

June 7, 2023

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Response to Proxy Advisory Firm ISS's Recommended Opposition to 3rd Agendum "Election of Two Audit & Supervisory Board Members" for the Company's 146th Ordinary General Meeting of Shareholders

Shin-Etsu Chemical Co., Ltd. has learned that Institutional Shareholder Services, Inc., ("ISS"), a proxy advisory firm, has issued a report recommending that its clients oppose the appointment of Ms. Hiroko Kaneko, a candidate listed in the 3rd Agendum "Election of Two Audit & Supervisory Board Members" for the Company's 146th Ordinary General Meeting of Shareholders to be held on June 29, 2023.

Although the Company's views on this agendum are as stated in the Notice of Convocation of the Meeting, we have stated our additional opinions below and ask for your understanding of such matters.

1. Contents of ISS's Recommended Opposition:

ISS recommended that its clients oppose the appointment of Ms. Hiroko Kaneko, a candidate listed in this agendum, because her prior employment at ShinNihon LLC (now Ernst & Young ShinNihon LLC), which serves as the Company's accounting auditor, causes her to lack independence.

According to the 2023 ISS Japan Proxy Voting Guidelines (Japanese version) ("ISS Guidelines"), ISS makes its determinations on these types of matters on a case-by-case basis, considering the entire background of the candidate, instead of using a consistent numeral standard based on the number of years elapsed since the candidate left the employ of the subject company (referred to as a "cooling-off period"). ISS has expressed its opinion (see ISS Guidelines) that, because (i) the Japanese labor market is not dynamic (employees do not change jobs often), (ii) most business executives join their companies as new college graduates, and (iii) many such business executives stay at the same company until retirement, it is difficult to believe that concerns about their independence can be allayed by the passage of several years or more than ten years after they leave the company.

2. Company's Views

The Company has determined that (i) there are no facts indicating that Ms. Kaneko lacks independence, and (ii) she is an appropriate candidate for an outside audit & supervisory board member position, for the following reasons.

- A. More than five and a half years have passed since Ms. Kaneko left the employ of ShinNihon LLC, the Company's accounting auditor. During that period, Ms. Kaneko has had no involvement in the management or financial policies of ShinNihon LLC. Thus, a sufficient period has elapsed to remove any conflict of interest between Ms. Kaneko and ShinNihon LLC (cooling-off period).

The ISS Guidelines do not distinguish between licensed professionals, such as attorneys and accountants, and general corporate executives and treats them in the same manner. However, it cannot be said that licensed professionals in Japan do not change jobs often.

- B. Ms. Kaneko was never involved in the auditing of the Company while employed by ShinNihon LLC. Therefore, there is no risk that Ms. Kaneko's past work and her work as an outside audit & supervisory board member of the Company will create a conflict of interest.
- C. After leaving ShinNihon LLC, Ms. Kaneko was employed as a Professor at the Graduate School of Accountancy, Faculty of Commerce, of Waseda University, where she conducted research into accounting matters and taught courses on specialized accounting subjects. In addition, she serves as a member of the Business Accounting Council of the Financial Services Agency, which holds its members to the highest standards of professional ability and independence. Based on these facts as well, we believe that there is no basis for doubting Ms. Kaneko's suitability and independence as an outside audit & supervisory board member of the Company.
- D. In addition, if all of the director candidates listed in the 2nd Agendum for the Company's 146th Ordinary General Meeting of Shareholders "Election of Nine Directors" are approved, a majority of the board of directors will be comprised of independent outside directors, which will further advance the corporate governance of the Company. Also, if the 3rd Agendum is approved, the audit and supervisory board will include two accounting specialists -- certified public accountants, who will conduct audits, which will further advance the effective auditing of the Company.

Information for Reference:

Background of Ms. Hiroko Kaneko, candidate for Outside Member of Audit and Supervisory Board:

Oct. 1989	Joined Ota Showa Audit Corporation (currently "Ernst & Young ShinNihon LLC")
Feb. 1993	Registered as Certified Public Accountant
May 2007	Partner of ShinNihon LLC (currently "Ernst & Young ShinNihon LLC")
Jul. 2010	Senior Partner of the above audit corporation
Oct. 2017	Retired from the above audit corporation
Apr. 2018	Professor, Graduate School of Accountancy, Faculty of Commerce, Waseda University
Apr. 2018	Member, Regional Science and Technology Innovation Advancement Council, Ministry of Education, Culture, Sports, Science, and Technology
Jan. 2019	Member, Bid Oversight Committee, Supreme Court of Japan (to date)
Feb. 2021	Member of the Business Accounting Council, Financial Services Agency (to date)
Apr. 2021	Outside Director/Audit and Supervisory Committee Member, Mitsubishi HC Capital, Inc. (to date)
Mar. 2022	Outside Director, Yokohama Rubber Co., Ltd. (to date)
Jun. 2022	Outside Director/Audit & Supervisory Committee Member, Kanagawa Chuo Kotsu Co., Ltd. (to date)