

Basic Policy and Promotion System

The Shin-Etsu Group will fulfill its social responsibility and strive to create and expand the new value demanded by society through all our business activities based on products and technologies.

ESG Promotion Engine

The Group's social responsibility is to execute its Business Principle and contribute to shareholders, investors, customers, business partners, regional communities, employees and all other stakeholders. To achieve this, we promote ESG activities based on the establishment of a Basic CSR Policy and various internal regulations. We reorganized the former CSR Promotion Committee and formed the ESG Promotion Committee in 2017, which is now chaired by the president of Shin-Etsu Chemical, comprising managers from relevant divisions and departments, to promote companywide ESG activities in all aspects of corporate activities.

Basic CSR Policy

The Shin-Etsu Group:

1. Will do our best to increase the Group's corporate value through sustained growth and make multifaceted contributions to society.
2. Will carry out all of our company activities by always making safety our utmost priority.
3. Will constantly pursue energy-saving, resource-saving and the reduction of the environmental impact, and seek to help create a sustainable future world in which we all live in harmony with the Earth.
4. Will endeavor to contribute to the prevention of global warming and the conservation of biodiversity by means of our cutting-edge technologies and products.
5. Will strive to respect human dignity, assure equality in employment opportunities and support the self-fulfillment of our employees.
6. Will appropriately disclose information in a timely manner.
7. Will carry out trustworthy corporate activities that are based on the integrity of the Group's ethical values.

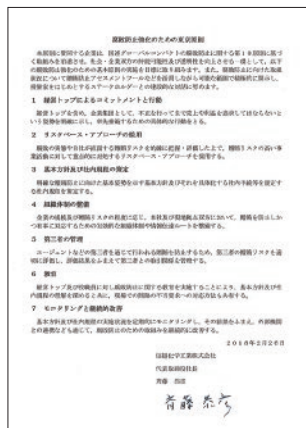
Activities in FY2017

► Agreement with the “Tokyo Principles for Strengthening Anti-Corruption Practices”

In December 2017, we signed onto the “Tokyo Principles for Strengthening Anti-Corruption Practices” of the GCNJ* to show our Group's commitment to conducting anti-corruption activities. It agrees with our position of anti-corruption stated in the Business Principle.

*GCNJ (Global Compact Network Japan): A Japanese local branch of the United Nations Global Compact.

Tokyo Principles for Strengthening Anti-Corruption Practices



► ESG Promotion Committee Kicked Off

In December 2017, we held a kickoff meeting of the ESG Promotion Committee and shared basic ideas of the Group's ESG promotion. At the meeting, the United Nations SDGs (sustainable development goals) and the GCNJ's “Tokyo Principles for Strengthening Anti-Corruption Practices” were introduced and various issues were discussed for each Committee member to address.



http://www.uncgcnj.org/activities/tca/data/tca_6.pdf

Supporting and Implementing Principles and Global Charters

The Group signed and put into practice the Responsible Care Global Charter of the International Council of Chemical Associations (ICCA) in 2006. In 2014, we signed the revised Responsible Care Global Charter. In 2010, the Group became a participant in the United Nations Global Compact (UNGC) and has been voluntarily supporting and practicing in its business operations and strategies the UNGC's Ten Principles with regard to human rights, labor standards, the environment and the prevention of corruption. Furthermore, since November of the same year, we also have participated in Global Compact Network Japan and incorporate the latest trends in CSR obtained from the

Supply Chain and ESG Subcommittees to promote ESG throughout the Group. These principles are all in line with the Group's Business Principle and Basic CSR Policy. The Group will continue to uphold these initiatives and charters and will endeavor to build even deeper relationships of trust with people around the world.



Identifying Key Issues (Materiality)

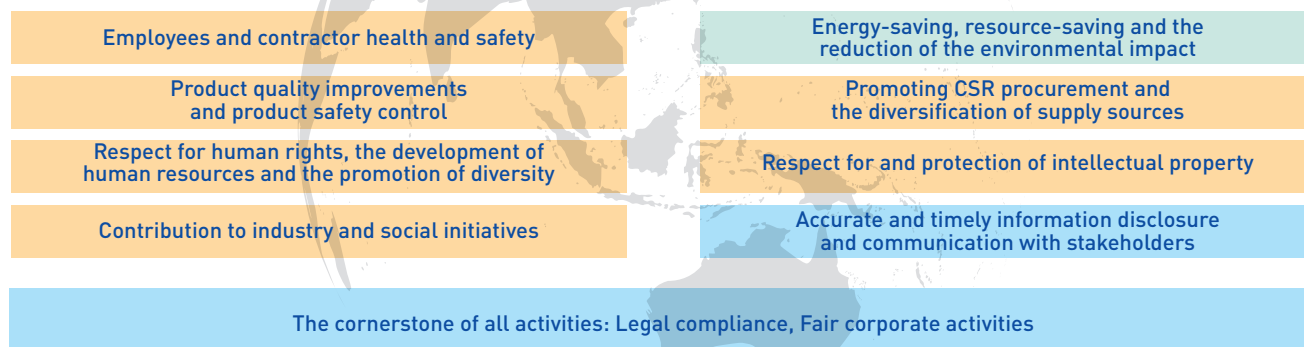
Since the establishment of the CSR Promotion Committee in 2005 (reorganized as the ESG Promotion Committee in 2017), the Group has promoted CSR initiatives within all its business activities. In 2015, we conducted a careful examination of our global CSR guidelines and the demands from stakeholders. The CSR Promotion Committee conducted a survey of all divisions and major Group companies to identify key issues facing the Group. Then, the Managing Directors' Meeting, the

decision-making body for the execution of operations comprising all directors, deliberated to define key CSR issues that require specific attention.

The Group targets "Contributions to the Earth's Future" by addressing all these issues equally and putting the Business Principle into practice. In most cases, these efforts conform to the UN's Sustainable Development Goals (SDGs).

Shin-Etsu Group Aims Contributions to the Earth's Future

Strengthen existing businesses
Create new businesses



- Environment
- Social
- Governance

Shin-Etsu Group Key Issues

Please visit the CSR section of our Web site for detailed information on each initiative.

WEB <https://www.shinetsu.co.jp/en/csr/>

The Cornerstone of All Activities: Legal Compliance, Fair Corporate Activities

The opening lines of the Group’s Business Principle include the concepts “legal compliance” and “fair corporate activities.” In recognition of issues related to all eight key issues comprising the cornerstone of all these activities, all group companies engage in legal compliance and fair corporate activities.

E Environment

Key Issue

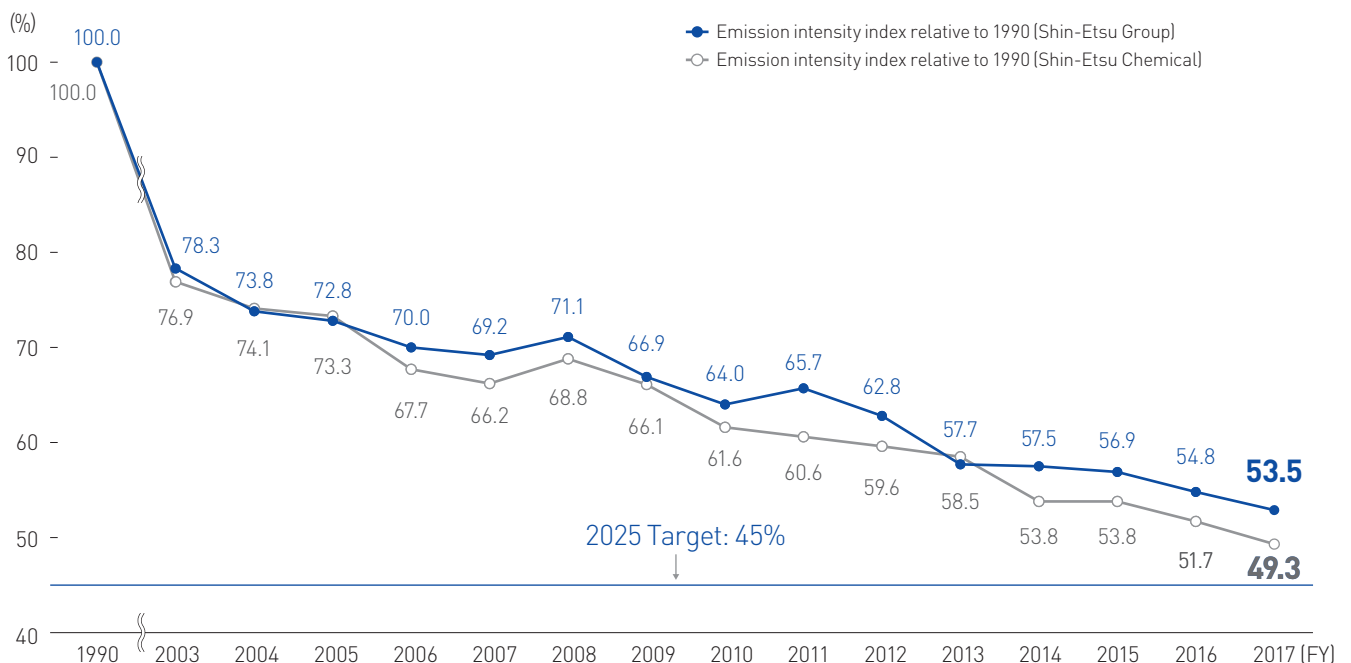
Energy-saving, resource-saving and the reduction of the environmental impact



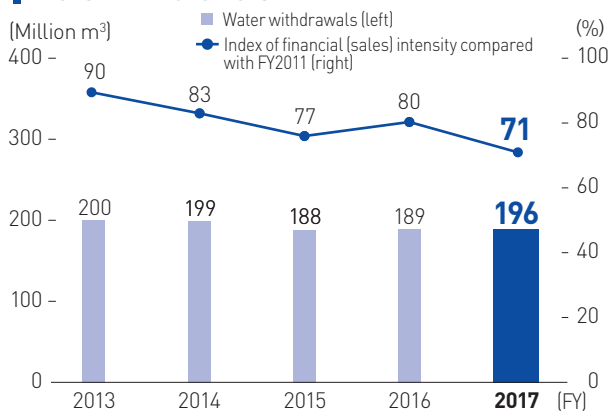
Products provided by the Group have become indispensable aspects of global industries and people’s daily lives. For this reason, we are aware that it is critical to reduce environmental burdens not only during manufacturing but also during use, disposal and throughout all processes. The Group strives not

only to ensure thorough reduction of environmental burdens in manufacturing processes but also for product development and sales of eco-friendly products such as rare earth magnets and PVC. Rare earth magnets are used in eco-cars, and PVC has a low dependency on petroleum resources.

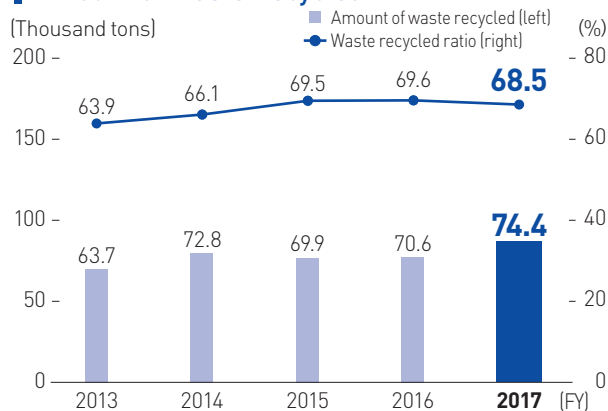
Changes in Greenhouse Gas Emission Intensity Relative to FY1990 Levels



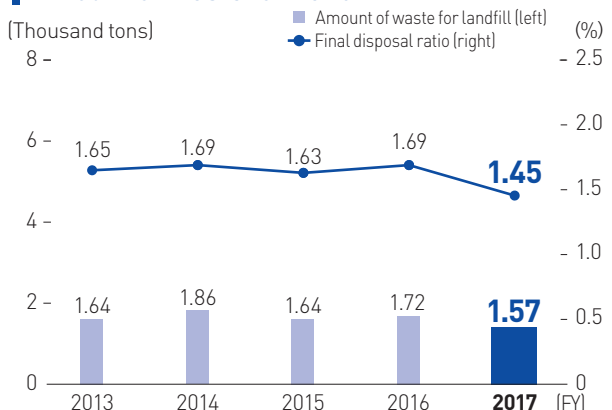
Water Withdrawals



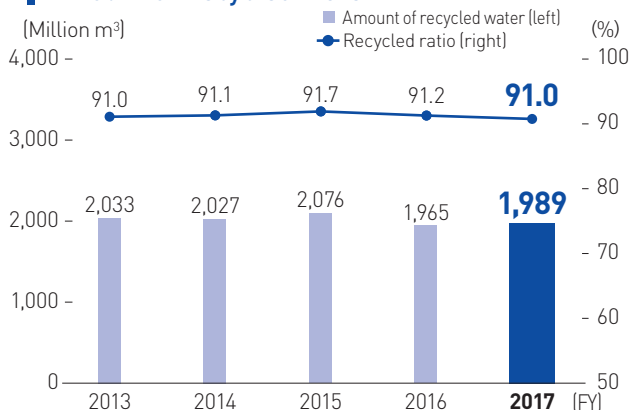
Amount of Waste Recycled



Amount of Waste for Landfill

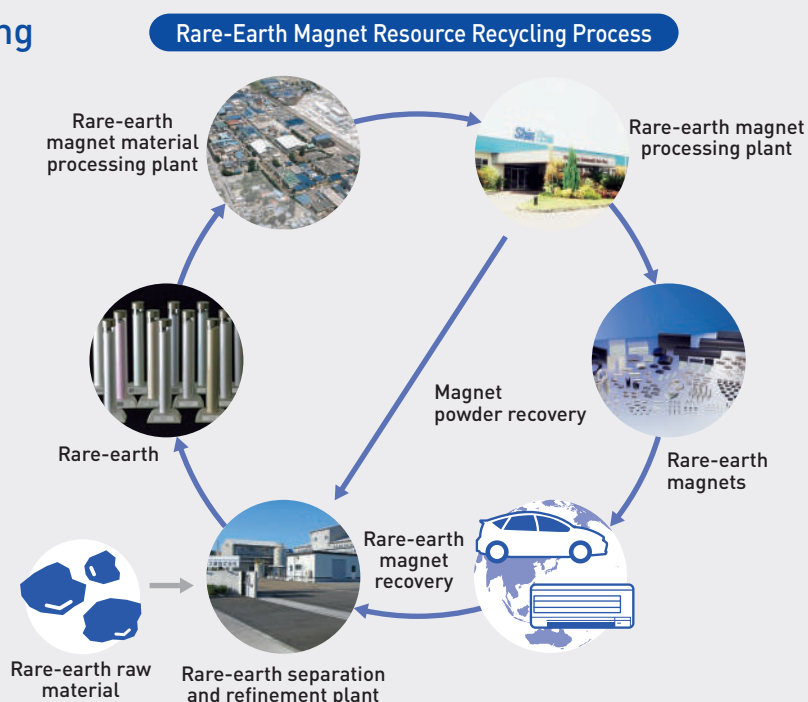


Amount of Recycled Water



Rare Earth Magnet Recycling Aimed at Resource Conservation

The Shin-Etsu Group utilizes separation and refinement technologies to extract rare earth metals from used materials. Since 2013, we have used the latest technologies to recover rare earth magnets used in energy-saving air conditioners and hybrid cars. This ensures a stable source of valuable rare earth metals and contributes to protecting the environment by reducing waste and reusing resources.

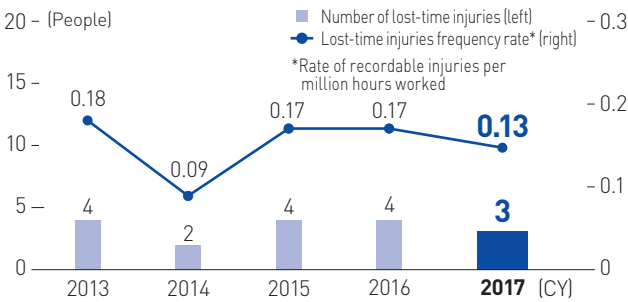


S Social

Key Issue Employees and contractor health and safety

As a chemicals company, we recognize the importance of issues related to employee safety and health. To this end, we engage in environmental preservation at each plant, occupational safety and health and process safety and prevention plans. The Group is engaged in creating safe and comfortable workplaces that aim to prevent the occurrence of serious accidents and reduce lost time incidents to zero.

Number of Lost-Time Injuries and Changes in Frequency Rates (Group companies in Japan)



Participants of Safety Education Programs

Coverage	FY2014	FY2015	FY2016	FY2017
Shin-Etsu Chemical	7,224	7,531	7,970	9,751
Consolidated companies*	—	—	22,166	24,829

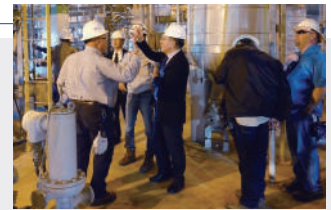
(People)

*Started to compile the consolidated data from FY2016.

Environmental Control and Safety Audits

To confirm that activities such as environmental conservation, occupational safety and health, process safety and prevention planning are carried out as mandated, the Group conducts an audit and the audit result is reported to the top management.

In referring to cases from other companies in fiscal 2013, we communicated revisions to the "Nonroutine Work Safety Measures" within the company. Their implementation status review in fiscal 2017 was conducted as a special audit theme.

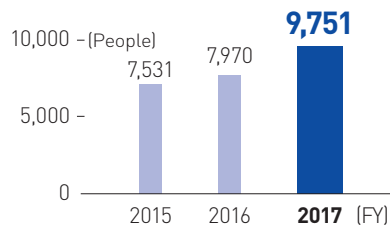


Audit conducted at Shin-Etsu Silicones of America, Inc., in January 2018

Key Issue Product quality improvements and product safety control

The Group's products are used in people's daily lives and to support society. At the same time, there is a critical focus on the safety of chemical substances as a global social issue. The Group strictly manages product safety and improves quality control in line with the laws and regulations of each country.

Participants of Product Safety Related Training Programs

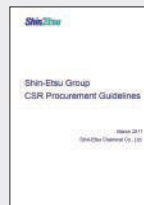


Key Issue Promoting CSR procurement and the diversification of supply sources

There is a critical focus on appropriate procurement of raw materials throughout the global supply chain as a global social issue. The Group promotes fair procurement activities based on its Basic Procurement Policy in an effort to create supply chains that consider the environment.

Creation of the CSR Procurement Guidelines

The Shin-Etsu Group formulated the CSR Procurement Guidelines. In accordance with these guidelines, we educate staff in the Purchasing Department and conduct briefings to inculcate an understanding of Group initiatives among business partners and companies upstream. Through these activities, the Group will contribute to the realization of a sustainable society.



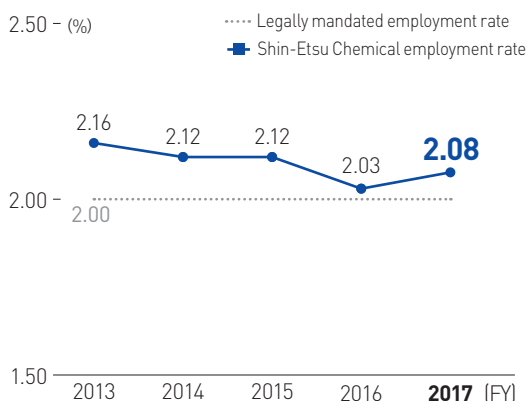
Briefing on CSR Procurement Guidelines held in July 2017



Key Issue Respect for human rights, the development of human resources and the promotion of diversity

The Group is engaged in realizing the creation of a comfortable work environment that respects basic human rights where each employee can achieve health, self-realization and follow a career path.

Employment Rate of Persons with Disabilities



Number of Employees Who Have Taken Child-Care Leave

[People]	FY2014		FY2015		FY2016		FY2017	
	Female	Male	Female	Male	Female	Male	Female	Male
Shin-Etsu Chemical	8	2	6	0	9	0	8	0
Consolidated companies in Japan	44	3	36	2	35	0	31	0
Consolidated companies total	86	56	73	44	72	68	69	77

Number of People Obtaining Nursing Care Leave

[People]	FY2014	FY2015	FY2016	FY2017
Consolidated companies in Japan	3	3	1	2

Note: Data of the Shin-Etsu Group includes employees and secondees.

Fund-Raising for UN World Refugee Day

The UNHCR (Office of the United Nations High Commissioner for Refugees) supports refugees worldwide who are driven out of their homes by conflict, persecution and disaster.

Since 2006, we have supported refugees worldwide through the collection of donations in the company for World Refugee Day (June 20), which was established by the United Nations, and we have made those donations to the UNHCR through the Japan Association for the UNHCR. Furthermore, we have implemented donation by the company since 2012.



Key Issue Respect for and protection of intellectual property

We maintain the confidentiality, integrity and availability of information assets possessed by the Group and engage in the acquisition and use of intellectual property and appropriately manage and protect information assets to strategically execute corporate management focused on intellectual assets.

Number of Patents Acquired and Held (Major group companies)

Breakdown	Patents Acquired			Patents Held		
	FY2015	FY2016	FY2017	FY2015	FY2016	FY2017
Japan	616	697	591	7,027	7,355	7,562
Overseas total	1,163	1,325	1,591	10,102	10,951	12,007
Asia/Oceania	602	642	724	4,190	4,707	5,314
North America	282	220	265	2,850	2,924	3,077
Europe	270	458	595	3,035	3,286	3,578
Other	9	5	7	27	34	38
Total	1,779	2,022	2,182	17,129	18,306	19,569



Key Issue Contribution to industry and social initiatives

Group companies and employees proactively promote social contribution activities rooted in local communities throughout the world. For example, for the past nine years Shintech (U.S. Group company) has collaborated with several local business partners to conduct the "Safety Town" safety education program targeting local kindergarten and elementary school students.

G Governance

Key Issue Accurate and timely information disclosure and communication with stakeholders

The Shin-Etsu Group believes the appropriate and timely disclosure of Company information promotes stakeholder understanding and leads to appropriate market valuation. We engage in fair and transparent disclosure through information posted on our corporate Web site, announcements in the media and at stock exchanges and publications including the annual report and reports for shareholders.

We also participate in a pilot project* for a non-financial disclosure system focused on environmental information, the first of its kind in the world, created by the Ministry of the

Environment in 2013. This information is viewed by a wide range of stakeholders. As ESG investment is expected to increase going forward, we will make an effort to provide even more non-financial information.

* Environmental Information Disclosure Platform Development Project: In light of the growing global trend of environmental, social and governance (ESG) investment, the Ministry of the Environment launched a project aimed at developing a non-financial information disclosure system focused on environmental information in 2013, the first of its kind in the world. In 2016, we launched a pilot program assuming full-year operations aiming to further invigorate dialogue with companies and investors. Reference: <http://www.env.go.jp/press/102683.html> (Japanese language only)

Outside Assessments

► Selected for the MSCI Global ESG Select Leaders Index

A leading global socially responsible investment (SRI) index created by Morgan Stanley Capital International (MSCI). This index is composed of companies having excellent ESG ratings within each industry from among the top 500 companies by market capitalization.



► Selected for the Morningstar Socially Responsible Investment Index

Morningstar Japan K.K. created the first socially responsible investment stock index in Japan, which selects 150 companies assessed for their excellent social performance out of approximately 3,700 domestic listed companies.



As of January 4, 2018

► Selected for the SNAM Sustainability Index

This index consists of companies with above-standard ESG scoring derived from corporate research related to environmental (E) factors conducted by Sompo Risk Management & Health Care, and corporate research related to social (S) and governance (G) factors conducted by IntegreX Inc.



► Selected for the FTSE4Good Index Series

On the socially responsible investment (SRI) index calculated and made public since 2001 by the London Stock Exchange group index calculation company, FTSE Russell, we have achieved a globally competitive score.



► Selected for the TSE Blossom Japan Index

This stock price index calculated and made public by FTSE Russell is made up of listed Japanese companies considered excellent from the perspectives of environmental, social and governance (ESG) factors.



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

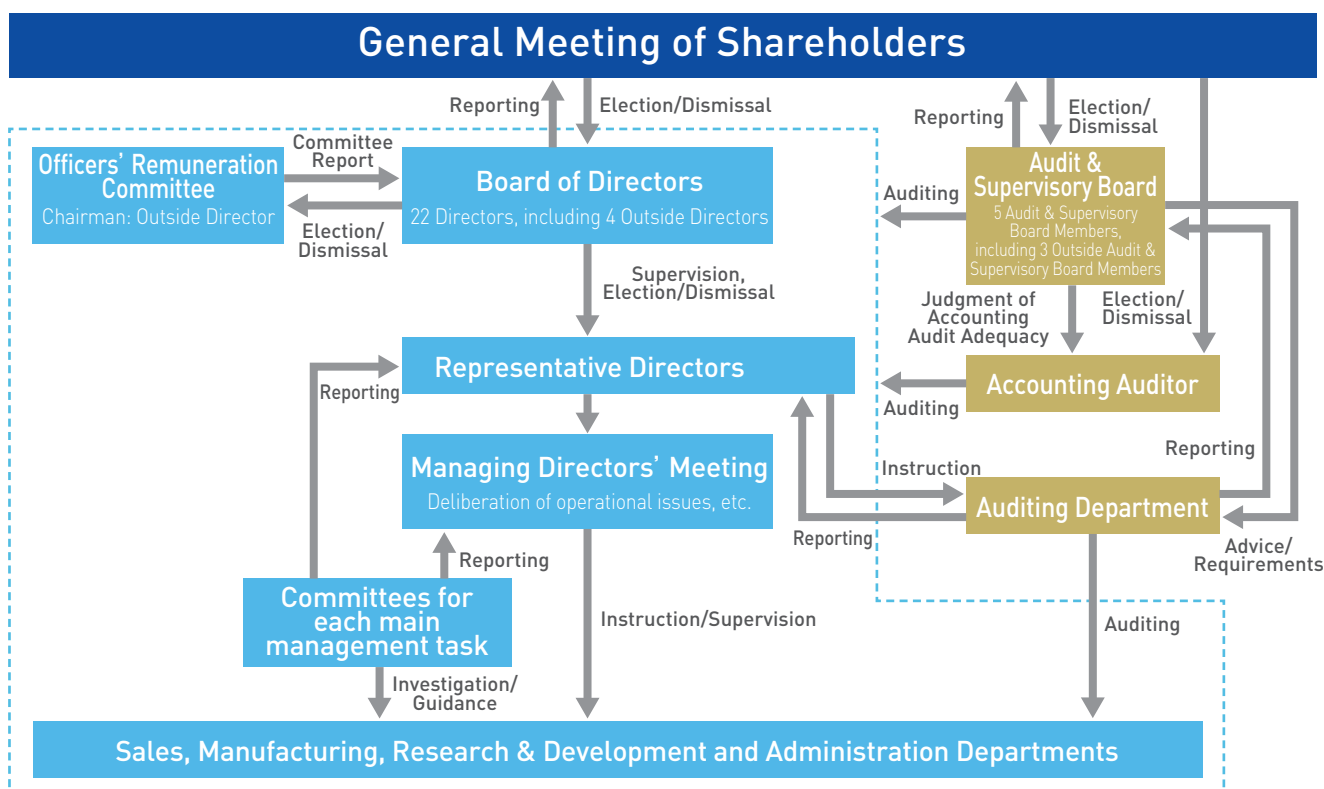
Basic Approach

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 (as of June 30, 2018)

Outside Audit & Supervisory Board members 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.



Officers' Remuneration

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 Meeting of Shareholders 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 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, 2018)

Designation	Amount of Remuneration by Type (¥ million)			Number of Recipients (People)	Amount of Remuneration (¥ million)	Number of Recipients (People)
	Base Amount	Bonus	Total		Stock Option	
Directors (excluding Outside Directors)	1,048	566	1,615	19	198	18
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	31	9	40	2	—	—
Outside Directors and Outside Audit & Supervisory Board Members	149	—	149	7	—	—

Notes:

1. Includes one Director who resigned at the conclusion of the 140th General Shareholders' Meeting held on June 29, 2017.
2. The bonus indicates the amount 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. The amount for stock options is an expensed amount calculated for the current fiscal year based on the accounting standards. Therefore, it does not represent the amount paid in cash and the amount the company guarantees to pay in cash, either. In addition, the salary amounts for Directors' concurrently held positions are not included.
5. Payments to Directors do not include employee salary amounts (including bonuses) equivalent to concurrently held positions. 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 ¥1,814 million.

Compliance

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.

Tax Compliance

The Group's Business Principle refers to strict compliance with all laws and regulations and conducting fair business practices. Based on this, employees within the group each work sincerely and faithfully at their tasks day by day. One of our goals as the group is contributing to society by paying the taxes required by the applicable laws of each country in which we do business, as calculated based on the profits earned from our activities. In the 2017 fiscal year, our consolidated companies paid a total of approximately 74.7 billion yen in taxes.

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.

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