

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 formed the ESG Promotion Committee, chaired by the president of Shin-Etsu Chemical and comprising around 40 members, including directors, Company division managers and CSR managers from Group companies, to promote companywide ESG activities in all aspects of corporate activities.

Basic CSR Policy

The 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.

Examples of Recent Activities

► Declaration of TCFD Support

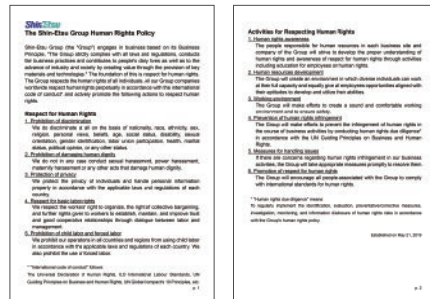
In December 2017, the Task Force on Climate-Related Financial Disclosures (TCFD), a special team established in December 2015 by the Financial Stability Board (FSB; originally created at the behest of the G20 forum) with the goal of promoting the disclosure of financial information related to climate change, released a proposal. This proposal indicated that companies should analyze internal risks and opportunities based on several climate change predictions and future scenarios and subsequently disclose the degree of influence these have on financial affairs. In response, the Group declared its support for the TCFD's proposal in May 2019. Furthermore, in support of its initiatives, we participated in the TCFD Consortium of Japan established by the Ministry of Economy, Trade and Industry, the Financial Services Agency, the Ministry of the Environment and various other organizations. Moving forward, we will also promote the disclosure of information related to climate change, in accordance with the proposal.



Participants of TCFD Consortium of Japan

► Formulation of the Shin-Etsu Group Human Rights Policy

Respect for human rights has always been a cornerstone of the Group's activities at all of its places of business worldwide. On May 21, 2019, we formulated the Shin-Etsu Group Human Rights Policy to promote related activities companywide and further strengthen external communications. Moving forward, we will observe international standards of conduct, including the Universal Declaration of Human Rights, the ILO International Labor Standards and the United Nations' Guiding Principles on Business and Human Rights. Furthermore, we will aggressively promote activities aimed at increasing respect for human rights, such as the prohibition of discrimination, behavior that damages human dignity and child and forced labor, as well as the safeguarding of privacy and respect for basic labor rights. Moreover, the Group will perform its due diligence with regard to human rights, repetitiously identifying and assessing risks associated with human rights, taking preventive and corrective action, tracking and monitoring these risks and disclosing relevant information. Through these measures, we will work to ensure that issues related to human rights do not occur as we proceed with our business activities.



Holding of a General ESG Promotion Committee Meeting

In February 2019, the ESG Promotion Committee held a general meeting to determine which issues the Shin-Etsu Group should primarily work to resolve in FY2019. The Committee decided on SDGs and management integration,

due diligence on human rights and TCFD response measures. These are issues for the entire Shin-Etsu Group, not merely Shin-Etsu Chemical, and all members of the committee and secretariats will actively contribute to their resolution.

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 (GCNJ) and incorporated the latest trends in CSR obtained from the Supply Chain and ESG subcommittees to promote ESG throughout the Group. Furthermore, in February 2018, the Group became the first signee company indicating approval for the GCNJ's Tokyo Principles for Strengthening Anti-Corruption Practices.



Initiatives Contributing to the Achievement of the UN's Sustainable Development Goals (SDGs)

The Group works to resolve a wide variety of social issues and practically applies its Business Principle of contributing to "people's living, society and industry through value creation

in materials and technologies." We are also contributing to the achievement of the UN's Sustainable Development Goals (SDGs) with the products created through these efforts.

Identifying Key Issues (Materiality)

Since the establishment of the CSR Promotion Committee in 2005 (reorganized as the ESG Promotion Committee), 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 Committee conducted a survey of all divisions and major Group companies to identify key issues facing the Group. Furthermore, the Managing Directors' Meeting, which is an administrative body

overseeing business execution, conducted a careful discussion, prescribed legal compliance and fair corporate activities as the foundation for all business activities and established issues in need of particular focus as "key issues."

In December 2018, all divisions and major Group companies in Japan reviewed their own key issues. After discussing these reviews, the ESG Promotion Committee decided to continue prescribing the key issues identified in 2015.

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

[Strengthen existing businesses
Create new businesses]

Employees and contractor health and safety

Product quality improvements
and product safety control

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

Contribution to industry and social initiatives

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

Promoting CSR procurement and
the diversification of supply sources

Respect for and protection of intellectual property

Accurate and timely information disclosure
and communication with stakeholders

The foundation of all activities: Legal compliance, Fair corporate activities

Environment Social Governance

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

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

The Foundation 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 foundation of all these activities, all group companies engage in legal compliance and fair corporate activities.

To ensure corporate activities based on thorough legal compliance, the Shin-Etsu Group raises awareness by pushing for legal compliance through its Business Principle and its yearly business objectives. In addition, all directors and employees submit written oaths of compliance to the Company. We deal with cases of inappropriate behavior with various measures, including disciplinary action, and have set up a Compliance Consultation Office through which various regulatory violations and behaviors constituting harassment can be discussed or reported.

E Environment

Key Issue

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

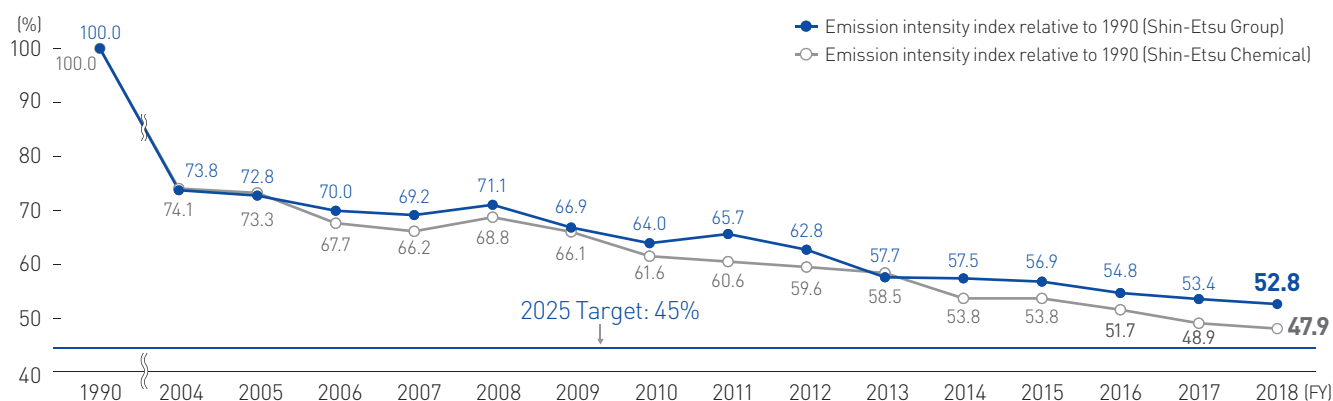
Products provided by the Group have become indispensable aspects of global industries and people's daily lives. For this reason, we are aware that it is critical to reduce environmental impact not only during manufacturing but also during use, disposal and throughout all processes. The Group is working to develop and sell products that reduce environmental impact through their use, in addition to its thorough efforts to reduce its own global environmental footprint by modifying operations

such as its production processes.

One issue that we cannot ignore as a chemical manufacturer is the presence of plastic waste in the oceans. Along with the Council for Addressing the Ocean Plastic Issue, which was established by an industry association, the Group will take on the challenge of developing new products and technologies in pursuit of a resolution to this issue.



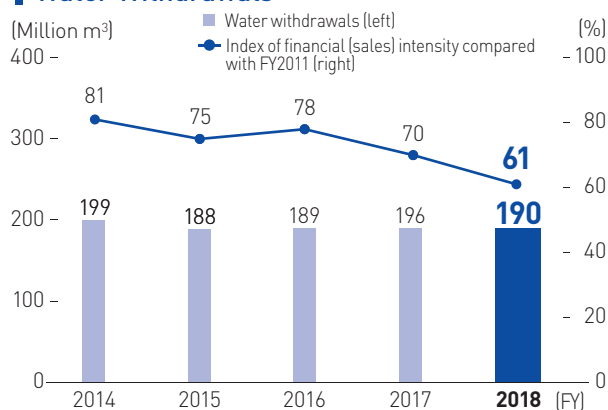
Changes in Greenhouse Gas Emission Intensity Relative to FY1990 Levels



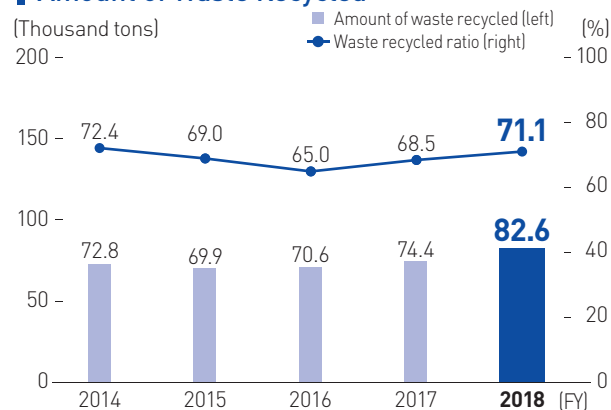
Climate Change Countermeasure: By 2025, Reduce Greenhouse Gas Emission Intensity by 45% Compared to 1990

Since FY2010, the Group has promoted a variety of environmental initiatives, including energy conservation and the installation of cogeneration systems, and pushed for a 50% reduction of greenhouse gas emission intensity (vs. 1990 levels) by 2015 as a medium-term target. As a new medium-term target, the Group has been aiming for a 45% reduction in greenhouse gas emission intensity by 2025 (also vs. 1990 levels) since FY2016, and is currently implementing related initiatives. In FY2018, we launched a variety of efforts, including power reduction initiatives involving cogeneration through the installation of gas turbines and the upgrade of ion-exchange membranes in electrolyzers to high-performance equivalents. In FY2018, greenhouse gas emission intensity was 52.8% of 1990 levels for the entire Shin-Etsu Group, and 47.9% for Shin-Etsu Chemical.

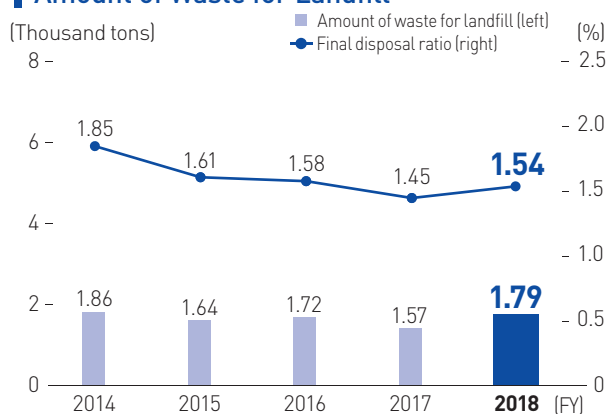
Water Withdrawals



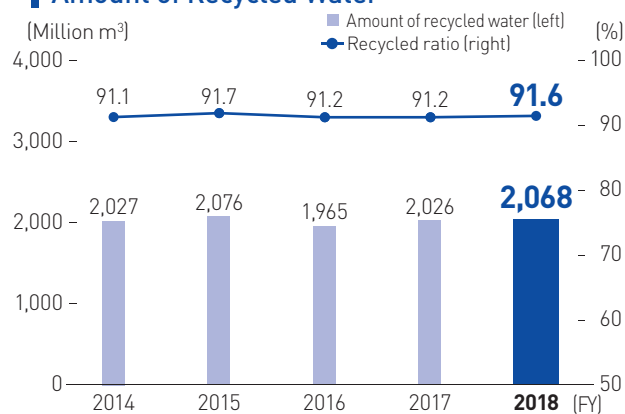
Amount of Waste Recycled



Amount of Waste for Landfill



Amount of Recycled Water



Rare Earth Magnet Recycling Aimed at Resource Conservation

The 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.



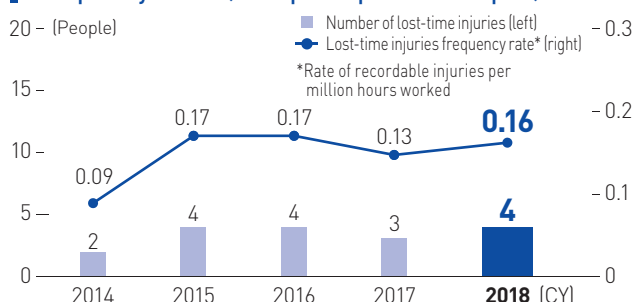
S Social

Key Issue

Employees and contractor health and safety

As a chemical company, the Group recognizes the importance of issues related to employee safety and health. To this end, we engage in environmental preservation, occupational safety and health and process safety and prevention plans at each of our plants in Japan and overseas. We are thoroughly identifying risks carrying dangers of injury or illness and are working to build safe and comfortable workplaces through risk assessment that eliminates or reduces these risks to prevent serious accidents and time lost due to accidents.

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



Participants of Safety Education Programs

Coverage	FY2015	FY2016	FY2017	FY2018
Shin-Etsu Chemical	7,531	7,970	9,751	11,774
Consolidated companies*	—	22,166	24,829	28,013

*Consolidated data compiled from FY2016.

Concern for Health

Shin-Etsu Chemical and its Group companies in Japan are implementing disease prevention initiatives, including encouraging regular medical examinations and providing health guidance regarding lifestyle-related diseases, mental health programs and activities aimed at improving physical fitness. In addition, we offer education concerning the prevention of infectious diseases such as novel influenza.

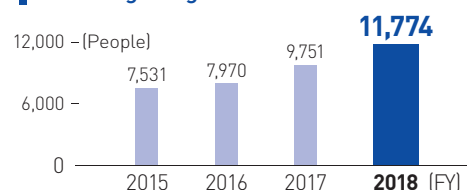
At our head and branch offices, we are working to improve working environments and promote health based on guidance received from industrial physicians. To this end, we also hold physical fitness tests and seminars, as well as events aimed at raising the physical strength of our employees. Furthermore, our health insurance association has collaborated with insurance companies to establish a 24-hour health consultation service that can be used by our employees and their families.

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 human rights and the environment. In addition, we have created CSR Procurement Guidelines to foster deeper supplier understanding regarding our Basic Procurement Policy. To ensure proper dissemination of related information, we have made it available on our corporate Web site and are holding information sessions. Furthermore, to protect the transparency and fairness of transactions with the Group, we set up a supplier hotline in January 2018.

Initiatives Aimed at Eliminating Conflict Minerals

The Group proclaims the exclusion of conflict minerals* from all of its procured items in its Basic Procurement Policy. We request that our suppliers comply with this policy and regularly investigate minerals to ensure they are not conflict minerals, tracing them back to the smelters in which they were produced.

* Conflict minerals: Minerals that are a source of funds for armed insurgents operating in regions of conflict, such as the Democratic Republic of the Congo and surrounding countries. The term refers to tantalum, tin, gold, tungsten and their by-products and derivatives.

Key Issue

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



Shin-Etsu Chemical formulated the Shin-Etsu Group Human Rights Policy in May 2019. The Group is engaged in realizing a comfortable work environment that respects basic human rights where each employee can achieve health, self-realization and follow a career path. In addition, to respond to external environmental changes and global business expansion, we are working to hire locally at overseas Group companies and employ foreign staff in Japan. Furthermore, we have also been encouraging diversity by promoting active women's participation through five-year targets since FY2016. Moreover, in April 2019, we became the first major company in the chemical industry in Japan to raise the retirement age from 60 to 65 and adopted a system that allows employees aged 60 years or older to receive possible pay raises and promotions.

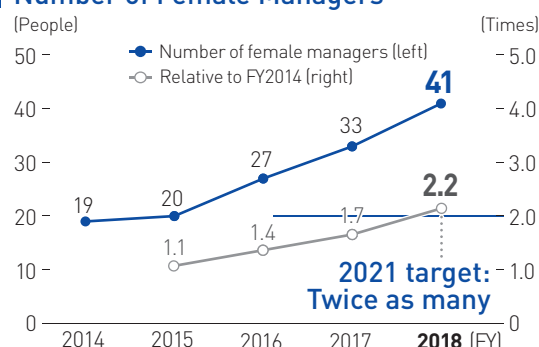
Goals to Promote Women's Participation and Advancement

In the next five years from FY2016, the Company has targeted that:

1. The rate of hiring women will be 40% for administrative positions and 10% for engineering positions.
2. The number of women in managerial positions including junior manager level will be doubled compared to the number in FY2014.

*Applies to employees and loaned employees from Shin-Etsu Chemical.

Number of Female Managers



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 property. In addition, we have established a system that recognizes employees who contribute to our profits through operationally beneficial inventions, improvements, solutions or plans.

Number of Patents Acquired and Held (Major group companies)

Breakdown	Patents Acquired			Patents Held		
	FY2016	FY2017	FY2018	FY2016	FY2017	FY2018
Japan	697	591	577	7,355	7,562	7,702
Overseas total	1,325	1,591	1,202	10,951	12,007	12,671
Asia/Oceania	642	724	543	4,707	5,314	5,707
North America	220	265	220	2,924	3,077	3,162
Europe	458	595	435	3,286	3,578	3,755
Other	5	7	4	34	38	47
Total	2,022	2,182	1,779	18,306	19,569	20,373

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, since 2006, Shin-Etsu Chemical and domestic Group companies have conducted fund-raising activities in connection with World Refugee Day on June 20, as established by the UN. Proceeds are donated to the Office of the United Nations High Commissioner for Refugees. Since 2012, we have been supporting the reconstruction of areas affected by the Great East Japan Earthquake through cooperative sale of local specialty goods conducted each March. Our overseas Group companies are actively continuing to connect with local communities and engage in activities that support them, including safety education for preschoolers and primary school students and donations to hospitals.



Employees from U.S.-based K-BIN, Inc., donate toys to local children

G Governance

Key Issue

Accurate and timely information disclosure and communication with stakeholders

The 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 other reports for shareholders.

Primary Dialogue Methods and Opportunities

All shareholders and investors	<ul style="list-style-type: none"> • General Meeting of Shareholders • Financial results briefings and telephone conferences for institutional investors and analysts (four per year) • Annual guided plant tour for institutional investors and analysts • One-on-one meetings (about 300 per year) • Information sessions for investors sponsored by securities companies (five per year) • Information sessions for individual investors (five in 2018) • Communication of information through our corporate website, Annual Report, etc.
Customers	<ul style="list-style-type: none"> • Response from sales departments • Communication of information through our corporate website, exhibitions, etc.
Suppliers	<ul style="list-style-type: none"> • Response from procurement departments • Supplier hotline
Local communities	<ul style="list-style-type: none"> • Dialogue with local government, etc. • Participation in regional events
Employees	<ul style="list-style-type: none"> • Dialogue and conferences with labor unions • Communication of information through a Company newsletter, intranet, etc.

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

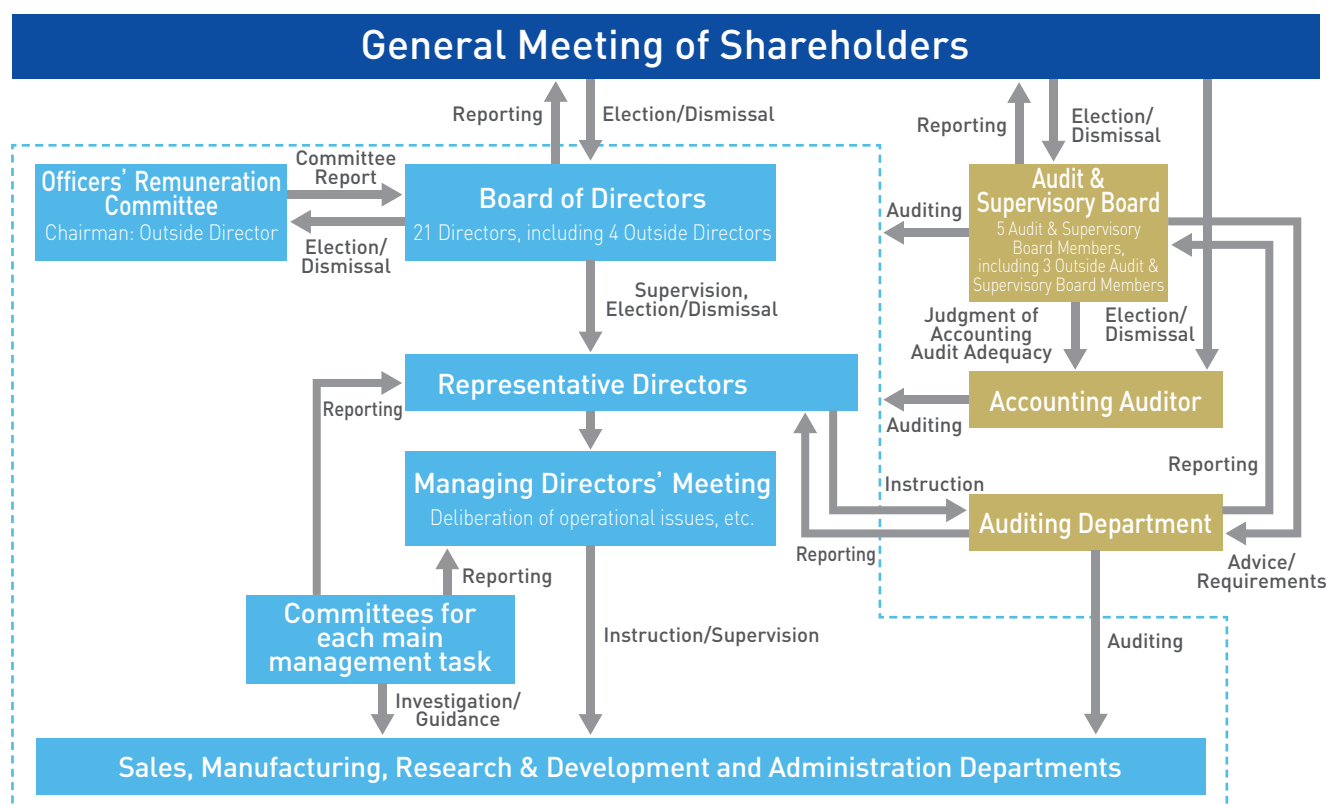
Basic Approach

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 27, 2019)

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 21 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, as an advisory body to the Board of Directors, the Officers' Remuneration Committee, chaired by an Outside Director, ensures transparency and validity in decisions regarding executive remuneration and the appointment of corporate executive candidates, including Directors and Audit & Supervisory Board Members.



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 based on assessments and evaluations made by the discretionary Officers' Remuneration Committee, which is chaired by an Outside Director. Director remuneration consists of "fixed remuneration" reflecting position and duties, performance-based remuneration and stock options issued to increase motivation and morale related to duties and improve performance.

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 reflecting their duties.

Moreover, Outside Directors and Audit & Supervisory Board members do not receive performance-based remuneration, stock options or bonuses.

Remuneration Amount by Director Type and Its Detail, Number of Applicable Directors (For the year ended March 31, 2019)

Designation	Amount of Remuneration by Type (¥ million)			Number of Recipients (People)	Type of Remuneration (¥ million)	Number of Recipients (People)
	Fixed	Performance-Based	Total		Stock Option	
Directors (excluding Outside Directors)	1,075	559	1,635	18	210	18
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	40	—	40	2	—	—
Outside Directors and Outside Audit & Supervisory Board Members	149	—	149	7	—	—

Notes:

1. The Officers' Retirement Benefits Program was repealed at the conclusion of the 131st General Shareholders' Meeting held on June 27, 2008.
2. 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.
3. Payments to Directors do not include employee salary amounts (including bonuses) equivalent to concurrently held positions. Salary amounts for concurrently held positions are immaterial.
4. The total amount of remuneration to Directors (excluding Outside Directors), which consists of fixed and performance-based remuneration and stock options was ¥1,845 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 2018 fiscal year, our consolidated companies paid a total of approximately 121.5 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. Please see the Corporate Governance Report for detail.

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