

Corporate Governance and Compliance

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 policy 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

Four out of the twenty members of Shin-Etsu's Board of Directors are external directors. The Shin-Etsu Group is establishing a system to promote speedier decision-making and agile management.

Out of Shin-Etsu's five statutory auditors, including full-time auditors, three are external auditors. Statutory auditors attend meetings of the Board of Directors as well as other

important internal meetings, and carry out audits concerning Shin-Etsu's business operations.

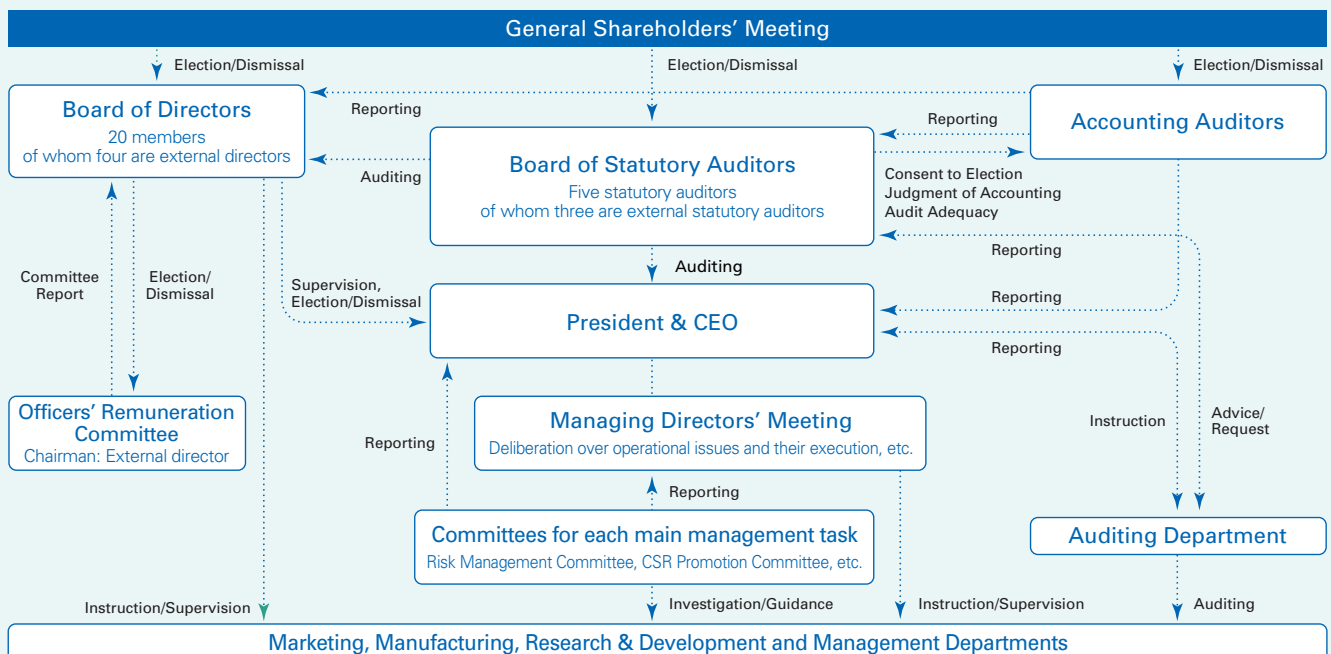
With regard to decisions about reviewing officers' remuneration, Shin-Etsu has an Officers' Remuneration Committee chaired by an outside director. The committee reports to the Board of Directors to increase management transparency and reliability. Total officers' remuneration was ¥805 million in fiscal 2007.

For internal audits of the Company, the Auditing Department maintains a standpoint of independence from other operational or management departments.

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.

To respond to the Financial Instruments and Exchange Law that will go into effect in the fiscal year ending March 2009, Shin-Etsu has established an internal control promotion team within the Company to promote the building of a companywide internal control system.

Shin-Etsu's Corporate Governance Structure



Shin-Etsu's former accounting auditors, ChuoAoyama PricewaterhouseCoopers (renamed MISUZU Audit Corporation) received an order from the Financial Services Agency (FSA) to suspend business activities, forfeiting its qualifications as Shin-Etsu's accounting auditors and resigning as of July 1, 2006. In order to maintain uninterrupted accounting operations, Shin-Etsu selected Hara Certified Public Accountants as its temporary accounting auditors, although it resigned as of September 29, 2006. To doubly ensure its accounting operations, Shin-Etsu additionally selected MISUZU Audit Corporation as its temporary accounting auditors on September 5, 2006, when suspension of its business activities ended. For fiscal 2007, Shin-Etsu selected Ernst & Young ShinNihon as its accounting auditors.

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 operating status of this system are conducted by the Auditing Department and the other respective departments related to the contents of the audit.

Towards Thorough Compliance Management

The Shin-Etsu Group is taking the following 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, so that all officers and employees can conduct their business activities in strict compliance with laws, government regulations and in-company rules, we have set up the Compliance Consultation Office to establish a system that allows consultation and reporting as needed.

In consideration of the Act on the Protection of Personal Information, the Shin-Etsu Group established a personal information protection policy in March 2005 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.

Handling Policy (Anti-takeover Defensive Plan) Toward Large-scale Purchase of our Company's Shares and Other Securities

With the understanding of the management, when faced with a large-scale corporate acquisition detrimental to our shareholders, Shin-Etsu must protect the corporate value and the common interests of its shareholders. When faced with such a purchase, hereinafter called a "Large-scale Purchase," Shin-Etsu will respond appropriately according to the Handling Policy (Anti-takeover Defensive Plan) approved at the annual meeting of shareholders.

Shin-Etsu has established "Large-scale Purchase Rules" and will demand compliance with the rules for such a purchase, toward the purchase of our company shares and other securities by a specific group of shareholders which would make the ratio of voting rights of the specific group of shareholders 20 percent or more.

1. The person making such a purchase, hereinafter called a "Large-scale Purchaser," shall provide necessary and sufficient information in advance to the Board of Directors.
2. A Large-scale Purchase can only be commenced after a certain period has elapsed while the Board of Directors evaluates and reviews it.

In the event that a Large-scale Purchaser does not comply with these rules, in order to protect the common interests of the shareholders and corporate value, certain countermeasures may be taken to resist the Large-scale Purchase. In the event that such countermeasures are taken, to enable fair and neutral judgment, the Board of Directors shall consult with a special committee composed of members who are independent of the managing directors, and shall respect the advice of this special committee to the maximum extent.