

Corporate Governance

For more detailed information, please see the Governance section on the Group's Web site.

WEB https://www.shinetsu.co.jp/en/csr/csr_governance.html

Basic Approach

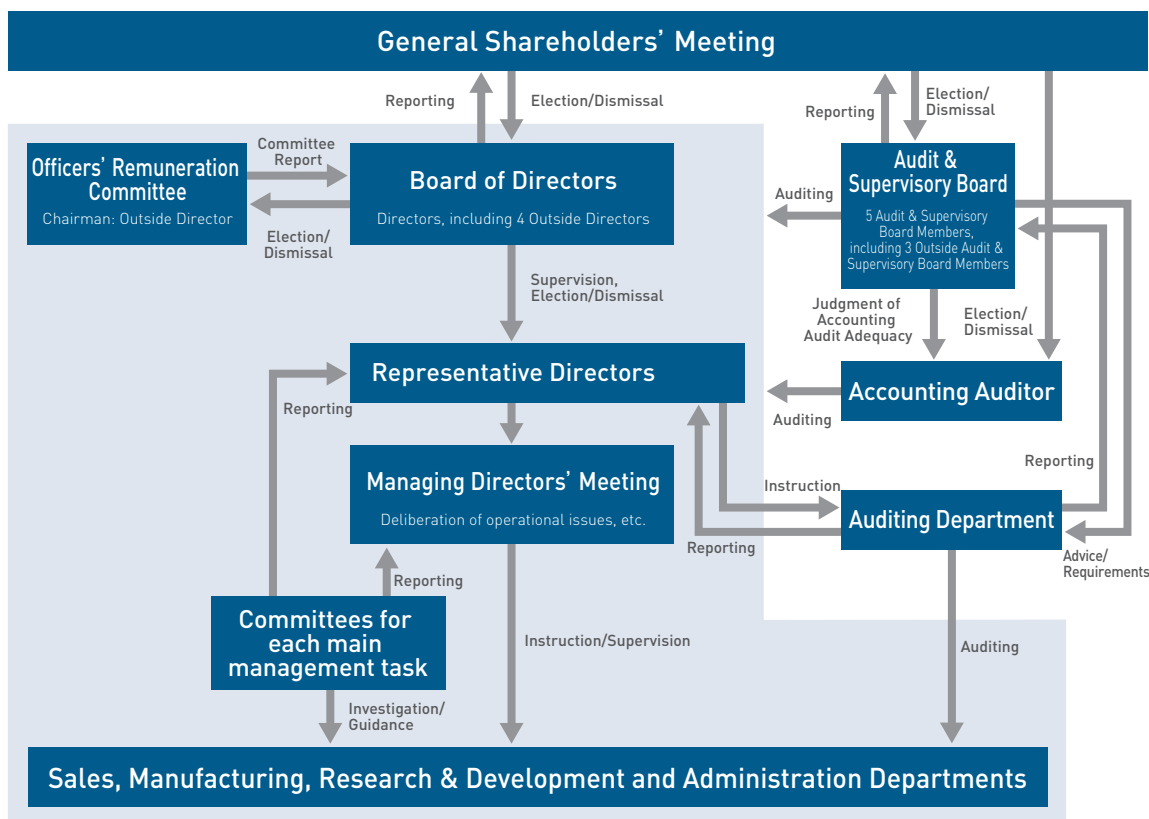
Shin-Etsu Chemical develops various systems and has an efficient organizational structure able to quickly respond to changes in the business environment to realize the basic management policies of meeting shareholder expectations and continuously enhancing corporate value. Furthermore, our basic approach to corporate governance is focused on efforts to disclose accurate information to shareholders and investors from the perspectives of improving management transparency and enhanced monitoring functions, which we position as one of our most important management priorities.

Corporate Governance Structure

Corporate Governance Structure (as of June 30, 2016)

Shin-Etsu Chemical's Audit & Supervisory Board comprises five members, including three highly independent Outside Audit & Supervisory Board members, who strive to ensure a sufficient auditing function by Audit & Supervisory Board members through collaborations between members and internal audit departments. We also strive to enhance the system and the staff members supporting the audits conducted by the Audit & Supervisory Board members. Furthermore, the four highly independent Outside Directors have an effective mechanism to strengthen management supervisory functions. The Outside Directors conduct sufficient management supervision with help by the Audit & Supervisory Board members and the internal audit departments. In this way, the Company employs a statutory auditor system as our corporate governance system to ensure the governance structure desired by the Company and earn the confidence of shareholders and investors.

Shin-Etsu Chemical's Board of Directors consists of 23 members (of which four are Outside Directors) and five Audit & Supervisory Board Members (of which three are Outside Audit & Supervisory Board members). In addition to the Board of Directors, the legally designated deliberator of business execution and the decision-making body, we have established a Managing Directors' Meeting, both of which meet once each month, in principle. Furthermore, the Officers' Remuneration Committee, chaired by an Outside Director, deliberates and evaluates executive remuneration and reports to the Board of Directors.



Officers' Remuneration Committee

To ensure the transparency and fairness of executive remuneration, the Officers' Remuneration Committee was established in 2002 as an advisory body to the Board of Directors. This committee, chaired by Outside Director Frank Peter Popoff, assesses the overall degree of contribution by each Director to performance and general management each fiscal year, reporting the results of these evaluations to the Board of Directors.

About Decision Making Related to the Remuneration Amount and Calculation Method

Shin-Etsu Chemical Director remuneration is within the scope of the compensation framework approved by the General Shareholders' Meeting and determined by the Board of Directors in light of assessments and evaluations by the Officers' Remuneration Committee chaired by an Outside Director. Director remuneration consists of "basic remuneration" reflecting position and duties, a "bonus" based on annual performance and "stock options."

Audit & Supervisory Board member remuneration is within the scope of the compensation framework approved by the General Shareholders' Meeting and is determined through consultation with Audit & Supervisory Board members in light of the duties as an Audit & Supervisory Board member, and consists of "basic remuneration" and a "bonus."

Moreover, Outside Directors and Audit & Supervisory Board members do not receive "stock options." Outside Directors and Outside Audit & Supervisory Board members also do not receive a "bonus."

► Remuneration Amount by Director Type and Its Detail, Number of Applicable Directors (For the year ended March 31, 2016)

Designation	Amount of Remuneration by Type (¥ million)			Number of Recipients (Persons)	Amount of Remuneration by Type (¥ million)	
	Base Amount	Bonus	Total		Stock Option	Number of Recipients (Persons)
Directors (excluding Outside Directors)	978	437	1,415	20	115	18
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	31	9	40	3	—	—
Outside Directors and Outside Audit & Supervisory Board Members	170	—	170	8	—	—

Notes:

1. Includes two Directors and one Audit & Supervisory Board member who resigned at the conclusion of the 138th General Shareholders' Meeting held on June 26, 2015.
2. The bonus indicates the total amount of bonus accrued in the current fiscal year.
3. The Officers' Retirement Benefits Program was repealed at the conclusion of the 131st General Shareholders' Meeting held on June 27, 2008.
4. In line with accounting standards, stock option amounts indicate an expense booked in the current fiscal year.
5. Payments to Directors do not include employee salary amounts (including bonuses) equivalent to concurrently held positions. However, salary amounts for concurrently held positions are immaterial.
6. The total amount of remuneration to Directors (excluding Outside Directors) consisting of "basic remuneration," "bonus" and "stock options" was ¥1,531 million.



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Internal Control System

Status of Internal Control System Development

Shin-Etsu Chemical has formulated a Basic Policy on Internal Controls to comply with Japanese law, Article 362, Paragraph 4, Item 6, of the Companies Act. In line with this basic policy, we have established and operate an internal control system that undergoes constant review in an effort to enhance its appropriateness and efficiency.

Status of Audit and Supervisory Board Auditing and Internal Auditing

Shin-Etsu Chemical's Audit and Supervisory Board members attend important internal meetings and conduct audits on the execution of operations through the review of important documents and physical observation of plants in Japan and overseas. As necessary, regarding audits conducted by the accounting auditor, the Audit and Supervisory Board members request reports and explanations, sitting down with them for research, and exchange information and opinions several times throughout the year. The staff from the Auditing Department and the Legal Department also assist the Audit and Supervisory Board members with their duties.

In terms of the internal auditing organizational structure, the Auditing Department is constantly engaged in the operational auditing of each department from the perspectives of legal compliance and the rationality of business activities. The results of these activities are reported to management, the Outside Directors and the Audit and Supervisory Board members.

The Audit and Supervisory Board members hold regular monthly meetings with the Auditing Department where they receive progress reports on activities, internal auditing results and other matters. They provide advice on topics including these activities and the selection of key auditing themes and request investigations, if necessary. They also exchange information and opinions on an ongoing basis. The Auditing Department also attends meetings where Audit and Supervisory Board members receive reports and explanations from the Accounting Auditor in an effort to strengthen the auditing function based on more effective tripartite cooperation.

Compliance with the Corporate Governance Code

The Group is in compliance with the Tokyo Stock Exchange Corporate Governance Code and implements all 11 principles therein.

IR Activities

In recognition of the extreme importance of enhancing corporate value through sustainable growth based on dialogues with shareholders and investors, Shin-Etsu Chemical incorporates feedback from these dialogues into management and daily business operations as necessary.

► Status of IR Activities (For the year ended March 31, 2016)

Activity Items	Activity Status	Activity Items	Activity Status
Earnings presentations for analysts and institutional investors	Midyear and full-year earnings	Financial results conference calls with analysts and institutional investors	1Q and 3Q
Small meetings and conferences hosted by securities companies	Six times Two conferences Four small meetings	Briefing for individual investors	Six times
Plant tours, business briefings	Two times Gunma Complex (Japan) Asia Silicones Monomer Limited (Thailand)	Communications tools	<ul style="list-style-type: none"> • IR Web site • Annual Report • Shin-Etsu Report (only Japanese available)





Outside Directors and Outside Audit & Supervisory Board Members (As of March 31, 2016)

	Important Concurrent Positions (Year Ended March 31, 2016)	Status of Activities	Attendance at Board Meetings (Year Ended March 31, 2016)
 Outside Director Frank Peter Popoff	Senior Advisor, American Express Company	Mr. Popoff's opinions and practical advice, from a broad perspective based on his management experience as CEO of The Dow Chemical Company, a U.S. company that has a long history as a global company, have been of significant importance for the Company to expand its business overseas and enhance its corporate value.	Board of Directors Meetings 93%
 Outside Director Masashi Kaneko (Note)		He shared his comments from a broad, high-level perspective capitalizing on his management experience at the former Nikko Cordial Corporation. He also provided thorough supervision from an independent standpoint.	Board of Directors Meetings 100%
 Outside Director Tsuyoshi Miyazaki	Advisor, Mitsubishi Logistics Corporation	He shared his comments from a broad, high-level perspective capitalizing on his management experience at Mitsubishi Logistics Corporation. He also provided thorough supervision from an independent standpoint.	Board of Directors Meetings 100%
 Outside Director Toshihiko Fukui	President, Canon Institute for Global Studies ----- Outside Director, Kikkoman Corporation	He shared his comments from a broad, high-level perspective capitalizing on his outstanding knowledge and wealth of experience related to global finance and economy as an ex-Governor of the Bank of Japan. He also provided thorough supervision from an independent standpoint.	Board of Directors Meetings 93%
 Outside Director Hiroshi Komiyama	Chairman, Mitsubishi Research Institute, Inc. ----- Outside Director, JX Holdings, Inc.	The Director, who has served as President of the University of Tokyo, as well as in a variety of distinguished positions, shared his comments from a broad, high-level perspective capitalizing on his outstanding knowledge and wealth of experience in a wide range of disciplines, including chemical engineering, the global environment, and natural resources and energy. He also provided thorough supervision from an independent standpoint.	Board of Directors Meetings 86%

Note: Outside Director Masashi Kaneko resigned at the end of his term of office effective June 29, 2016.

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Outside Directors and Outside Audit & Supervisory Board Members (As of March 31, 2016)

	Important Concurrent Positions	Status of Activities	Attendance at Board Meetings (Year Ended March 31, 2016)
 Outside Audit & Supervisory Board Member Taku Fukui	Lawyer Managing Partner, Kashiwagi Sogo Law Offices Professor, Keio University Law School	At the meetings of the Board of Directors and of the Audit & Supervisory Board, he shared his comments from a legal specialist's point of view and contributed to the establishment of a compliance structure.	Board of Directors Meeting 100% Audit & Supervisory Board Members Meeting 100%
 Outside Audit & Supervisory Board Member Yoshihito Kosaka	C.P.A. Certified Public Tax Accountant Counselor, Kisaragi Audit Corporation Outside Auditor, ASTMAX Co., Ltd. Audit and Supervisory Committee Member, Star Mica Co., Ltd.	At the Audit & Supervisory Board meetings, he shared his comments from a finance and accounting specialist's point of view and contributed to the establishment of a compliance structure.	Board of Directors Meetings 93% Audit & Supervisory Board Members Meetings 100%
 Outside Audit & Supervisory Board Member Kiyoshi Nagano	Outside Director, SBI Holdings, Inc. Outside Director, LEC, INC.	At the Audit & Supervisory Board meetings, he shared his comments from an extensive viewpoint based on his management experience at the former Jasdq Securities Exchange, Inc., and contributed to the establishment of a compliance structure.	Board of Directors Meetings 100% Audit & Supervisory Board Members Meetings 100%