

Multifaceted Sustainability Initiatives

The Shin-Etsu Group aims to achieve sustainable societies and sustainable corporate growth.

Accordingly, the Group is contributing to the resolution of societal issues by putting its Business Principle* into practice.

At the same time, the Group is enhancing its ESG promotion system in a multifaceted manner as it aims to create medium- to long-term value with a central focus on human resources development, the environment and governance.

*See the Business Principle page (opening page) for more details

ESG Promotion

The Group views the implementation of its Business Principle and the making of contributions that benefit shareholders, investors, customers, suppliers, 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.

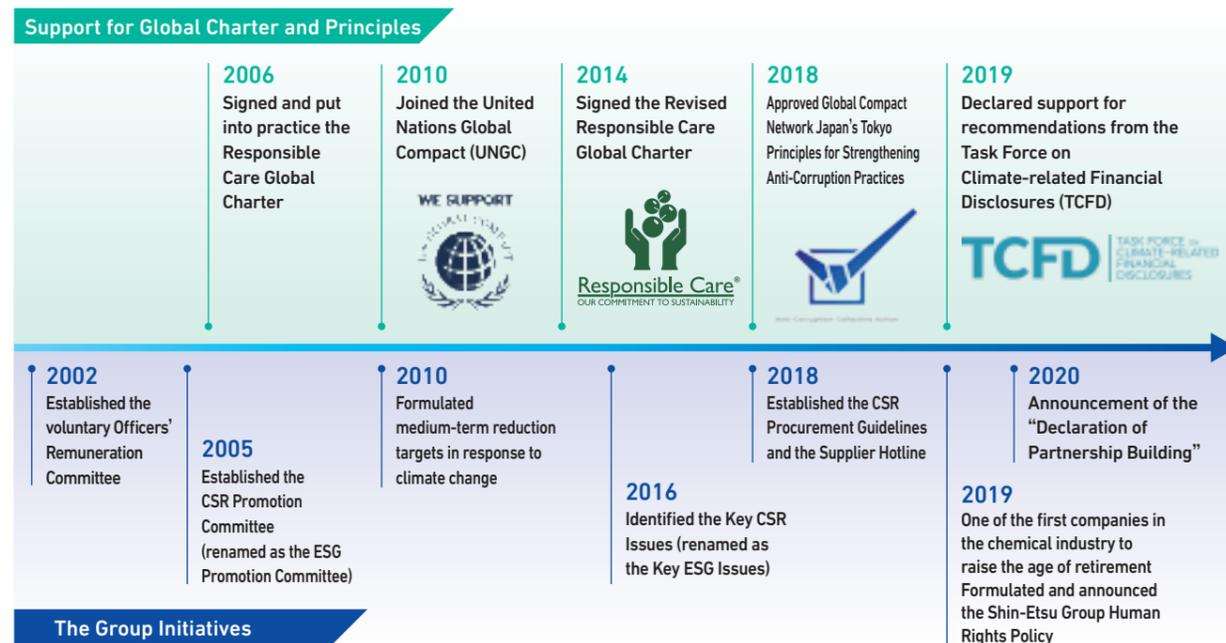
To ensure proper implementation of ESG throughout the Group, we have formed the ESG Promotion Committee, an organization that is chaired by the president of Shin-Etsu Chemical. The Committee has about 50 members, including directors and department managers from the Company, as well as ESG managers from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

Basic ESG Policy

The Shin-Etsu Group will:

1. Do our best to increase the Group's corporate value through sustainable growth and make multifaceted contributions to society.
2. Carry out all of our company activities by always prioritizing safety first.
3. Constantly pursue the reduction of energy consumed, resources consumed, and environmental impact, and seek to help create a sustainable future world in which we all live in harmony with the Earth.
4. Endeavor to contribute to the prevention of global warming and the conservation of biodiversity by means of our cutting-edge technologies and products.
5. Strive to respect human rights, assure equality in employment opportunities, and support the self-fulfillment of our employees.
6. Appropriately disclose information in a timely manner.
7. Carry out healthy, trustworthy, transparent corporate activities based on the integrity of the Group's ethical values.

History of ESG Activity Enhancement



FY2020 Initiatives

To strengthen ESG activities, the ESG Promotion Committee identified the following three issues as challenges the Group should undertake in FY2020:

Three Issues

- 1 Integration of SDGs*¹ with Management
- 2 Human Rights Due Diligence*²
- 3 Response to the TCFD*³

*1 Sustainable Development Goals

*2 Recognize, prevent and address adverse human rights-related impact stemming from both inside and outside the Company by repeatedly applying the PDCA cycle, which involves formulating and disclosing human rights policies, assessing the impact of the Company's business activities on human rights, preventing and rectifying any negative impact, and tracking and disclosing related performance.

*3 Task Force on Climate-related Financial Disclosures

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 SDGs with Management

In accordance with its Business Principle, the Shin-Etsu Group provides a diverse range of products that contribute to the achievement of the SDGs publicized by the United Nations. As in FY2019, the Group promoted "contribute to the SDGs" as one of its management objectives in FY2020 as it encouraged groupwide awareness concerning these goals.

In FY2020, 98.6% of Shin-Etsu Chemical's investment projects involved contributing to the achievement of SDGs, and investment in energy conservation and CO₂ emission reduction reached ¥4.8 billion, cutting greenhouse gas emissions by a total of 15,665 CO₂ tons.

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 groupwide 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 protection of privacy, respect for basic labor rights and the prohibition of child and forced labor. As part of our due diligence concerning human rights, we began conducting human rights-related risk assessments at Group companies worldwide in December 2019 and launched corresponding follow-up activities in FY2020. Moving forward, we will utilize the results of these assessments to identify the human rights-related risks facing the Group and address any salient human rights issues within our organization.

*International Labour Organization

3 Response to the 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 FY2020, we identified and analyzed the risks and opportunities posed to our organization by climate change. As we move forward, we will continue to strengthen our disclosure of climate change-related information in accordance with the TCFD's recommendations through measures such as climate change scenario analyses.

Multifaceted Sustainability Initiatives

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 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 recognizes legal compliance and fair corporate activities as the foundation of all of its corporate activities, and focuses 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 contractors health and safety	 Energy-saving, resource-saving and reduction of the environmental impact	 Product quality improvements and product safety control
 Promoting CSR procurement and the diversification of supply sources	The foundation of all activities: Legal compliance, Fair corporate activities	 Respect for human rights, the development of human resources and the promotion of diversity
 Respect for and protection of intellectual property		 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.	<ul style="list-style-type: none"> Raising of compliance awareness through methods including training Thorough bribery and corruption prevention measures, etc.
E Energy-saving, resource-saving and 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.	<ul style="list-style-type: none"> Acceleration of environmental burden reduction, response to climate change Water resource conservation Waste reduction, etc. <p>→ See the Environment section on page 18.</p>
Employees and contractors 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.	<ul style="list-style-type: none"> Safety training implementation Execution of environmental safety audits Improvement of workplace environments, etc. <p>→ See the Human Resources section on page 16.</p>
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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> Fostering employee awareness regarding human rights Promotion of diversity Enhancing work-life balance systems Conducting human rights due diligence, etc. <p>→ See the Human Resources section on page 16.</p>
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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> Timely and appropriate disclosure of corporate information Promotion of dialogue with stakeholders, etc.

 : For more details regarding our initiatives, please visit our sustainability site. <https://www.shinetsu.co.jp/en/sustainability/>

Multifaceted Sustainability Initiatives

Human Resources

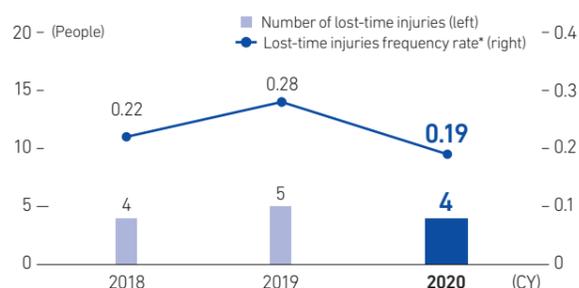
The Shin-Etsu Group believes that human resources provide the foundation for all its corporate activities. Due to this belief, our Basic ESG Policy clearly calls for the prioritization of safety, respect for human rights, the maintenance of equal employment opportunities and support. In FY2021, we specified the promotion of rewarding workplaces as one of our management objectives. Accordingly, we are focusing on creating environments in which individuals can feel secure working, developing human resources and ensuring diversity.

Key Issue: Employees and contractor health and safety

Creating Safe and Secure Workplaces

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 Rate (Shin-Etsu Chemical and Consolidated Companies in Japan)



*Rate of recordable injuries per million hours worked

Participants of Safety Education Programs

Coverage	FY2016	FY2017	FY2018	FY2019	FY2020
Shin-Etsu Chemical	7,970	9,751	11,774	19,411	32,527
Consolidated companies	22,166	24,829	28,013	39,328	46,998

Accident Prevention Initiatives

The Group conducts biannual Environmental Control and Safety Audits at all its manufacturing plants in spring and autumn. In FY2020, these audits focused primarily on the results of investigations concerning measures aimed at countering serious risks associated with plant operations, data returned by self-conducted security evaluations, the status of independent activities targeting improvement in evaluation results and future activity plans. The Group will utilize the data returned by these audits to ensure stable operations and prevent disasters.

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 FY2020, Shin-Etsu Chemical received 7,131 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.

Physical and Mental Health of Employees

Mental Health Workshop

We provide mental health workshop to ensure that our employees can continue to perform enthusiastically. In addition, we provide mental counseling and individual health guidance for employees working long hours.



Remote health guidance session (October 2020)

COVID-19 Infection Prevention Measures

We thoroughly implement a variety of infection prevention measures, including temperature checks for employees arriving at work, mandatory mask wearing for employees during commuting and working hours, compulsory hand sanitization, temperature checks for visitors, holding online meetings and a ban on business trips. At our Head Office and branch offices, we are reducing the percentage of employees who need to report to physical work locations while promoting teleworking.



Commuting while implementing COVID-19 infection prevention measures (Philippines) (December 2020)

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.

In addition, we are striving to ensure that our employees can maintain their collective health, achieve their goals and develop their careers through the creation of comfortable workspaces and human resource 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 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.

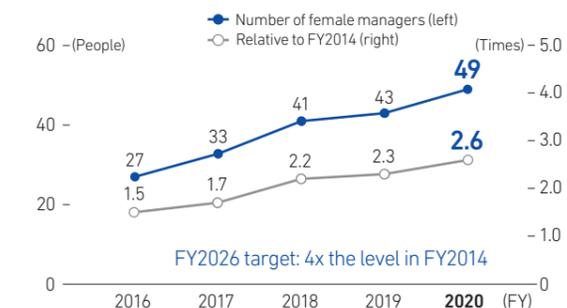
Goals to Promote Women's Participation and Advancement*

In the next five years from FY2021, 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 managers, will increase 4x compared with the level in FY2014.

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

Number of Female Managers*



FY2026 target: 4x the level in FY2014

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

Work-Life Balance

Childcare Support System

The Shin-Etsu Group's childcare leave system can be utilized by employees with children who are less than three years of age.

In addition, our short-time work system is available to childrearing employees until their children have graduated from primary school, or sixth grade. At the same time, we encourage employees to take advantage of our teleworking system.

In FY2020, 66 female employees and 84 male employees were utilizing our childcare leave system.

Nursing Care Support System

The Shin-Etsu Group has established a nursing care support system for employees who work while providing nursing care for their relatives or other important individuals. Through this system, we have established an environment that allows employees to fulfill their duties while continuing to provide this essential care. In FY2014, we began providing a "Health Management and Nursing Care Support" service and established a consultation office consisting of external experts.

In FY2020, two employees were taking advantage of our nursing care leave system.

Human Resource Development

Shin-Etsu Chemical is always on the lookout for human resources who are flexible and creative enough to respond to any changes in the business environment and possess a drive that enables them to take on challenges without fear against changes. As people are nurtured by their environments, we ensure that career planning initiatives are focused on on-the-job training (OJT) facilitated through routine operations. Organized and systematic training is also important, but we believe that true growth is achieved through the accumulation of daily experience.

Our human resource development efforts also involve giving young employees opportunities to participate in overseas operations and major projects as full-fledged members of our organization. We are expediting the development of employee skills, facilitating the cultivation of human resources and fostering a collective willingness to take on new challenges by allowing our employees to tackle issues that come with participation in higher-quality work and providing them with chances to work and share a sense of accomplishment with experienced senior employees and supervisors. In accordance with our view that employee growth leads to corporate growth, we are promoting training that is tailored to meet the needs of individual employees rather than utilizing a one-size-fits-all approach.



Employees working at Shintech's ethylene plant

Multifaceted Sustainability Initiatives

Environment

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.

Climate Change Response

Through its business activities, the Shin-Etsu Group is striving to reduce greenhouse gas emissions as it targets the global goal of achieving carbon neutrality by 2050.

Characteristics of the Shin-Etsu Group's Products

- 1 Low dependence on petroleum
- 2 Thorough energy conservation through associated manufacturing processes
- 3 Contribution to the reduction of greenhouse gas emissions
- 4 Low-carbon products and highly recyclable products

Climate Change Response System

Chaired by our president, the ESG Promotion Committee is playing a central role as we implement climate change countermeasures. In FY2020, the Committee held 12 breakout sessions regarding climate change. Members involved in these breakout sessions made proposals regarding climate change response to the Managing Directors' Meeting, which is responsible for reviewing and making decisions regarding operational execution. These proposals were later approved following thorough deliberation.

Climate Change Response Strategy

The Shin-Etsu Group is promoting the following initiatives as it aims to reduce its environmental burden and realize the sustainable development of human society.

- 1) Reduction of greenhouse gas emissions through thorough improvements in production efficiency
- 2) Through development, production and supply of environment-contributing products, contributing to the efficiency of customers' production processes, expecting to spread throughout society
- 3) Utilization of renewable energy
- 4) Reduction of greenhouse gas emissions in Logistics
- 5) Measures and implementation to reduce the greenhouse gas emissions

Risks and Opportunities Posed to Our Business Activities by Climate Change

The Risk Management Committee, which is composed of directors and division managers from Shin-Etsu Chemical, is working to eliminate or prepare for a variety of business-related risks, including those stemming from climate change. In FY2020, we conducted a scenario analysis of our business and identified risks and opportunities that climate change would pose to our business activities. Moving forward, we will continue to conduct these analyses while targeting an expanded range of businesses.

Business Opportunities Stemming from Climate Change: A scenario for a 2°C rise

Application	Details	Degree of impact
PVC-framed windows	● Demand for PVC window frames (PVC-framed windows) that offer superior thermal insulation will increase along with the spread of energy-efficient homes	Large
Electric vehicles, hybrid vehicles and fuel-cell vehicles	● Demand will increase for semiconductor silicon used in inverter controllers and other power semiconductor devices, automatic driving technology and AI technology ● Use of high-performance and compact rare earth magnets that help increase fuel efficiency by reducing vehicle body weight will increase For more details, see the section on page 19 entitled "Shin-Etsu Group Products That Support Environmentally Friendly Vehicles"	Large
Wind power generators	● Demand will increase for rare earth magnets that contribute to higher generator efficiency and maintenance cost reduction	Large
Air conditioners	● Demand will expand for semiconductor silicon, which is used in inverter control devices attached to compressor motors and contributes to the reduction of power consumption ● Demand will expand for rare earth magnets that raise the energy efficiency of compressor motors and reduce power consumption	Medium
Aircraft	● Demand will expand for small and powerful rare earth magnets that are essential for conversion to electric and hybrid power sources; this will contribute to fuselage weight reduction and improved fuel efficiency	Medium
Industrial motors	● Demand will expand for rare earth magnets that raise the efficiency of industrial motors and reduce power consumption	Medium
Service robots	● Demand will increase for semiconductor silicon used in semiconductors for energy-saving robot control motors, as well as in medical and disaster response robots.	Medium

Business Risks due to Climate Change and Countermeasures: A scenario for a 2°C rise

Events	Risks to the Company	Impact	Countermeasures
Rising electricity prices resulting from tightening regulations on greenhouse gas emissions	● Increase in electricity costs	Large	● Reduce Scope 2 emissions* (further promotion of production processes that use less electricity, introduction of high-efficiency equipment, etc.)
Introduction of carbon taxes and establishment of carbon emission quotas around the world	● Payment of carbon tax ● Incurring costs of purchasing emission credits to meet carbon emission quotas	Medium	● Reduce Scope 1 emissions* (further promotion of more efficient production processes, use of energy sources that do not emit CO ₂ , etc.) ● Use of hydrogen-reduced iron materials ● Establishment and achievement of reduction targets in the absolute amount of greenhouse gas emissions ● Collection of information on environmental regulations such as carbon taxes in each country and implementation of countermeasures
Occurrence of extreme weather (typhoons, river flooding, etc.)	● Flooding of production sites ● Disruption of the supply chain	Small	● Raising the ground level of production sites, installation of watertight walls around critical facilities ● Multiple production sites ● Diversification of raw material procurement sources ● Securing product inventory ● Enrollment in damage insurance

*Scope 1: Direct emissions from facilities owned and controlled by the Company (e.g., emissions generated during the combustion of substances such as heavy oil and natural gas)
Scope 2: Emissions generated when producing energy purchased by the Company (e.g., emissions triggered when generating purchased electricity)

Business Risks due to Climate Change and Countermeasures: A scenario for a 4°C rise

Events	Risks to the Company	Impact	Countermeasures
Increase in the frequency of extreme weather events ----- Increased frequency of flooding caused by changes in precipitation patterns, etc.	● Flooding of production sites ● Disruption of the supply chain	Large	● Raising the ground level of production sites, installation of watertight walls around critical facilities ● Multiple production sites ● Diversification of raw material procurement sources ● Securing product inventory ● Enrollment in damage insurance
Introduction of carbon taxes and establishment of carbon emission quotas in some countries	● Payment of carbon tax ● Incurring costs of purchasing emission credits and payment of surcharges	Small	● Reduce Scope 1 emissions ● Use of hydrogen-reduced iron materials ● Establishment and achievement of reduction targets in the absolute amount of greenhouse gas emissions ● Collection of information on environmental regulations such as carbon taxes in each country and implementation of countermeasures
Electricity prices	● According to a scenario analysis by IEA* (a scenario with current measures), electricity prices will not rise. Therefore, there is no risk to us.	—	—

*International Energy Agency

Shin-Etsu Group Products That Support Environmentally Friendly Vehicles



We are supporting advancements in the field of mobility by promoting fuel efficiency in cars and other vehicles through the use of rare earth magnets, which combine strong magnetic power with compact size, and developing materials for high-capacity, lightweight and long-lasting lithium-ion batteries.

Rare Earth Magnets

Shin-Etsu Chemical's neodymium magnets*1 are used in the drive motors and power generation motors that can be described as the hearts of environmentally friendly hybrid vehicles (HVs) and electric vehicles (EVs). Compared to conventional gasoline-powered vehicles, HVs can reduce the amount of CO₂ contained in exhaust emissions by 40%, while EVs can reduce this amount by 100%. Shin-Etsu Chemical estimates that environmentally friendly vehicles utilizing its neodymium magnets reduced CO₂ emissions by 280,000 tons in 2019. Assuming that these environmentally friendly vehicles will each be used for 10 years, we have calculated that they will reduce CO₂ emissions by about 3.0 million tons over this same 10-year period. Moving forward, the shift from gasoline-powered vehicles to environmentally friendly vehicles will accelerate, and in 2050, the rate of prevalence associated with EVs is projected to reach 100%.*2 The primary production bases for Shin-Etsu Chemical's rare earth magnets are located in Japan (Fukui Prefecture) and Vietnam, and the suppliers that provide their electrical power respectively generate 34% and 47% of this power using renewable energy sources. Moving forward, we will play an even larger role in reducing environmental impact through the products we provide.

*1 Neodymium magnets: A type of rare earth magnet, neodymium magnets are primarily composed of neodymium, iron and boron and offer extremely strong magnetic intensity. With this powerful magnetic force, neodymium magnets help reduce the size of motors and other sources of motive power and contribute to energy conservation.

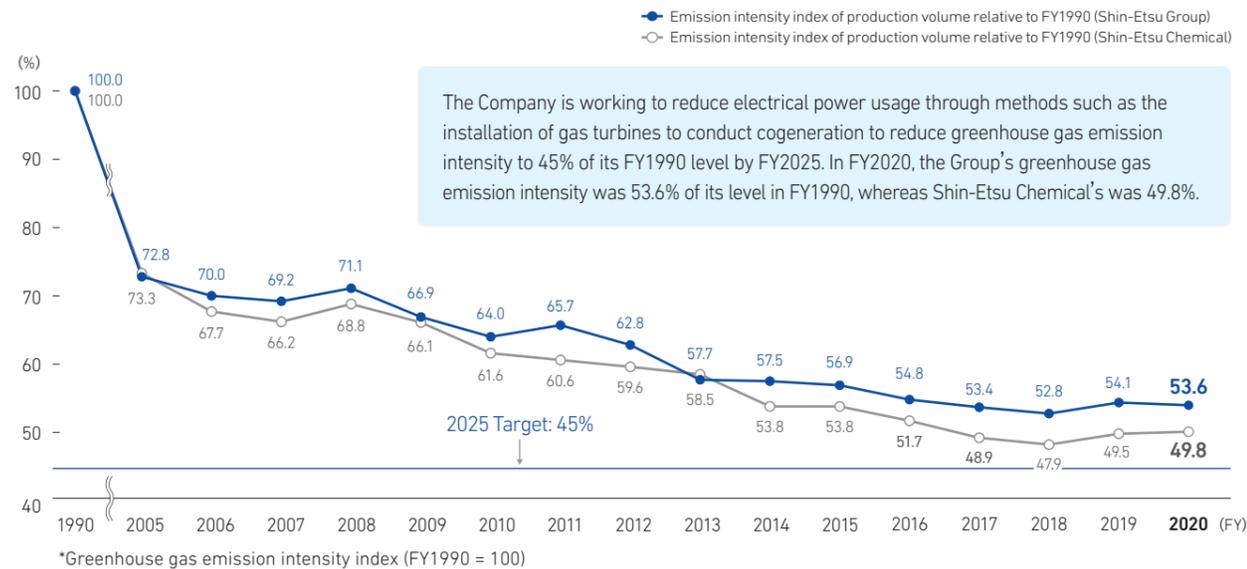
*2 Source: The IEA's *Energy Technology Perspectives 2017*



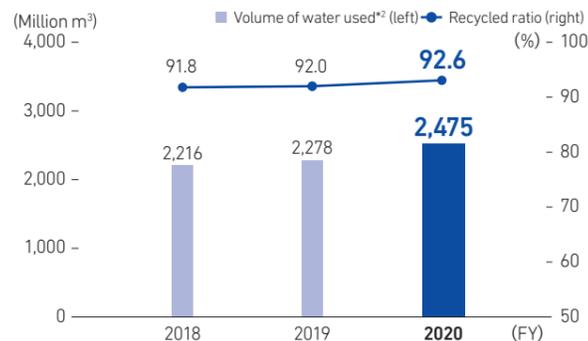
Multifaceted Sustainability Initiatives

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

Changes in Greenhouse Gas Emissions*

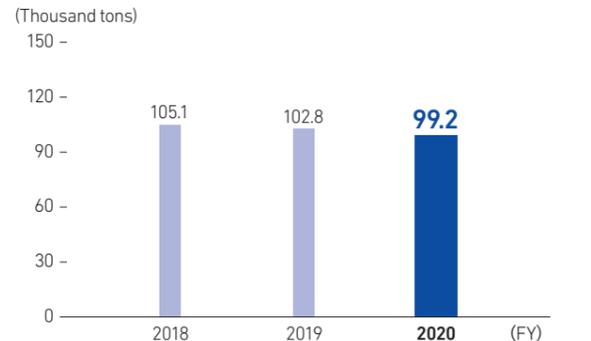


Water Usage*1



*1 Total quantity of water withdrawal and recycled water
*2 The volume of water used includes Shin-Etsu Chemical and consolidated companies, amounts.

Amount of Waste Generated*



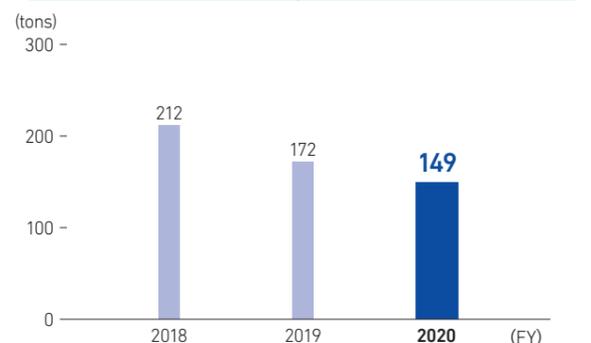
*Due to standards that differ by country, waste amounts include only waste from Shin-Etsu Chemical and domestic consolidated companies.

Amount of Waste Recycled*



*Due to standards that differ by country, waste amounts include only waste from Shin-Etsu Chemical and domestic consolidated companies.

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



*Figures are totals for Shin-Etsu Chemical and domestic consolidated companies based on the PRTR system in the Law for Promotion of Chemical Management.

Governance

Corporate Governance

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

WEB https://www.shinetsu.co.jp/en/sustainability/esg_governance/

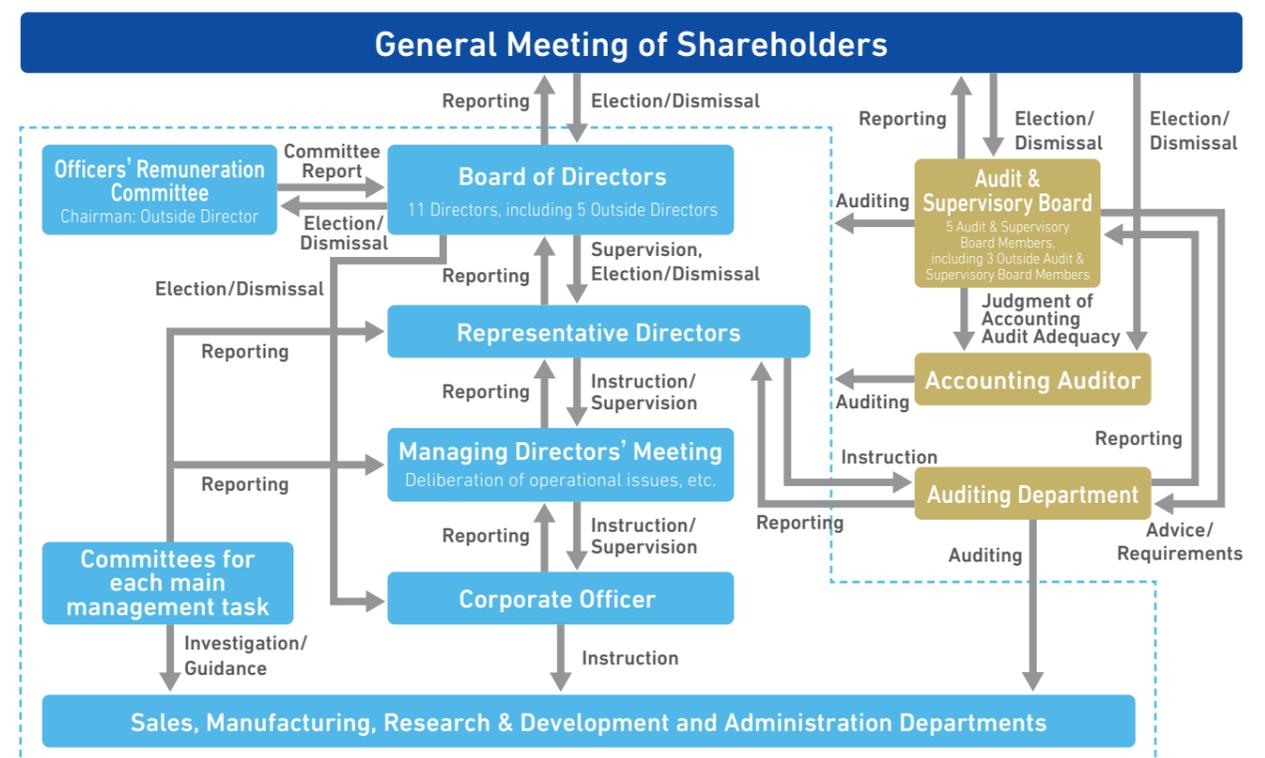
Basic Approach

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 29, 2021)

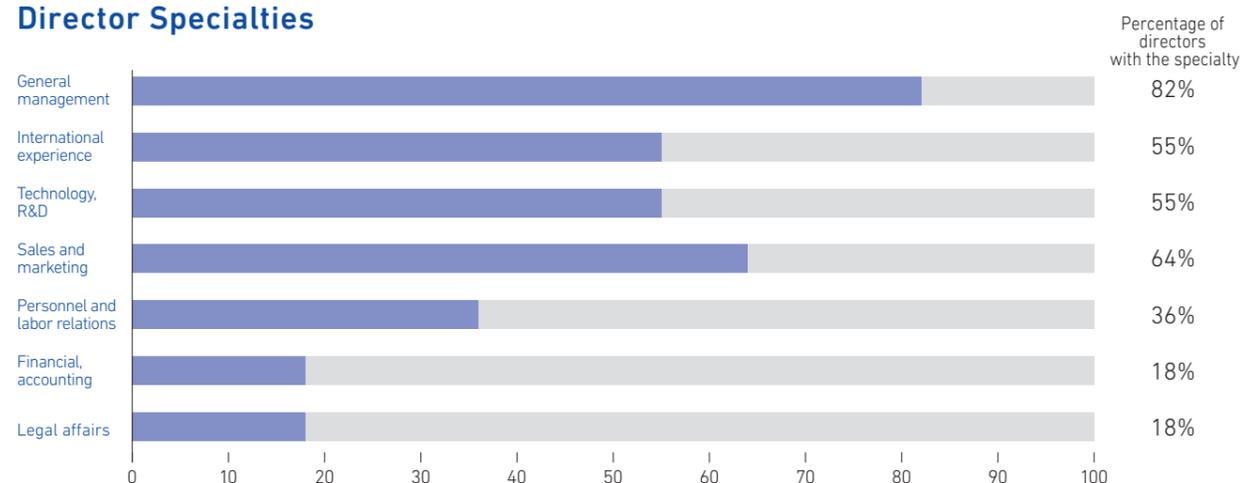
Shin-Etsu Chemical's Audit & Supervisory Board consists of five members, including three highly independent outside members. The Company strives to enhance human resources and systems that support audits conducted by Audit & Supervisory Board members and, by ensuring close cooperation between these members 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 & 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. We have established the position of Corporate Officer.



Multifaceted Sustainability Initiatives

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.

Basic Fundamental Policy regarding Remuneration and Its Calculation Method

The remuneration system of Directors shall be designed to contribute to the mid- to long-term enhancement of the corporate value of the Company, and the remuneration of Directors shall be determined by the Board of Directors based on the results of the review and evaluation by the Officers' Remuneration Committee as well as its opinion thereon. The remuneration shall consist of "fixed remuneration" determined as appropriate for each individual's position, job responsibilities, etc., and "performance-based remuneration" that takes into consideration the annual financial performance of the Company as an incentive for the enhancement of corporate value, as well as "stock options" as an incentive for higher motivation and morale to execute one's duties and to improve performance, and ultimately for the enhancement of shareholder value (stock price-linked remuneration).

On the other hand, the remuneration of Audit & Supervisory Board Members shall be determined through their mutual consultation. The remuneration shall consist of "fixed remuneration" determined as appropriate for each individual's job responsibilities as an Audit & Supervisory Board Member.

Outside Directors and Audit & Supervisory Board Members are not entitled to any "performance-based remuneration" or "stock options" as they are expected to perform supervisory and checking functions over management.

Remuneration Amount by Director Type and Its Detail, Number of Applicable Directors (for the year ended March 31, 2021)

Designation	Amount of remuneration, etc. by type (¥ million)			Number of recipients (People)	Amount of remuneration, etc. by type (¥ million) Non-monetary remuneration, etc.	Number of recipients (People)
	Fixed	Performance-based	Total			
Directors (excluding Outside Directors)	1,071	565	1,637	17	214	16
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	36	—	36	2	—	—
Outside Directors and Outside Audit & Supervisory Board Members	165	—	165	8	—	—

Notes:

1. Includes one director who retired from the positions effective upon the conclusion of the 143rd General Shareholders' Meeting held on June 26, 2020.
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 of non-monetary remuneration, which consists of 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.
4. The above figures for "Fixed remuneration," "Performance-based remuneration, etc.," and "Non-monetary remuneration, etc." of the Directors do not include the employee salaries of Directors who serve concurrently as employees. Bonuses these individuals receive as standard employees are insignificant.
5. The total amount of remuneration issued to Directors (excluding Outside Directors), which consists of fixed, performance-based and non-monetary remuneration, etc., was ¥1,851 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 & Supervisory Board Auditing and Internal Auditing

Members of Shin-Etsu Chemical's Audit & Supervisory Board attend important internal meetings, review vital documents and conduct web-based audits and other investigations concerning operational execution at business sites and subsidiaries. To enhance the effectiveness of these audits, they also receive quarterly reports and explanations regarding accounting audits from accounting auditors. In addition, they ensure proper collaboration by exchanging information and opinions as necessary. Personnel from the Auditing Department and Legal Department assist operations performed by Audit & Supervisory Board Members by simultaneously serving as Audit & Supervisory Board staff.

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 FY2020, our consolidated companies paid an approximate total of ¥101.4 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 principles therein. Please see the Corporate Governance Report for detail.

[WEB https://www.shinetsu.co.jp/en/sustainability/esg_governance/](https://www.shinetsu.co.jp/en/sustainability/esg_governance/)