

# Corporate Governance

## Basic Policies Concerning Corporate Governance

The Shin-Etsu Group's management appreciates the fundamental importance of its shareholders, placing top priority on continuously raising corporate value. To realize this policy, it is developing an efficient organizational structure and various systems that can respond swiftly to changes in the business environment. Moreover, from the standpoint of increasing transparency and strengthening supervisory functions, Shin-Etsu's basic concept concerning corporate governance is to actively disclose timely and accurate information to shareholders and investors, which is positioned as one of its most important management issues.

## Corporate Governance System

The Shin-Etsu Group is establishing a system to promote speedier decision-making and agile management.

In June 2010, Dr. Hiroshi Komiyama, a former president of The University of Tokyo, was appointed as a new external director.

The Officers' Remuneration Committee reviews and assesses officers' remuneration and reports to the Board of Directors.

Shin-Etsu has adopted a statutory auditor system. In order to enhance and strengthen the auditing function, three of Shin-Etsu's five statutory auditors, including one full-time statutory auditor, are external statutory auditors. Internal audits of the Company are performed by the

Auditing Department, which checks the legality and reasonableness of business activities in each division.

Shin-Etsu established a basic internal control policy for financial reporting and has implemented strict internal controls to ensure the reliability of financial reporting and improve management transparency, which includes responding to the system of internal controls for financial reporting based on the Financial Instruments and Exchange Law applied from fiscal 2009.

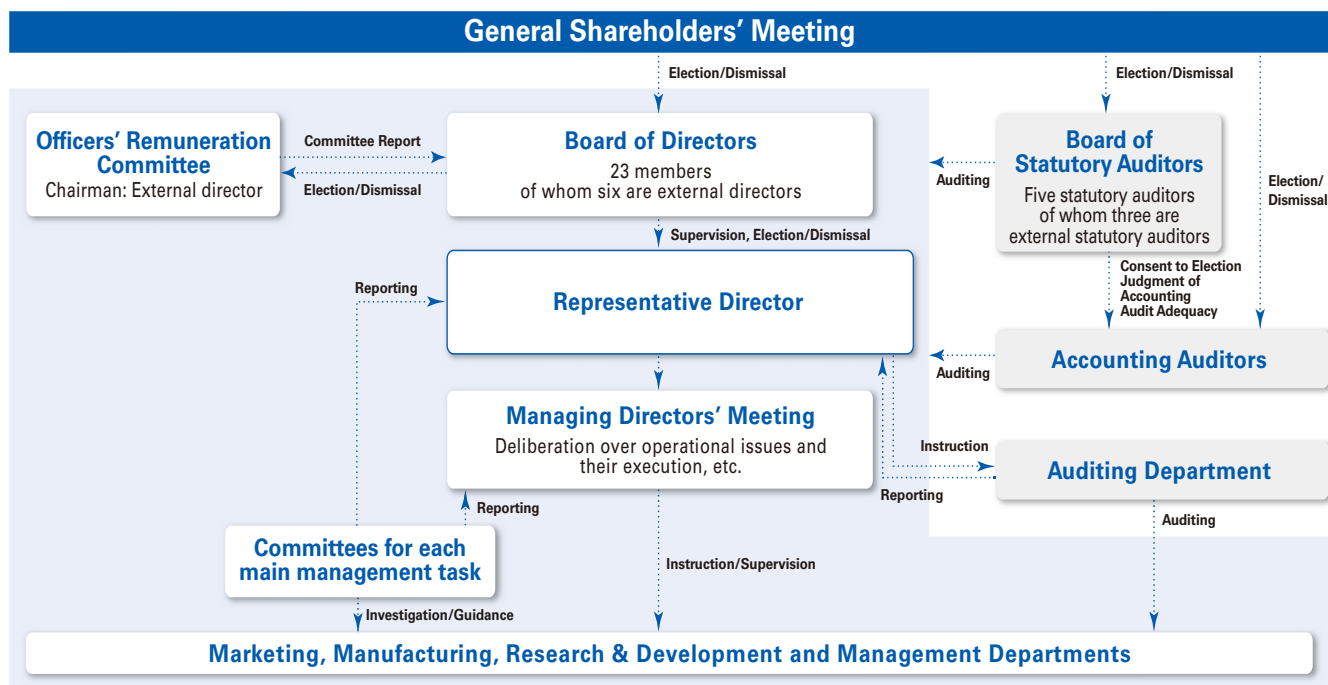
In addition to disclosing information about these specific initiatives on its website, Shin-Etsu discloses information on corporate governance and compliance through a variety of methods.

## Basis for Selection of and Functions of External Directors and External Auditors

Shin-Etsu has invited six eminent experts to serve as external directors in order to reflect their wealth of experience and broad insight in the Company's management from an independent perspective. External directors attend not only meetings of the Board of Directors, but also other key meetings, in order to render opinions from a broad perspective that leverage their experience in corporate management and to conduct oversight from an independent perspective.

In addition, Shin-Etsu has invited three individuals to serve as external statutory auditors in order to undergo audits based on their specialized knowledge and experience and insight as managers. External statutory auditors work to

## Shin-Etsu's Corporate Governance Structure



safeguard the compliance structure by attending key internal meetings, including meetings of the Board of Statutory Auditors, in order to render opinions based on their specialized knowledge and broad perspectives.

## Officers' Remuneration

The Officers' Remuneration Committee is chaired by an external director and includes three other directors. It reviews and assesses officers' remuneration based on the officers' remuneration regulations at two regular meetings annually and via audio conferencing as required, and reports to the Board of Directors.

In fiscal 2010, the amount of remuneration paid to officers was ¥1,439 million. Of this, ¥158 million was paid to external directors and external statutory auditors. This amount did not include salaries (including bonuses) paid to employees concurrently serving as directors or stock acquisition rights issued as stock options.

## Basic Policy Concerning Compliance

The Shin-Etsu Group's corporate philosophy is to conduct fair business activities in a thoroughly law-abiding spirit. The Group has established various regulations regarding its compliance system, which all officers and employees follow in carrying out their duties. Internal audits of the enforcement of these regulations are conducted by the Auditing Department and the other respective departments related to the contents of the audit.

## Toward Thorough Compliance Management

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

As part of its thorough compliance system, all officers and employees have signed a written Compliance Pledge. In this document they pledge to apply themselves to compliance-based activities in their daily duties.

Moreover, in order to quickly detect and rectify legal or regulatory violations, we have set up the Compliance Consultation Office to establish a system that allows consultation and reporting as needed.

## Risk Management

Regarding the risk management system, the Risk Management Committee promotes companywide activities and develops various related regulations in order to prevent and forestall risks that may occur in connection with business operations.

In consideration of the Act on the Protection of Personal Information, the Shin-Etsu Group established a personal information protection policy that is now posted on the Company website. Moreover, we hold meetings to explain the Act to employees and work to ensure appropriate handling and thorough protection of personal information.

### Shin-Etsu Appoints Dr. Hiroshi Komiyama, Former President of The University of Tokyo, as a Director

Shin-Etsu has appointed Dr. Hiroshi Komiyama, former president of The University of Tokyo, as an external director.

Dr. Komiyama has a wealth of knowledge and experience not only in his own specialized academic research fields, but also from his years as president of The University of Tokyo. Moreover, he is a person of the highest character. Shin-Etsu has received the benefit of his sage advice since his appointment as Special Adviser, particularly with regard to the Company's technologies and R&D.

The request for Dr. Komiyama to serve as an external director is aimed at receiving his guidance in attaining the Company's long-term R&D goals, based on his specialized knowledge and experience extending from chemical engineering to broad areas of research including the global environment, resources and energy. Further, Dr. Komiyama has built up an extensive network in the academic world, and the advice that Shin-Etsu

receives from him will be very helpful in furthering the success of the Company's business-academic collaborations. In addition, his expert guidance will assist the Company's efforts to improve its chemical plant process technologies.

Dr. Komiyama made the following comments to Shin-Etsu at the time of his appointment as an external director:

"I am truly honored to have been asked to become a director of Shin-Etsu Chemical by President Kanagawa, who has nurtured the Company to world-class excellence. A leading global chemical company, Shin-Etsu works aggressively to develop products that contribute to reducing the worldwide environmental burden. I hope to use the results and applications of the global environmental research that I have conducted in order to assist in the further development of the Company.