	88.2	93.8	94.1

Scope 3 Greenhouse Gas Emissions

The Shin-Etsu Group's Scope 3 greenhouse gas emissions¹ for fiscal 2013 were 3.745 million CO₂-tons, amounting for 46% in the supply chain².

¹ Scope 3 released amounts
Amount of emissions upstream and downstream from a company.
² Supply chain
Refers to all stages of a product from raw material production until it reaches the final customer.

Scope 3 Emissions of the Shin-Etsu Group by Category



* Due to category content revisions, emissions calculated as pertaining to Category 9 in fiscal 2012 are now included in Category 4. The degree of reduction in Category 8 is extremely minor, so it has been omitted from calculations.

Environmental Data
<http://www.shinetsu.co.jp/en/company/csr.html#houkoku>

Shin-Etsu Chemical Naoetsu Plant Energy Saving Example

The Shin-Etsu Chemical Naoetsu Plant uses electrolysis to produce caustic soda, chlorine, and hydrogen from salt water, but this electrolysis requires a large amount of power. The plant has therefore implemented various energy saving initiatives.

Its transition in May 2014 to cutting-edge energy-saving equipment is predicted to reduce the amount of power used annually in electrolysis processes overall by approximately 12%. This is the equivalent of 3,700 tons of carbon dioxide per year.

The plant is also striving to reduce overall power usage and normalize overall power demand by time-shifting power usage and peak shaving¹ during the summer, when power demand is high.



¹ Peak shaving
Monitoring power demand and curbing power usage during peak power demand hours.

Award for Raw Material Transportation Modal Shift

Shin-Etsu Chemical, together with companies such as the Japan Freight Railway Company and Japan Oil Terminal Company, Ltd., was awarded the Ministry of Land, Infrastructure, Transport and Tourism Deputy Vice-Minister for Logistics Award at the 12th Green Logistics Partnership Meeting, and the Japan Federation of Freight Industries Logistics Environment and Safety Activity Award.

In the past, the methanol used by Shin-Etsu's Gunma Complex was transported from Kawasaki City, Kanagawa Prefecture, by trailer. The awards recognized Shin-Etsu's reductions in carbon dioxide emissions by switching over to using trains to transport the methanol to the immediate vicinity of the plant.





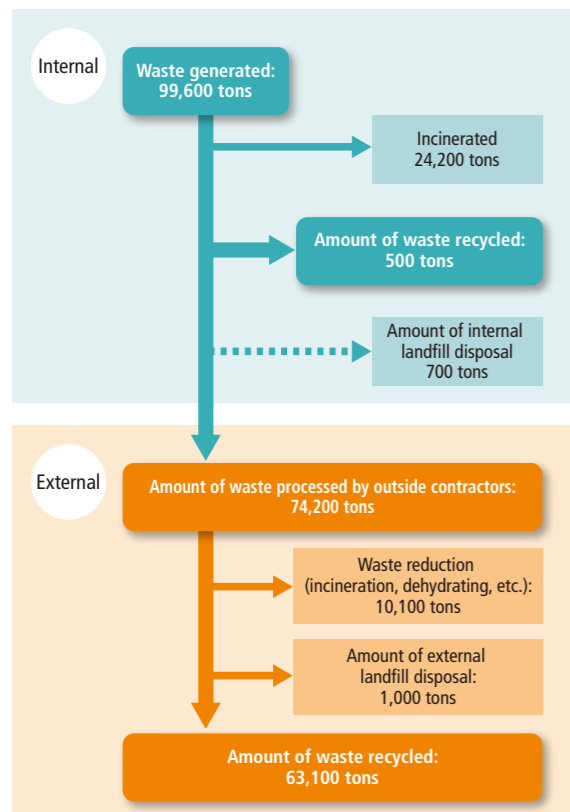
Waste Reduction

Fiscal 2013 target: Achieve zero waste emissions (landfill waste 1% or less of all waste generated)
Fiscal 2013 results: Shin-Etsu Chemical achieved a landfill waste ratio of 1.70% (0.53% increase from fiscal 2012), and Shin-Etsu Group companies in Japan achieved 1.74% (0.40% increase from fiscal 2012).
Fiscal 2013 evaluation: The increasing of recycling volume and reductions in final disposal waste of group companies in Japan are positive developments.
Fiscal 2014 target: Achieve zero waste emissions

In fiscal 2013 recycling volume by Group companies inside Japan increased by 7.9%, and the amount of final disposal waste decreased by 10.6%. Since most of the waste is processed by outside contractors, we also periodically check their sites to ensure proper handling of waste.

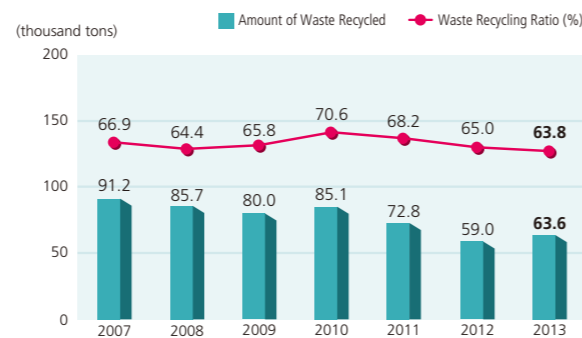
We will continue and expand our exploration of ways to re-use and recycle waste, with the aim of achieving the goal of zero waste emissions

Waste Handling Flow

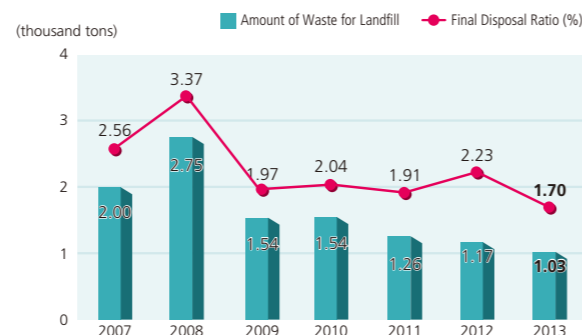


* Because standards applicable to waste differ by country, only data for group companies in Japan are given.

Amount of Waste Recycled



Amount of Waste for Landfill (Shin-Etsu Chemical)

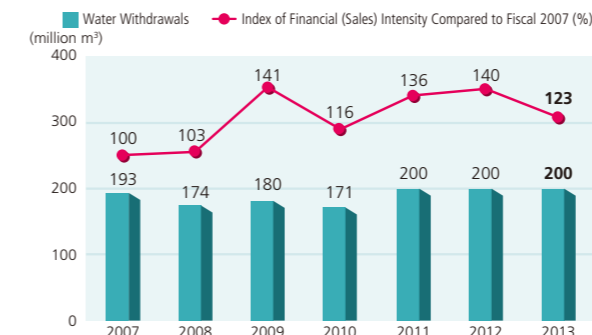


Protection of Water Resources and Reduction of Water Pollutants

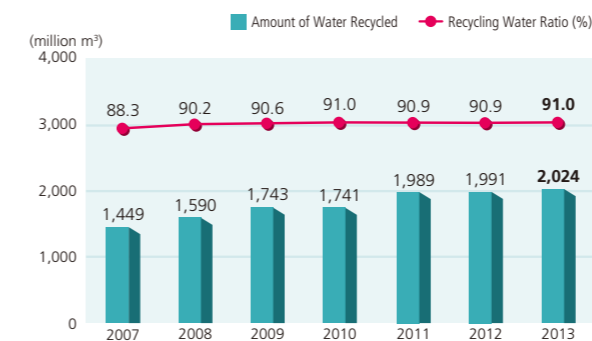
The Shin-Etsu Group is aiming to reduce water withdrawals intensity, and to reduce the discharge of water pollutants. Target values in this area are set by each Group company. Although production volume increased in fiscal 2013, water withdrawals, circulated water recycling rates, and amount of discharge of water remained approximately constant.

Group companies also perform water quality analysis to ensure strict compliance with all legal regulations.

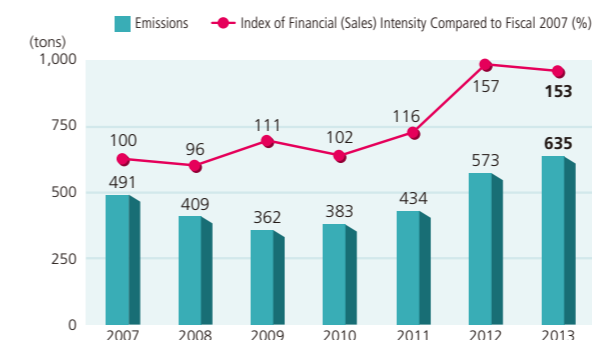
Water Withdrawals Trends



Amount of Water Recycled Trends



BOD Emission Volume Trends



Rainwater Utilization

Akihito Tsukuno, Asia Silicones Monomer Limited

Calls are increasing for the protection of the world's water resources, and since its foundation Asia Silicones Monomer Limited has been making effective use of the plentiful rainfall it enjoys in its location in Thailand.

It stores rainwater in storage tanks on-site, using it for industrial water and as coolant for waste gas incinerator. It always maintains a reserve of rainwater for use in fire fighting in the event of an emergency. It also supplies Group company Shin-Etsu Silicones Thailand and its nearby partners with rainwater for uses such as industrial water.





Resource Recycling Initiatives

We are using cutting-edge technologies to create a recycling-oriented society

Many products are thrown away after use, But the Shin-Etsu Group strives to use limited resources efficiently and engage in recycling, achieving sustainable resource circulation.

Our Group collaborates with customers and related industry groups, using cutting-edge technologies to recover products, extract resources, and reuse them in our products. Not only do these initiatives make it possible to reduce the waste output of our customers and the Group itself, but they also contribute to resource and environmental conservation.

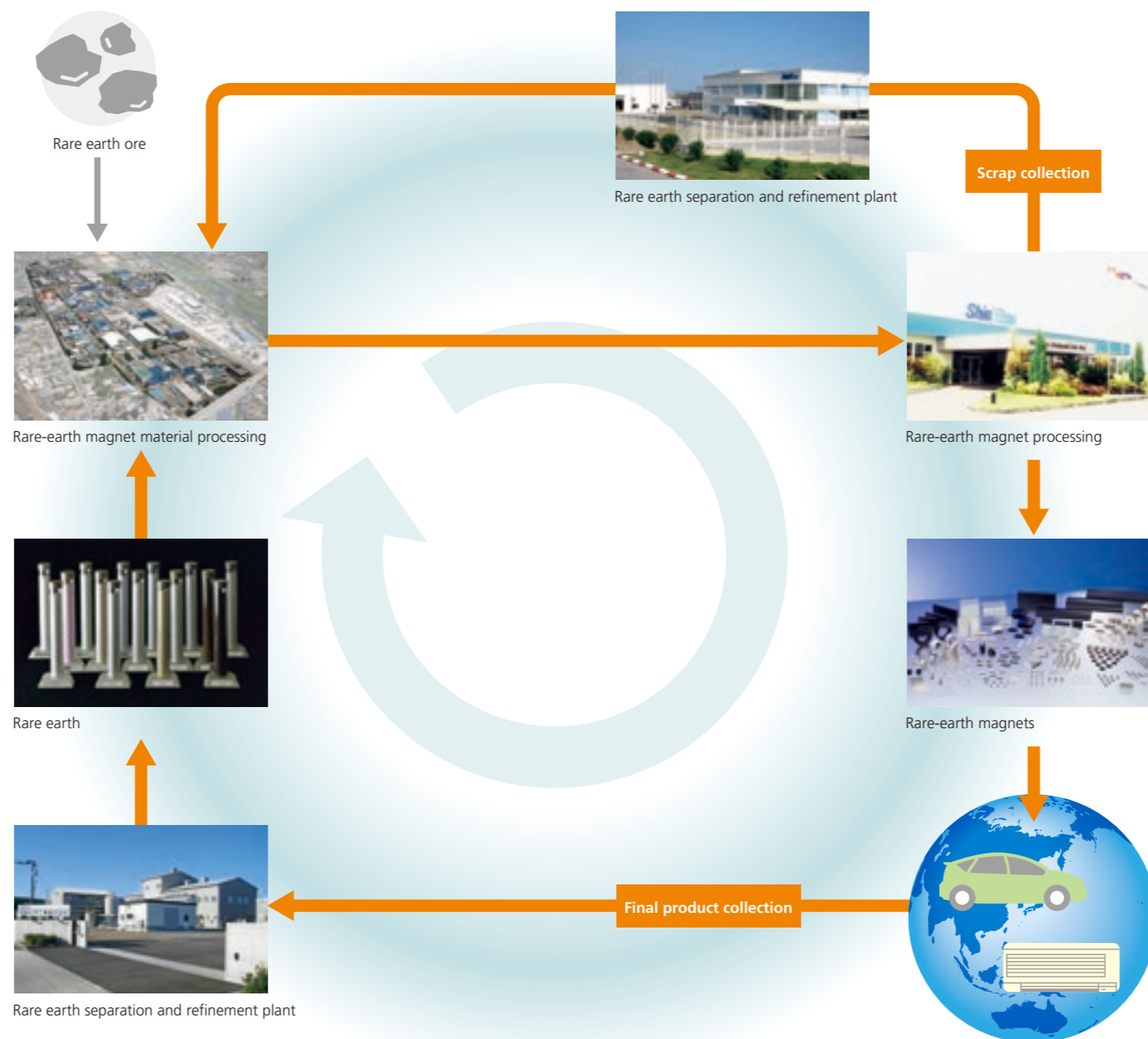
Rare-Earth Magnet Resource Recycling

Rare earth is the primary material used in the rare-earth magnets used in the motors of energy-saving air conditioners, hybrid cars, electric vehicles, and the like. The Shin-Etsu Group uses separation and refinement technology to extract rare earth from rare earth ore as part of its unified system for producing rare earth magnets from raw materials. However, reserves of rare earth are limited, and mines are concentrated in specific areas, creating procurement risks. Some rare earth ore mining methods can also damage the environment in the area surrounding the mine.

Since 2007, the Group has recycled the scrap produced in the process of manufacturing rare-earth magnets. These technologies have been further developed, and since March 2013 the Group has engaged in business operations in which rare-earth magnets are recovered from disposed of energy-saving air conditioners and hybrid cars, the rare earth is extracted, and reused as the main raw ingredient in new rare-earth magnets. As a result, the rare earth waste recycling ratio was approximately 20% in fiscal 2013. Hybrid cars and electric vehicles use a large amount of rare-earth magnets, and the Group expects to further increase this waste recycling ratio by reclaiming rare-earth magnets from their motors when the products have reached the ends of their product lives. Rare earth recycling also produces less carbon dioxide emissions than using separation and refinement to produce rare earth magnets from rare earth ore taken from mines, and thereby contributes to the prevention of global warming.

These initiatives have made it possible to protect the value resource of rare earth, as well as the surrounding environment. As recyclable products, rare-earth magnets create significant economic and social value.

Rare-Earth Magnet Resource Recycling Process

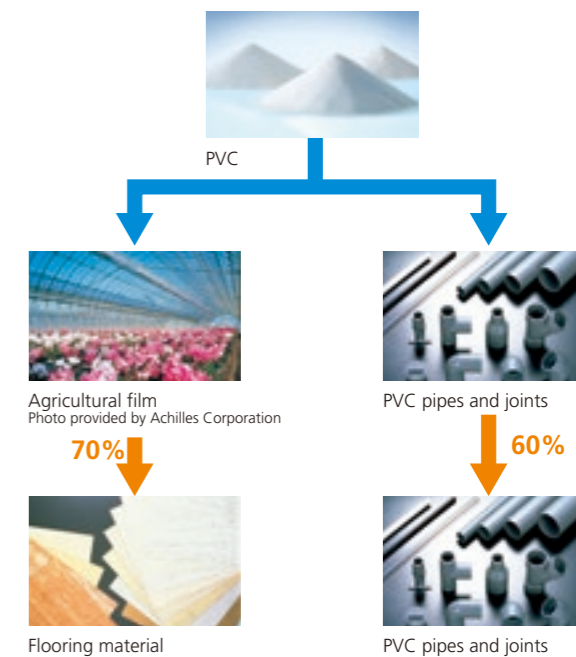


Recycling of PVC Products

Initiatives for the recycling of products containing PVC are making progress. There are various methods for recycling PVC, the most common of which is material recycling.

Material recycling uses PVC products as raw materials to create new PVC products. PVC pipes, flooring materials, and other PVC products have low levels of foreign substance contamination, making them especially suited for material recycling, of which there are various types. In particular, 60% of PVC pipes and joints are recycled for use in new PVC pipes and joints, and 70% of agricultural film is recycled for use in flooring material.

Examples of Recycling of PVC Products



Source: Vinyl Environmental Council

WEB Vinyl Environmental Council <http://www.vec.gr.jp/english/index.html>



Initiatives for Biodiversity Preservation and Pollutant Countermeasures

We are engaged in biodiversity preservation initiatives as part of our responsibility as a chemical company

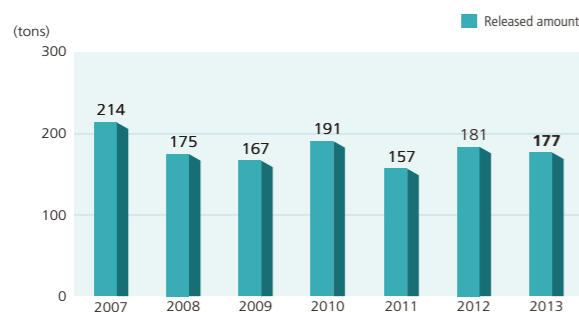
Conservation of Biodiversity

The Shin-Etsu Group aims for environmentally considerate product design starting already from the product development stage. At the same time, we are also meeting our responsibility as a chemical company by working actively to ensure strict control of chemical substances, mitigate global warming, reduce energy consumption, reduce the amount of waste generated, prevent water pollution, and make other environmental contributions. We are also engaged in activities such as scenic improvement and tree-planting in areas neighboring our plants. Furthermore, we request that our business partners implement environmental conservation initiatives concerning forest conservation and similar activities.

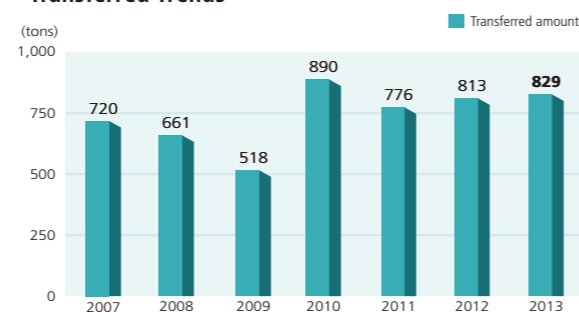
Control of Chemical Substances

The overall amount of PRTR controlled substances released has decreased by 2.3%, and the amount transferred has increased by 2.0%.

PRTR Controlled Substance Total Release Trends



PRTR Controlled Substance Total Amount Transferred Trends



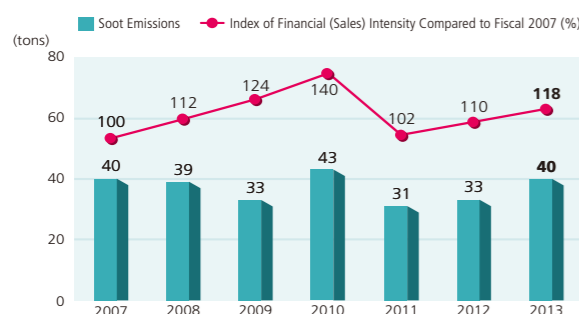
* The figures shown represent the aggregated data from the Shin-Etsu Group's Japanese domestic operations only, based on the Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof and the PRTR.

Prevention of Air Pollution

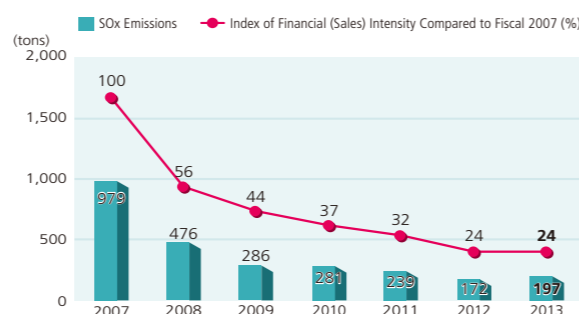
The Shin-Etsu Group is working to reduce emissions of air pollutants. Target values in this area are set by each group company.

The increase in production in fiscal 2013 was accompanied by an increase in releases of soot and sulfur oxide (SOx). Group companies perform gas emissions analysis regularly and have confirmed that they are in compliance with all legal regulations.

Soot Emissions Trends



SOx Emissions Trends



Prevention of Soil Pollution

Groundwater and soil monitoring at each plant is being carried out in accordance with the Soil Contamination Countermeasures Act as necessary.

No soil pollution has occurred at any Shin-Etsu Group company.

Initiatives for Reducing Emissions of Substances Governed by Environmental Regulations

The manufacturing processes used by the Shin-Etsu Group do not discharge waste water or waste gas byproducts as-is into the atmosphere or rivers, instead extracting substances which can be used as fuel or raw materials, thoroughly recycling them and rendering them harmless before eliminating them. Below are some examples.

The cellulose derivative manufacturing processes of the Shin-Etsu Chemical Naoetsu Plant use caustic soda to process pulp created from trees. The result then undergoes reactions with chemicals such as methyl chloride to produce cellulose derivative products.

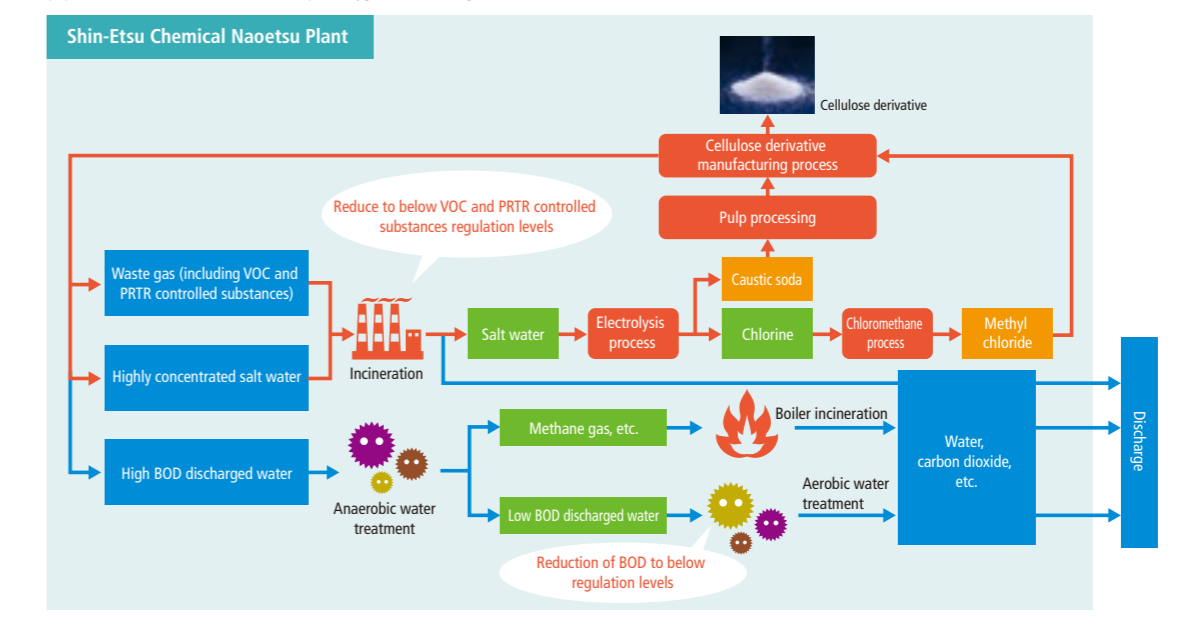
The waste gasses created by this process contain environmental pollutants such as VOC and PRTR controlled substances. The processes also create water with a high concentration of salt. These waste products are incinerated, producing a gas consisting of carbon dioxide and water vapor. The waste water is highly concentrated salt water, which is

used as a raw material in electrolysis process.

This manufacturing process also creates water with high BOD values, containing organic compounds. This waste water is treated by anaerobic water treatment equipment¹, separating most of the organic compounds in the waste water into methane gas and carbon dioxide. The methane gas is then used as fuel for the plant's boilers. The amount of methane gas produced each year is equivalent to 3 million liters in crude oil equivalent, and accounts for 20% to 30% of the fuel used by the boilers.

The waste water discharged from the anaerobic water treatment equipment contains some undecomposed organic compounds, so it undergoes additional treatment using aerobic water treatment equipment², purifying it to BOD levels below discharge regulatory standard levels before discharging it.

1 Anaerobic water treatment equipment
Equipment which processes water containing high concentrations of organic substances by closed it in an oxygen-free environment and using bacteria which do not require oxygen to break the organic substances down into substances such as methane gas.
2 Aerobic water treatment equipment
Equipment which uses bacteria which require oxygen to break organic substances down into carbon dioxide and water.





Targets and Results

We are engaged in various activities in accordance with responsible care codes

Every year the Shin-Etsu Group creates environmental and safety management plans based on Responsible Care codes. The entire Group works as one on key initiatives such as “environmental preservation,” “prevention of major disasters such as explosions or fires,” and “prevention of work accidents.”

Fiscal 2013 Targets, Implementation Status, Evaluation, and Fiscal 2014 Targets

Environment

Item	Major Fiscal 2013 Target	Fiscal 2013 Implementation Status	Evaluation	Major Fiscal 2014 Target
Environmental conservation	1) Zero environmental accidents	• Achieved target of zero environmental accidents	◎	Zero environmental accidents
	2) Thorough environmental management	• Continued strict compliance with environmental emission regulations and comprehensive maintenance and management of environmental facilities	◎	Thorough environmental management
	3) Promotion of energy savings (intensity unit ¹ reduction of 1%)	• High efficiency equipment was installed and waste water reclamation was performed, but the target intensity unit reduction of 1% was not achieved	△	Promotion of energy savings
	4) Reducing greenhouse gas emissions	• Shin-Etsu Chemical reduction to 41.5% of 1990 level. Shin-Etsu Group reduction to 42.1% of 1990 level	○	Reducing greenhouse gas emissions
	5) Reduce waste	• Landfill waste to total waste ratio of 1.7% • Reduced amount of PRTR controlled substances transferred to the environment	△	Reduce waste
	6) Reduced emissions of substances causing water pollution or air pollution	• While overall production volume increased, NOx emissions and SS discharge were reduced, and COD levels remained unchanged	○	Reduced emissions of substances causing water pollution or air pollution
	7) Reduction in water withdrawals	• While overall production volume increased, water withdrawals remained unchanged	○	Reduction in water withdrawals
Chemical substance management	1) Thorough new chemical substance management	• Thorough management of permitted production volume (confirmation volume) and production results • Communication of reporting of harmful substance information, etc., at time of acquisition	◎	New thorough chemical substance management
	2) Compliance with legal and other requirements for chemical substance control	• Strict compliance with and response to revisions in the Chemical Substances Control Law ² , Industrial Safety and Health Law, PRTR Law ³ , Poisonous and Deleterious Substances Control Act. • Strict compliance with other overseas laws and regulations	◎	Compliance with chemical substance control related laws and regulations, etc.
	3) Information disclosure on harmfulness of chemical substances	• Information provision and awareness-raising regarding substances being handled contractors and subcontractors	○	Information disclosure on harmfulness of chemical substances

¹ Intensity unit
A measure calculated from the production volume of a reference product.
² Chemical Substances Control Law
Short for “Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc.” A law intended to prevent environmental pollution by chemical substances that can be harmful to human health or to ecosystems.
³ PRTR Law
Short for “Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof.” A law intended to promote improved self-directed control of chemical substances by business operators, in order to prevent the risk of damage to the environment.

* Responsible Care Codes: codes setting basic conditions for the implementation of Responsible Care in six areas: environmental preservation, process safety and prevention plan, occupational safety and health, chemical and product safety, distribution safety, and social dialog (with the public). Alongside conditions in these areas, a Management System Code to operate all the above is required.

Safety

Item	Major Fiscal 2013 Target	Fiscal 2013 Implementation Status	Evaluation	Major Fiscal 2014 Target
Process Safety and Prevention Plan	1) Zero serious accidents	• Achieved target of zero serious accidents (target achieved)	◎	Zero serious accidents
	2) Risk assessment of facilities and processes, and implementation of preventive measures	• Continued risk assessment of key facilities, and implementation of preventive measures • Risk assessment of process abnormal conditions which could lead to emergency shutdowns • Promotion of documentation of design concept and other technologies	○	Facility and process safety improvements
	3) Improvement of facilities and maintenance management	• Carried out periodical inspections and maintenance of aging facilities	○	Improvement of facilities and maintenance management
	4) Reliable emergency response	• Establishment of step-by-step emergency measures and judgment criteria • Implementation of emergency drills	○	Reliable emergency response
Occupational Safety	1) Zero incidents requiring an absence a day or more	• Shin-Etsu Chemical achieved target of zero incidents requiring an absence a day or more • Group-wide, there were four incidents requiring an absence of a day or more, including two serious accidents	△	Zero incidents requiring an absence a day or more
	2) Rate of incidents not accompanied by an absence a day or more: 0.5 or less	• Shin-Etsu Chemical achieved its target rate (0.5 or less) of incidents not accompanied by an absence of a day or more (target not achieved by Group companies)	△	Rate of incidents not accompanied by an absence a day or more: 0.5 or less
	3) Promote “zero incidents” drive	• Implemented hazard prediction training, pointing-and-calling safety procedures, and 5S ¹ activities • Promoted close-call incidents reporting and improvement suggestions • Applied past incidents examples	○	Improve work safety
	4) Review and reorganize operation manuals and ensure strict compliance	• Manuals regularly revised based on plans • Verified manual compliance	○	Review and reorganize operation manuals and ensure strict compliance
	5) Work risk assessment and preventive measures	• Identified individual work risks and implemented risk reduction measures	○	Work risk assessment and preventive measures
	6) Construction and non-routine work safety measures	• Created clear work instructions and manuals for non-routine work, thoroughly implemented hazard prediction training (rigid enforcement of 3 Key Items)	○	Construction and non-routine work safety measures
	7) Training and drill promotion	• Carried out skill training and sensitivity improvement hands-on training, promoted obtention of qualifications	○	Training and drill promotion
	8) Ensuring subcontracting safety	• Revised safety collaboration system • Disclosed information on hazards and harmful substances	○	Ensure subcontracting safety
Occupational health	1) Create and maintain comfortable workplace environment	• Carried out working environment measurements and promoted creation of appropriate working environments • Implemented hazardous chemical substance handling training and ensured strict work manual compliance	◎	Create and maintain comfortable workplace environment
	2) Promote physical and mental health wellbeing	• Used and provided follow-up for health checkup results • Promoted health improvement programs • Promoted mental health well-being programs	○	Promote physical and mental health wellbeing

¹ 5S activities
Seiri (sort), seiton (straighten), seiso (shine), seiketsu (sanitize), and shitsuke (sustain). The name “5S” comes from the fact that the first letters of each word begin with “s.”



Safety, Health, Process Safety and Prevention Plan Initiatives

By formulating thoroughgoing safety measures and devoting efforts to daily education and training, we ensure the ability to respond to any situation

Safety and Health

The Shin-Etsu Group performs risk assessment activities aimed at identifying various latent workplace risks, improving work safety. We share information, both on a company internal basis and with outside parties, about close-calls experienced by workers through close-call incident and safety concern reports, implementing countermeasures for unsafe locations.

We are also focused on implementing safety measures, such as pre-work hazard prediction activities and pointing-and-calling safety procedures, work manual creation and usage, and the like, and performing regular working environment measurements with the aim of improving the working environment.

Process Safety and Prevention Plan

The Shin-Etsu Group gives top priority to preventing serious accidents before they happen. With this aim in mind, we continually engage in various process safety and prevention plan activities, to ensure process safety and the reliability of facilities.

From fiscal 2013 we have worked to enhance voluntary safety management by performing risk evaluations, particularly of envisaged plant abnormal conditions, and by implementing effective safety measures.

Since fiscal 2012, we have been a supporting member of the Hoanryoku (Safety Improvement) Center of the Japan Society for Safety Engineering's authorized NPO. In fiscal 2013 we used the "Safety Evaluation System" designed by the center for use in evaluating plant safety systems and technologies, safety organizations, safety culture, and the like, to evaluate the safety of the Shin-Etsu Chemical Naoetsu Plant. In fiscal 2014, this evaluation system was used to perform evaluations of other plants as well. We took steps to further improve process safety and prevention capabilities by systematically improving all plant safety issues, defined as all items which needed to be addressed, not just those with low evaluation scores.

The abilities and knowledge of each and every employee are important to maintaining stable and safe plant operation. In addition to systematically implementing training and drills, we have also focused our efforts on reliably passing on manufacturing facility operation skills. We are also working to cultivate a culture of safety by creating workplaces in which rules are scrupulously followed.

Close-Call (Hiyari-Hatto) Incidents
<http://www.shinetsu.co.jp/en/company/csr.html#security>

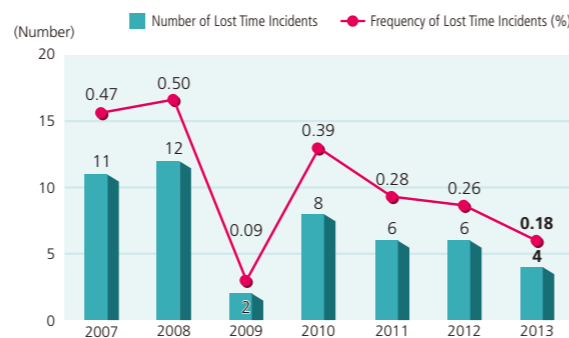
Environmental Control and Safety Audits

To check that activities directed at environmental conservation, occupational health and safety, and process safety and prevention plan are implemented to best effect at each plant, comprehensive environmental safety audits, and special audits on selected themes are carried out annually.

Accident and Disaster Reporting

In fiscal 2013 there were four lost time incidents in Group companies, including two serious accidents. A cause analysis was performed in each case. Countermeasures focusing on eliminating hazardous operations and providing safeguards were implemented, work manuals were prepared, and recurrence prevention measures were implemented. We will continue to make sure that these decisions are closely observed, and to prevent the occurrence of work-related accidents.

Number of Lost Time Incidents and Changes in Frequency Rates (Group companies in Japan)



Report on the Results of the Shin-Etsu Group Social Responsibility Survey

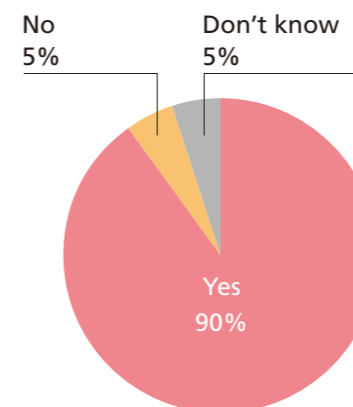
In November 2013, Shin-Etsu carried out a survey on social responsibility in order to create more positive relations with all those involved with the Shin-Etsu Group.

The survey was administered to the main companies and individuals who have relationships with the Shin-Etsu Group. It had them evaluate whether they believed that our Group engaged in business activities rooted in the Group's Corporate Mission Statement and Basic CSR Policy, asked their opinions on our products and their quality, and had them evaluate our personnel, as well as requesting their opinions on our 2013 Environmental and Social Report. (58 survey requests were issued, and 56 responses were received)

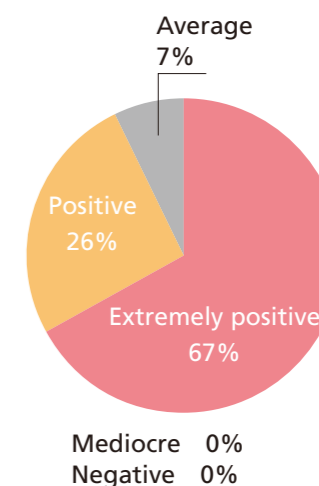
The valuable opinions shared with us will be used in our Group's future CSR activities and environmental and social reports.

General Questions

(1) Overall, do you think our company engages in business activities based on our Corporate Mission Statement and Basic CSR Policy?



(2) What is your overall impression of our company?



Common Requests and Opinions

Some environmental preservation initiatives did not meet their objectives for fiscal 2012. I hope that they are met in the future. (from shareholders, investors, and business partners)

With regard to greenhouse gas emissions, we will continue with our cogeneration and energy saving efforts to reduce the number of intensity units. We will also work to lower our final disposal ratio by intensifying our waste recycling efforts.

What are your views on relationships with local communities? (from members of local communities)

The understanding of members of the community is essential for stable plant operation. We consider our relationships with local communities to be extremely important to our long-term, continued production activities in the areas where our plants are located. We will continue to consult with members of the community, building even stronger relationships with communities.

Please continue collaborating to achieve even greater quality improvements. (from customers)

We will strive to make ongoing improvements through our internal improvement activities.

Shareholders
and Investors

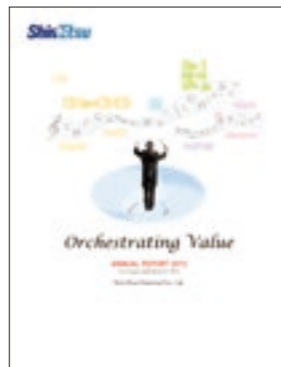
We have numerous dialogues with shareholders and investors via our IR activities

Information Disclosure

The Shin-Etsu Group believes the appropriate and timely disclosure of corporate information to shareholders and investors is a way to encourage understanding of the Company, and also leads to reasonable evaluations by the market. We therefore implement fair and transparent disclosure by posting information on the Company's website and announcing it to stock exchanges and news media. We also publish the Annual Report and other reports for shareholders.



Shin-Etsu Report



Annual Report

Profit-sharing Policy

The Shin-Etsu Group works to expand business profit and enhance our corporate quality from a long-term viewpoint. We distribute dividends based on our standard of sharing the fruits of these management endeavors to shareholders in a suitable manner. In addition, financial reserves are appropriated for capital investments, research and development, and other types of investment. We proactively use these reserves to strengthen our global competitiveness and for future business developments, with the goal of further improving our corporate value.

Our annual dividends in fiscal 2014 (April 2013 to March 2014) were ¥100 per share.

Communication

General Shareholders' Meeting

Shin-Etsu Chemical holds a General Shareholders' Meeting once per year according to its articles of incorporation. To ensure that shareholders can fully consider the agenda items, we send notices on the convention of these meetings at an early stage. The convention notices, as well as English-language translations, are also posted to the Company's website for the greater convenience of shareholders.

At the General Shareholders' Meetings we report on financial results, vote on agenda items, and respond to various questions from shareholders.

Other types of communication

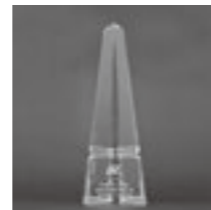
We hold quarterly conference calls and meetings on financial results for analysts and institutional investors. In addition, we also accommodate one-on-one meeting requests from domestic and international analysts and institutional investors as occasion calls. The Company's management proactively attends conferences organized by securities companies and take part in Q&A sessions with participants. In these and other ways, we make efforts to deepen their understanding of the Shin-Etsu Group through direct dialogues.

Shin-Etsu Chemical Receives Japan Investor Relations Association Best IR Award

Hanae Matsushima,

Shin-Etsu Chemical Public Relations Department

Shin-Etsu Chemical was awarded the Best IR Award in 2013 by the Japan Investor Relations Association. This award is given each year to companies who show a deep understanding of the purpose of IR and take an active approach to IR activities. Our top management was noted for its active participation in investor conferences, financial results briefings, and meetings with investors, as well as for creating numerous opportunities to engage in direct dialogues with investors, seriously and sincerely answering the questions they pose.



Customers

The Shin-Etsu Group is entrusted with the safety use of our products from our customers

Quality Control

Quality control system

Each Shin-Etsu Chemical's division and/or Group company is responsible for the quality of each product to the customers. So that we can supply products and services that generate customer satisfaction, each of our plants has its own quality control policy. At the same time, by implementing the Plan-Do-Check-Act (PDCA) cycle, we work to raise the effectiveness of the quality control system, enhance product quality, and improve service.

Requests and suggestions from customers are reported immediately by points of contact such as the sales departments that are in direct contact with customers to the R&D Department, Quality Assurance Department, and Manufacturing Department. This information is incorporated into new product research and development and is used to improve existing products. In this way, we have created a system to reinforce our relationships of trust with our customers.

Almost all Shin-Etsu Group manufacturing plants, both domestic and overseas, have obtained certification of the quality control systems such as ISO 9001 and ISO/TS 16949.

Response to complaints

Shin-Etsu makes it an absolute rule to make an initial response to all quality complaints from customers within 48 hours of receipt.

In regards to complaints, each division independently responds to the customers' complaints

through the investigation and determination of the causes and the preventive action for recurrence.

In particular, the recall and product liability problem that have a social impact is defined as a critical quality claim and given special priority to be distinguished from other claims. When a serious claim occurs, it is immediately reported to the top management so that a company-wide response can be implemented.

Quality audits and support

To achieve the zero quality problem, the claim and complaint information from the customers are closely examined. Furthermore, quality audits are carried out periodically for the improvement of quality and customer service. Quality audits evaluate the quality activity of each section from the customers' viewpoint and the viewpoint of quality cost in order to reinforce the weak point of the quality control system. The system for the recurrence prevention of claim complaints is established by focusing on evaluating the past claims and investigating the root cause of the quality issue.

The PDCA cycle is applied to problems pointed out on quality audit for improvement and follow-up. The Six Sigma program¹ is also deployed on company-wide as activity for the improvement in a quality control.

¹ Six Sigma program
Quality improvement method developed by Motorola in the 1980s. Focused on processes where quality variation appears, it is designed to minimize variation within the processes and thereby reduce the incidence of quality defects. This approach has been adopted across the Shin-Etsu Group.

Promoting Quality Management and Quality Control Examination Testing

Hidemi Natsume, Shin-Etsu Magnet Co., Ltd. **Daisuke Yanagihori,** Kashima Vinyl Chloride Monomer Co., Ltd.Ltd.

As part of our efforts to promote product quality management, the Shin-Etsu Group encourages employees to take the Quality Management and Quality Control Examination, administered by the Japanese Society for Quality Control. The test is offered twice a year, and is taken by over 40,000 people across Japan each time. Group employees generally take the Class 2 and Class 3 exams. In 2013, 124 employees took the test, 110 of them passing. The average pass rate for the extremely difficult Class 2 exam is roughly 30% for all test-takers across Japan, but 97% of Shin-Etsu employees taking the exam pass it. Those from our group include Hidemi Natsume from Shin-Etsu Magnet Co., Ltd. and Daisuke Yanagihori from Kashima Vinyl Chloride Monomer Co., Ltd. passed the Class 3 exam last year, and then went on to pass the Class 2 exam administered a mere six months later.



WEB List of Shin-Etsu Group companies with ISO 9001 certification
<http://www.shinetsu.co.jp/en/company/quality.html>

WEB Financial & IR Information
<http://www.shinetsu.co.jp/en/ir/>

The Shin-Etsu Group is committed to equitable procurement practices and to incorporating environmental considerations into the supply chain

Product Safety Promotion

FMEA¹ and other analyses are carried out at every process from product development to product commercialization to identify potential issues for system performance and/or product safety. Quantitative analysis is undertaken to evaluate issues identified in order to improve product design and manufacturing processes.

We provide SDS² for each product to customers. Customers are encouraged to take appropriate safety precautions for understanding hazardous and harmful characteristics of the product, undertaking all required legal procedures whenever necessary, installing safety systems and/or pollutant treatment facilities, and wearing protective gear.

As a safety measure during transportation, we issue a Yellow Card³ and/or Container Yellow Cards⁴ that are affixed to containers. Moreover, we post warnings about potential hazards and harm according to the GHS⁵ method.

Within Japan, the Shin-Etsu Group implements appropriate management in the research and development stage by confirming the safety of new chemical substances and submitting manufacturing permit applications in accordance with the requirements of the Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc. and other applicable legislation such as the Industrial Safety and Health Act. The Shin-Etsu Group conforms to the REACH regulation⁶ and is working to comply strictly with the appropriate transmission of information along the supply chain and other aspects of the regulation. The Shin-Etsu Group is also committed to developing new manufacturing technologies designed to totally eliminate the use of specified toxic substances in conformance with the RoHS Directive⁷.

¹ FMEA (Failure Mode and Effects Analysis)
Systematic method to identify and prevent problems before they occur in regards to products and processes.

² SDS (Safety Data Sheet)
SDS stands for Safety Data Sheet, which lists the physical and chemical properties of the chemical substance together with harmfulness and emergency response procedures. Designed to promote safer use of chemical substances and prevent accidents and incidents, SDS are supplied by manufacturers, importers and distributors to customers at the point of sales or shipment.

³ Yellow Cards
The yellow cards on which all relevant information on treatment required in case of an accident during transportation of chemical substances is described. The cards are handed to the transport contractor to be brought by tanker lorry or other means at the time of transportation.

⁴ Container Yellow Cards
The standard yellow card system is not suitable for use with mixed cargoes and small-lot deliveries. Instead, each container carries a label displaying safety information such as UN number of chemical name and emergency response procedure number.

⁵ GHS (Globally Harmonized System of Classification and Labeling of Chemicals)
Internationally standardized system of classification and labeling of chemicals.

⁶ REACH (Registration, Evaluation, Authorization, and Restriction of Chemicals)
EU regulation on the registration, evaluation, authorization, and restriction of chemicals.

⁷ RoHS (Restriction of the Use of Certain Hazardous Substances) Directive
EU directive on restricting the use of certain hazardous substances in electrical and electronic equipment.

Basic Procurement Policy

A Basic Procurement Policy has been formulated for the purchasing of supplies needed for production activities, including raw materials, sub materials including transportation packaging, and machinery and equipment. This policy is ensured in the Group and posted on the website. Business partners are expected to understand the Basic Procurement Policy and asked to incorporate the content of the Policy into their supply contracts.

Compliance with the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors

For all business partners subject to the provisions of the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors, the Shin-Etsu Group makes periodical checks in combination with reporting of new transactions to ensure full compliance. In addition, staffs in charge of purchasing and procurement frequently attend external seminars and internal training sessions to discuss specific examples of conduct. In this way, the Company works to boost awareness of compliance with the Subcontractors Act.

In addition, the Company requests that business partners who supply raw materials comply thoroughly with the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors.

Initiatives Aimed at Eliminating the Use of Conflict Minerals

In our Basic Procurement Policy, we have declared our dedication to eliminating conflict minerals* from all product procurement. We ask that all business partners adhere to this policy, and we regularly perform studies of pertinent minerals, tracking their production all the way back to the smeltery level.

* Conflict minerals
Minerals used to fund conflicts between the Democratic Republic of the Congo and its neighbor countries. These conflict minerals are tantalum, tin, gold, tungsten, and their derivatives.

Procurement Audit

Before and after transactions, the business partner is asked to complete a procurement audit checklist, the results of which are used for evaluation. Additionally, we visit business partners in Japan and overseas whenever necessary to carry out audits.

Business Continuity Initiatives

The Shin-Etsu Group has formulated a Business Continuity Plan and is prepared for contingencies. We would like business partners to understand the effectiveness and practicality of the Group's Business Continuity Plan and draw up a business continuity plan of their own.

Control of Chemical Substances Used as Raw Materials

The Shin-Etsu Group checks the ISO 14001 status of business partners and considers preferential business transactions with business partners that have ISO certification so as to purchase materials of lower environmental impact.

When contracting specifications on supply of raw materials, we investigate the business partner's use of chemical substances with environmental impact in products and packaging, their environmental management systems, their handling of prohibited substances as stipulated in the RoHS Directive, and their Green Partner certification status.

In addition, we also comply with REACH regulation registration.

Local Communities

We maintain communication with local communities

FUTI scholarship funding

The United States of America

Since 2009 Shintech Inc. has funded scholarships offered by the Friends of U Tokyo, Inc. (FUTI). In April 2014 Hisashi Kobayashi, president of FUTI and professor emeritus at Princeton University, visited Chihiro Kanagawa and expressed his gratitude for the company's support. FUTI was established to promote the philanthropic, educational, and scientific activities of the University of Tokyo in America, and supports joint research between the university and universities in America.



Girls' and Boys' Day

Germany

In April 2013, SE Tylose GmbH & Co. KG participated in the annual "Girls' and Boys' Day" event. This event provides opportunities for students to tour worksites and engage in hands-on activities, enabling them to learn about and enjoy the work being done by manufacturing companies, universities, and research labs, in Germany. Five girls, aged 11 and 12, visited the company, learning about its products and operations through its production department and product development research lab.



3rd Local Produce Market Supporting Areas Affected by the Great East Japan Earthquake

Japan

In March 2014 the 3rd Local Produce Market, supporting areas hit by the Great East Japan Earthquake, was held in the Asahi Seimei Otemachi Building, the location of the Shin-Etsu Chemical head office. Shin-Etsu Chemical and Shin-Etsu Handotai cooperated in running the market, which sold specialty products from Fukushima, Iwate, and Miyagi prefectures.



Participation in Dream Chemistry 21

Japan

Shin-Etsu Chemical Naoetsu Plant employees participated in the "Children's Chemical Experiment Show in Niigata", held in June 2013 by the "Dream Chemistry 21" Committee, consisting of members of Japan Chemical Industry Association and other organizations. The employees taught the children how to create glow-in-the-dark slime.



Company Tours for High School Students

Japan

In September 2013, second year students from Gunma Prefecture's Takasaki High School visited the Shin-Etsu Chemical Gunma Complex on a company tour. It was a wonderful opportunity for these high school students, who were considering their post-graduation plans, to gain an understanding of the company's products and the work carried out by chemical's companies.



Pleas for Fire Hydrant Removal are Met

Japan

In response to a request from Fukui Shin-Etsu Quartz Co., Ltd., located in Fukui Prefecture, to a local ward chief, a fire hydrant on a city street which was blocking students' routes to school was removed and replaced with an underground hydrant and the school route was cleared.



International Contribution Activities

Donation of PVC Carry Bags to Girls in Uganda

Uganda

Through Millennium Promise Japan (MPJ), an authorized NPO, Shin-Etsu Chemical donated carry-bags made of polyvinyl chloride to girls in Uganda, to use for carrying textbooks. MPJ is dedicated eradicating poverty and achieving independence in Africa, as well as grass-roots exchanges between the young people of Africa and Japan, and Shin-Etsu Chemical stands in support of these efforts.



Raising Funds for UN World Refugee Day

Japan

In 2013, as well, the Shin-Etsu Group raised funds for the UN-established World Refugee Day. This marks the seventh year of Group contributions. The collected funds are used to provide assistance to refugees across the world via the Japan Association for UNHCR. This year, as well, the Company donated an equivalent amount to contributions given by employees.



Communication with local communities
<http://www.shinetsu.co.jp/en/company/society.html>

Employees

We support the self-fulfillment of our employees

The Shin-Etsu Group respects human rights and implements a variety of approaches to create workplaces that are conducive to work, and where each employee is healthy, fulfills his or her potential, and can build a career.

Respect for Human Rights

Human Rights Enlightenment Promotion Committee
The Shin-Etsu Group, from its position as a corporation, organized the Human Rights Enlightenment Promotion Committee with the aim of tackling various human rights issues and creating cheerful workplaces where people are inspired to work. This committee holds regular human rights enlightenment training for directors and employees to promote the improvement of human rights awareness.

In addition, Shin-Etsu belongs to both the Industrial Federation for Human Rights, Tokyo, and the Industrial Federation for Anti-Discrimination, Osaka. Our employees participate proactively in events held by both federations, as well as training sessions put on by other organizations.

Efforts to abolish child labor and forced labor

The Shin-Etsu group conforms to international guidelines, and does not approve of forced labor or child labor of any type. We conduct a survey of Group companies, including overseas companies, each year. Through this survey, we confirm that our employment conditions are based on the international labor standards of the International Labour Organization (ILO) and that no forced or child labor is taking place.

Respect for Diversity

Childcare and nursing care systems

The Shin-Etsu Group offers a full range of systems to support employees who give birth to and are raising children. Our childcare leave system can be used by employees until their children have reached the age of three, and many employees take advantage of the system. Meanwhile, the shorter working hours system allows employees with children up to grade three of elementary school to shorten their working hours by up to two hours a day.

As for nursing care leave, under certain conditions, employees can take up to one year of leave per eligible family member. One employee took advantage of the system in fiscal 2013.

Number of Employees Who have Taken Childcare Leave (Fiscal 2013)

Shin-Etsu Chemical Co., Ltd.	7 (Male: 1; Female 6)
Consolidated companies in Japan	45 (Male: 2; Female 43)
Consolidated companies total ¹	117 (Male: 37; Female 80)

¹ The length of childcare leave differs from country to country, as the program is based on local law.



Users of the childcare system (Shin-Etsu Chemical/Gunma)

Promoting active roles by foreign nationals, disabled persons, and the elderly

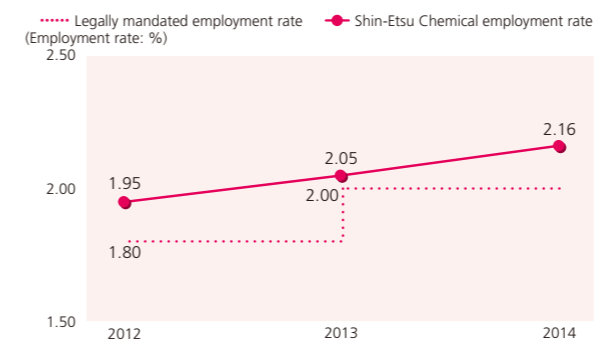
As a group engaged in business operations around the world, the Shin-Etsu Group carries out employment at overseas Group companies and also makes efforts to employ foreign nationals.

The entire Group is also working to proactively employ disabled persons and create environments where it is easy for them to work. Our level of employment of disabled persons exceeds legally mandated levels.

We have created the Internal Re-Employment Program for employees who have reached the

retirement age of 60 years, which allows them to be re-employed until age 65.

Employment Rate of Persons with Disabilities



Awarded Gold Medal in the National Sports Festival for People with Disabilities

Ryo Akutsu, Shin-Etsu Handotai Shirakawa Plant

Ryo Akutsu, from the Shin-Etsu Handotai Shirakawa Plant, took part in the 13th National Sports Festival held in October 2013 for People with Disabilities (Sports Festival in Tokyo 2013), winning the gold medal in the 50 Meter Butterfly competition and the silver medal in the 50 Meter Freestyle Competition.

Akutsu, who is disabled from the waist down, works in crystal manufacturing of semiconductor silicon, and swims at a sports gym as part of his rehabilitation activities. He was invited by fellow gym-goers to take part in the Fukushima Prefecture tournament, leading up to his victories at the national tournament.



Performance-based Personnel Evaluation Systems and Equal Opportunities

We have introduced a personnel system that places importance on employee ability and work performance. This system proves useful for increasing employees' motivation, as their treatment reflects their performance, attitude, and evaluations of how they meet their challenges to achieve higher goals.

To operate the personnel system in a fair and appropriate manner, evaluation training is provided for all managers who conduct performance review so that they can carry out personnel evaluations in a fair way. To further increase transparency, evaluation standards are made available and the results are also disclosed. Furthermore, a system of interviews between the evaluator and the person being evaluated has been established to ensure that the two parties can communicate successfully.

During interviews, each staff member and his/ her immediate superior use Communication Sheets to ensure mutual awareness of the superior's expectations regarding what he/she would like the subordinate to accomplish, as well as what challenges the subordinate would like to take on. The interviews are also an opportunity to set targets for the next six months and to provide feedback on progress, and serve in this way to promote further development of abilities.

Health Considerations

Employee health programs

To decrease staff sickness, we are working to offer a fulfilling regular health consultation service, provide health guidance for lifestyle-related diseases, take measures to ensure mental health, and focus on activities that promote fitness and develop physical strength.

We have also established Health Committees at our head office and branch offices, as well as Safety and Health Committees at each plant district. These committees undertake activities while receiving information and guidance—including about measures to improve the work environment and prevent damage to health—from industrial physicians.

In addition, our Fitness and Physical Strength Development Promotion Committees work together with Medical Treatment Rooms to organize physical strength monitoring, and to hold seminars and events for physical strength improvement. To provide health support to include employees' families, the corporate health insurance society cooperates with expert organizations to provide the 24-hour Family Health Consultation Desk.



Education/Training and Personal Development

Auditing student system

In 1962, we established an auditing student system with the goal of improving workplace cohesion. Under the system, up to about ten employees each year are chosen from plant manufacturing sites and sent to study at universities for one year. In the 51 years since the system was introduced, a total of 511 employees have completed the program and are now functioning in various workplaces.

Training for international adaptation

The Shin-Etsu Group is expanding its business activities throughout the world. Competency to communicate in foreign languages is therefore an essential skill for smooth operations. To this end, the Group provides English language training to teach meeting and presentation skills and offers intercultural communication training to promote understanding of cultural differences commonly encountered overseas. Chinese conversation classes are also held.

Welfare and Benefits

Accumulated holidays

A certain number of annual paid holidays are granted in accordance with labor regulations. If those annual paid holidays are not taken, a certain number can be treated as accumulated holidays, which are then carried over to the next year and may be utilized as family-care leave days or as days off for injury or illness. Employees may also use these holidays to volunteer in disaster areas or serve as donors for organ or bone marrow transplants.

Employee Hotline

As a counseling service for trouble with work or other issues, we have set up Dial Shin-Etsu, which is staffed by experienced and qualified specialist counselors from outside of the Company. Consultations are received anonymously and treated with strict confidentiality, but if requested the counselor will contact the Personnel Department to discuss possible solutions.

Shinkansen commuting benefits

Since 1989, Shin-Etsu has allowed commuting by Shinkansen at company expense. This option has allowed more employees to own houses and enables personnel who are reassigned to headquarters from plants and other business sites in Gunma and Fukushima prefectures to transfer jobs without changing their lifestyles. As of March 2014, 72 employees were taking advantage of this Company offer.

Other systems

The BAKER-KANAGAWA Japan-U.S. scholarship program was established by Mr. Robert Baker, founder and the first president of Dow Chemical Japan Ltd. and a former chairman of the American Chamber of Commerce in Japan, and Mr. Chihiro Kanagawa, chairman of Shin-Etsu Chemical. It can be used for the children of Japanese employees of the Shin-Etsu Group to attend universities in the United States and for the children of American employees to attend universities in Japan.

In addition, we have established asset-building schemes, a shareholding system, and a mutual aid society to provide support for weddings, childbirth, and sudden hospitalization of family members.

Labor-management Relations

Shin-Etsu Chemical engages in various dialogs with the Shin-Etsu Chemical Labor Union to promote mutual understanding between labor and management. Meetings of the Central Staff Council are held once a month at the head office and are attended by senior management themselves, who engage in discussions with staff regarding subjects such as management policy, outline information about individual businesses, and the personnel system. Furthermore, each business site holds a monthly Local Labor Meeting with the local branch of the Shin-Etsu Chemical Labor Union.

Repeated dialogs and discussions between labor and management deepen mutual understanding and trust and facilitate business operations in which staff and management can come together to present speedy responses to the changing business environment.

¹ QC Quality Control. Or, activities in manufacturing industry that encourage employees to make proactive contributions to workplace management and improvement, leading to improvements in quality.

Training system

	Training for different staff grades	Specialized education	General education	Special education	Environment and safety education	Quality control education	Six Sigma education
General manager level	Advanced management training S/M job family training	<ul style="list-style-type: none"> Patent training Training for adaptation to internationalization 					
Section manager level	Middle management training	English language training, meeting skills course I/II	Mental health seminars	Course for management development training (external training)	Specialized education in environmental control and safety	QC ¹ master course	Black belt training
Junior manager level	Line management training Staff management training Leader training	English language training, presentation skills course I/II Chinese conversation classes	Human rights awareness training		Supervisor education	QC intermediate course	Green belt training
Regular employees	Junior leader training New employee second-phase training New employee induction training	Intercultural communication training		Auditing student system (1 year)	Safety education Special education Basic education New recruit education	QC basic course	

Overseas Group Company is Recognized for its Hiring Practices

SEH America was presented with the 2012 IAWP* Citation Awards 2012.

Over 20% of SEH America's employees are military veterans or currently in the reserves. The company has also been providing employment opportunities to people with disabilities for over 23 years and internships to over 50 senior high school students over the past two years. This award was presented to the company in recognition of its efforts.

* IAWP (The International Association of Workforce Professionals) The IAWP is a nonprofit organization, founded in 1913, for the purpose of improving the specialization of workforce professionals, carrying out surveys and research, and fostering mutual collaboration between members. It has over 10,000 members in 15 countries around the world.



History of Activities

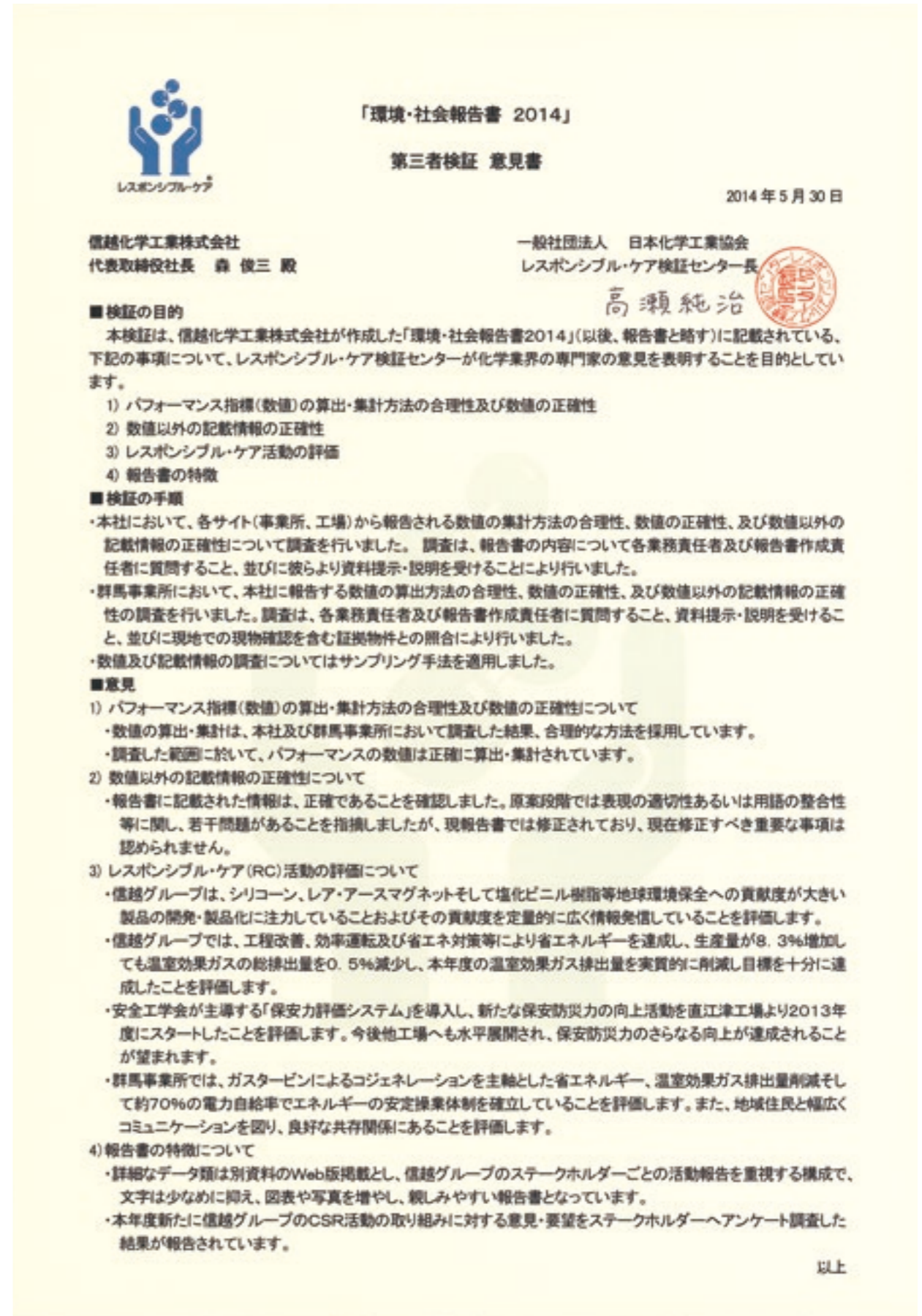
Measures taken by the Shin-Etsu Group		Awards in the Fields of Safety, the Environment and Industrial Health	
1926	Founded as Shin-Etsu Nitrogen Fertilizer Co., Ltd. (name changed to Shin-Etsu Chemical Co., Ltd. in 1940)	1926	
2005	Corporate Social Responsibility (CSR) Promotion Committee established	2005	Excellent Safety and Hygiene Workplace Award, Minister of Health, Labour and Welfare (Shin-Etsu Chemical/Kashima)
2005	Installation of cellulose wastewater recovery system (Shin-Etsu Chemical/Naetsu)	2005	Good Management Program Prize of Occupational Safety and Health, Malaysian Ministry of Human Resources (S.E.H. (Shah Alam))
2005	Environmental Charter revised	2005	Superior Prize for Safety and Health, Niigata Labour Bureau (Niigata Polymer)
2005	Co-generation system further expanded (Shin-Etsu Chemical/Kashima)	2006	Superior Prize for Health, Director of Niigata Prefecture Labour Standards Bureau (Naoetsu Precision Engineering)
2006	Hydrochloric acid recovery system installed on silica production line (Shin-Etsu Chemical/Gunma)	2006	5th Class Lost Time Incident-free Certificate (Shin-Etsu Film: disaster-free record maintained to date)
2006	Signed the Responsible Care Global Charter	2007	Superior Prize, Director of Nagano Labour Bureau (Nagano Electronics)
2006	Fuel for boiler system switched (Nagano Electronics/Chikuma)	2007	Encouragement Prize, Director of Nagano Labor Bureau (Shinano Polymer)
2007	Installation of system to reduce steam usage by improvement of distillation process (Shin-Etsu Chemical/Kashima)	2007	Thai Ministry of Labour and Social Welfare EHS Outstanding Factory Award (Asia Silicones Monomer)
2008	Installation of natural gas fuel conversion system (Shin-Etsu Chemical/Gunma)	2008	Superior Prize for Industrial Safety and Health, Director of Fukui Prefecture Labour Bureau (Fukui Shin-Etsu Quartz)
2008	Augmentation of wastewater biological treatment system (Shin-Etsu Chemical/Gunma)	2008	Thai Ministry of Labour and Social Welfare EHS Outstanding Factory Award (Asia Silicones Monomer)
2008	Installation of thermal recovery system for distillation column (Japan Yam & Poval)	2009	Special award from Thai Ministry of Labour and Social Welfare for one million consecutive hours of Lost-Time Incident-free operation (Shin-Etsu Silicones Thailand)
2008	Installation of gas turbines (Shin-Etsu Chemical/Gunma)	2009	High-pressure Gas Safety Award, Minister of Economy, Trade and Industry (Shin-Etsu Handotai/Takefu)
2008	Fuel conversion of boiler (Tatsuno Chemical Industries)	2009	Superior High-Pressure Gas Production Facility Award, Minister of Economy, Trade and Industry (Kashima Vinyl Chloride Monomer)
2008	Installation of LNG-fueled through-flow boiler (Nissin Chemical Industry)	2009	Thai Ministry of Labour and Social Welfare EHS Outstanding Factory Award (Asia Silicones Monomer)
2008	Thermal recovery system installed on silica production line (Shin-Etsu Chemical/Gunma)	2010	Encouragement Prize, Director of Saitama Labor Bureau (Urawa Polymer)
2009	Installation of high-efficiency turbo refrigerator (Shin-Etsu Handotai/Isohe)	2010	Committee Chairperson's Award from Committee for Promotion of Electricity Utilization in Seven Tohoku Prefectures (Shin-Etsu Quartz Products/Koriyama)
2009	Installation of air conditioning system using process based on free cooling (Shin-Etsu Handotai/Takefu)	2010	Superior Prize for Environmental Preservation, Niigata Prefecture (Naoetsu Precision)
2010	Fuel for boiler system switched (Nagano Electronics)	2010	High-Pressure Gas Safety Award, Head of Nuclear and Industrial Safety Agency (Nissin Chemical Industry)
2010	Installation of inverter turbo refrigerator (Nagano Electronics)	2010	Thai Ministry of Labour and Social Welfare EHS Outstanding Factory Award (Asia Silicones Monomer)
2010	Participation to UN Global Compact	2010	500,000 Lost Time Incident-free Hours Award, State of Ohio (Shin-Etsu Silicones of America)
2010	Installation of oil clarification system (Shin-Etsu Silicone Taiwan)	2010	Occupational Excellence Achievement Award, National Safety Council (US) (Shintech)
2011	Thomson Reuters Top 100 Global Innovators Award (Shin-Etsu Chemical)	2011	Thai Ministry of Labour and Social Welfare EHS Outstanding Factory Award (Asia Silicones Monomer)
2011	Gold Medal at the Korean Ministry of Knowledge Economy's National Quality Management Convention (Shin-Etsu Silicone Korea)	2012	Forty-Year Lost Time Incident-free Special Achievement Award, Japan Soda Industry Association (Shin-Etsu Chemical/Naetsu)
2011	Installation of electricity demand monitoring system (Shin-Etsu Chemical/Gunma)	2012	Achieved 8.1 million Lost Time Incident-free hours, a 2nd class Lost Time Incident-free record (Shin-Etsu Chemical/Gunma)
2012	Thomson Reuters Top 100 Global Innovators Award won for second consecutive year (Shin-Etsu Chemical)	2012	Thai Ministry of Labour and Social Welfare EHS Outstanding Factory Award (Asia Silicones Monomer)
2012	Gold Medal at the Korean Ministry of Knowledge Economy's National Quality Management Convention (second consecutive year) (Shin-Etsu Silicone Korea)	2013	Achieved 5.4 million Lost Time Incident-free hours, a 1st class Lost Time Incident-free record (Shin-Etsu Chemical/Naetsu)
2012	Installation of multistage biological wastewater treatment equipment (Shin-Etsu Silicone (Nantong))	2013	Superior Prize for Safety Measures, Director of Fukushima Prefecture Labor Bureau (Shin-Etsu Quartz Products/Koriyama)
2013	Thomson Reuters Top 100 Global Innovators Award won for third consecutive year (Shin-Etsu Chemical)	2013	Encouragement Prize for Hygiene Management, Director of Niigata Prefecture Labor Bureau (Shin-Etsu Handotai/Saigata)
2013	Japan Investor Relations Association Best IR Award 2013 (Shin-Etsu Chemical)	2013	Recognition for Promotion of Traffic Safety, Governor of Fukui Prefecture (Fukui Shin-Etsu Quartz)
2013	Gold Medal at the Korean Ministry of Knowledge Economy's National Quality Management Convention (third consecutive year) (Shin-Etsu Silicone Korea)	2013	Thai Ministry of Labour and Social Welfare EHS Outstanding Factory Award (Asia Silicones Monomer)
		2013	Special award from Thai Ministry of Labour and Social Welfare for 300,000 to 1 million consecutive hours of lost-time and incident-free operation (Shin-Etsu Silicones Thailand)
		2013	Energy Management Outstanding Factory Award, Tohoku Bureau of Economy, Trade and Industry (Naoetsu Electronics)
		2013	12th Green Logistics Partnership Meeting Ministry of Land, Infrastructure, Transport and Tourism Deputy Vice-Minister for Logistics Award (Shin-Etsu Chemical)

Membership Keidanren (Japan Business Federation) Plastic Waste Management Institute Global Compact Japan Network, etc.
 Japan Chemical Industry Association The International Friendship Exchange Council
 Vinyl Environmental Council The Japan Committee for UNICEF

As of March 31, 2014

 List of Shin-Etsu Group companies with ISO 14001 certification
<http://www.shinetsu.co.jp/en/company/csr.html#environment>

Responsible Care Audit of the Report



「環境・社会報告書 2014」
 第三者検証 意見書
 2014年5月30日

信越化学工業株式会社
 代表取締役社長 森 俊三 殿

一般社団法人 日本化学工業協会
 レスポンシブル・ケア検証センター長
 高瀬純治

■ 検証の目的
 本検証は、信越化学工業株式会社が作成した「環境・社会報告書2014」(以後、報告書と略す)に記載されている、下記の事項について、レスポンシブル・ケア検証センターが化学業界の専門家の意見を表明することを目的としています。

- 1) パフォーマンス指標(数値)の算出・集計方法の合理性及び数値の正確性
- 2) 数値以外の記載情報の正確性
- 3) レスポンシブル・ケア活動の評価
- 4) 報告書の特徴

■ 検証の手順

- ・本社において、各サイト(事業所、工場)から報告される数値の集計方法の合理性、数値の正確性、及び数値以外の記載情報の正確性について調査を行いました。調査は、報告書の内容について各業務責任者及び報告書作成責任者に質問すること、並びに彼らより資料提示・説明を受けることにより行いました。
- ・群馬事業所において、本社に報告する数値の算出方法の合理性、数値の正確性、及び数値以外の記載情報の正確性の調査を行いました。調査は、各業務責任者及び報告書作成責任者に質問すること、資料提示・説明を受けること、並びに現地での現物確認を含む証拠物件との照合により行いました。
- ・数値及び記載情報の調査についてはサンプリング手法を適用しました。

■ 意見

- 1) パフォーマンス指標(数値)の算出・集計方法の合理性及び数値の正確性について
 - ・数値の算出・集計は、本社及び群馬事業所において調査した結果、合理的な方法を採用しています。
 - ・調査した範囲に於いて、パフォーマンスの数値は正確に算出・集計されています。
- 2) 数値以外の記載情報の正確性について
 - ・報告書に記載された情報は、正確であることを確認しました。原案段階では表現の適切性あるいは用語の整合性等に関し、若干問題があることを指摘しましたが、現報告書では修正されており、現在修正すべき重要な事項は認められません。
- 3) レスポンシブル・ケア(RC)活動の評価について
 - ・信越グループは、シリコン、レア・アースマグネットそして塩化ビニル樹脂等地球環境保全への貢献度が大きい製品の開発・製品化に注力していることおよびその貢献度を定量的に広く情報発信していることを評価します。
 - ・信越グループでは、工程改善、効率運転及び省エネ対策等により省エネルギーを達成し、生産量が8.3%増加しても温室効果ガスの総排出量を0.5%減少し、本年度の温室効果ガス排出量を実質的に削減し目標を十分に達成したことを評価します。
 - ・安全工学会が主導する「保安力評価システム」を導入し、新たな保安防災力の向上活動を直江津工場より2013年度にスタートしたことを評価します。今後他工場へも水平展開され、保安防災力のさらなる向上が達成されることが見込まれます。
 - ・群馬事業所では、ガスタービンによるコジェネレーションを主軸とした省エネルギー、温室効果ガス排出量削減そして約70%の電力自給率でエネルギーの安定操業体制を確立していることを評価します。また、地域住民と幅広くコミュニケーションを図り、良好な共存関係にあることを評価します。
- 4) 報告書の特徴について
 - ・詳細なデータ類は別資料のWeb版掲載とし、信越グループのステークホルダーごとの活動報告を重視する構成で、文字は少なめに抑え、図表や写真を増やし、親しみやすい報告書となっています。
 - ・本年度新たに信越グループのCSR活動の取り組みに対する意見・要望をステークホルダーへアンケート調査した結果が報告されています。

以上