



**Shin-Etsu Chemical Co., Ltd.**  
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## ***Supplemental Explanation to the press release regarding Shin-Etsu Chemical's takeover defense***

The company strongly believes that the proposed takeover defense plan is in the best interests of its shareholders because of the very strong financial results it has achieved, which is the best way to create permanent shareholder value, and because of the company's strong showing relative to accepted criteria for approval of such a takeover defense plan.

Concerning financial results, during the last five years (2002-2007) consolidated net sales have increased at an average annual rate of 11.0% to 1305 billion yen, consolidated net income has increased at an average annual rate of 17.6% to 154 billion yen (11.0% of sales), net income per share has increased at an average annual rate of 17.0% to 357.8 yen, and the return on equity has increased from 9.0% to 12.4%. Of particular note relative to the desirability of a takeover defense plan, the company has significantly invested for future shareholder value, with capital expenditures increasing at an average annual rate of 20.9% to 210.6 billion yen and totaling 655 billion yen in just the last five years. The company is financially very strong, with consolidated shareholders equity of 1360 billion yen and a recent upgrade by Moody's from A1 to Aa3.

As for the stock price, in the same five year period, it has increased by 32.4% to 7190 yen per share as of March 30, 2007, which is a very respectable multiple of 20 times consolidated earnings per share.

The company feels that this financial performance of itself warrants your support of this measure.

However, the company also feels it has a strong level of compliance with accepted criteria which the leading proxy advisor company has established for the approval of such a takeover defense plan, specifically as follows:



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- a) the company is submitting the plan to a shareholder vote even though this is not required by law;
- b) the plan lasts only for one year (until the next annual shareholders meeting), well within the maximum criteria of three years, and this provision mitigates any objection to the two-year term for directors rather than one year;
- c) the trigger threshold is 20% ownership, also meeting the criteria;
- d) in line with the company's emphasis on corporate governance, there are four external directors, versus a minimum criteria of two and the percent of the total at 20% criteria;
- e) the plan provides for an independent committee to advise the board, one of the accepted criteria;
- f) the company has disclosed the circumstances which would cause it to make use of the plan and has attempted to make this disclosure very complete;
- g) as for enhancing shareholder value so as to be less vulnerable to a takeover, the company feels that the above-noted summary of financial performance more than adequately addresses this criteria;
- h) consistent with the company's emphasis on corporate governance, there are no other protective or entrenchment tools in place; and
- i) because of the very recent takeover activity in our industry, the desirability of a takeover defense plan did not become known until too late to meet the criteria to release the proxy circular three weeks prior to the shareholders meeting, but rather it will be 20 days, which hopefully will be adequate for most shareholders and which is certainly preferable to the company's alternatives of implementing the plan without a shareholder vote or waiting another year to do so. However, the company did issue a press release with the pertinent information approximately six weeks prior to the shareholders' meeting.



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In summary, the company feels there are compelling reasons to approve this measure and we recommend you do so.

Sincerely yours,

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