

Environmental, Social and Governance (ESG) Enhancement

In pursuit of sustainable growth, the Shin-Etsu Group is striving to provide society with essential materials and contribute to the resolution of pertinent challenges facing the earth by executing its Business Principle.* In addition, the Group is aiming to strengthen its governance structure, which steadily drives sustainable growth.

* Refer to the Business Principle page in the introduction.

ESG Promotion

The Group views the implementation of its Business Principle and the making of contributions that benefit shareholders, investors, customers, business partners, local communities, employees and all other stakeholders as corporate social responsibilities. The Group realizes that its ESG initiatives are essential to achieving sustainable growth and fulfilling these social responsibilities. Accordingly, we formulated a Basic ESG Policy and various internal regulations and have conducted our corporate activities in accordance with these guidelines.

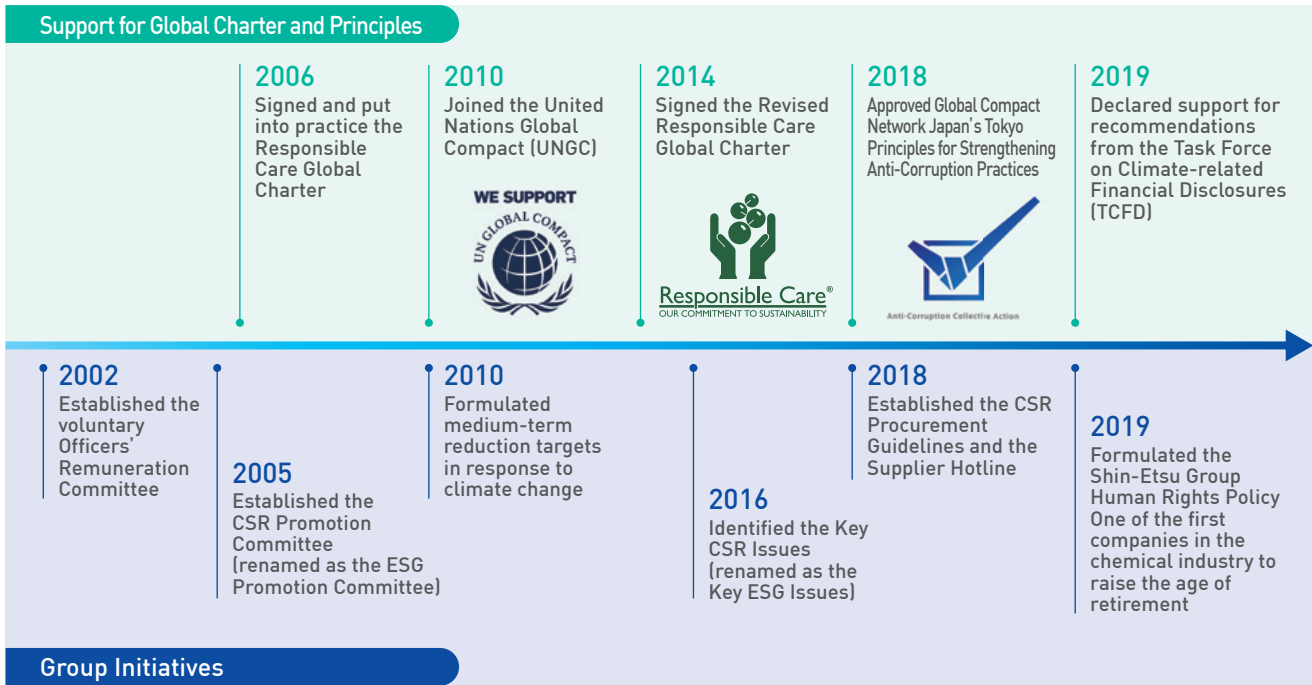
To ensure proper implementation of ESG throughout the Group, we have formed the ESG Promotion Committee, an organization that is chaired by the president of Shin-Etsu Chemical. The Committee has about 50 members, including directors and division managers from the Company, as well as ESG managers from Group companies, and examines all corporate activities from an ESG perspective while establishing guidelines and other specifications for related initiatives.

Basic ESG 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 making safety always 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.

History of ESG Activity Enhancement



FY2019 Initiatives

To strengthen ESG activities, the ESG Promotion Committee identified the following three issues as challenges the Group should undertake in FY2019:

Three Issues

1. Integration of Management with Sustainable Development Goals (SDGs)
2. Human Rights Due Diligence
3. Response to the Task Force on Climate-related Financial Disclosures* (TCFD)

*A special team established in December 2015 by the Financial Stability Board (FSB) in response to requests made by the G20. It facilitates the disclosure of financial information related to climate change.

1. Integration of Management with Sustainable Development Goals (SDGs)

The Group offers a diverse lineup of products that conform to its Business Principle and contribute to the achievement of the United Nations' SDGs. In FY2019, we revised a prior management objective from "contribute to the global environment" to "contribute to the SDGs." In making this change, we have further clarified benchmarks for SDGs compatibility and compliance when investing in existing businesses, developing new products and considering new businesses.

In FY2019, 94% of Shin-Etsu Chemical's capital investment projects involved SDGs-related contributions. The Company also invested ¥1.5 billion in energy conservation and CO₂ reduction, lowering its greenhouse gas emissions by 7,649 tons a year.

2. Human Rights Due Diligence

Respect for human rights has always been a foundation of the Group's business operations. In May 2019, we established the Shin-Etsu Group Human Rights Policy with the goal of mapping out initiatives related to respect for human rights, promoting Group-wide activities and further enhancing our external messaging regarding respect for human rights.

In addition, we 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 are thoroughly dedicated to activities that aim to uphold respect for human rights, including the abolition of discrimination, the elimination of behavior that damages human dignity, the prohibition of child and forced labor, the protection of privacy and respect for basic labor rights. In December 2019, the Group began conducting risk assessments aimed at achieving comprehension of human rights risks within its value chain as a component of its human rights due diligence. Responding to the risks uncovered by these assessments, the Group will identify and deal with salient human rights issues.

*International Labour Organization

3. Response to the Task Force on Climate-related Financial Disclosures (TCFD)

In February 2017, the TCFD released recommendations that indicated 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. The Group declared its support for these recommendations in May 2019 and participated in the TCFD Consortium of Japan co-founded by the Ministry of Economy, Trade and Industry, the Financial Services Agency, the Ministry of the Environment and various other organizations. In accordance with the TCFD's recommendations, the Group will strive to enhance its disclosure of climate change-related information.

Key ESG Issues

In December 2018, the Shin-Etsu Group reviewed the list of Key ESG Issues, which were formulated in 2015, and were facing the Shin-Etsu Group.

As a result, the committee retained all the key issues, including “legal compliance, fair corporate activities”. The Group is placing equal priority on each of the following key issues and regards them as equivalent in terms of importance.

Identifying Key Issues (Materiality)

The Group established the CSR Promotion Committee in 2005. The committee deeply investigated the central themes of ISO 26000 and minutely examined stakeholder demand in order to identify the Key CSR Issues. In 2015, the Committee compiled and proposed key issues that were later approved and designated as official key issues (see the figure below) by the Managing Directors’ Meeting, which is a decision-making body for business execution attended by all of the Company’s directors.

The CSR Promotion Committee was later developed into the ESG Promotion Committee, which reexamined these key issues. In December 2018, the Committee decided to retain all these issues as Key ESG Issues.

The Group has made legal compliance and equity the foundation of all of its corporate activities, starting with a focus on these nine key issues.

► Key Issues

Through initiatives targeting key issues, the Shin-Etsu Group is strengthening existing businesses, creating new businesses and contributing to the achievement of the SDGs.

■ E (Environment) ■ S (Social)

		
Employees and contractor health and safety	Energy-saving, resource-saving and the reduction of the environmental impact	Product quality improvements and product safety control
	The foundation of all activities Legal compliance, Fair corporate activities	
Promoting CSR procurement and the diversification of supply sources		Respect for human rights, the development of human resources and the promotion of diversity
		
Respect for and protection of intellectual property		Accurate and timely information disclosure and communication with stakeholders
		Contribution to industry and social initiatives

► Risks and Opportunities Related to the Key Issues

Key Issue	Risks and Opportunities (typical examples)	Corresponding Initiatives
The foundation of all activities Legal compliance, Fair corporate activities	Risks Legal violations, unjust conduct or fraud, damages to corporate value caused by loss of societal trust, etc. Opportunities Formation of the foundation of corporate value, risk elimination, customer confidence creation, business opportunity expansion, hiring and retaining excellent human resources, etc.	・Raising of compliance awareness through methods including training ・Thorough bribery and corruption prevention measures, etc.
E Energy-saving, resource-saving and the reduction of the environmental impact	Risks Strengthening of greenhouse gas regulations, raw material price rises, procurement difficulties, etc. Opportunities Enhancement of competitiveness through environmental burden reduction and productivity improvement, expansion in demand for products that contribute to environmental protection, etc.	・Acceleration of environmental burden reduction, response to climate change ・Water resource conservation ・Waste reduction, etc.
Employees and contractor health and safety	Risks Impact on local communities and employees caused by accidents and environmental issues, damage to equipment and facilities resulting from natural disasters, impact on operations associated with infectious diseases, etc. Opportunities Stable production and higher productivity achieved through accident prevention measures and new process development, etc.	・Safety training implementation ・Execution of environmental safety audits ・Improvement of workplace environments, etc.
Product quality improvements and product safety control	Risks Loss of customer trust due to issues concerning product quality or safety, etc. Opportunities Fostering of customer trust through continuous timely delivery of products at pledged levels of quality, etc.	・Quality management ・Quality audits and technical support ・Product safety management, etc.
Promoting CSR procurement and the diversification of supply sources	Risks Production suspensions and shipment delays caused by difficulties in procuring raw materials, etc. Opportunities Stable procurement at fair prices through diversified suppliers, gaining trust from customers and society through thorough adherence to CSR procurement, etc.	・Revision of the Shin-Etsu Group CSR Procurement Guidelines ・Compliance with the Act against Delay in Payment of Subcontract Proceeds, etc., to the subcontractors ・Initiatives aimed at eliminating conflict minerals, etc.
S Respect for human rights, the development of human resources and the promotion of diversity	Risks Human rights violations committed through the Company’s business activities or within its supply chain, etc. Opportunities Hiring and retaining excellent human resources through business activities grounded in respect for human rights, etc.	・Fostering employee awareness regarding human rights ・Promotion of diversity ・Enhancing work-life balance systems ・Conducting human rights due diligence, etc.
Respect for and protection of intellectual property	Risks Delay in business progress caused by intellectual property infringement, etc. Opportunities Acceleration of in-house business development through safeguarding and utilizing intellectual property, etc.	・Appropriate management of intellectual property and information assets ・Cybersecurity enhancement, etc.
Contribution to industry and social initiatives	Risks Loss of trust when business activities do not align with society’s needs, etc. Opportunities Employment promotion and tax payment through stable business operations, fostering of trust-based relationships with local communities, etc.	・Fund-raising activities ・Local contribution activities, etc.
Accurate and timely information disclosure and communication with stakeholders	Risks Damage to corporate value stemming from nondisclosure or incomplete disclosure of information, loss of stakeholder confidence, etc. Opportunities Establishment of appropriate market valuation, corporate value improvement, acquisition of trust from stakeholders and society, etc.	・Timely and appropriate disclosure of corporate information ・Promotion of dialogue with stakeholders, etc.

Please visit the sustainability section of our website 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 Shin-Etsu Group clearly specified the central importance of legal compliance and fair corporate activities when identifying the Key ESG Issues associated with its diverse business operations.

The Group raises legal compliance awareness among all its directors and employees by including legal compliance within its Business Principle and yearly management objectives. When laws and regulations related to corporate activities are enacted or revised, the Company's Legal Department plays a central role in efforts aimed at thoroughly circulating and disseminating this information internally. To promote understanding of key laws and regulations, the Company is working to raise awareness by posting commentary articles in our company newsletter.

All directors and employees submit written oaths of compliance to the Company. Legal violations and other instances of improper conduct are rectified through appropriate penalties, in accordance with internal regulations. With the establishment of the Compliance Consultation Office, we have established a mechanism through which directors and employees can seek counseling or make reports when they have discovered violations of regulations, such as laws and regulations, social norms and the Group's internal regulations including bribery and corruption prevention rules, or have encountered harassment.



Environment

Key Issue: Energy-saving, resource-saving and the reduction of the environmental impact

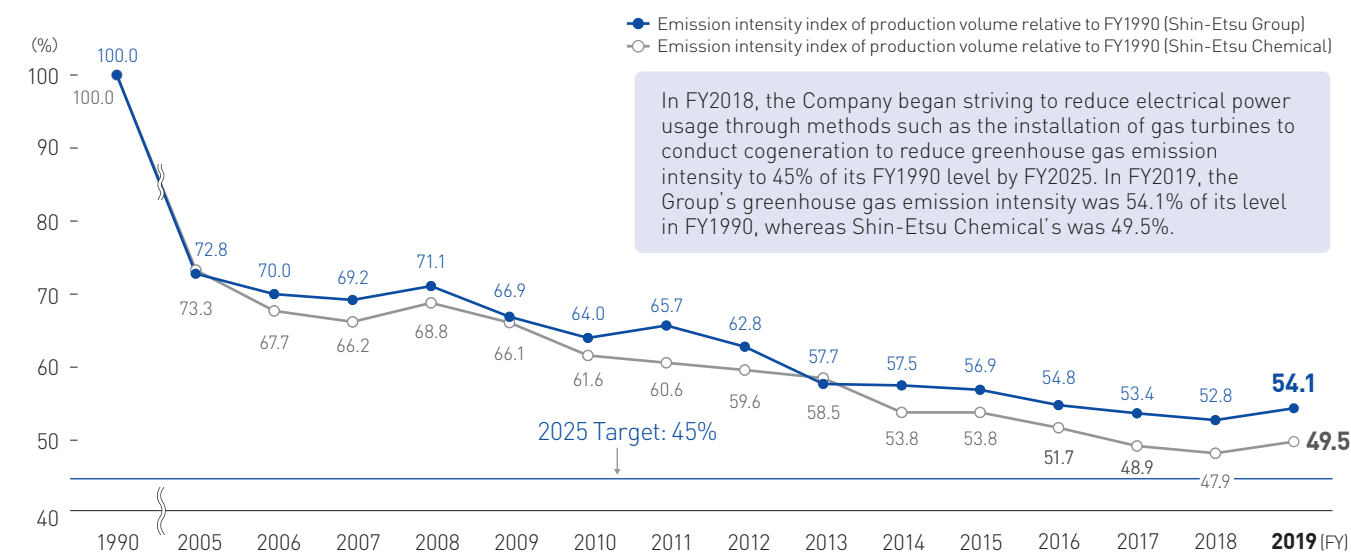
The Group recognizes the importance of reducing global environmental burdens when manufacturing, using and disposing of our products. Accordingly, the Group does not limit itself to reducing the global environmental impact in production processes alone. It also strives to develop products that help reduce environmental burdens when they are used.

As a chemical manufacturer, the Group views the resolution of issues involving ocean plastic waste, a challenge on a global scale, as one of its duties.

Accordingly, we are striving to resolve this issue through methods such as participation in the Council for Addressing the Ocean Plastic Issue, which was established by an industry association.

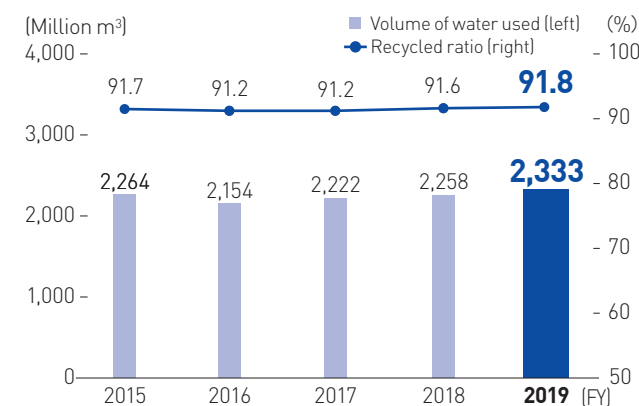


Changes in Greenhouse Gas Emissions*



*Greenhouse gas emission intensity index (FY1990 = 100)

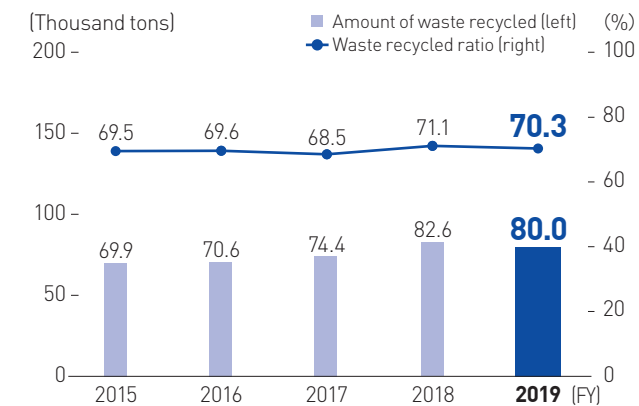
Water Usage*



*Total quantity of water withdrawal and recycled water

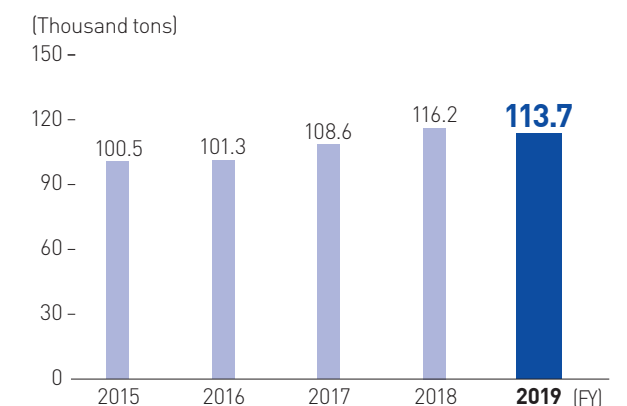
*The volume of water used includes all consolidated subsidiaries and some non-consolidated Group companies' amounts.

Amount of Waste Recycled*



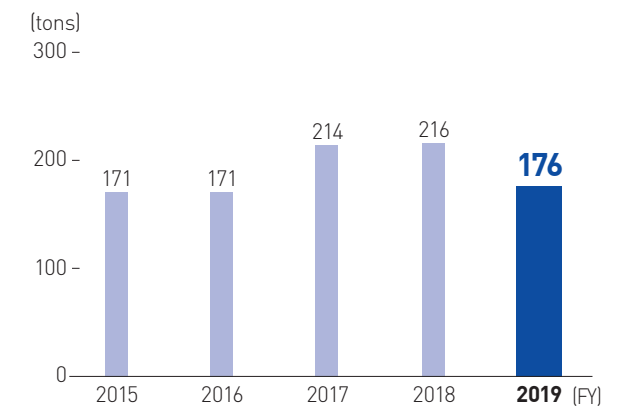
*Due to standards that differ by country, waste amounts include only waste from Group companies in Japan.

Amount of Waste Generated*



*Due to standards that differ by country, waste amounts include only waste from Group companies in Japan.

Gross Discharge of Substances Designated under the Pollutant Release and Transfer Register (PRTR*) System

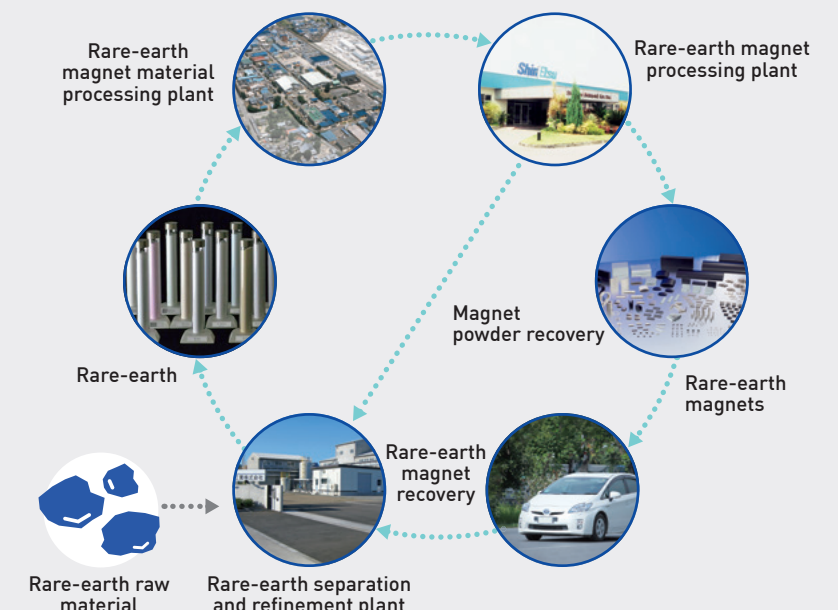


*Figures are totals for Group companies in Japan based on the PRTR system in the Law for Promotion of Chemical Management.

Rare Earth Magnet Recycling Aimed at Resource Conservation

The Group possesses separation and refinement technologies that enable it to extract a variety of rare earth metals. While developing these technologies, the Company is endeavoring to recycle magnet powder generated when processing these metals and, since 2013, to recover rare earth magnets used in energy-saving air conditioners and hybrid cars. These efforts ensure a stable source of valuable rare earth metals and contribute to protecting the environment through the reduction of waste and the reuse of resources.

Rare-Earth Magnet Resource Recycling Process



► Climate Change Response

Through its business activities, the Group strives to reduce greenhouse gas emissions as a component of its climate change response.

Strategies

The Group targets development in both society and livelihoods while reducing its environmental impact. In accordance with this aim, the Group contributes to the maximization of efficiency through its products and technology. Listed below are concrete strategies that are relevant to these targets:

- 1) Reduce greenhouse gas emissions per production unit through thorough production streamlining
- 2) Develop, manufacture and supply products that contribute positively to the environment; Support streamlining efforts for both customers and society
- 3) Promote the adoption of renewable energy
- 4) Accelerate logistical streamlining

Climate Change-Related Risk Management and Ascertainment of Business Opportunities

The Shin-Etsu Group's Risk Management Committee identifies comprehensive risks that the Group should consider when conducting business activities and has included stipulations concerning the identification of specific risks, the maintenance of a risk management system and risk response in its risk management regulations.

The Risk Management Committee reports to the Board of Directors, Managing Directors' Meeting and Audit & Supervisory Board regarding climate change and other important risk management matters.

■ Climate change-related risks that affect the Group's business activities and corresponding mitigation measures

Contributing factors	Risks	Mitigation measures
1. Implementation of a carbon tax and emissions trading system	● Introduction of systems enforced in the European Union, where the Group has production bases, in Japan and all U.S. states.	● Energy conservation and greenhouse gas emission reduction achieved through improved production efficiency and the implementation of new production technologies
2. Changes in regional precipitation volumes	● Restoration expenses for production equipment breakdowns caused by unexpectedly severe flooding and storms and lost opportunity cost associated with manufacturing stoppages ● Difficulty in procuring natural raw materials and raw materials from particular regions	● Increase production bases and procure from multiple raw material suppliers ● Install important equipment at locations with low flooding risk and strengthen waterproofing measures such as floodwall construction ● Purchase property insurance ● Reduce water withdrawal by consistently using recycled water
3. Decline in reputation	● Concerns regarding increases in absolute greenhouse gas emissions associated with business expansion ● The fact that the Group's products contribute to greenhouse gas emission reduction is not well known	● Multifaceted and active disclosure of the Group's initiatives ● Proactive dialogue with investors regarding climate change

■ Business opportunities presented by climate change

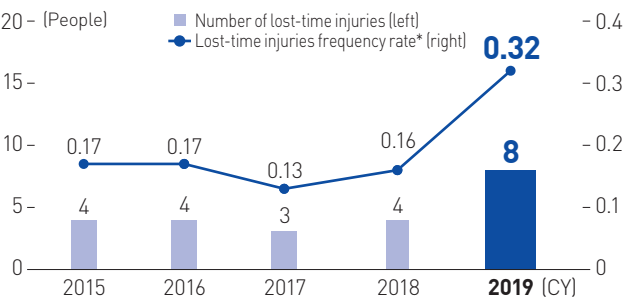
Contributing factors	Opportunities	Corresponding products
1. Opportunities associated with strengthened regulations	● Increased demand for the Group's products that contribute to energy conservation and greenhouse gas emission reduction	Semiconductor silicon, rare earth magnets, silicones, PVC, etc.
2. Opportunities created by changes in atmospheric temperature	● Rise in demand for the Group's products used in energy conserving goods	
3. Improvement in reputation	● Increase in sales of existing Group's products used in energy-conserving goods and expansion in sales opportunities for new products thanks to the growing reputation for energy-saving products ● Possible rise in corporate value due to higher appreciation of the Group's products that contribute to energy conservation	

S Social

► Key Issue: Employees and contractor health and safety

The Group targets the prevention of all serious accidents and lost time accidents. We are thoroughly identifying risks that carry dangers of injury or illness through risk assessment while striving to build safe and comfortable workplaces.

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



*Rate of recordable injuries per million hours worked

Participants of Safety Education Programs

Coverage	FY2015	FY2016	FY2017	FY2018	FY2019
Shin-Etsu Chemical	7,531	7,970	9,751	11,774	19,411
Consolidated companies*	—	22,166	24,829	28,013	39,328

*Consolidated data compiled from FY2016.

Accident Prevention Initiatives

The Group conducts biannual Environmental Control and Safety Audits at all of its manufacturing plants in spring and autumn. In FY2019, the Group audited activities related to several priority issues connected to serious accident prevention, including "safety measures targeting infrequent operations", "predictions regarding serious accidents and disasters, and measures aimed at minimizing associated damages".

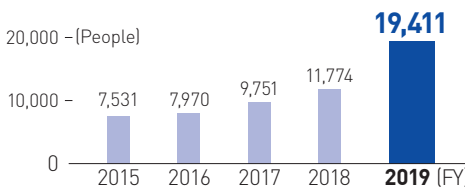
In addition, the Group has been accepting suggestions related to close-call incidents*1 or other concerns as a bottom-up activity at each site for many years. In FY2019, Shin-Etsu Chemical received approximately 7,000 suggestions*2 related to close-call incidents that occurred at four of its plants. These activities have contributed to a large number of safety-related improvements.

*1 Frightening or startling events experienced by workers at their workplaces or personal environments
*2 Examples of some of these suggestions have been posted on our corporate website, which is updated periodically.

► Key Issue: Product quality improvements and product safety control

In addition to high-value-added products, general-purpose products of excellent quality generate cost competitiveness and lead to strategic advantages. At the same time, the Sales, Research, Manufacturing, Quality Assurance and Shipment Departments must fulfill their respective roles for the Group to stably supply its products. Furthermore, the Group acknowledges that quality, distinguishing characteristics and safety in terms of both environment and health are all important product elements and is striving to eliminate product-related issues.

Participants of Product Safety-Related Training Programs



Quality Management Enhancement

Since 2000, the Group has been conducting annual Quality Audits with the goal of improving product quality and upgrading customer services. In FY2019, the Company identified quality management issues, implemented recurrence prevention measures and improved its quality management system under the themes of "properly handling data obtained through process monitoring and product inspections" and "variability in measurement." In addition, we are conducting Six Sigma activities* aimed at raising quality levels on a Company-wide basis.

*A quality improvement method developed by Motorola, Inc. (of the United States) in the 1980s. These quality-improvement activities involve curtailing fluctuations in manufacturing process to prevent uneven quality and inhibiting the occurrence of material defects.



► Key Issue: Promoting CSR procurement and the diversification of supply sources

Appropriate raw material procurement throughout the global supply chain has become a worldwide issue. In response, the Group has formulated its Basic Procurement Policy and, in accordance with this policy, is promoting fair procurement activities that take issues involving human rights, environment and other important topics into account. To ensure that our suppliers thoroughly understand this Basic Procurement Policy, we have established the CSR Procurement Guidelines and made them public through our corporate website. We also hold briefing sessions as appropriate.

Furthermore, the Group set up the Supplier Hotline in January 2018 and is endeavoring to ensure transparency and fairness in its transactions.

Initiatives Aimed at Eliminating Conflict Minerals*

Through its Basic Procurement Policy, the Group has proclaimed that it will avoid procuring any items that contain conflict minerals. We ask that all our suppliers comply with this policy and regularly conduct conflict mineral investigations that extend to refineries.

*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



In May 2019, the Group formulated the Shin-Etsu Group Human Rights Policy through an institutional decision passed by Shin-Etsu Chemical. Starting from December of the same year, the Group began investigating human rights risks in accordance with the United Nations' Guiding Principles on Business and Human Rights. Moving forward, we will use data obtained through these investigations to identify and respond to human rights issues.

The Group is building comfortable working environments and conducting personnel training to enable each of its employees to remain healthy, achieve self-fulfillment and perform career development. With the goal of responding to external environmental changes and global business expansion, the Group is implementing local recruitment overseas while striving to hire foreign nationals within Japan. In addition, we are promoting diversity. For example, in FY2016 we set targets to facilitate active participation from female employees.

Shin-Etsu Chemical raised its retirement age from 60 to 65 in April 2019, which was relatively early when compared to the rest of the chemical industry. The Company also introduced a system that enables employees aged 60 or older to receive pay raises and promotions.

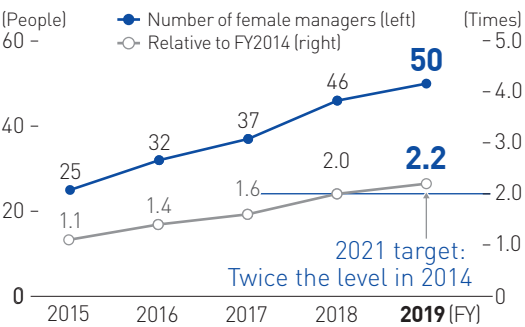
► Goals to Promote Women's Participation and Advancement

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



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

► 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)

Target region	Patents acquired			Patents held		
	FY2017	FY2018	FY2019	FY2017	FY2018	FY2019
Japan	591	577	544	7,562	7,702	7,847
Overseas total	1,591	1,202	1,348	12,007	12,671	13,414
Asia/Oceania	724	543	594	5,314	5,707	6,137
North America	265	220	205	3,077	3,162	3,190
Europe	595	435	539	3,578	3,755	4,029
Other	7	4	10	38	47	58
Total	2,182	1,779	1,892	19,569	20,373	21,261

► Key Issue: Contribution to industry and social initiatives

Along with its employees, the Group is actively conducting social contribution activities rooted in local communities.

Each year, the Group conducts fund-raising activities in connection with the UN-established World Refugee Day on June 20 and donates the proceeds to the Office of the United Nations High Commissioner for Refugees.

During March of each year from 2012 to 2019, we supported recovery efforts in areas affected by the Great East Japan Earthquake by conducting cooperative sales of specialty goods from these regions.

In addition, we continue to support activities at overseas locations by engaging proactively with local communities. These efforts include conducting safety education at local kindergartens and elementary schools and donating to hospitals.

In response to the novel coronavirus pandemic, the Company donated sodium hypochlorite manufactured by the Company, as well as dustproof workwear, protective clothing and other protective items from consumables stock at the plant, to medical associations and several municipalities in which it has established places of business with the goal of benefitting educational facilities and medical and welfare institutions.



We donated sodium hypochlorite, protective clothing, and other protective items to local communities and medical associations.

► 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 website, 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 • Teleconferences regarding financial results for institutional investors and securities analysts (four per year) • Annual guided plant tour for institutional investors and securities analysts • One-on-one meetings (about 280 per year) • Small meetings for investors sponsored by securities companies (five per year) • Information sessions for individual investors (four per year) • 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.

Enhancement of Governance

G Governance

► Corporate Governance

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

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

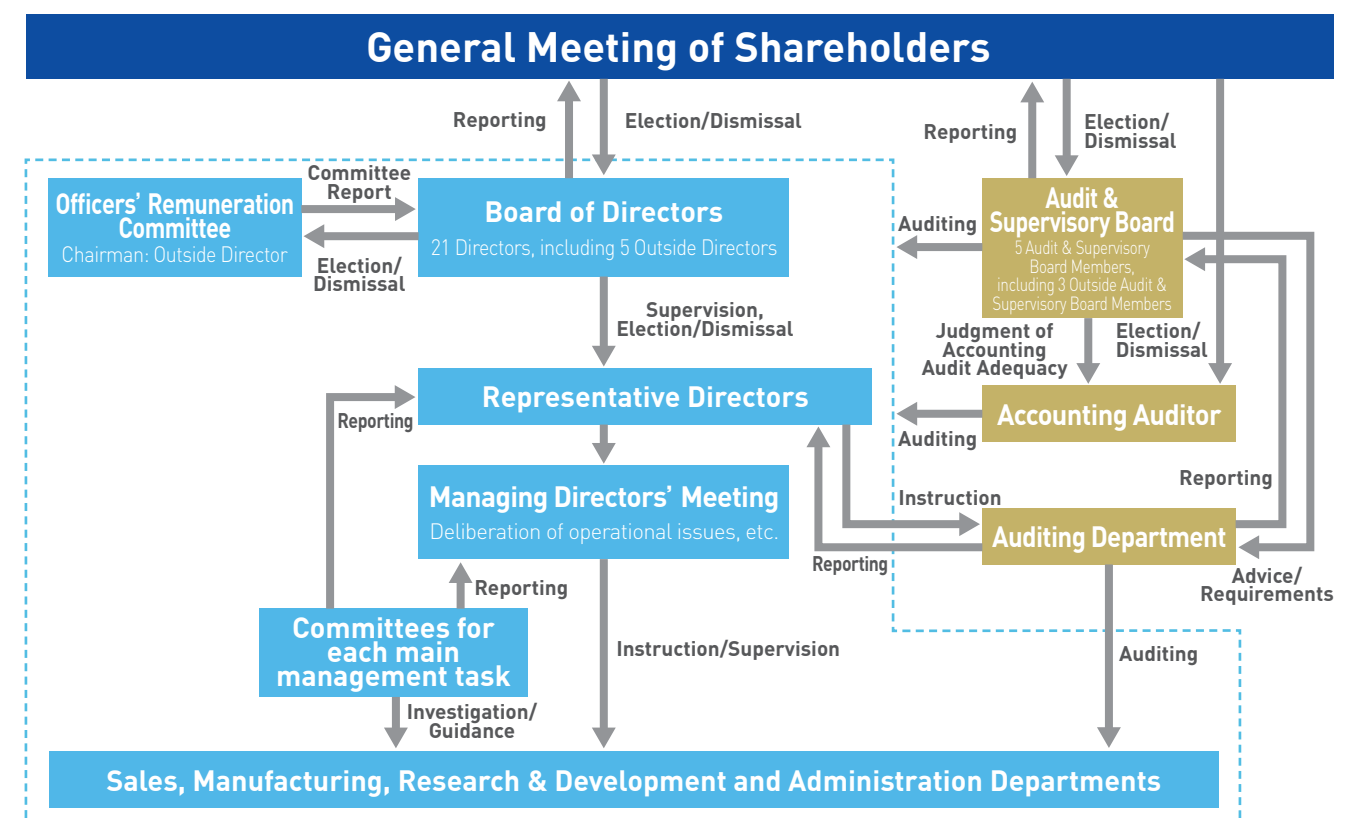
[Basic Approach]

Shin-Etsu Chemical develops various systems and has an efficient organizational structure able to quickly respond to changes in the business environment to realize its basic management policies of meeting shareholder expectations and continuously enhancing corporate value. From the standpoint of improving management transparency and enhancing monitoring capabilities, we have made the timely and accurate disclosure of information to shareholders fundamental to our corporate governance and view disclosure of this nature as one of our highest priority management issues.

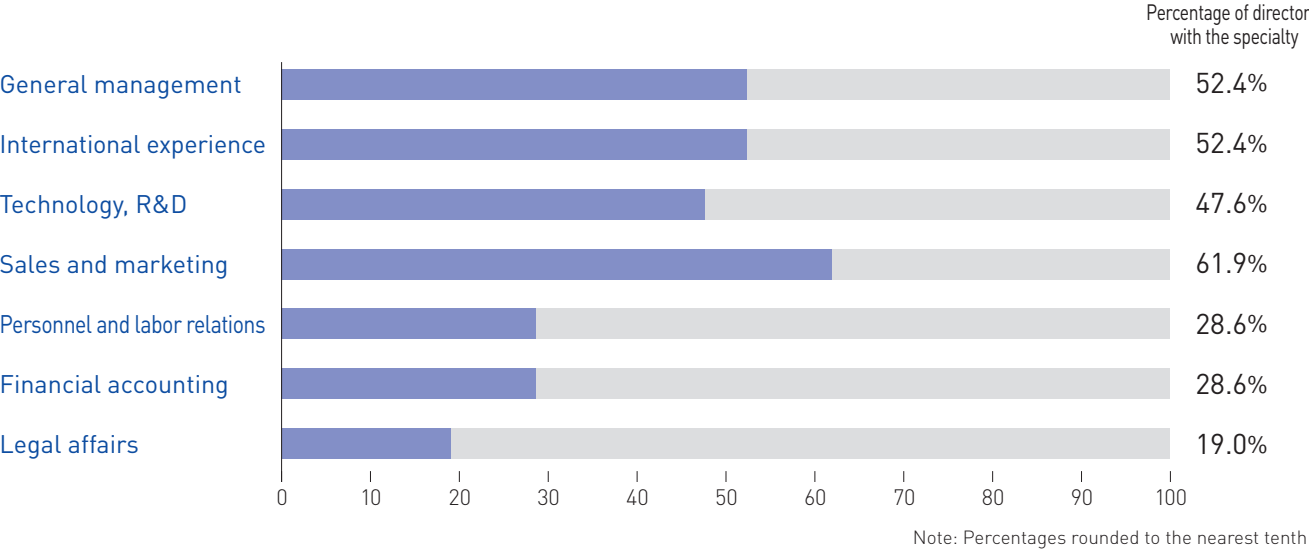
[Corporate Governance Structure (as of June 26, 2020)]

Shin-Etsu Chemical's Audit & Supervisory Board consists of five members, including three highly independent outside members. The Company strives to enhance human resources and systems that support audits conducted by Audit & Supervisory Board members and, by ensuring close cooperation between these members and internal audit departments, conducts effective management that enables these members to adequately perform their auditing functions. By conducting thorough oversight of management based on collaboration between its five highly independent Outside Directors, its Audit & Supervisory Board members and its internal Auditing Department, the Company has established mechanisms that strengthen its management oversight capacity while ensuring effective application of functions performed by its Audit and Supervisory Board members.

In this way, we have adopted the Company with Auditors system with the aim of establishing a desirable corporate governance system and ensuring confidence and trust from all our shareholders and investors. In addition to the Board of Directors, we have established the Managing Directors' Meeting to function as another deliberation and decision-making body for business execution. In principle, both organizations meet once per month. Furthermore, the Company has formed the Officers' Remuneration Committee, which is chaired by an Outside Director and serves as an advisory body to the Board of Directors. In these ways, we strive to ensure transparency and appropriateness in the remuneration of officers and the nomination of candidates for directors and Audit & Supervisory Board members.



[Director Specialties]



[Officers' Remuneration]

Shin-Etsu Chemical established the Officers' Remuneration Committee as an advisory body to the Board of Directors in 2002. With Outside Director Frank Peter Popoff serving as chairman, this Committee comprehensively examines and evaluates every director's contributions to performance and general management each fiscal year and reports results to the Board of Directors.

■ About Decision Making Related to the Remuneration Amount and Calculation Method

The Company's 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 Officers' Remuneration Committee. 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 fixed remuneration determined through consultation with Audit & Supervisory Board members reflecting their duties.

Outside Directors and outside 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, 2020)

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)	1,106	590	1,696	18	310	17
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	36	—	36	3	—	—
Outside Directors and Outside Audit & Supervisory Board Members	149	—	149	7	—	—

Notes:

1.Includes one director and one Audit & Supervisory Board member who retired from their positions effective upon the conclusion of the 142nd General Shareholders' Meeting held on June 27, 2019.

2.The Officers' Retirement Benefits Program was repealed at the conclusion of the 131st General Shareholders' Meeting held on June 27, 2008.

3.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.

4.Payments to Directors do not include employee salary amounts (including bonuses) equivalent to concurrently held positions. Salary amounts for concurrently held positions are immaterial.

5.The total amount of remuneration to Directors (excluding Outside Directors), which consists of fixed and performance-based remuneration and stock options was ¥2,006 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 worldwide. 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 conducts business audits of each department from the perspectives of legal compliance and the rationality of business activities. The results of these audits are reported to management, the Outside Directors and the Audit & Supervisory Board members.

Members of the Audit & Supervisory Board regularly receive reports and explanations regarding the status of internal auditing from the Auditing Department and work cooperatively with it, exchanging views and ideas. Full-time Audit & Supervisory Board members also receive reports regarding matters such as activity statuses and internal audit results from the Auditing Department as necessary and offer their own advice or requests on an as-needed basis. The Auditing Department also attends meetings where Audit & Supervisory Board members receive reports and explanations from the Accounting Auditor in an effort to strengthen auditing functions based on more effective tripartite cooperation.

► Tax Compliance

In accordance with the philosophy of legal compliance and fair corporate activities outlined in its Business Principle, the Group properly reports and pays taxes on the profits it earns through its corporate activities in accordance with corresponding laws and ordinances in each of the countries in which it conducts business. In FY2019, our consolidated companies paid an approximate total of ¥107.8 billion 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](https://www.shinetsu.co.jp/en/csr/csr_governance.html#governance)