Corporate Governance

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, 2017)

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 22 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.

General Meeting of Shareholders

Committees for each main management task

Sales, Manufacturing, Research & Development and Administration Departments

Officer’s Remuneration Committee

To ensure the transparency and fairness of executive remuneration, the Officer’s 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 Meeting of Shareholders and determined by the Board of Directors in light of assessments and evaluations by the Officer’s 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.” Directors did not receive “stock options” for the year ended March 31, 2017.

Audit & Supervisory Board member remuneration is within the scope of the compensation framework approved by the General Meeting of Shareholders 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, 2017)

<table>
<thead>
<tr>
<th>Designation</th>
<th>Amount of Remuneration by Type (¥ million)</th>
<th>Number of Recipients (People)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Base Amount</td>
<td>Bonus</td>
</tr>
<tr>
<td>Directors (excluding Outside Directors)</td>
<td>1,042</td>
<td>496</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board Members (excluding outside Audit &amp; Supervisory Board Members)</td>
<td>31</td>
<td>9</td>
</tr>
<tr>
<td>Outside Directors and Outside Audit &amp; Supervisory Board Members</td>
<td>155</td>
<td>—</td>
</tr>
</tbody>
</table>

Notes:
1. Includes two Directors who resigned at the conclusion of the 139th Ordinary General Meeting of Shareholders held on June 29, 2016.
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 Ordinary General Meeting of Shareholders held on June 27, 2008.
4. 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.
5. Directors did not receive “stock options” for the year ended March 31, 2017.
Corporate Governance

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 & 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 & 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 & 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 & Supervisory Board members.

The Audit & 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. They also exchange information and opinions on an ongoing basis if necessary. The Auditing Department also attends meetings where Audit & 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, 2017)

<table>
<thead>
<tr>
<th>Activity Items</th>
<th>Activity Status</th>
<th>Activity Items</th>
<th>Activity Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings presentations for analysts and institutional investors</td>
<td>Midyear and full-year earnings</td>
<td>Financial results conference calls with analysts and institutional investors</td>
<td>1Q and 3Q</td>
</tr>
<tr>
<td>Small meetings and conferences hosted by securities companies</td>
<td>Seven times One conference Six small meetings</td>
<td>Briefing for individual investors</td>
<td>Six times</td>
</tr>
<tr>
<td>Plant tours, business briefings</td>
<td>Two times Tour at Kashima Plant (Japan) Briefing by Organic Chemicals Division</td>
<td>Communications tools</td>
<td>• IR Web site  • Annual Report  • Business Report (only Japanese available)</td>
</tr>
</tbody>
</table>
Shin-Etsu Chemical Co., Ltd.

Status of IR Activities (For the year ended March 31, 2017)

Operational auditing of each department from the perspectives of the Auditing Department is constantly engaged in the activities of the Supervisory Board members with their duties. The Auditing Department is also assisted by the Accounting Auditor, the Audit & Supervisory Board members request reports and explanations, sitting down with them for research, and exchange information and opinions. The supervisors present reports on topics including these activities and the selection of key points. They provide advice on the auditing results and other matters. They provide advice on the auditing results and other matters. The Auditing Department also attends regular monthly meetings with the Auditing Department and the Financial Planning and Control Department.

In terms of the internal auditing organizational structure, the Auditing Department is responsible for the 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 reviews in an effort to enhance its appropriateness and efficiency. The results of these activities are reported to management, the Board of Directors, Outside Directors and the Audit & Supervisory Board members.

The Audit & Supervisory Board members hold two meetings per year to discuss the status of activities. The results of these activities are reported to management, the Board of Directors, Outside Directors and the Audit & Supervisory Board members.

Corporate Governance

In recognition of the extreme importance of enhancing corporate governance to expand its business overseas and enhance its corporate value, Shin-Etsu Chemical incorporates sustainable growth based on dialogues with its major shareholders and investors. Shin-Etsu Chemical has formulated a Basic Policy on Corporate Governance to ensure transparency, accountability, and fairness in the decision-making process. The Policy is aligned with the Corporate Governance Code of the Japan Business Federation (Keidanren) and is designed to promote good corporate governance practices and build trust with stakeholders.

Internal Controls

Shin-Etsu Chemical has established an internal control system to ensure compliance with Japanese law and enhance corporate governance. The system involves the audit of financial and operating information and processes through reviews and evaluations. The system is designed to prevent fraud and errors, ensure the reliability of financial information, and promote the efficient operation of the company's business.

Status of Internal Control System Development

The web address for the latest internal control system development report is https://www.shinetsu.co.jp/en/csr/pdf/CG170710.pdf

The Audit & Supervisory Board members hold two meetings per year to discuss the status of activities. The results of these activities are reported to management, the Board of Directors, Outside Directors and the Audit & Supervisory Board members.

Communications tools:

- Six small meetings
- One conference
- Seven times
- Two times
- Six times
- One meeting

IR Activities Summary

Activity Items Activity Status

- Business Report
- Annual Report
- IR Web site
- Outside Directors and Outside Audit & Supervisory Board Members (As of March 31, 2017)

From the left: Toshihiko Fukui, Hiroshi Komiyama, Frank Peter Popoff, Tsuyoshi Miyazaki

<table>
<thead>
<tr>
<th>Outside Director</th>
<th>Important Concurrent Positions</th>
<th>Status of Activities</th>
<th>Attendance at Board Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frank Peter Popoff</td>
<td>Senior Adviser, American Express Company</td>
<td>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.</td>
<td>Board of Directors Meetings 92%</td>
</tr>
<tr>
<td>Tsuyoshi Miyazaki</td>
<td>Adviser, Mitsubishi Logistics Corporation</td>
<td>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.</td>
<td>Board of Directors Meetings 100%</td>
</tr>
<tr>
<td>Toshihiko Fukui</td>
<td>President, Canon Institute for Global Studies, Outside Director, Kikkoman Corporation</td>
<td>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.</td>
<td>Board of Directors Meetings 100%</td>
</tr>
<tr>
<td>Hiroshi Komiyama</td>
<td>Chairman, Mitsubishi Research Institute, Inc., Outside Director, JX Holdings, Inc.</td>
<td>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.</td>
<td>Board of Directors Meetings 92%</td>
</tr>
</tbody>
</table>
## Corporate Governance

### Outside Directors and Outside Audit & Supervisory Board Members (As of March 31, 2017)

**Outside Audit & Supervisory Board Member**  
**Taku Fukui**

- **Important Concurrent Positions (As of March 31, 2017)**:  
  - Lawyer  
  - Managing Partner, Kashiwagi Sogo Law Offices  
  - Professor, Keio University Law School

- **Status of Activities**:  
  - 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.

- **Attendance at Board Meetings (Year Ended March 31, 2017)**:  
  - Board of Directors Meeting: 100%  
  - Audit & Supervisory Board Members Meeting: 100%

**Outside Audit & Supervisory Board Member**  
**Yoshihito Kosaka**

- **Important Concurrent Positions (As of March 31, 2017)**:  
  - C.P.A.  
  - Certified Public Tax Accountant  
  - Counselor, Kisaragi Audit Corporation

- **Status of Activities**:  
  - 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.

- **Attendance at Board Meetings (Year Ended March 31, 2017)**:  
  - Board of Directors Meetings: 100%  
  - Audit & Supervisory Board Members Meeting: 100%

**Outside Audit & Supervisory Board Member**  
**Kiyoshi Nagano**

- **Important Concurrent Positions (As of March 31, 2017)**:  
  - Outside Director, LEC, INC.

- **Status of Activities**:  
  - At the Audit & Supervisory Board meetings, he shared his comments from an extensive viewpoint based on his management experience at the former Jasdaq Securities Exchange, Inc., and contributed to the establishment of a compliance structure.

- **Attendance at Board Meetings (Year Ended March 31, 2017)**:  
  - Board of Directors Meetings: 100%  
  - Audit & Supervisory Board Members Meeting: 100%