

Corporate Governance and Compliance

Basic Policies Concerning Corporate Governance

The basic management policy of the Shin-Etsu Group is to recognize the importance of shareholders by making constant growth in corporate value the highest priority. To accomplish this goal, the Group has assembled an efficient organizational structure and numerous systems that can respond swiftly to changes in the operating environment. In addition, from the standpoint of improving transparency and supervisory functions, the Group's basic concept for corporate governance is to position the disclosure of timely and accurate information to shareholders and other investors as one of the most important responsibilities of management.

Corporate Governance System

The Shin-Etsu Board of Directors has 22 members, including five external directors. This composition allows reaching decisions quickly and supervising the Group's management with speed and flexibility. Dr. Hiroshi Komiyama, former president of The University of Tokyo, joined the Board of Directors in June 2010.

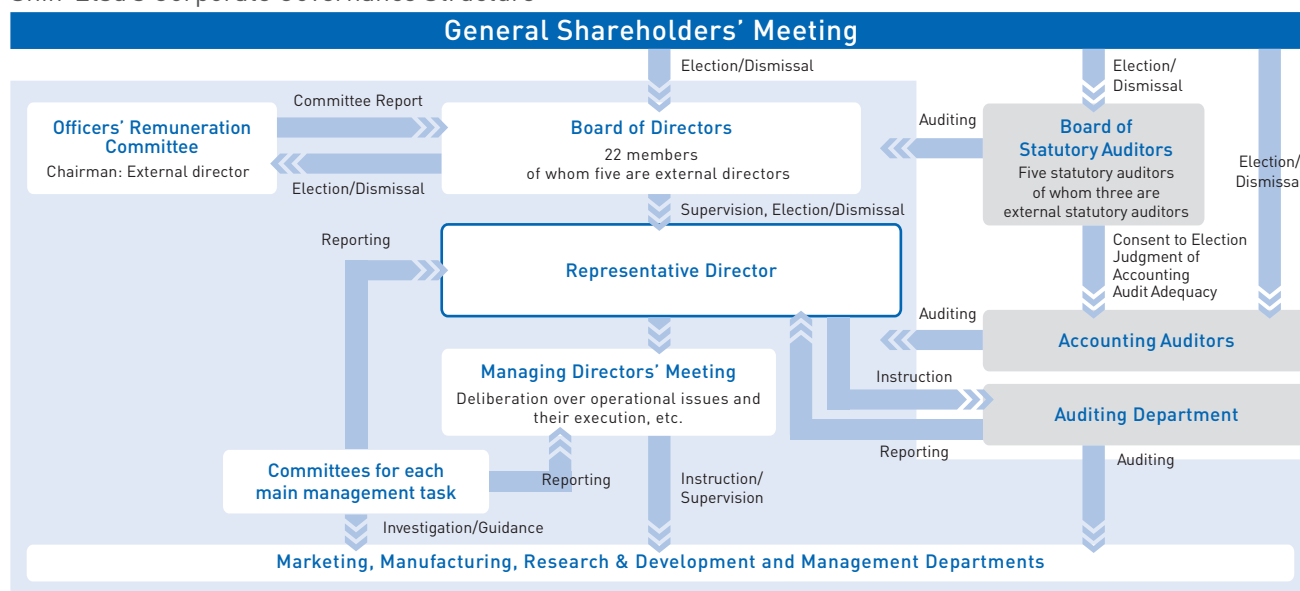
The Officers' Remuneration Committee reviews and assesses remuneration for officers and submits its reports to the Board of Directors.

Shin-Etsu uses the statutory auditor system. There are five statutory auditors including three external statutory auditors, a framework that provides for upgrading and reinforcing the auditing function.

Internal audits are performed by the Auditing Department, which is responsible solely for these audits. This department audits business activities across the entire organization in order to ensure that the Company is operating properly and in compliance with laws and regulations.

Shin-Etsu is dedicated to ensuring the reliability of financial reporting and improving the transparency of its management. The Company established the basic internal control policy for financial reporting in December 2007 and implements strict internal controls in line with this policy. These controls comply with the system of internal control over financial reporting based on the Financial Instruments and Exchange Law, which became effective in the fiscal year ended March 31, 2009. Information about specific activities involving corporate governance and compliance can be viewed on the Company's website and is disclosed in other ways as well.

Shin-Etsu's Corporate Governance Structure



Selection and Roles of External Directors and Auditors

Shin-Etsu's Board of Directors includes a number of prominent individuals from outside the Shin-Etsu Group. These external directors include corporate executives and others who can use their wealth of experience and knowledge to assist in the Group's management.

External directors attend board meetings and other important meetings. These individuals draw on their experience in corporate management and other fields to provide insights from a broad perspective and to perform a supervisory role from an independent standpoint.

Shin-Etsu also has external statutory auditors. These individuals perform audits by utilizing their specialized knowledge and experience and their insight as corporate managers. External statutory auditors safeguard the compliance system by attending meetings of the Board of Statutory Auditors and other important meetings. At these meetings, the external statutory auditors provide input that reflects know-how in their respective areas of expertise and a broad perspective.

Officers' Remuneration

The Officers' Remuneration Committee is chaired by an external director and includes three other directors. The committee reviews and assesses officers' remuneration based on the regulations for the activities of this committee. Two regular meetings are held each year. Other meetings are held as required, including audio conferencing, and reports are submitted to the Board of Directors.

In fiscal 2011, total remuneration paid to officers was ¥1,345 million. Of this amount, ¥185 million was paid to external directors and external statutory auditors. This remuneration does not include salaries (including bonuses) paid to employees concurrently serving as directors.

Basic Policy Concerning Compliance

The Shin-Etsu Group's corporate philosophy is to conduct fair business activities in a thoroughly law abiding spirit. A broad range of regulations regarding compliance have been

established and all officers and employees observe these regulations as they perform their duties. Internal audits of the enforcement of these regulations are conducted by the Auditing Department along with other associated departments depending on the contents of the audit.

Commitment to Strict Compliance

The Shin-Etsu Group uses a practical approach to execute compliance programs. All officers and employees sign a Compliance Pledge in which they promise to perform their jobs every day in accordance with the principles of compliance. Moreover, to identify and rectify legal or regulatory violations quickly, we have established a Compliance Consultation Office that serves as a consultation and reporting channel.

Risk Management

The Shin-Etsu Group has established regulations associated with risk management. There is also a Risk Management Committee that oversees all risk management activities for the purpose of identifying risks associated with business operations and preventing problems from occurring.

In the event of an emergency that requires a companywide response, a crisis response headquarters is established and the situation is handled in accordance with the Shin-Etsu emergency response manual. Following the Great East Japan Earthquake of March 11, 2011, a crisis response headquarters headed by the Company President was created the same day. This headquarters has been supervising assessments of damage to Shin-Etsu Group facilities and activities to make repairs and resume operations.

To comply with the Act on the Protection of Personal Information, the Shin-Etsu Group established a personal information protection policy that is posted on the Company's website. Furthermore, we hold meetings to explain this law to employees and take other steps to ensure that personal information is handled properly and thoroughly protected.