

Corporate Governance and Compliance

Basic Policies on Corporate Governance and Its Implementation

By following corporate policies based on the spirit of respecting the law, the basic stance of the Shin-Etsu Group is to proactively carry out corporate information disclosure policies and public relations activities aimed at investors and other stakeholders. These policies and activities all embody the basic principles that the Group is following with regard to corporate governance, and the Group considers them to be one of the most important tasks of management.

In enhancing its basic policies on corporate governance and strengthening its efforts to ensure the operation of an adequate and appropriate system of internal controls, the Shin-Etsu Group endeavors to carry out sound, transparent, and speedy management. The Shin-Etsu Group also works hard to increase the worth of the Group by promoting sincere corporate activities that effectively harmonize corporate interests and social responsibilities.

Corporate Governance System

- Two out of the 16 members of Shin-Etsu's Board of Directors are outside directors who both have a wealth of management experience. They not only monitor and supervise the Group's business operations from an independent standpoint, but also provide the Group with a great deal of useful advice on global corporate management. In addition, the Group is following a policy of reducing the number of directors to a lean minimum and establishing a system to promote speedier decision-making and agile management.
- Shin-Etsu has adopted a statutory auditor system. In order to improve and strengthen the audit function, out of four statutory auditors, including full-time auditors, three are external auditors. Statutory auditors attend not only meetings of the Board of Directors but also other important in-company meetings, and carry out

audits concerning the Group's business operations. They also exchange information and opinions directly with accounting auditors from Chuo Aoyama PricewaterhouseCoopers.

- With regard to decisions about reviewing and recognizing board members' remuneration, Shin-Etsu has an Officers' Remuneration Committee chaired by an external director. It has served to increase and improve the transparency and understanding of the processes involved.
- Shin-Etsu established a Risk Management Committee in 2002 to help the Company better cope with various kinds of risks that could affect the business operations of the Shin-Etsu Group. The Group is effectively working to anticipate and take preventive measures regarding the various kinds of risks that could occur during the Group's business operations.
- The Auditing Department is dedicated to matters concerning internal company business auditing and internal control systems.

In all of these ways, Shin-Etsu is striving to further strengthen its corporate governance.

Basic Policy concerning Compliance

The Shin-Etsu Group's basic management policy is that all Group companies totally commit themselves to the spirit of respecting the law,

performing fair corporate activities and contributing to society as a whole including local communities. To respect and uphold laws is a fundamental duty that companies naturally expect to fulfill when carrying out their business activities, and for the Shin-Etsu Group, it is an important prerequisite that Group companies put all their efforts into making improvements in corporate values.

In case a large social problem or accident should occur, the Shin-Etsu Group will draw valuable lessons from it in order to thoroughly review the Group's compliance system and make any necessary adjustments, including making necessary notifications and holding in-house training sessions, so as to achieve an optimum compliance system.

Towards Thorough Compliance Management

As a part of its thorough compliance management system aimed at reaffirming company-wide awareness concerning compliance issues, all executives and employees of the Shin-Etsu Group signed a written Compliance Pledge.

Moreover, in March of the same year, we set up a Compliance Consultation Office, which acts to support every staff member of the Shin-Etsu Group in conducting their business activities in strict compliance with laws, government regulations and in-company rules.

The Shin-Etsu Group is taking these practical approaches to promote compliance management.

Shin-Etsu's Corporate Structure

