

# Corporate Governance

Within the drastically changing semiconductor market environment, Shinko works unceasingly to enrich its system of corporate governance to ensure management transparency, and to facilitate swift and appropriate decision making in response to changing situations. Furthermore, we place the highest priority on compliance and aim to improve and develop corporate value.

## Corporate Governance System

### Outline of Our Governance System

Shinko adopted the structure of a company with Audit and Supervisory Committee, in which a majority of the committee members are outside directors. The audit and supervisory system is centered around the supervision of execution of duties by the Board of Directors, including directors serving as members of the Audit and Supervisory Committee, in addition to audits and supervision by the Audit and Supervisory Committee. Moreover, we have introduced a corporate officer system with the goal of building a flexible business operational structure, by speeding up the decision making of the Board of Directors, strengthening the supervisory function, and clarifying authority and responsibilities. Based on this structure, we have striven to further bolster corporate governance and improve the efficiency of corporate management.

#### ■The Board of Directors

The Board of Directors decides basic policy, matters specified by laws and regulations, and the articles of incorporation as well as important management issues, and supervises the status of business execution. It meets once a month, and extraordinary meetings are convened when necessary. The Board of Directors is chaired by the President and Representative Director and consists of four directors who are not Audit and Supervisory Committee members and three directors who are Audit and Supervisory Committee members.

#### ■The Audit and Supervisory Committee

In addition to investigating the status of operations and the financial status of Shinko in accordance with the audit policy and the audit plan, the Audit and Supervisory Committee audits the execution of duties by the directors and others through the attendance of the committee members at important meetings, including those of the Board of Directors, and by receiving reports from directors who are not members of the Audit and Supervisory Committee, corporate officers, an internal auditing division and so on. The Audit and Supervisory Committee consists of three members: one standing Audit and

Supervisory Committee member and two Audit and Supervisory Committee members who are outside directors. We have also established an Audit and Supervisory Committee's office as an organization for assisting the Audit and Supervisory Committee's duties.

In the process of the appointment/ dismissal, and determining the remuneration of directors who are not Audit and Supervisory Committee members, proposals are presented in advance to the Audit and Supervisory Committee, which considers such proposals and determines an opinion. In this way, we seek appropriate involvement and advice from independent outside directors.

#### ■Management Council

Management Council is generally held three times a month to deliberate and study important matters for management and to share information, etc. The Management Council consists of representative directors and directors who are also corporate officers.

#### ■Corporate Officers' Meeting

Corporate Officers' Meeting is held monthly to deliberate and report on general management, including the status of each division and group companies as well as the status of initiatives related to compliance and risk management. The Corporate Officers' Meeting is chaired by the President and Representative Director and consists of all corporate officers.

Additionally, meetings attended by and consisting of the relevant corporate officers and division managers are held regularly and as occasion demands regarding the status of profit and loss, sales, production, development, and other matters. In this and other ways, we have put in place a system that can respond flexibly and swiftly to a drastically changing semiconductor market environment, including by considering responses based on quick assessment of the situation and reflecting them in management decisions.

### Outside Directors

Shinko has two outside directors, both of whom are Audit and Supervisory Committee members. We have established the Independence Standards for Outside Directors as a standard for the independence of appointing outside directors. Two outside directors satisfy the requirements of these standards. We have submitted notification to the Tokyo Stock Exchange that our two outside directors have been designated as independent directors prescribed by the aforementioned exchange.

### Internal Audit and Accounting Audit Systems

The Audit Division, which is our internal auditing division, conducts internal audits based on our Internal Audit Regulation to make sure that all operations are carried out appropriately and effectively. The Audit Division periodically, and when necessary, reports internal audit plans and results to the Audit and Supervisory Committee so that the Committee can conduct its audits effectively. When the Audit Division receives instructions from the Committee about additional audits and investigations, in response to its report, it takes care of them as a priority.

The business management divisions submit reports and materials to the Audit and Supervisory Committee, Audit Division, and accounting auditor as needed and cooperate so that they can conduct their audits appropriately.

We have elected Ernst & Young ShinNihon LLC as our accounting auditor to conduct accounting audits, quarterly reviews, and internal control audits.

## Executive Remuneration

### Policy and Procedures for Determining Executive Remuneration

Shinko's remuneration for executives follows an objective remuneration system based on the internal rules and takes the Company's performance into consideration. Remuneration for directors who are not Audit and Supervisory Committee members is based on a specified level derived from executive remuneration survey data compiled by an external investigative agency. Such remuneration consists of fixed remuneration paid according to duties and role plus performance-based remuneration paid according to the level of achievement based on results—mainly the Company's ROE—as important indicators of profitability and efficient use of capital in management. The proportion of fixed remuneration to

performance-based remuneration is 50:50. Performance-based remuneration consists of a performance-based portion and bonuses paid together with fixed remuneration.

As directors who are Audit and Supervisory Committee members occupy a position independent from the execution of operations, they are paid fixed remuneration based on a specified level derived from executive remuneration survey data compiled by an external investigative agency.

The Board of Directors has resolved to determine and pay the amount of remuneration for directors who are not Audit and Supervisory Committee members using a specified calculation method based on the internal rules. The amount of remuneration for directors who are Audit and Supervisory Committee members is determined through discussion among the Audit and Supervisory Committee. The amount of remuneration for directors who are not Audit and Supervisory Committee members is considered in advance by the Audit and Supervisory Committee, which determines an opinion on the matter. Bonuses are paid after a resolution for the approval of a proposal on the payment of bonuses to directors put before the ordinary general meeting of shareholders each year.

### Amount of Remuneration for Directors (FY2018)

Category	Number of members	Amount
Directors who are not Audit and Supervisory Committee members	5	184 million yen
Directors who are Audit and Supervisory Committee members (Paid to outside directors)	5 (3)	38 million yen (12 million yen)
Total	10	223 million yen

\* The above number of members and amount of remuneration includes one director who was not an Audit and Supervisory Committee member and two directors who were Audit and Supervisory Committee members. All of them resigned at the conclusion of the 83rd ordinary general meeting of shareholders held on June 26, 2018.

\* The 81st ordinary general meeting of shareholders held on June 28, 2016, resolved that the amount of remuneration for directors who are not Audit and Supervisory Committee members is to be within 250 million yen per year and that the amount of remuneration for directors who are Audit and Supervisory Committee members is to be within 60 million yen per year.

### Corporate Governance Structure

