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(Translation)

(Securities Code 4063)

June 7, 2010

To: All Shareholders of Shin-Etsu Chemical Co., Ltd. (the “Company”)

**Notice of Convocation of the 133rd
Ordinary General Meeting of Shareholders**

Dear Shareholder:

You are hereby notified that the 133rd Ordinary General Meeting of Shareholders will be held as described below. Your attendance would be much appreciated.

If you are unable to attend the Meeting in person, you are entitled to exercise your voting rights in writing in which case we would appreciate it if you would take the time to review the Reference Documents for the General Meeting of Shareholders attached hereto and indicate your approval or disapproval of each Agenda item on the enclosed Voting Card. Please return your completed Voting Card so that it reaches us by no later than 5:00 p.m. on Monday, June 28, 2010.

Description of Meeting

1. Date and Time : June 29, 2010 (Tuesday) at 10:00 a.m.
2. Place : Company’s head office at 6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo
27th floor of Asahi-Seimei Otemachi Building, Otemachi Sun-Sky Room
3. Agenda for the Meeting:
 - Matters to be reported : 1. Report on the Business Report, the Consolidated Financial Statements, and the Audit Reports of the Accounting Auditor and the Board of Statutory Auditors on the Consolidated Financial Statements for the 133rd fiscal year (April 1, 2009 through March 31, 2010)
2. Report on the Financial Statements for the 133rd fiscal year (April 1, 2009 through March 31, 2010)
 - Matters to be resolved:
 - 1st Agendum : Distribution of Retained Earnings to Shareholders
 - 2nd Agendum : Election of Nine (9) Directors
 - 3rd Agendum : Election of One (1) Statutory Auditor
 - 4th Agendum : Issuance of Stock Acquisition Rights as Stock Options to Employees
 - 5th Agendum : Continuance of the Handling Policy (Anti-takeover Defensive Plan) toward Large-scale Purchase of the Company’s Shares and Other Securities

Very truly yours,

Chihiro Kanagawa
President and CEO
Shin-Etsu Chemical Co., Ltd.
6-1, Ohtemachi 2-chome
Chiyoda-ku, Tokyo

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- ⊙ Those shareholders who attend the Meeting are kindly requested to present the enclosed Voting Card to a receptionist upon your arrival at the Meeting venue.
 - ⊙ Any modification that may be required in the Reference Documents for the General Meeting of Shareholders, or in the Business Report, the Financial Statements or the Consolidated Financial Statements, will be published via the Internet on the website of the Company (<http://www.shinetsu.co.jp>).

BUSINESS REPORT
(April 1, 2009 through March 31, 2010)

I. Matters Concerning the Current State of the Company's Group

1. Business Operations

With regard to the world economy during the consolidated fiscal year 2010 (April 1, 2009 to March 31, 2010), while the economic doldrums stemming from financial crisis continued, in the Asian region, centering around China, there has been movement towards economic recovery. However, on the whole, the serious economic situation continued, as evidenced by such circumstances as the unemployment rate remaining at a high level in Europe and U.S. In the Japanese economy as well, although movement towards a recovery in exports and manufacturing was seen, the severe situation still continued, as such factors as facility investment and consumer spending remained sluggish.

Under these circumstances, the Shin-Etsu Group worked to strengthen relationships with its customers worldwide and strove to expand its sales. At the same time, we endeavored to carry out business rationalization and streamlining measures, we devoted strong efforts to the development and commercialization of new products, and in our operations we continued to place the utmost priority on safety and the conservation of the environment.

As a result, the net sales for the Company's group for this consolidated fiscal year decreased by 23.6% (283,976 million yen) compared with the previous fiscal year to 916,837 million yen. Compared to the performance of the previous fiscal year, operating income decreased by 49.7% (115,712 million yen) to 117,215 million yen, ordinary income decreased by 49.3% (123,514 million yen) to 127,019 million yen and net income decreased by 45.8% (70,879 million yen) to 83,852 million yen.

The business operations of each division were as follows.

Organic and Inorganic Chemicals

In the polyvinyl chloride business, the U.S.-based SHINTECH INC. made efforts to expand sales among customers worldwide and maintained high capacity-utilization levels, despite sluggish demand due to the long-term doldrums in the U.S. housing market. The Netherlands-based Shin-Etsu PVC B.V. experienced a downturn in demand, and its sales remained weak in Europe. Domestic operations in Japan continued to endure a difficult climate due to such matters as the rise in crude oil prices and sluggish domestic demand.

The silicone business contributed weaker results, reflecting the overall sluggish demand during the first half. But demand was back on course for recovery, particular in the Asian region, from the second half onward and domestic sales also continued solidly in a wide range of areas, including electricity, electronics and automobiles. Shin-Etsu Polymer Co., Ltd. contributed weaker results as sales of keypads for mobile phones suffered from increased price competition, although a partial recovery of demand was observed.

In the cellulose derivatives business, domestic operations in Japan continued to achieve weaker results, with the exception of domestic sales of products used for pharmaceutical purposes. The business results of SE Tylose GmbH & Co. KG in Germany were also sluggish, reflecting the sluggish demand for construction materials.

As a result of the foregoing, this division's total sales decreased by 19.1% (120,195 million yen) from the previous fiscal year to 508,979 million yen, and operating income decreased by 35.8% (34,050 million yen) to 61,092 million yen.

Electronics Materials

The semiconductor silicon business continued to endure a difficult climate due to depressed product prices, although its shipments were back on course for recovery, particularly with regard to 300-mm wafers.

Solid sales of rare-earth magnets for use in the electronics industry continued due to the recovery of demand for hard disk drives for PCs and servers. Sales of photoresist products also continued to be brisk accompanying advances in the miniaturization of semiconductor devices.

As a result of the foregoing, this division's total sales decreased by 32.2% (150,349 million yen) from the previous fiscal year to 317,171 million yen, and operating income decreased by 64.8% (72,716 million yen) to 39,518 million yen.

Functional Materials & Others

Synthetic quartz continued solid sales in line with the worldwide increase in demand for preforms for optical fibers. At the same time, shipments of large-size photomask substrates for LCDs were solid, although significantly affected by intensified price competition.

General-purpose rare-earth magnets contributed weaker results as a whole due to sluggish demand in other fields such as FA motors, despite the continued solid sales of motors for hybrid cars and energy-saving air conditioners.

As a result of the foregoing, this division's net sales decreased by 12.9% (13,431 million yen) from the previous fiscal year to 90,687 million yen, and operating income decreased by 29.9% (7,701 million yen) to 18,023 million yen.

2. Status of Capital Investments and Procurement of Funds of the Company's Group

The Company's group invested 121,235 million yen during this consolidated fiscal year mainly in the following:

Major facilities completed during this consolidated fiscal year:

Rationalization such as automation of semiconductor wafer manufacturing processes (Shin-Etsu Handotai Co., Ltd.)

Facilities under construction as of the end of this consolidated fiscal year:

Enhancement of integrated equipment to manufacture polyvinyl chloride (Phase 2) (SHINTECH INC.)

Enhancement of equipment to manufacture cellulose (SE Tylose GmbH & Co. KG)

Enhancement of the silicon metal manufacturing facilities (Simcoa Operations Pty Ltd.)

The Company's group expended mostly its own funds for investment capital during this consolidated fiscal year.

3. Problems Confronting the Company's Group

With regard to business prospects going forward, although there is a recovery trend in parts of the world economy, the situation still does not allow for optimism. In Japan, there are concerns about such matters as the worsening of the employment situation and the impact of deflation, and the severe business circumstances are expected to continue.

Under these circumstances, in order to navigate through the severe business environment we are facing, the Shin-Etsu Group will expand its aggressive sales activities to its wide range of customers around the world, and at the same time, we will cultivate new demand through the development of products that have special characteristics. In addition, we will continue making maximum efforts to implement such measures as further improvements in productivity and a thorough reduction of total costs. Furthermore, we will aim to build an even stronger business foundation by carrying out such policies as focusing more than ever on strengthening our high technologies and enhancing product quality, and, at the same time, striving to stably secure raw materials.

In the PVC business, at SHINTECH INC. in the U.S., an integrated manufacturing plant from electrolysis to PVC is being constructed, and following the first-phase construction of its plant, which has already started operation, the second-phase construction is under way. In addition, in order to double the production capacity of vinyl chloride monomer (VCM), we began the construction of a new raw materials plant. In Europe, in order to strengthen the business foundation of Shin-Etsu PVC in The Netherlands, we made CIRES in Portugal a 100%-owned Shin-Etsu Group company in August 2009. By fully utilizing Shin-Etsu's Japan-U.S.-Europe tri-polar production system, we will continue to further strengthen the position of Shin-Etsu as the world's largest PVC maker.

In the semiconductor silicon business, as the world's largest maker, Shin-Etsu will continue to stably supply high-quality products. Moreover, we will focus on strengthening our competitive power by moving forward with the development of high-

quality silicon wafers that will fit the requirements created by further progress in the miniaturization of semiconductor devices.

In the silicone business, we will promote development of new products and new applications by utilizing product characteristics that have a wide range of new application fields. At the same time, while striving to further improve productivity in each silicone manufacturing plant, such as in Japan, Thailand and U.S., we will strengthen our silicone business not only in Japan but also globally.

In the rare earth magnets business, we will carry out sales expansion, particularly for applications in hybrid cars and energy-saving products that are expected to have strong demand growth in the future.

In the cellulose business, in order to achieve stable supply of pharmaceutical-use products, in addition to Shin-Etsu's Naoetsu Plant in Japan, we are going ahead with the construction of new manufacturing facilities at SE Tylose in Germany. We will continue to strive to strengthen our cellulose business.

Furthermore, for future business expansion, we will focus on R&D of new products and their commercialization, and we will also cultivate new businesses, including through M&A.

In addition, we will carry out such corporate social responsibilities as the ensuring of safety, conservation of the environment and full compliance with all laws and regulations, and we will continue to strive to maximize Shin-Etsu's corporate value.

4. Trend of Business Results and Financial Conditions

Item \ Year	130th Fiscal Year	131st Fiscal Year	132nd Fiscal Year	133rd Fiscal Year
Net Sales (Million Yen)	1,304,695	1,376,364	1,200,813	916,837
Net Income (Million Yen)	154,010	183,580	154,731	83,852
Net Income per Share (Yen)	357.78	426.63	362.39	197.53
Net Assets (Million Yen)	1,360,315	1,483,669	1,407,353	1,474,212
Total Assets (Million Yen)	1,859,995	1,918,544	1,684,944	1,769,139

Note: In the 132nd and 133rd fiscal year, the effects of a worldwide decline in demand, which particularly impacted the Company's semiconductor silicon and other electronics materials operations, were reflected in decreases in its sales revenues and earnings.

5. Status of Major Subsidiary Companies, etc. (as of March 31, 2010)

(1) Status of Major Subsidiary Companies

Name of Company	Amount of Capital	Holding Ratio (%)	Major Lines of Business
SHINTECH INC. (U.S.A.)	US\$18.75	100.0	Manufacture and sales of polyvinyl chloride
Shin-Etsu Handotai Co., Ltd.	¥10,000M	100.0	Manufacture and sales of semiconductor silicon
Shin-Etsu Handotai America, Inc. (U.S.A.)	US\$150M	100.0 (100.0)	Manufacture and sales of semiconductor silicon
Shin-Etsu Polymer Co., Ltd.	¥11,635M	52.2 (0.1)	Manufacture and sales of plastic products, etc.
S.E.H. Malaysia Sdn. Bhd. (Malaysia)	RM181.50M	98.3 (98.3)	Processing and sales of semiconductor silicon
Shin-Etsu PVC B.V. (Netherlands)	EUR18,200	100.0 (100.0)	Manufacture and sales of polyvinyl chloride
Shin-Etsu Engineering Co., Ltd.	¥200M	100.0	Design, engineering and construction of plants, etc.
SE Tylose GmbH & Co. KG (Germany)	EUR500,000	100.0 (100.0)	Manufacture and sales of cellulose derivative products
SHIN-ETSU HANDOTAI EUROPE LIMITED (U.K.)	£ Stg.73M	100.0 (100.0)	Processing and sales of semiconductor silicon
Nagano Electronics Industrial Co., Ltd.	¥80M	90.0	Processing of semiconductor silicon
Shin-Etsu Handotai Taiwan Co., Ltd. (Taiwan)	NT\$1,500M	70.0 (70.0)	Processing and sales of semiconductor silicon
Naoetsu Electronics Co., Ltd.	¥200M	100.0 (10.0)	Processing of semiconductor silicon
Shin-Etsu Astech Co., Ltd.	¥495M	99.6 (1.8)	Sales of chemical products, etc., and construction under contract

Note: For the column regarding holding ratio, the upper number indicates the entire ratio of holdings held by both the Company and the Subsidiary Companies, while the lower number indicates the ratio held by the Subsidiary Companies.

(2) Status of Major Affiliated Companies

Name of Company	Amount of Capital	Holding Ratio (%)	Major Lines of Business
Mimasu Semiconductor Industry Co., Ltd.	¥18,824M	39.7 (1.0)	Processing of semiconductor silicon and sales of precision equipment
SHIN-ETSU QUARTZ PRODUCTS COMPANY LTD.	¥1,000M	50.0	Manufacture and sales of quartz glass products
KASHIMA VINYL CHLORIDE MONOMER COMPANY LIMITED	¥1,500M	50.0	Manufacture of vinyl chloride monomer

Note: For the column regarding holding ratio, the upper number indicates the entire ratio of holdings held by both the Company and the Subsidiary Companies, while the lower number indicates the ratio held by the Subsidiary Companies.

(3) Results of Consolidation

For this consolidated fiscal year, there are 70 consolidated subsidiaries etc. and 7 companies to which the equity method is applied, including the Major Subsidiary Companies and the Affiliated Companies mentioned above.

For this consolidated fiscal year, net sales amounted to 916,837 million yen (down by 23.6% from the previous fiscal year), and the net income amounted to 83,852 million yen (down by 45.8% from the previous fiscal year).

(4) The Company's Major Licensors and Licensees

The Company's group has Technology Licensing Agreements with Dow Corning Corporation (U.S.A.) regarding the manufacture of silicone, and with Hitachi Metals, Ltd. regarding the manufacture of rare-earth magnets.

6. Major Lines of Business of the Company's Group (as of March 31, 2010)

The Company's group's major lines of business are the manufacture and sales of the following products:

Organic and Inorganic Chemicals	Polyvinyl Chloride, Silicone, Methanol, Chloromethanes, Cellulose Derivatives, Caustic Soda, Silicon Metal and Poval
Electronics Materials	Semiconductor Silicon, Organic Materials for the Electronics Industry, Rare-earth Magnets for the Electronics Industry and Photoresists
Functional Materials & Others	Synthetic Quartz Products, Rare-earth, Rare-earth Magnets for General Applications, Liquid Fluoroelastomers, Pellicles, Export of Technologies and Plants, Export and Import of Products, Construction and Plant Engineering, Information Processing and other services

7. Major Bases of the Company's Group (as of March 31, 2010)

(1) Company

Principal Office: 6-1, Otemachi 2-chome, Chiyoda-ku, Tokyo, Japan
 Branch Offices: Osaka Branch, Nagoya Branch, and Fukuoka Branch
 Plants: Naoetsu Plant (Niigata Prefecture), Takefu Plant (Fukui Prefecture), Gunma Complex [Isobe Plant and Matsuida Plant], Kashima Plant (Ibaraki Prefecture)
 Research & Development Centers: Silicone-Electronics Materials Research Center (Gunma Prefecture), Advanced Functional Materials Research Center (Gunma Prefecture), PVC and Polymer Materials Research Center (Ibaraki Prefecture), Specialty Chemicals Research Center (Niigata Prefecture), New Functional Materials Research Center (Niigata Prefecture) and Magnetic Materials Research Center (Fukui Prefecture)

(2) Subsidiaries

Domestic: Shin-Etsu Handotai Co., Ltd. (Tokyo); Shin-Etsu Polymer Co., Ltd. (Tokyo); Shin-Etsu Engineering Co., Ltd. (Tokyo); Shin-Etsu Astech Co., Ltd. (Tokyo); Nagano Electronics Industrial Co., Ltd. (Nagano Prefecture); and Naoetsu Electronics Co., Ltd. (Niigata Prefecture)
 Overseas: SHINTECH INC. (U.S.A.); Shin-Etsu Handotai America, Inc. (U.S.A.); S.E.H. Malaysia Sdn. Bhd. (Malaysia); Shin-Etsu PVC B.V. (Netherlands); SE Tylose GmbH & Co. KG (Germany); SHIN-ETSU HANDOTAI EUROPE LIMITED (U.K.); and Shin-Etsu Handotai Taiwan Co., Ltd. (Taiwan)

8. Status of Employees of the Company's Group and the Company (as of March 31, 2010)

(1) Status of Employees of the Company's Group

Business Dept.	Number of Employees	Increase or Decrease Compared with the End of the Previous Fiscal Year
Organic & inorganic chemicals	8,572	-1,209
Electronics materials	6,918	-982
Functional materials & others	1,465	-24
Total	16,955	-2,215

Note: The number of employees is the number of persons actually at work.

(2) Status of Employees of the Company

Number of Employees	Increase or Decrease Compared with the End of the Previous Fiscal Year	Average Age	Average Years of Service
2,647	+38	41.8	20.1

Note: The number of employees is the number of persons actually at work.

9. Major Lenders to the Company's Group (as of March 31, 2010)

Name of Lender	Outstanding Borrowings (Million Yen)
Nippon Life Insurance Company	3,655
Japan Bank for International Cooperation	2,584
Meiji Yasuda Life Insurance Company	2,325
The Hachijuni Bank, Ltd.	2,066
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,845

Note: The above does not include amounts of syndicated loan borrowing (which totaled 3,990 million yen).

II. Matters Concerning Stock in Company (as of March 31, 2010)

1. Number of Shares and Shareholders

Total number of shares authorized to be issued: 1,720,000,000

Total number of issued shares: 432,106,693

Number of shareholders: 65,888

Note: The total number of issued shares includes 7,505,054 treasury shares.

2. Major Shareholders

Name of Shareholder	Number of Shares Held (Thousand shares)	Holding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	33,920	8.0
Japan Trustee Services Bank, Ltd. (Trust Account)	29,278	6.9
Nippon Life Insurance Company	24,370	5.7
JP Morgan Chase Bank N.A. 380055	12,085	2.8
The Hachijuni Bank, Ltd.	11,790	2.8
Meiji Yasuda Life Insurance Company	11,529	2.7
Japan Trustee Services Bank, Ltd. (Trust Account 4)	11,352	2.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,095	1.7
NIPPONKOA Insurance Co., Ltd.	7,077	1.7
Fukoku Mutual Life Insurance Company	6,000	1.4

Note: The Company, which owns 7,505,054 treasury shares, is excluded from consideration as a major shareholder as defined above. The holding ratios are computed net of this treasury stock.

III. Matters Concerning Stock Acquisition Rights Issued by the Company

1. State of Stock Acquisition Rights (Stock Options) (as of March 31, 2010)

(1) General Description of Stock Acquisition Rights

The stock acquisition rights (stock options) the Company has issued are summarized below:

Chronological Number of Issue (Date Issued)	Number of Stock Acquisition Rights	Type & Number of Shares Stock Acquisition Rights are Entitled to	Issue Price per Share (Yen)	Amount Payable per Share upon Exercise of Rights (Yen)	Exercisable Period of Rights	Eligible Grantees
4th Issue of Stock Acquisition Rights (06/29/2005)	180	18,000 shares of Common Stock in the Company	Distributed gratis	4,244	June 29, 2005 through March 31, 2010	Directors and employees of Company
5th Issue of Stock Acquisition Rights (07/13/2006)	5,871	587,100 shares of Common Stock in the Company	Distributed gratis	6,560	July 13, 2006 through March 31, 2011	Same as above
6th Issue of Stock Acquisition Rights (07/2/2007)	9,150	915,000 shares of Common Stock in the Company	Distributed gratis	8,949	July 2, 2007 through March 31, 2012	Same as above
7th Issue of Stock Acquisition Rights (for Distribution to Directors) (07/14/2008)	5,750	575,000 shares of Common Stock in the Company	943	6,755	July 15, 2009 through March 31, 2013	Directors (excluding External Directors) of Company
7th Issue of Stock Acquisition Rights (for Distribution to Employees) (07/14/2008)	2,510	251,000 shares of Common Stock in the Company	Distributed gratis	6,755	July 15, 2009 through March 31, 2013	Employees of Company
8th Issue of Stock Acquisition Rights (for Distribution to Directors) (08/06/2009)	6,850	685,000 shares of Common Stock in the Company	1,235	4,804	August 7, 2010 through March 31, 2014	Directors (excluding External Directors) of Company
8th Issue of Stock Acquisition Rights (for Distribution to Employees) (08/06/2009)	2,520	252,000 shares of Common Stock in the Company	Distributed gratis	4,804	August 7, 2010 through March 31, 2014	Employees of Company

Note 1: The terms and conditions on which to exercise stock acquisition rights in each of the 4th through 6th issues are outlined below:

- a. Those persons to whom the stock options are issued may exercise such stock options even within two (2) years after they cease to be a Director or an employee of the Company (but only before the exercisable period of rights expires).
- b. Within two (2) years after the death of any person to whom the stock options are issued, heirs of such deceased person may exercise such stock options (but only before the exercisable period of rights expires).
- c. Other conditions are as prescribed in the Stock Option Allotment Agreement.

Note 2: The terms and conditions on which to exercise stock acquisition rights in the 7th and 8th issues are outlined below:

- a. Those persons to whom the stock options are issued may exercise such stock options even after they cease to be a Director or an employee of the Company, within two (2) years from the later of such cessation of being a Director or an employee of the Company or the commencement of the exercisable period of rights (but only before the exercisable period of rights expires).

- b. In the event of the death of any person to whom the stock options are issued, heirs of such deceased person may exercise such stock options within two (2) years from the later of such death or the commencement of the exercisable period of rights (but only before the exercisable period of rights expires). Notwithstanding the foregoing, in the event of the death of any recipient of stock options that occurs after such recipient ceases to be a Director or an employee of the Company, heirs of such deceased person may exercise such stock options only within the period during which such deceased recipient would have been entitled to exercise such stock options in accordance with paragraph a. above.
- c. Other conditions are as prescribed in the Stock Option Allotment Agreement.
- (2) State of Stock Acquisition Rights (Stock Options) Held by Directors and Statutory Auditors of the Company

The portion of the stock acquisition rights (stock options) described in (1) General Description of Stock Acquisition Rights above that belong to the Directors and Statutory Auditors of the Company are broken down as below:

Designation	Chronological Number of Issue	Number of Stock Acquisition Rights	Number of Optionees
Directors (Excluding External Directors)	4th Issue of Stock Acquisition Rights	0	0
	5th Issue of Stock Acquisition Rights	4,180	15
	6th Issue of Stock Acquisition Rights	5,770	18
	7th Issue of Stock Acquisition Rights	5,850	18
	8th Issue of Stock Acquisition Rights	6,850	18
External Directors	4th Issue of Stock Acquisition Rights	150	1
	5th Issue of Stock Acquisition Rights	650	2
	6th Issue of Stock Acquisition Rights	950	4
	7th Issue of Stock Acquisition Rights	-	-
	8th Issue of Stock Acquisition Rights	-	-

2. State of Stock Acquisition Rights (Stock Options) Distributed to Employees during the Fiscal Year under Review

Pursuant to a resolution adopted by the Board of Directors on July 22, 2009, the 8th Issue of Stock Acquisition Rights (for Distribution to Employees), intended as incentive stock options, was issued as of August 6, 2009 for distribution to 64 employees, as outlined below:

- (1) Number of Stock Acquisition Rights Distributed
2,520
- (2) Type and Quantity of Shares Subject to Stock Options
252,000 shares of common stock in the Company
(100 common shares of the Company per stock option)
- (3) Issue Price
Issued without compensation.
- (4) Payment Per Share upon Exercise of Stock Options
¥4,804
- (5) Period within Which to Exercise Stock Options
From August 7, 2010, until March 31, 2014
- (6) Conditions to Exercise Stock Options
The same terms and conditions apply as described in Note 2 of 1.-(1) General Description of Stock Acquisition Rights above.

IV. Matters Concerning Directors and Statutory Auditors of Company

1. Name and Other Information Concerning Directors and Statutory Auditors (as of March 31, 2010)

Title	Name	Responsibilities, Important Concurrent Positions, etc.
Representative Director - President	Chihiro Kanagawa	Director & President, SHINTECH INC.
Representative Director - Executive Vice President	Shunzo Mori	In charge of General Affairs and Personnel & Labor Relations General Manager, Electronics Materials Div.
Representative Director - Executive Vice President	Fumio Akiya	In charge of Semiconductor Materials, Advanced Materials and Technologies Representative Director & President, Shin-Etsu Handotai Co., Ltd.
Representative Director - Senior Managing Director	Yasuhiko Saitoh	In charge of the Office of the President, Public Relations, Finance & Accounting and Legal Affairs General Manager, International Div. Representative Director & Vice-President, Shin-Etsu Handotai Co., Ltd. Director & President, Shin-Etsu Handotai America, Inc.
Representative Director - Senior Managing Director	Yoshiaki Ono	General Manager, Silicone Div.
Managing Director	Kiichi Habata	In charge of Environmental Control & Safety and Auditing
Managing Director	Koji Takasugi	In charge of Purchasing General Manager, Special Functional Products Dept.
Director ¹	Frank Peter Popoff	
Director ¹	Shunji Kono	Honorary Adviser, Tokio Marine & Nichido Fire Insurance Co., Ltd.
Director ¹	Masashi Kaneko	Director & Chairman of the Board, Ikyu Corporation
Director ¹	Tsuyoshi Miyazaki	Adviser, Mitsubishi Logistics Corporation
Director ¹	Toshihiko Fukui	President, the Canon Institute for Global Studies
Director	Toshinobu Ishihara	General Manager, New Functional Materials Research Center and New Functional Materials Dept.
Director	Masaki Miyajima	General Manager, PVC Div.
Director	Atsushi Nakamura	General Manager, Organic Chemicals Div.
Director	Fumio Arai	Deputy General Manager, Organic Chemicals Div. Director & President, Shin-Etsu PVC B.V. Director & President, SE Tylose GmbH & Co. KG
Director	Toshiyuki Kasahara	General Manager, Finance & Accounting Dept.

Title	Name	Responsibilities, Important Concurrent Positions, etc.
Director	Hidenori Onezawa	General Manager, Business Development Dept.
Director	Masahiko Todoroki	General Manager, Planning & Administration Dept., Semiconductor Materials Div. Managing Director, Shin-Etsu Handotai Co., Ltd.
Director	Ken Nakamura	General Manager, Office of the President and Public Relations Dept.
Director	Toshiya Akimoto	General Manager, Office of the Secretariat
Director	Yukihiro Matsui	General Manager, Magnet Dept., Electronics Materials Div.
Director	Hiroaki Okamoto	In charge of Patents General Manager, Research & Development Dept.
Full-Time Statutory Auditor	Osamu Okada	
Statutory Auditor	Masahiko Watase	
Statutory Auditor ²	Taku Fukui	Lawyer/Managing Partner, Kashiwagi Sogo Law Offices Professor, Keio Law School
Statutory Auditor ²	Yoshihito Kosaka	C.P.A./Certified Public Tax Accountant Representative Partner, Grant Thornton Taiyo ASG Representative Partner, HIYU Certified Tax Accountants' Corporation
Statutory Auditor ²	Kiyoshi Nagano	

Notes: 1. ¹ indicates an External Director as defined in Item 15, Article 2 of the Corporations Law.

2. ² indicates an External Statutory Auditor as defined in Item 16, Article 2 of the Corporations Law.

3. Mr. Toshihiko Fukui, External Director, serves concurrently as the President of the Canon Institute for Global Studies, a general incorporated foundation; however, the Company has no special relationship with that general incorporated foundation. The Kashiwagi Sogo Law Offices, where Mr. Taku Fukui, Statutory Auditor, concurrently serves as Managing Partner receives attorneys' fees from the Company for individual cases. Mr. Yoshihito Kosaka, Statutory Auditor, serves concurrently as Representative Partners of the Grant Thornton Taiyo ASG and HIYU Certified Tax Accountants' Corporation; however, the Company has no special relationship with them.

4. Concurrent service as External Director or External Statutory Auditor for other companies by External Directors and External Statutory Auditors and the relationship between the Company and such other companies are described in "3. Matters Concerning External Directors and Auditors" herein below.

5. Mr. Yoshihito Kosaka, Statutory Auditor, is licensed as a Certified Public Accountant and as a Certified Tax Accountant, and brings with him a considerable degree of knowledge and experience in the fields of finance and accounting.

6. Four External Directors of the Company -- Mr. Toshihiko Fukui, Mr. Shunji Kono, Mr. Masashi Kaneko and Mr. Tsuyoshi Miyazaki -- have been reported to the Tokyo Stock Exchange, Inc. etc. as Independent Directors.

2. Amounts of Remuneration and Others Payable to Directors and Statutory Auditors

Designation	Number of Recipients	Amount Payable	Remarks
Directors	Persons 23	Million Yen 1,362	Portion payable to eight External Directors and External Statutory Auditors: 158 million yen
Statutory Auditors	5	77	
Total	28	1,439	

- Notes:
1. The amount payable to the Directors and Statutory Auditors includes the bonus reserve amount attributable to the fiscal year under review.
 2. In addition to the above, pursuant to a resolution adopted by the Board of Directors on July 22, 2009, 18 Directors (not including External Directors) were granted stock acquisition rights intended as incentive stock options, which were valued at 750 million yen.
 3. The amount of remuneration and others payable to the Directors is net of the amount of salaries (including bonuses) payable to the employee Directors in return for serving as employees.
 4. In addition to the above, the amounts of remuneration and others paid or payable to External Directors and External Statutory Auditors from subsidiaries of the Company for serving as Director or Statutory Auditor of such subsidiaries in the fiscal year under review aggregated 20 million yen. There is no information reportable under the disclosure item regarding remuneration and others paid or payable to External Directors and External Statutory Auditors from a parent company or its subsidiaries for serving as Director or Statutory Auditor in the fiscal year under review.

3. Matters Concerning External Directors and External Statutory Auditors

(1) Concurrent Service as External Director or External Statutory Auditor for Other Companies by External Directors and External Statutory Auditors and the Relationship between the Company and Such Other Companies

Mr. Shunji Kono, External Director, serves concurrently as External Director for Nikon Corporation and as External Statutory Auditor for Tokyu Corporation. However, there is no special relationship between the Company and either of these companies that must be disclosed under this item.

Mr. Toshihiko Fukui, External Director, serves concurrently as External Director for Kikkoman Corporation. However, there is no special relationship between the Company and the company that must be disclosed under this item.

Note: Current service of External Directors and External Statutory Auditors as Executive Officers, Executive Directors or Other Officeholders for other corporate or other legal entities, etc. and the relationship between the Company and the relevant entities, etc. are shown in "1. Name and Other Information Concerning Directors and Statutory Auditors" above.

(2) Relationship with the Company or the Company's Particular Associated Business Interests, Such as Major Trading Partner

No External Directors or External Statutory Auditors hold such a relationship that must be disclosed under this item.

(3) Main Activities via Board of Directors Meetings and Other Arrangements during the Fiscal Year under Review

In addition to the statutory Board of Directors, the Company has a second principal organ, called the Managing Directors' Committee, for considering and deciding the execution of business processes, and each organ holds a meeting once a month as a

general rule. The activities of the Company's External Directors and External Statutory Auditors via participation in these meetings and other arrangements are reviewed below:

a. Activities of External Directors

Name	Main Activities
Frank Peter Popoff	As the Director lives in the U.S. and, due to the time difference, it is difficult for him to participate in meetings of the Board of Directors even by videoconference or teleconferencing systems, he attended two meetings of the Board of Directors held during the fiscal year under review. However, in case there are External Directors or External Statutory Auditors who cannot attend meetings, we encourage them to participate in the review and decision-making for business execution by hearing their opinions regarding agenda items in advance, sending them copies of the minutes, and explaining to them the contents of deliberations in detail by telephone. He gave us advice from a broad viewpoint using his management experience at The Dow Chemical Company based in the U.S. and supervised our management from an independent standpoint. He also serves as the commissioner of the Officers' Remuneration Committee.
Shunji Kono	The Director attended all meetings of the Board of Directors, as well as Managing Directors' Committee meetings, held during the fiscal year under review, and shared his comments from a broad, high-level perspective capitalizing on his management experience at the former Tokio Marine & Fire Insurance Co., Ltd (currently Tokio Marine & Nichido Fire Insurance Co., Ltd.). He also provided supervision from an independent standpoint.
Masashi Kaneko	The Director attended all meetings of the Board of Directors, as well as Managing Directors' Committee meetings, held during the fiscal year under review, and shared his comments from a broad, high-level perspective capitalizing on his management experience at the former Nikko Cordial Corporation. He also provided supervision from an independent standpoint.
Tsuyoshi Miyazaki	The Director attended Board of Directors meetings (attendance rate 92%), as well as Managing Directors' Committee meetings, and shared his comments from a broad, high-level perspective capitalizing on his management experience at Mitsubishi Logistics Corporation. He also provided supervision from an independent standpoint.
Toshihiko Fukui	The Director attended Board of Directors meetings (attendance rate 89%), as well as Managing Directors' Committee meetings, and shared his comments from a broad, high-level perspective capitalizing on his outstanding knowledge and wealth of experience related to global finance and economy as an ex-Governor of the Bank of Japan. He also provided supervision from an independent standpoint.

b. Activities of External Statutory Auditors

Name	Main Activities
Taku Fukui	The Auditor attended all meetings of the Board of Directors and of the Board of Statutory Auditors, as well as Managing Directors' Committee meetings, held during the fiscal year under review. At the Board of Statutory Auditors meetings he shared his comments from a legal specialist's point of view and contributed to the establishment of a compliance structure.

Name	Main Activities
Yoshihito Kosaka	The Auditor attended all meetings of the Board of Directors and of the Board of Statutory Auditors, as well as Managing Directors' Committee meetings, held during the fiscal year under review. At the Board of Statutory Auditors meetings he shared his comments from a finance and accounting specialist's point of view and contributed to the establishment of a compliance structure.
Kiyoshi Nagano	The Auditor attended all meetings of the Board of Directors and of the Board of Statutory Auditors, as well as Managing Directors' Committee meetings, held during the fiscal year under review. At the Board of Statutory Auditors meetings he shared his comments from an extensive viewpoint based on his management experience at the former Jaspac Securities Exchange, Inc. (currently Osaka Securities Exchange Co., Ltd.) and contributed to the establishment of a compliance structure.

(4) General Description of Limitation of Liability Agreement

No agreement exists that must be disclosed under this item.

V. Status of Accounting Auditor

1. Name of Accounting Auditor (as of March 31, 2010)

Ernst & Young ShinNihon LLC

2. General Description of Limitation of Liability Agreement

No agreement exists that must be disclosed under this item.

3. Amount of Remuneration and Others Payable to Accounting Auditor Attributable to Fiscal Year under Review

- a. Amount of remuneration and others payable by the Company for the audit service as specified in Paragraph 1, Article 2 of the Certified Public Accountants Law

81 million yen

- b. Total amount of monetary and other financial benefits payable by the Company and its Subsidiaries

122 million yen

Note: The Audit Agreement between the Company and the Accounting Auditor does not distinguish between the amounts of remuneration and others for the Accounting Auditor's audit service specified under the Corporations Law and for the audit service specified under the Financial Instruments and Exchange Law. In fact, these amounts are practically indivisible, so the amount shown above is given as a lump sum.

4. Details of Non-audit Services

The Company pays the Accounting Auditor a retainer in consideration of its advice etc. on internal controls over financial reporting, which falls outside the scope of audit services specified in Paragraph 1, Article 2 of the Certified Public Accountants Law.

5. Retention of Audit Corporations Other Than Company's Accounting Auditor to Audit Financial Documents of Subsidiaries of the Company

Of the Company's Significant Subsidiaries, those employing an audit corporation (that may be an equivalent auditor qualified outside Japan) other than the Company's Accounting Auditor, to receive audit services (to the extent specified in the Corporations Law and in the Financial Instruments and Exchange Law [or in equivalent legislation applicable outside Japan]) are as follows: Shin-Etsu Handotai Co., Ltd.; Shin-Etsu Polymer Co., Ltd.; S.E.H. Malaysia Sdn. Bhd.; Shin-Etsu PVC B.V.; Shin-Etsu Engineering Co., Ltd.; SE Tylose GmbH & Co. KG; SHIN-ETSU HANDOTAI EUROPE LIMITED; and Shin-Etsu Astech Co., Ltd.

6. Policy for Determining the Dismissal or Non-reappointment of Accounting Auditor

The Company's policy states that, if the Accounting Auditor is found to meet the definition of one of the Items of Paragraph 1, Article 340 of the Corporations Law, subject to the consent of all Statutory Auditors, the Board of Statutory Auditors shall dismiss the Accounting Auditor. Outside the extent delineated above, upon the consent or request of the Board of Statutory Auditors, a proposal to dismiss or not to reappoint the Accounting Auditor may be submitted to the General Meeting of Shareholders, if the Company has a reason or need of its own to do so or if the Accounting Auditor is found to be no longer capable of performing its duties appropriately.

VI. Structure to Ensure the Conformity of Execution of Duties by Directors with Laws and Regulations and with the Articles of Incorporation and Other Arrangements to Ensure the Integrity of Business Processes

The Board of Directors of the Company has resolved to establish the above-captioned structure and arrangements as described below.

1. System to Ensure That the Directors and Employees Perform Their Work Duties in Accordance with Applicable Laws and the Company's Articles of Incorporation

The Company's group has a corporate philosophy of taking appropriate corporate actions, based on a desire to act in a lawful manner.

The Company will maintain regulations concerning a compliance system, and the Company's Directors and employees will perform their work duties in accordance with these regulations. The Business Audit Department and other departments that are related to the contents of the audits will perform internal audits concerning the status of the operation of the compliance system.

In order to uncover illegal activities at an early stage and correct such situations, a compliance consultation office will be established, and a compliance consulting/reporting system will be administered in accordance with the relevant internal regulations. Also, the Company will provide compliance training in an appropriate manner.

The Company will appoint independent External Directors and External Statutory Auditors, who will endeavor to preserve the compliance system from an independent point of view, by attending meetings of the Board of Directors and Managing Directors' meetings and/or by other actions.

2. System to Preserve and Administer Information Concerning the Directors' Performance of Their Work Duties

Based on the regulations of information management and other internal regulations, the Company will prepare and preserve written and other records concerning the Directors' performance of their work duties. The Company will promptly provide these records in response to a request from the Directors or Statutory Auditors.

3. Regulations Concerning Management of Risk of Damage to the Company, and Other Systems

Along with maintaining regulations concerning the Company's risk management system, the Company will establish a Risk Management Committee and facilitate the committee's work across the entire Company, in order to discover and prevent risks that may occur in conjunction with the execution of the Company's business.

The Company will appoint External Directors and External Statutory Auditors, who will endeavor to ensure the exchange of relevant information and appropriate risk management, by attending meetings of the Board of Directors and Managing Directors' meetings and/or by other actions.

4. System to Ensure That the Directors Perform Their Work Duties in an Effective Manner

The Company will establish a system to ensure that Directors and employees perform their work duties in an effective manner, in accordance with decision-making rules and division of work duties based on the regulations of the Board of Directors, division of duties, and other internal regulations.

Also, in order to increase the effectiveness of the Directors' performance of their work duties, the Company will appoint External Directors, and these External Directors will not only observe and manage the Company's affairs from an independent viewpoint but also provide suggestions concerning all aspects of the Company's corporate management.

5. System to Ensure the Properness of the Activities of the Corporate Group Consisting of the Company and Its Subsidiaries

The Company's group has a corporate philosophy of taking appropriate corporate actions, based on a desire to act in a lawful manner.

In connection with the activities of the Company's subsidiaries, the Business Audit Department and other departments that are related to the contents of the audits will, as necessary, work together with the Internal Audit Departments of the subsidiaries to perform internal audits of the relevant subsidiaries.

Also, the Company will establish a Statutory Auditor Liaison Committee and Group Statutory Auditor Liaison Committee comprised of full-time Statutory Auditors and others from the Company and its main subsidiaries, and the Company's full-time Statutory Auditors will gather relevant information by attending meetings of affiliated companies and Presidents' meetings of affiliated companies and/or by other actions, together with other Statutory Auditors (including External Statutory Auditors).

6. Matters Concerning Employees Who Are Requested by Statutory Auditors to Assist with the Work Duties of the Statutory Auditors

The Company will appoint audit staff from among its employees, in accordance with the methods set forth in the Company's internal regulations, to assist the Statutory Auditors with their work duties.

7. Matters Concerning the Independence from the Directors of the Employees Referenced in the Previous Item

The Company will appoint, terminate, and take other actions concerning the audit staff, in accordance with the methods set forth in the Company's internal regulations, with the consent of the Statutory Auditors.

8. System for Reporting to the Statutory Auditors by the Directors and Employees and Other Systems Concerning Reporting to the Statutory Auditors

The Directors and employees shall promptly report the following matters to the Statutory Auditors, in accordance with the methods set forth in the Company's internal regulations:

- (1) matters that will cause substantial damage to the Company or which have the potential of doing so;
 - (2) important matters concerning management or financial information;
 - (3) the status of the performance of internal audits;
 - (4) material breaches of law or the Company's Articles of Incorporation;
 - (5) the status of the administration of the compliance consulting/reporting system and the contents of reports made in connection with the system.
9. System for the Purpose of Otherwise Ensuring That the Audits Performed by the Statutory Auditors Will Be Performed Effectively
- The Statutory Auditors will hold periodic meetings with the Company's Accounting Auditors to exchange opinions, hold regular reporting meetings with the Company's Business Audit Department, and take other measures to coordinate its work.

VII. Basic Policy Regarding Control of the Company

1. Basic Policy as to Who and How the Person(s) Controlling Decisions on Financial and Business Policies of the Company Should be (Hereinafter Called "Basic Policy")

The Company's group operates an organic and inorganic chemicals business, an electronic materials business, and a functional materials and other business, and the Company and its affiliates share the roles of production, sales, and other roles, and work together in development of the business activities. Extensive knowledge of and rich experience in these businesses, as well as sufficient understanding of the relationships built with stakeholders such as customers, employees, and business partners of nations around the world, are indispensable to the management of the Group. The Company believes that the person (or persons) controlling decisions regarding the financial and business policies of the Company must be a person (or persons) who contributes to the maximization of the corporate value of the Company. If the Company's shares become the object of a Large-scale Purchase (as defined below), however, the Company understands that the final judgment as to whether or not to sell the Company's shares in response thereto should be left to the Company's shareholders. Still, the Company believes that for this purpose, it is important that sufficient information regarding such Large-scale Purchases must be provided to the Company's shareholders both by the purchasing party and by the Company.

Meanwhile, because some Large-scale Purchases may be judged to significantly damage the Company's corporate value and/or the common interests of the Company's shareholders, the Company considers it necessary for the Board of Directors, based on the duty of care of a good manager, to take measures against such Large-scale Purchases as the Board of Directors deems appropriate.

2. Efforts Aimed at Enhancing Corporate Value of the Company's Group ("Effective Utilization of Company Assets, Optimization of Corporate Group, and Other Particular Efforts Conducive to the Achievement of the Basic Policy")

① Basic Management Policies

The Company's group makes safety its utmost priority in each and every instance, conducts fair corporate activities, enhances its corporate value by contributing to people's daily lives, industry and society through materials and technologies, and thus aims to meet the expectations of all shareholders. For such purposes, the Company's group, while establishing the world's best technologies and product quality and continuously striving to improve productivity, is building stable business relationships with our customers around the world, and striving for management which is able to respond appropriately to changes in economic conditions and the market.

② Policy Implementation

In the PVC business, at SHINTECH INC. in the U.S., an integrated manufacturing plant from electrolysis to PVC is being constructed, and following the first-phase construction of its plant, which has already started operation, the second-phase construction is under way. In addition, in order to double the production capacity of vinyl chloride monomer (VCM), we began the construction of a new raw materials plant. In Europe, in order to strengthen the business foundation of Shin-Etsu PVC in The Netherlands, we made CIRES in Portugal a 100%-owned Shin-Etsu Group company in August 2009. By fully utilizing Shin-Etsu's Japan-U.S.-Europe tri-polar production system, we will continue to further strengthen the position of Shin-Etsu as the world's largest PVC maker.

In the semiconductor silicon business, as the world's largest maker, Shin-Etsu will continue to stably supply high-quality products. Moreover, we will focus on strengthening our competitive power by moving forward with the development of high-quality silicon wafers that will fit the requirements created by further progress in the miniaturization of semiconductor devices.

In the silicone business, we will promote development of new products and new applications by utilizing product characteristics that have a wide range of new application fields. At the same time, while striving to further improve productivity in each silicone manufacturing plant, such as in Japan, Thailand and U.S., we will strengthen our silicone business not only in Japan but also globally.

In the rare earth magnets business, we will carry out sales expansion, particularly for applications in hybrid cars and energy-saving products that are expected to have strong demand growth in the future.

In the cellulose business, in order to achieve stable supply of pharmaceutical-use products, in addition to Shin-Etsu's Naoetsu Plant in Japan, we are going ahead with the construction of new manufacturing facilities at SE Tylose in Germany. We will continue to strive to strengthen our cellulose business.

Furthermore, for future business expansion, we will focus on R&D of new products and their commercialization, and we will also cultivate new businesses, including through M&A.

In addition, we will carry out such corporate social responsibilities as the ensuring of safety, conservation of the environment and full compliance with all laws and regulations, and we will continue to strive to maximize Shin-Etsu's corporate value.

The Board of Directors considers that all the specific efforts described above are consistent with the Basic Policy, because as a result of enhancing the corporate value of the Company's group, these efforts can make the Company's shares less exposed to the risk of becoming the target of a Large-scale Purchase that significantly undermines the Company's corporate value and/or the common interests of the Company's shareholders. Further, because these efforts are designed to enhance the corporate value of the Company's group, the Board of Directors considers it obvious that they are never detrimental to the common interests of the Company's shareholders and are not intended to maintain the status of the Officers of the Company.

3. Handling Policy toward Large-scale Purchases ("Measures in Light of the Basic Policy to Prevent Inadequate Persons from Controlling Decisions on Financial and Business Policies of the Company")

While the Company actively promotes investor relations to shareholders and investors, in order for the shareholders to make accurate judgments, at the start of a Large-scale Purchase (which refers to the purchase of the Company's shares and other securities by a specific group of shareholders, and which is aimed at making the ratio of voting rights of the specific group of shareholders twenty percent (20%) or more, or the purchase of the Company's shares and other securities by a specific group of shareholders in which, as a consequence, the ratio of voting rights of the specific group of shareholders becomes twenty percent (20%) or more; the person making such a purchase is hereinafter called a "Large-scale Purchaser"), as to whether or not the purchasing value presented by the Large-scale Purchaser is appropriate, it is essential that appropriate and sufficient information is provided by both the Large-scale Purchaser and the Company. In view of this, the Company has instituted its handling policy toward Large-scale Purchases (hereinafter called the "Handling Policy"), effective with the approval of the 131st Ordinary General Shareholders' Meeting held on June 27, 2008. As the effective period of the Handling Policy expired at the conclusion of the 132nd annual

meeting of stockholders held on June 26, 2009, the Company has continued the Handling Policy upon the approval of the stockholders at the same annual meeting.

① **Details of Large-scale Purchase Rule**

The essential features of “Rules for Provision of Information in Advance” (hereinafter called “Large-scale Purchase Rules”) as established by the Company are: (i) a Large-scale Purchaser shall provide necessary and sufficient information in advance to the Board of Directors; and (ii) a Large-scale Purchase can be commenced only after a certain period for evaluation and review by the Board of Directors has elapsed.

(a) Provision of Necessary Information

First, the Company will have a Large-scale Purchaser submit to the Company’s Representative Director, prior to the commencement of a Large-scale Purchase, a written document clearly specifying the name, address, governing law of incorporation of the Large-scale Purchaser, name of the representative, domestic contact information, and details of the Large-scale Purchase to start, as well as the intention to follow the Large-scale Purchase Rules. Within ten (10) business days after receipt of such written document, the Company will issue to the Large-scale Purchaser a list of Necessary Information to be initially provided. If, upon reviewing in detail the information initially provided, such information is recognized as insufficient, the Board of Directors will request additional provision of information from the Large-scale Purchaser until the provision of Necessary Information is complete.

(b) Setting of the Period of Assessment and Review

Second, the Board of Directors considers that, upon completion of the provision of the Necessary Information by the Large-scale Purchaser, sixty (60) days (in the case of the purchase of all of our shares by tender offer with cash-only (yen) consideration) or ninety (90) days (in the case of any other Large-scale Purchase), according to the degree of difficulty of assessment and review of the Large-scale Purchase, should be ensured as the period for assessment, review, negotiation, forming of opinions, and planning of alternative plans by the Board of Directors (hereinafter called the “Period of Assessment and Review by the Board of Directors”). Accordingly, a Large-scale Purchase shall commence only after the Period of Assessment and Review by the Board of Directors has elapsed.

During the Period of Assessment and Review by the Board of Directors, the Board of Directors will sufficiently assess and review the Necessary Information while listening to opinions of independent outside professionals (professionals such as securities companies, investment banks, financial advisors, lawyers, certified public accountants and consultants), and will form and announce its opinions. Also, as is necessary, the Board of Directors may negotiate with the Large-scale Purchaser over the terms of the Large-scale Purchase and/or propose alternative plans to the Company’s shareholders.

(c) Establishment and Structure of the Independent Committee

The Independent Committee is established as an organ for eliminating arbitrary judgments and guaranteeing fairness in judgments by the Board of Directors regarding the operation of the Handling Policy. Whereas the Handling Policy stipulates objective requirements for taking countermeasures in Section ②(a) and Section ②(b) below, with respect to a significant judgment regarding the execution of the Handling Policy such as in the case of taking countermeasures described in Section ②(a) below as well as in the case of taking exceptional responses described in Section ②(b) below, in principle the Board of Directors shall consult with the Independent Committee, and the Board of Directors shall, to the maximum extent possible, respect the advice of the Independent Committee.

There shall be three (3) or more members of the Independent Committee, and to enable fair and neutral judgments, selection of the committee’s members will be made from the Company’s External Directors and External Statutory Auditors who are independent of the Managing Directors, and outside professionals such as lawyers, certified public accountants, certified tax accountants, academic experts, and business experts having broad administrative experience. At the Board of Directors meeting immediately following the conclusion of the 132nd Ordinary General Meeting of

Shareholders, Messrs. Toshihiko Fukui, Shunji Kono, Masashi Kaneko, and Tsuyoshi Miyazaki, four External Directors of the Company, were nominated and appointed to serve on the Independent Committee.

② Handling in the Case of Implementation of a Large-scale Purchase

(a) In the Case a Large-scale Purchaser Does Not Comply with the Large-scale Purchase Rules

In the case a Large-scale Purchaser does not comply with the Large-scale Purchase Rules, the Board of Directors may, in order to protect the Company's corporate value and/or the common interests of the Company's shareholders, take countermeasures that are permitted under the Corporations Law and other laws, and the Articles of Incorporation, such as the issuance of stock acquisition rights, so as to resist the Large-scale Purchase.

(b) In the Case a Large-scale Purchaser Complies with the Large-scale Purchase Rules

If a Large-scale Purchaser complies with the Large-scale Purchase Rules, as a general rule, countermeasures against the Large-scale Purchase will not be taken. Whether or not to accept the purchasing proposal made by the Large-scale Purchaser shall be judged by the Company's shareholders in view of such purchasing proposal, the opinions presented by the Company regarding such purchasing proposal, and alternative plans, etc. Even if a Large-scale Purchaser complies with the Large-scale Purchase Rules, however, in the event that such Large-scale Purchase is judged to be significantly damaging the Company's corporate value and/or the common interests of the Company's shareholders, the Board of Directors may, based on the duty of care of a good manager, take measures deemed appropriate for protecting the Company's corporate value and/or the common interests of the Company's shareholders. Such action by the Board of Directors against a Large-scale Purchase is to be made for exceptional cases.

③ Effective Period of the Handling Policy, Etc.

The effective period of the Handling Policy will be up to the conclusion of the Company's 133rd Ordinary General Shareholders' Meeting to be held in June 2010, and in the case the Handling Policy continues after such point of time, it will be conditional upon authorization with the approval of a majority of the voting rights of the shareholders present at the Company's Shareholders' Meeting. Also, even before the expiration of the effective period of the Handling Policy, in the event of a resolution by the Board of Directors to end the Handling Policy from the viewpoint such as an improvement of the common interests of the shareholders, the Handling Policy will end at that point of time.

4. The Handling Policy is in Compliance with the Basic Policy and is not Damaging the Common Interests of the Company's Shareholders; the Purpose of the Handling Policy is not Maintenance of the Status of the Officers of the Company

① The Handling Policy is in Compliance with the Basic Policy

The Handling Policy stipulates that, by setting the Large-scale Purchase Rules, a Large-scale Purchaser shall provide the Board of Directors with necessary and sufficient information regarding a Large-scale Purchase in advance, and that a Large-scale Purchase can be commenced only after the Period of Assessment and Review by the Board of Directors has elapsed. The Handling Policy also stipulates that the Board of Directors may take any countermeasures deemed appropriate against a Large-scale Purchaser who does not comply with the above-mentioned provisions.

Meanwhile, the Handling Policy provides that, even if a Large-scale Purchaser complies with the Large-scale Purchase Rules, in the event that a Large-scale Purchase is judged to be significantly damaging the Company's corporate value and/or the common interests of the Company's shareholders, the Board of Directors may, based on the duty of care of a good manager, take any countermeasures deemed appropriate.

As described above, the Handling Policy is to realize the Basic Policy and is in compliance with the contents of the Basic Policy.

② **The Handling Policy is not Damaging the Common Interests of the Company’s Shareholders**

The Handling Policy provides that, based on the understanding that the final judgment as to whether or not to sell the Company’s shares in response to a Large-scale Purchase should be left to the Company’s shareholders and aiming for ensuring the opportunity to receive information that is necessary and sufficient for the Company’s shareholders to make an appropriate decision in respect of acceptance or non-acceptance of a Large-scale Purchase, the Board of Directors may take any countermeasures deemed appropriate in the event that a Large-scale Purchase is judged to be significantly damaging the common interests of the Company’s shareholders. Therefore, the purpose of the Handling Policy is securing and improving the common interests of the shareholders of the Company, and the Handling Policy is not damaging such common interests in any way.

③ **The Purpose of the Handling Policy is not Maintenance of the Status of the Officers of the Company**

As described above, the purpose of the Handling Policy is securing and improving the common interests of the Company’s shareholders, and the introduction and continuation of the Handling Policy may not be conducted solely upon the judgment of the Board of Directors, but shall require the approval of the Company’s shareholders.

Under the Handling Policy, the requirements for the taking of countermeasures by the Board of Directors are provided in an objective manner, and such requirements shall be announced in advance. Furthermore, the Handling Policy provides that, upon the assessment, review, negotiation and formation of opinions, etc. by the Board of Directors regarding Large-scale Purchases, the Board of Directors shall listen to the opinions of independent outside professionals (professionals such as securities companies, investment banks, financial advisors, lawyers, certified public accountants, and consultants) and that, upon the exercise of the countermeasures, the Board of Directors shall, to enable a fair and neutral judgment, consult with the Special Committee which consists of members who are independent of the Managing Directors of the Company, and the Board of Directors shall respect, to the maximum extent possible, the judgment of the Special Committee.

As described in the above paragraph, since the Handling Policy includes arrangements for eliminating any arbitrary judgment by the Officers of the Company, countermeasures will not be exercised for the purpose of maintaining the status of the Officers of the Company.

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The monetary amounts and numbers of shares set out in the above report are expressed as full units with any fractions of the indicated units rounded down to the nearest full unit.

## CONSOLIDATED BALANCE SHEET

As of March 31, 2010 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million)

### ASSETS

#### Current Assets:

|                                             | (Millions of yen) |
|---------------------------------------------|-------------------|
| Cash and time deposits -----                | 209,046           |
| Notes and accounts receivable-trade-----    | 273,949           |
| Securities -----                            | 109,761           |
| Merchandise and finished products-----      | 95,607            |
| Work in process -----                       | 11,231            |
| Raw materials and supplies -----            | 76,713            |
| Deferred taxes, current -----               | 25,961            |
| Other -----                                 | 43,242            |
| Less: Allowance for doubtful accounts ----- | <u>(2,943)</u>    |
| Total current assets                        | <u>842,571</u>    |

#### Fixed Assets:

##### Property, plant and equipment:

|                                |              |
|--------------------------------|--------------|
| Buildings and structures-----  | 167,206      |
| Machinery and equipment -----  | 264,014      |
| Land-----                      | 65,862       |
| Leased assets-----             | 1,464        |
| Construction in progress ----- | 141,870      |
| Other -----                    | <u>5,715</u> |
|                                | 646,133      |

##### Intangible fixed assets:

|               |              |
|---------------|--------------|
| Goodwill----- | 13,920       |
| Other -----   | <u>3,135</u> |
|               | 17,055       |

##### Investments and other assets:

|                                             |                |
|---------------------------------------------|----------------|
| Investments in securities -----             | 162,399        |
| Long-term loans -----                       | 4,136          |
| Deferred taxes, non-current-----            | 22,056         |
| Other -----                                 | 74,799         |
| Less: Allowance for doubtful accounts ----- | <u>(13)</u>    |
|                                             | <u>263,378</u> |
| Total fixed assets                          | <u>926,568</u> |

|              |                  |
|--------------|------------------|
|              | <u>1,769,139</u> |
| TOTAL ASSETS | <u>1,769,139</u> |



## LIABILITIES

### Current Liabilities:

|                                       | (Millions of yen) |
|---------------------------------------|-------------------|
| Notes and accounts payable-trade----- | 93,294            |
| Short-term borrowings-----            | 11,866            |
| Accounts payable-other -----          | 57,952            |
| Accrued expenses -----                | 38,629            |
| Accrued income taxes -----            | 18,213            |
| Accrued bonuses for employees-----    | 1,879             |
| Accrued bonuses for directors-----    | 561               |
| Other -----                           | <u>7,727</u>      |
| Total current liabilities             | <u>230,124</u>    |

### Long-term Liabilities:

|                                   |                |
|-----------------------------------|----------------|
| Long-term debt -----              | 7,884          |
| Deferred taxes, non-current-----  | 38,107         |
| Accrued retirement benefits ----- | 12,677         |
| Other -----                       | <u>6,132</u>   |
| Total long-term liabilities       | <u>64,802</u>  |
| TOTAL LIABILITIES                 | <u>294,926</u> |

## NET ASSETS

### Stockholders' Equity:

|                                     |                  |
|-------------------------------------|------------------|
| Common stock -----                  | 119,419          |
| Additional paid-in capital-----     | 128,177          |
| Retained earnings -----             | 1,318,413        |
| Less: Treasury stock, at cost ----- | <u>(40,892)</u>  |
| Total stockholders' equity          | <u>1,525,118</u> |

### Valuation and translation adjustments:

|                                                                  |                  |
|------------------------------------------------------------------|------------------|
| Unrealized gains (losses) on available-for-sale securities ----- | 6,717            |
| Deferred gains (losses) on hedges -----                          | 517              |
| Foreign currency translation adjustments-----                    | <u>(101,207)</u> |
| Total valuation and translation adjustments                      | <u>(93,972)</u>  |

|                                                      |               |
|------------------------------------------------------|---------------|
| Share subscription rights -----                      | 3,648         |
| Minority interests in consolidated subsidiaries----- | <u>39,417</u> |

|                                  |                  |
|----------------------------------|------------------|
| TOTAL NET ASSETS                 | <u>1,474,212</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>1,769,139</u> |

## CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31, 2010 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million)

|                                                                 | (Millions of yen)    |
|-----------------------------------------------------------------|----------------------|
| Net sales -----                                                 | 916,837              |
| Cost of sales-----                                              | <u>700,902</u>       |
| Gross profit -----                                              | 215,934              |
| <br>                                                            |                      |
| Selling, general and administrative expenses-----               | <u>98,718</u>        |
| Operating income -----                                          | 117,215              |
| <br>                                                            |                      |
| Non-operating income                                            |                      |
| Interest income -----                                           | 3,772                |
| Dividend income -----                                           | 1,259                |
| Equity in earnings of affiliates -----                          | 9,994                |
| Other income -----                                              | <u>4,145</u>         |
|                                                                 | 19,171               |
| <br>                                                            |                      |
| Non-operating expenses                                          |                      |
| Interest expenses -----                                         | 767                  |
| Other expenses -----                                            | <u>8,600</u>         |
|                                                                 | <u>9,368</u>         |
| Ordinary income -----                                           | 127,019              |
| <br>                                                            |                      |
| Income before income taxes-----                                 | 127,019              |
| <br>                                                            |                      |
| Income taxes - current -----                                    | 23,679               |
| Income taxes - deferred -----                                   | <u>18,711</u>        |
|                                                                 | 42,390               |
| <br>                                                            |                      |
| Minority interest in earnings of consolidated subsidiaries----- | <u>776</u>           |
| Net income-----                                                 | <u><u>83,852</u></u> |

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended March 31, 2010 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million)

|                                                      | Stockholders' Equity |                            |                   |                | (Millions of yen) |
|------------------------------------------------------|----------------------|----------------------------|-------------------|----------------|-------------------|
|                                                      | Common stock         | Additional paid-in capital | Retained earnings | Treasury stock | [Total]           |
| Balance as of March 31, 2009                         | 119,419              | 128,177                    | 1,277,056         | (41,613)       | 1,483,039         |
| Changes during the current year                      |                      |                            |                   |                |                   |
| Cash dividends                                       | -                    | -                          | (42,448)          | -              | (42,448)          |
| Net Income                                           | -                    | -                          | 83,852            | -              | 83,852            |
| Change in scope of consolidation                     | -                    | -                          | 119               | -              | 119               |
| Increase of treasury stock                           | -                    | -                          | -                 | (31)           | (31)              |
| Disposal of treasury stock                           | -                    | -                          | (166)             | 752            | 586               |
| Net changes of items other than stockholders' equity | -                    | -                          | -                 | -              | -                 |
| Total changes during the current year                | -                    | -                          | 41,357            | 721            | 42,078            |
| Balance as of March 31, 2010                         | 119,419              | 128,177                    | 1,318,413         | (40,892)       | 1,525,118         |

|                                                      | Valuation and translation adjustments                      |                                   |                                          |           | Share subscription rights | Minority interests in consolidated subsidiaries | Total Net Assets |
|------------------------------------------------------|------------------------------------------------------------|-----------------------------------|------------------------------------------|-----------|---------------------------|-------------------------------------------------|------------------|
|                                                      | Unrealized gains (losses) on available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustments | [Total]   |                           |                                                 |                  |
| Balance as of March 31, 2009                         | (1,776)                                                    | (41)                              | (115,159)                                | (116,978) | 2,446                     | 38,846                                          | 1,407,353        |
| Changes during the current year                      |                                                            |                                   |                                          |           |                           |                                                 |                  |
| Cash dividends                                       | -                                                          | -                                 | -                                        | -         | -                         | -                                               | (42,448)         |
| Net Income                                           | -                                                          | -                                 | -                                        | -         | -                         | -                                               | 83,852           |
| Change in scope of consolidation                     | -                                                          | -                                 | -                                        | -         | -                         | -                                               | 119              |
| Increase of treasury stock                           | -                                                          | -                                 | -                                        | -         | -                         | -                                               | (31)             |
| Disposal of treasury stock                           | -                                                          | -                                 | -                                        | -         | -                         | -                                               | 586              |
| Net changes of items other than stockholders' equity | 8,494                                                      | 559                               | 13,952                                   | 23,006    | 1,202                     | 570                                             | 24,779           |
| Total changes during the current year                | 8,494                                                      | 559                               | 13,952                                   | 23,006    | 1,202                     | 570                                             | 66,858           |
| Balance as of March 31, 2010                         | 6,717                                                      | 517                               | (101,207)                                | (93,972)  | 3,648                     | 39,417                                          | 1,474,212        |

# Notes to the Consolidated Financial Statements

## Basis of Presenting Consolidated Financial Statements

### 1. Scope of consolidation

#### (1) State of consolidated subsidiaries

Number of consolidated subsidiaries-----70

#### Name of principal consolidated subsidiaries

|                                     |                                         |
|-------------------------------------|-----------------------------------------|
| SHINTECH INC.                       | Shin-Etsu Handotai Co., Ltd.            |
| Shin-Etsu Handotai America, Inc.    | Shin-Etsu Polymer Co., Ltd.             |
| S.E.H. Malaysia Sdn. Bhd.           | Shin-Etsu PVC B.V.                      |
| Shin-Etsu Engineering Co., Ltd.     | SE Tylose GmbH & Co. KG                 |
| SHIN-ETSU HANDOTAI EUROPE LIMITED   | Nagano Electronics Industrial Co., Ltd. |
| Shin-Etsu Handotai Taiwan Co., Ltd. | Naoetsu Electronics Co., Ltd.           |
| Shin-Etsu Astech Co., Ltd.          |                                         |

#### (2) State of unconsolidated subsidiaries

#### Name of principal unconsolidated subsidiaries

Shin-Etsu Electronics (Malaysia) Sdn. Bhd.

#### Reasons for excluding unconsolidated subsidiaries from the scope of consolidation

There are 31 unconsolidated subsidiaries excluded from the scope of consolidation as their total assets, net sales, net income and retained earnings in the aggregate have minimal effect on the consolidated financial statements.

### 2. Application of equity method

#### (1) State of unconsolidated subsidiaries and affiliates to which equity method is applied

Number of affiliates to which the equity method is applied-----7

#### Name of the principal subsidiaries and affiliates to which equity method is applied

Mimasu Semiconductor Industry Co., Ltd.  
Shin-Etsu Quartz Products Co., Ltd.  
Kashima Vinyl Chloride Monomer Co., Ltd.  
Hemlock Semiconductor Corp.

#### (2) State of unconsolidated subsidiaries and affiliates to which equity method is not applied

#### Name of principal unconsolidated subsidiaries and affiliates

Shin-Etsu Electronics (Malaysia) Sdn. Bhd.

#### Reasons for excluding unconsolidated subsidiaries and affiliates from the scope of equity method

There are 31 unconsolidated subsidiaries and 9 affiliates excluded from the scope of the equity method as their net income and retained earnings in the aggregate have minimal effect on the consolidated financial statements.

#### (3) Specific note to the application of equity method

5 of the affiliates accounted for under the equity method have a different closing date from that of the consolidated financial statements with 4 of those affiliates consolidated based on their latest financial statements, and for the remaining affiliate, provisional financial statements as of the end of February are employed.

3. Changes in scope of consolidation

By acquiring additional shares of CIRES, S.A., which was an affiliate under the equity method during the previous fiscal year, the company and its 3 subsidiaries became consolidated subsidiaries. Shin-Etsu Sealant Co., Ltd and Shin-Etsu Polymer Mexico, S.A. de C.V., which were consolidated in the previous fiscal year were excluded from the scope of consolidation due to liquidation and for other reasons.

4. Fiscal year of consolidated subsidiaries

The fiscal year of SHINTECH INC., Shin-Etsu Handotai America, Inc. and 42 other subsidiaries ends on December 31, and the fiscal year of Nagano Electronics Industrial Co., Ltd., Naoetsu Electronics Co., Ltd. and 5 other subsidiaries ends at the end of February. For consolidation of subsidiaries whose fiscal year-ends are not in agreement with that of the Company, necessary adjustments are made on significant inter-company transactions which occurred during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

5. Significant accounting policies

(1) Valuation policy and method for significant assets

i) Valuation policy and method for securities:

Bonds held to maturity ----- Amortized cost method (straight-line method)

Available-for-sale securities

Marketable securities ----- Mark-to-market method based on the fair market value as of the balance sheet date. (Any adjustments resulting from the valuation of securities shall be directly entered into capital accounts, while costs of sales of marketable securities shall be calculated based mainly on a moving-average cost method)

Non-marketable securities ----- Mainly moving-average cost method

ii) Valuation policy and method for derivatives:

Valued at fair value based on market quotation

iii) Valuation policy for inventories:

Cost method mainly based on the weighted-average method (The amount of the inventories shown on the balance sheet is calculated by writing them down based on the decrease in their profitability)

(2) Depreciation and amortization of fixed assets:

i) Property, plant and equipment (excluding leased assets):

Mainly declining-balance method (Straight-line method is applied for buildings (excluding attached facilities) acquired by the Company and certain domestic subsidiaries on and after April 1, 1998)

Useful lives mainly adopted are as follows:

Buildings and structures 15 – 47 years

Machinery and vehicles 2 – 20 years

Additional depreciation is provided based on excess operating hours for machinery

and equipment that operate significantly in excess of their normal utilization time.

ii) Intangible fixed assets (excluding leased assets):

Straight-line method

iii) Leased assets:

Leased assets under finance lease transactions that transfer ownership ----- The same method is applied as that for owned tangible fixed assets.

Leased assets under finance lease transactions that do not transfer ownership ----- The straight-line method taking the lease period as the useful life with zero residual value is applied.

(Finance lease transactions started before the first fiscal year when “Accounting Standard for Lease Transactions” (ASBJ Statement No.13) was applied are accounted for as operating leases)

(3) Calculation policy for allowances:

i) Allowance for doubtful accounts:

The Company and consolidated subsidiaries provide an allowance for doubtful accounts using the historic percentage of bad debt loss against the balance of general receivables plus an amount deemed necessary to cover individual accounts estimated to be uncollectible.

ii) Accrued bonuses for employees:

Certain consolidated subsidiaries accrued the current fiscal year portion of the estimated amount of employees’ bonuses to be paid in the subsequent period.

iii) Accrued retirement benefits:

Pension and severance costs for employees are accrued based on the estimates of the pension obligations and the plan assets at the end of current fiscal year.

The actuarial difference is amortized primarily over a five-year period, which is within the average remaining service period, using the straight-line method from the fiscal year when the difference was generated. The prior service cost is amortized primarily over a ten-year period, which is within the average remaining service period, using the straight-line method from the time when the prior service cost was generated.

(Change in accounting policy)

Effective from the current fiscal year, “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” (ASBJ Statement No.19 issued on July 31, 2008) has been applied.

This change has no impact on operating income, ordinary income and income before income taxes for the current fiscal year.

iv) Accrued bonuses for directors:

The Company and its domestic subsidiaries accrued the current fiscal year portion of the estimated amount of directors’ bonuses to be paid in the subsequent period.

(4) Other bases for presenting consolidated financial statements

i) Hedge accounting:

The Company and certain subsidiaries defer gains or losses on their hedges.

For interest rate swaps, the Company and certain subsidiaries apply an exceptional treatment when the swap in question meets the conditions for applications of such an exceptional treatment.

ii) Consumption tax:

Consumption tax withheld by the Company and certain subsidiaries on sales of products and services is not included in the amount of net sales in the consolidated statement of income. Consumption tax borne by the Company and certain subsidiaries on purchases of goods and services and on expenses is also not included in the related amounts in the consolidated statement of income.

6. Valuation method of assets and liabilities of consolidated subsidiaries

Full fair value accounting method

7. Amortization method of goodwill

Straight-line method within 20 years

**Notes to the Consolidated Balance Sheets**

(Millions of yen)

|                                                                           |           |
|---------------------------------------------------------------------------|-----------|
| 1. Accumulated depreciation of property, plant and equipment-----         | 1,313,405 |
| 2. Contingent liabilities                                                 |           |
| Contingent liabilities for guarantees (employee's housing loan etc.)----- | 52        |

**Notes to the Consolidated Statement of Changes in Net Assets**

1. Type and numbers of shares outstanding as of March 31, 2010

Common stock ----- 432,106,693 shares

2. Dividend

(1) Payment of dividend

| Resolution                                                     | Type of share | Total amount of dividends | Dividends per share | Reference date     | Effective date    |
|----------------------------------------------------------------|---------------|---------------------------|---------------------|--------------------|-------------------|
| Ordinary general meeting of shareholders held on June 26, 2009 | Common stock  | 21,223 million yen        | 50.00 yen           | March 31, 2009     | June 29, 2009     |
| Board of directors meeting held on October 26, 2009            | Common stock  | 21,225 million yen        | 50.00 yen           | September 30, 2009 | November 18, 2009 |

- (2) Dividend which will be effective after March 31, 2010, but belongs to the fiscal year ended March 31, 2010

The Company proposes the following agenda at the ordinary general meeting of shareholders which will be held on June 29, 2010.

| Type of share | Total amount of dividends | Source of dividends | Dividends per share | Reference date | Effective date |
|---------------|---------------------------|---------------------|---------------------|----------------|----------------|
| Common stock  | 21,230 million yen        | Retained earnings   | 50.00 yen           | March 31,2010  | June 30, 2010  |

### 3. Share subscription rights as of March 31, 2010

| Details of share subscription rights                                           | Type of shares subject to share subscription rights | Numbers of shares subject to share subscription rights |
|--------------------------------------------------------------------------------|-----------------------------------------------------|--------------------------------------------------------|
| Resolved at the ordinary general meeting of shareholders held on June 29, 2005 | Common stock                                        | 18,000 shares                                          |
| Resolved at the ordinary general meeting of shareholders held on June 29, 2006 | Common stock                                        | 587,100 shares                                         |
| Resolved at the ordinary general meeting of shareholders held on June 28, 2007 | Common stock                                        | 915,000 shares                                         |
| Resolved at the board of directors meeting held on June 27, 2008               | Common stock                                        | 575,000 shares                                         |
| Resolved at the ordinary general meeting of shareholders held on June 27, 2008 | Common stock                                        | 251,000 shares                                         |
| Resolved at the ordinary general meeting of shareholders held on June 26, 2009 | Common stock                                        | 252,000 shares                                         |
| Resolved at the board of directors meeting held on July 22, 2009               | Common stock                                        | 685,000 shares                                         |

## Financial Instruments

### 1. Overview of financial instruments

In principle, our fund management methods are limited to deposits with financial institutions with high credit ratings and risk-free bonds, and our financing is implemented primarily through borrowings from banks. With regard to credit risk generated by notes and accounts receivable-trade, each of our business departments not only controls and manages account due dates and balances, but also confirms credit standing of major customers periodically, making efforts to identify doubtful accounts as soon as possible.



Regarding securities and investment securities, we update regularly their fair value and the financial situation of the issuing companies. For stocks, we are also continually reviewing our stock holding status, considering the relationship with the issuing companies. All of our derivative transactions are implemented for the purpose of hedging risks generated in the ordinary course of business, and there are no derivative transactions entered into for trading or speculative purposes.

## 2. Fair value of financial instruments

As of March 31, 2010, book value, fair value and the difference between the two are as follows:

|                                                 | Millions of yen |                |                |
|-------------------------------------------------|-----------------|----------------|----------------|
|                                                 | Book value      | Fair value     | Difference     |
| <b>Assets</b>                                   |                 |                |                |
| (1) Cash and time deposits                      | 209,046         | 209,046        | -              |
| (2) Notes and accounts receivable-trade         | 273,949         | 273,949        | -              |
| (3) Securities and investments in securities    |                 |                |                |
| i) Bonds held to maturity                       | 18,651          | 18,787         | 136            |
| ii) Investments in capital stocks of affiliates | 22,795          | 19,674         | (3,120)        |
| iii) Other securities                           | 152,878         | 152,878        | -              |
| (4) Long-term loans                             | 4,136           | 4,598          | 462            |
| <b>Total</b>                                    | <b>681,457</b>  | <b>678,934</b> | <b>(2,522)</b> |
| <b>Liabilities</b>                              |                 |                |                |
| (1) Notes and accounts payable-trade            | 93,294          | 93,294         | -              |
| (2) Short-term borrowings                       | 11,866          | 11,866         | -              |
| (3) Accounts payable-other                      | 57,952          | 57,952         | -              |
| (4) Accrued expenses                            | 38,629          | 38,629         | -              |
| (5) Accrued income taxes                        | 18,213          | 18,213         | -              |
| (6) Long-term debts                             | 7,884           | 7,983          | 98             |
| <b>Total</b>                                    | <b>227,841</b>  | <b>227,939</b> | <b>98</b>      |
| <b>Derivative transactions</b>                  |                 |                |                |
| Hedge accounting not applied                    | 2,238           | 2,238          | -              |
| Hedge accounting applied                        | (476)           | (476)          | -              |
| <b>Total</b>                                    | <b>1,762</b>    | <b>1,762</b>   | <b>-</b>       |

(Note 1) Method for calculating fair value of financial instruments, and notes regarding securities and derivative transactions

#### Assets

(1) Cash and time deposits and (2) Notes and accounts receivable-trade

All of these are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as fair value in the table above.

(3) Securities and investments in securities

These mainly consist of stocks and bonds. Fair value for stocks is based on a price settled on stock exchanges, while fair value for bonds is based on either a price settled on the exchanges or one offered from financial institutions that we have transactions with.

(4) Long-term loans

Fair value for long-term loans is calculated based on a future cash flow discounted at an appropriate rate such as mid-term and long-term interest rates with credit spreads, for all loans grouped by a certain period of time and credit rating under the credit exposure management.

#### Liabilities

(1) Notes and accounts payable-trade, (2) Short-term borrowings, (3) Accounts payable-other, (4) Accrued expenses and (5) Accrued income taxes

All of these are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as fair value in the table above.

(6) Long-term debts

Fair value for long-term debts is calculated based on a present value of principal with interest added, discounted at an expected rate for new borrowings with the same terms.

#### Derivative transactions

Net receivables (payables) derived from derivative transactions are displayed in the table above. Total net payables are showed in parenthesis.

(Note 2) Non-listed stocks (book value: ¥77,836 million) are not included in “(3) Securities and investments in securities,” as their fair value is recognized to be extremely difficult to calculate, with no market value available and no future cash flows being estimated.

#### Per share information

|                                         |          |
|-----------------------------------------|----------|
| Net assets per share stated in yen----- | 3,370.56 |
| Net income per share stated in yen----- | 197.53   |

## BALANCE SHEET (Non-Consolidated)

As of March 31, 2010 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million)

### ASSETS

#### Current Assets:

|                                             | (Millions of yen) |
|---------------------------------------------|-------------------|
| Cash and time deposits -----                | 50,708            |
| Notes receivable -----                      | 5,050             |
| Accounts receivable-trade -----             | 196,501           |
| Securities -----                            | 99,000            |
| Merchandise and finished products -----     | 25,406            |
| Semi-finished products -----                | 10,383            |
| Raw materials and supplies -----            | 29,512            |
| Advance payments -----                      | 652               |
| Deferred taxes, current -----               | 11,568            |
| Short-term loans -----                      | 8,546             |
| Accounts receivable-others -----            | 22,068            |
| Other -----                                 | 2,504             |
| Less: Allowance for doubtful accounts ----- | <u>(250)</u>      |
| Total current assets                        | <u>461,652</u>    |

#### Fixed Assets:

##### Property, plant and equipment:

|                                     |               |
|-------------------------------------|---------------|
| Buildings -----                     | 34,393        |
| Structures -----                    | 4,155         |
| Machinery and equipment -----       | 46,804        |
| Vehicles -----                      | 149           |
| Tools, furniture and fixtures ----- | 1,987         |
| Land -----                          | 22,614        |
| Leased assets -----                 | 112           |
| Construction in progress -----      | <u>11,975</u> |
|                                     | 122,193       |

Intangible fixed assets ----- 1,108

##### Investments and other assets:

|                                                                    |                |
|--------------------------------------------------------------------|----------------|
| Investments in securities -----                                    | 76,027         |
| Investments in capital stocks of subsidiaries and affiliates ----- | 134,700        |
| Investments in partnerships -----                                  | 11             |
| Investments in partnerships of subsidiaries and affiliates -----   | 1,389          |
| Long-term loans -----                                              | 20,972         |
| Long-term prepaid expenses -----                                   | 50             |
| Deferred taxes, non-current -----                                  | 2,634          |
| Other -----                                                        | 3,431          |
| Less: Allowance for doubtful accounts -----                        | <u>(10)</u>    |
|                                                                    | <u>239,206</u> |
| Total fixed assets                                                 | <u>362,508</u> |

TOTAL ASSETS 824,161

## LIABILITIES

### Current Liabilities:

|                                    | (Millions of yen) |
|------------------------------------|-------------------|
| Accounts payable-trade-----        | 100,091           |
| Short-term borrowings-----         | 5,192             |
| Lease obligations-----             | 19                |
| Accounts payable-others-----       | 14,831            |
| Accrued income taxes-----          | 14,933            |
| Accrued expenses-----              | 10,853            |
| Advances received-----             | 55                |
| Deposits-----                      | 704               |
| Accrued bonuses for directors----- | 506               |
| Total current liabilities          | <u>147,189</u>    |

### Long-term Liabilities:

|                                        |              |
|----------------------------------------|--------------|
| Long-term debt-----                    | 6,219        |
| Lease obligations-----                 | 100          |
| Long-term accounts payable-others----- | 1,473        |
| Accrued retirement benefits-----       | 1,805        |
| Total long-term liabilities            | <u>9,599</u> |

TOTAL LIABILITIES 156,788

## NET ASSETS

### Stockholders' Equity:

|                                                  |                |
|--------------------------------------------------|----------------|
| Common stock-----                                | 119,419        |
| Additional paid-in capital:                      |                |
| Capital reserve-----                             | 120,771        |
| Retained earnings:                               |                |
| Legal earned reserve-----                        | 6,778          |
| Other retained earnings:                         |                |
| Reserve for special depreciation-----            | 19             |
| Reserve for particular disaster prevention-----  | 16             |
| Reserve for reduction entry of fixed assets----- | 1,794          |
| Reserve for research-----                        | 88             |
| Reserve for dividend equalization-----           | 15             |
| Reserve for reduction entry of land-----         | 17             |
| General reserve-----                             | 351,137        |
| Retained earnings brought forward-----           | 100,406        |
| Total retained earnings                          | <u>453,495</u> |
| Total retained earnings                          | <u>460,273</u> |
| Less: Treasury stock, at cost-----               | (40,892)       |
| Total stockholders' equity                       | <u>659,573</u> |

### Valuation and translation adjustments:

|                                                                 |       |
|-----------------------------------------------------------------|-------|
| Unrealized gains (losses) on available-for-sale securities----- | 4,470 |
|-----------------------------------------------------------------|-------|

|                                |                |
|--------------------------------|----------------|
| Share subscription rights----- | 3,329          |
| TOTAL NET ASSETS               | <u>667,373</u> |

TOTAL LIABILITIES AND NET ASSETS 824,161

## STATEMENT OF INCOME (Non-Consolidated)

For the year ended March 31, 2010 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million)

|                                                    | (Millions of yen)    |
|----------------------------------------------------|----------------------|
| Net sales -----                                    | 553,891              |
| Cost of sales -----                                | <u>448,190</u>       |
| Gross profit -----                                 | 105,700              |
| <br>                                               |                      |
| Selling, general and administrative expenses ----- | <u>34,994</u>        |
| Operating income -----                             | 70,706               |
| <br>                                               |                      |
| Non-operating income                               |                      |
| Interest income -----                              | 821                  |
| Dividend income -----                              | 9,140                |
| Other income -----                                 | <u>1,430</u>         |
|                                                    | 11,391               |
| <br>                                               |                      |
| Non-operating expenses                             |                      |
| Interest expenses -----                            | 201                  |
| Other expenses -----                               | <u>3,389</u>         |
|                                                    | <u>3,590</u>         |
| Ordinary income -----                              | 78,507               |
| <br>                                               |                      |
| Income before income taxes -----                   | 78,507               |
| <br>                                               |                      |
| Income taxes - current -----                       | 26,330               |
| Income taxes - deferred -----                      | <u>240</u>           |
|                                                    | <u>26,570</u>        |
| Net income -----                                   | <u><u>51,937</u></u> |

## STATEMENT OF CHANGES IN NET ASSETS (Non-consolidated)

For the year ended March 31, 2010 (Amounts are stated in millions of yen by discarding fractional amounts of less than 1 million)

|                                                         | Stockholders' Equity |                                                                     |                             |                              |          | (Millions of yen)   |          |
|---------------------------------------------------------|----------------------|---------------------------------------------------------------------|-----------------------------|------------------------------|----------|---------------------|----------|
|                                                         | Common<br>stock      | Additional<br>paid-in<br>capital                                    | Retained earnings           |                              |          | Treasury<br>stock   | [Total]  |
|                                                         |                      | Capital<br>reserve                                                  | Legal<br>earned<br>reserves | Others*                      | [Total]  |                     |          |
| Balance as of March 31, 2009                            | 119,419              | 120,771                                                             | 6,778                       | 444,173                      | 450,951  | (41,613)            | 649,529  |
| Changes during the current year                         |                      |                                                                     |                             |                              |          |                     |          |
| Cash dividends                                          | -                    | -                                                                   | -                           | (42,448)                     | (42,448) | -                   | (42,448) |
| Net Income                                              | -                    | -                                                                   | -                           | 51,937                       | 51,937   | -                   | 51,937   |
| Increase of treasury stock                              | -                    | -                                                                   | -                           | -                            | -        | (31)                | (31)     |
| Disposal of treasury stock                              | -                    | -                                                                   | -                           | (166)                        | (166)    | 752                 | 586      |
| Net changes of items other than<br>stockholders' equity | -                    | -                                                                   | -                           | -                            | -        | -                   | -        |
| Total changes during the current year                   | -                    | -                                                                   | -                           | 9,322                        | 9,322    | 721                 | 10,043   |
| Balance as of March 31, 2010                            | 119,419              | 120,771                                                             | 6,778                       | 453,495                      | 460,273  | (40,892)            | 659,573  |
|                                                         |                      | Valuation and<br>translation<br>adjustments                         |                             | Share subscription<br>rights |          | Total<br>Net Assets |          |
|                                                         |                      | Unrealized<br>gains (losses) on<br>available-for-sale<br>securities |                             |                              |          |                     |          |
| Balance as of March 31, 2009                            |                      | 63                                                                  |                             | 2,172                        |          | 651,765             |          |
| Changes during the current year                         |                      |                                                                     |                             |                              |          |                     |          |
| Cash dividends                                          |                      | -                                                                   |                             | -                            |          | (42,448)            |          |
| Net Income                                              |                      | -                                                                   |                             | -                            |          | 51,937              |          |
| Increase of treasury stock                              |                      | -                                                                   |                             | -                            |          | (31)                |          |
| Disposal of treasury stock                              |                      | -                                                                   |                             | -                            |          | 586                 |          |
| Net changes of items other than<br>stockholders' equity |                      | 4,406                                                               |                             | 1,157                        |          | 5,564               |          |
| Total changes during the current year                   |                      | 4,406                                                               |                             | 1,157                        |          | 15,607              |          |
| Balance as of March 31, 2010                            |                      | 4,470                                                               |                             | 3,329                        |          | 667,373             |          |

\* Breakdown of other retained earnings

|                                                         | (Millions of yen)                |                                            |                                             |                      |                                   |
|---------------------------------------------------------|----------------------------------|--------------------------------------------|---------------------------------------------|----------------------|-----------------------------------|
|                                                         | Reserve for special depreciation | Reserve for particular disaster prevention | Reserve for reduction entry of fixed assets | Reserve for research | Reserve for dividend equalization |
| Balance as of March 31, 2009                            | 141                              | 12                                         | 1,846                                       | 88                   | 15                                |
| Changes during the current year                         |                                  |                                            |                                             |                      |                                   |
| Cash dividends                                          | -                                | -                                          | -                                           | -                    | -                                 |
| Reversal of reserve for special depreciation            | (122)                            | -                                          | -                                           | -                    | -                                 |
| Provision of reserve for particular disaster prevention | -                                | 4                                          | -                                           | -                    | -                                 |
| Reversal of reserve for reduction entry of fixed assets | -                                | -                                          | (51)                                        | -                    | -                                 |
| Net Income                                              | -                                | -                                          | -                                           | -                    | -                                 |
| Disposal of treasury stock                              | -                                | -                                          | -                                           | -                    | -                                 |
| Total changes during the current year                   | (122)                            | 4                                          | (51)                                        | -                    | -                                 |
| Balance as of March 31, 2010                            | 19                               | 16                                         | 1,794                                       | 88                   | 15                                |

|                                                         | Reserve for reduction entry of land | General reserve | Retained earnings brought forward | Total    |
|---------------------------------------------------------|-------------------------------------|-----------------|-----------------------------------|----------|
| Balance as of March 31, 2009                            | 17                                  | 351,137         | 90,914                            | 444,173  |
| Changes during the current year                         |                                     |                 |                                   |          |
| Cash dividends                                          | -                                   | -               | (42,448)                          | (42,448) |
| Reversal of reserve for special depreciation            | -                                   | -               | 122                               | -        |
| Provision of reserve for particular disaster prevention | -                                   | -               | (4)                               | -        |
| Reversal of reserve for reduction entry of fixed assets | -                                   | -               | 51                                | -        |
| Net Income                                              | -                                   | -               | 51,937                            | 51,937   |
| Disposal of treasury stock                              | -                                   | -               | (166)                             | (166)    |
| Total changes during the current year                   | -                                   | -               | 9,492                             | 9,322    |
| Balance as of March 31, 2010                            | 17                                  | 351,137         | 100,406                           | 453,495  |

## Notes to the Non-Consolidated Financial Statements

### Significant Accounting Policies

#### 1. Valuation policy and method for significant assets

##### (1) Valuation policy and method for securities:

|                                                              |       |                                                                                                                                                                                                                                                                                                            |
|--------------------------------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Bonds held to maturity                                       | ----- | Amortized cost method (straight-line method)                                                                                                                                                                                                                                                               |
| Investments in capital stocks of subsidiaries and affiliates | ----- | Moving-average cost method                                                                                                                                                                                                                                                                                 |
| Available-for-sale securities                                |       |                                                                                                                                                                                                                                                                                                            |
| Marketable securities                                        | ----- | Mark-to-market method based on the fair market value as of the balance sheet date. (Any adjustments resulting from the valuation of securities shall be directly entered into capital accounts, while costs of sales of marketable securities shall be calculated based on the moving-average cost method) |
| Non-marketable securities                                    | ----- | Moving-average cost method                                                                                                                                                                                                                                                                                 |

##### (2) Valuation method for derivatives:

Valued at fair value based on market quotation

##### (3) Valuation policy and method for inventories:

Cost method mainly based on the weighted-average method (The amount of the inventories shown on the balance sheet is calculated by writing them down based on the decrease in their profitability)

#### 2. Depreciation and amortization of fixed assets:

##### (1) Property, plant and equipment (excluding leased assets):

Declining-balance method (Straight-line method is applied for polyvinyl chloride equipment and electrolytic equipment in machinery and equipment, and buildings (excluding attached facilities) acquired on and after April 1, 1998)

Useful lives mainly adopted are as follows:

|                          |               |
|--------------------------|---------------|
| Buildings and structures | 15 – 31 years |
| Machinery and vehicles   | 2 – 9 years   |

Additional depreciation is provided based on excess operating hours for the machinery and equipment that operate significantly in excess of their normal utilization time.

##### (2) Intangible fixed assets (excluding leased assets):

Straight-line method (Software for internal use is amortized by the straight-line method over the useful period of 5 years)

##### (3) Leased assets:

|                                                                        |       |                                                                     |
|------------------------------------------------------------------------|-------|---------------------------------------------------------------------|
| Leased assets under finance lease transactions that transfer ownership | ----- | The same method is applied as that for owned tangible fixed assets. |
|------------------------------------------------------------------------|-------|---------------------------------------------------------------------|



|                                                                                            |                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Leased assets under finance lease transactions that do not transfer ownership -----</p> | <p>The straight-line method taking the lease period as the useful life with zero residual value is applied. (Finance lease transactions started before the first fiscal year when “Accounting Standard for Lease Transactions” (ASBJ Statement No.13) was applied are accounted for as operating leases)</p> |
|--------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

3. Calculation policy for allowances:

Allowance for doubtful accounts:

The Company provides an allowance for doubtful accounts using the historic percentage of bad debt loss against the balance of general receivables plus an amount deemed necessary to cover individual accounts estimated to be uncollectible.

Accrued retirement benefits:

Pension and severance costs for employees are accrued based on the estimates of the pension obligations and the plan assets at the end of current fiscal year.

The actuarial difference is amortized over a five-year period, which is within the average remaining service period, using the straight-line method from the fiscal year when the difference was generated. The prior service cost is amortized over a ten-year period, which is within the average remaining service period, using the straight-line method from the time when the prior service cost was generated.

(Change in accounting policy)

Effective from the current fiscal year, “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” (ASBJ Statement No.19 issued on July 31, 2008) has been applied.

This change has no impact on operating income, ordinary income and income before income taxes for the current fiscal year.

Accrued bonuses for directors:

The Company accrued the current fiscal year portion of the estimated amount of directors’ bonuses to be paid in the subsequent period.

4. Other bases for presenting non-consolidated financial statements

(1) Hedge accounting:

The Company defers gains or losses on its hedges.

For interest rate swaps, the Company applies an exceptional treatment when the swap in question meets the conditions for applications of such an exceptional treatment.

(2) Consumption tax:

Consumption tax withheld by the Company on sales of products is not included in the amount of net sales in the statement of income. Consumption tax borne by the Company on purchases of goods and services and on expenses is also not included in the related amounts in the statement of income.

| <b>Notes to the Non-Consolidated Balance Sheet</b> |                                                                      | (Millions of yen)   |
|----------------------------------------------------|----------------------------------------------------------------------|---------------------|
| 1.                                                 | Accumulated depreciation of property, plant and equipment -----      | 404,068             |
| 2.                                                 | Contingent liabilities for guarantee                                 |                     |
|                                                    | Shin-Etsu Silicones (Thailand) Limited (Loans with Banks)-----       | 2,599               |
|                                                    |                                                                      | (U.S.\$ 27,936,000) |
|                                                    | Employee's housing loan and others-----                              | <u>34</u>           |
|                                                    |                                                                      | <u>2,633</u>        |
| 3.                                                 | Accounts receivable from and payable to subsidiaries and affiliates: |                     |
|                                                    | Short-term accounts receivable-----                                  | 95,564              |
|                                                    | Long-term loans -----                                                | 21,002              |
|                                                    | Short-term accounts payable and others-----                          | 82,144              |

### Notes to the Non-Consolidated Statement of Income

| Transactions with subsidiaries and affiliates: |                                           | (Millions of yen) |
|------------------------------------------------|-------------------------------------------|-------------------|
|                                                | Sales-----                                | 197,525           |
|                                                | Purchases-----                            | 346,281           |
|                                                | Transactions of non-operating nature----- | 31,560            |

### Notes to the Non-Consolidated Statement of Changes in Net Assets

| Type and numbers of treasury stocks as of March 31, 2010 |                  |
|----------------------------------------------------------|------------------|
| Common stock -----                                       | 7,505,054 shares |

### Deferred Tax

Factors of deferred tax assets and liabilities:

|                          |                                                          | (Millions of yen) |
|--------------------------|----------------------------------------------------------|-------------------|
| Deferred Tax Assets      |                                                          |                   |
|                          | Depreciation                                             | 6,655             |
|                          | Maintenance cost                                         | 3,046             |
|                          | Accrued bonus allowance                                  | 1,708             |
|                          | Accrued enterprise taxes                                 | 1,642             |
|                          | Unsettled accounts receivable and payable                | 1,180             |
|                          | Others                                                   | 6,858             |
|                          | Deferred Tax Assets subtotal                             | <u>21,091</u>     |
|                          | Valuation allowance                                      | (2,605)           |
|                          | Deferred Tax Assets Total                                | <u>18,486</u>     |
| Deferred Tax Liabilities |                                                          |                   |
|                          | Unrealized gains/losses on available-for-sale securities | 3,030             |
|                          | Reserve for reduction entry of fixed assets              | 1,216             |
|                          | Reserve for special depreciation                         | 13                |
|                          | Reserve for reduction entry of land                      | 12                |
|                          | Others                                                   | 11                |
|                          | Deferred Tax Liabilities Total                           | <u>4,283</u>      |
|                          | Net Deferred Tax Assets                                  | <u>14,202</u>     |

### Leased Assets

In addition to the tangible fixed assets on the balance sheet, the Company uses a portion of office equipment and manufacturing facilities through finance lease transactions that do not transfer ownership.

### Transactions with Related Parties

Directors, major individual shareholders and others

(Millions of yen)

| Attribute | Name               | Voting rights ownership rate | Contents of relationship                              | Contents of transactions         | Transaction amount (Thousands of shares) | Item | Ending balance |
|-----------|--------------------|------------------------------|-------------------------------------------------------|----------------------------------|------------------------------------------|------|----------------|
| Director  | Chihiro Kanagawa   | Direct ownership<br>0.04%    | Representative Director-President of the Company      | Execution of stock option (Note) | 127<br>(30)                              | -    | -              |
| Director  | Fumio Akiya        | Direct ownership<br>0.00%    | Representative Director-Vice President of the Company | Execution of stock option (Note) | 42<br>(10)                               | -    | -              |
| Director  | Frank Peter Popoff | Direct ownership<br>0.02%    | Director of the Company                               | Execution of stock option (Note) | 212<br>(50)                              | -    | -              |
| Director  | Toshiyuki Kasahara | Direct ownership<br>0.00%    | Director of the Company                               | Execution of stock option (Note) | 25<br>(6)                                | -    | -              |
| Director  | Hidenori Onezawa   | Direct ownership<br>0.00%    | Director of the Company                               | Execution of stock option (Note) | 63<br>(15)                               | -    | -              |

(Note) Stock options granted pursuant to the resolution of the 128th ordinary general meeting of shareholders held on June 29, 2005

### Per share information

Net assets per share stated in yen ----- 1,563.92  
Net income per share stated in yen ----- 122.35

(English Translation)

## Report of Independent Auditors

May 12, 2010

The Board of Directors  
Shin-Etsu Chemical Co., Ltd.

Ernst & Young ShinNihon LLC

Shigemichi Todoroki, CPA  
Designated and Engagement Partner

Hiroshi Saito, CPA  
Designated and Engagement Partner

Yuji Mukaide, CPA  
Designated and Engagement Partner

Ryogo Ichikawa, CPA  
Designated and Engagement Partner

Pursuant to Article 444, Section 4 of the Corporation Law, we have audited the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of Shin-Etsu Chemical Co., Ltd. (the “Company”) applicable to the fiscal year from April 1, 2009 through March 31, 2010. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Shin-Etsu Group, which consisted of the Company and consolidated subsidiaries, applicable to the fiscal year ended March 31, 2010 in conformity with accounting principles generally accepted in Japan.

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

(English Translation)

## Report of Independent Auditors

May 12, 2010

The Board of Directors  
Shin-Etsu Chemical Co., Ltd.

Ernst & Young ShinNihon LLC

Shigemichi Todoroki, CPA  
Designated and Engagement Partner

Hiroshi Saito, CPA  
Designated and Engagement Partner

Yuji Mukaide, CPA  
Designated and Engagement Partner

Ryogo Ichikawa, CPA  
Designated and Engagement Partner

Pursuant to Article 436, Section 2, Paragraph 1 of the Corporation Law, we have audited the balance sheet, the statement of income, the statement of changes in net assets, the notes to the financial statements and the related supplementary schedules of Shin-Etsu Chemical Co., Ltd. (the "Company") applicable to the 133rd fiscal year from April 1, 2009 through March 31, 2010. These financial statements and the related supplementary schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the related supplementary schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the related supplementary schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and the related supplementary schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supplementary schedules. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of Shin-Etsu Chemical Co., Ltd. applicable to the 133rd fiscal year ended March 31, 2010 in conformity with accounting principles generally accepted in Japan.

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

## Audit Report of Board of Statutory Auditors

### Audit Report

The Board of Statutory Auditors has prepared this Audit Report on the execution of duties by the Directors during the 133rd fiscal year from April 1, 2009 to March 31, 2010, based upon, and after having considered, the audit reports prepared by the individual Statutory Auditors. The Report follows:

#### 1. Audit Methodology and Procedures Used by Statutory Auditors and by the Board of Statutory Auditors

The Board of Statutory Auditors established its audit policy, plan and so forth, and received reports from the individual Statutory Auditors on their progress in conducting audits, as well as their findings. The Board also received reports from the Directors and others and from the Accounting Auditor concerning their progress in executing duties, and requested explanations as needed.

In accordance with the standards established by the Board of Statutory Auditors for auditing by the Statutory Auditors, pursuant to the audit policy and assigned duties and others, the individual Statutory Auditors promoted communication with the Directors, the internal audit function, and other employees and others, in order to enhance information collection and the overall audit environment. They also attended the Board of Directors' meetings and other important meetings, and received reports from the Directors and employees and others on their progress in executing duties and requested explanations from them as needed. They perused important documented decisions, approvals and others, and conducted on-site investigations to determine the operation of business practices and the status of assets at the Head Office and other principal places of business. Furthermore, they audited the substance of the Board of Directors' resolutions to develop a structure to ensure the conformity of the execution of duties by the Directors with laws and regulations and with the Articles of Incorporation, and other arrangements specified in Paragraphs 1 and 3, Article 100 of the Corporations Law Enforcement Regulations as necessary for ensuring the integrity of business practices undertaken by stock companies, as well as the state of structures (internal control systems) being developed in accordance with such resolutions. They examined the substance of the Basic Policy and the specific procedures to be taken that are described in the Business Report as required under Item 3-(a) and Item 3-(b) of Article 118 of the Corporations Law Enforcement Regulations, respectively, based primarily on a review of the deliberations conducted at Board of Directors meetings and other meetings. With regard to the subsidiaries, the Statutory Auditors promoted communication and information sharing with the Directors, Statutory Auditors, and others of the subsidiaries, and received business reports from subsidiaries as needed. Based on the methodology above, the Board of Statutory Auditors examined the Business Report and its Annexed Schedules covering the fiscal year under review.

Furthermore, the Board of Statutory Auditors monitored the Accounting Auditor to determine whether it maintained its independence and conducted appropriate audits, and received reports from the Accounting Auditor on its progress in executing duties and asked for explanations as needed. The Board was also advised by the Accounting Auditor of its appropriate development of arrangements enumerated in the Items of Article 131 of the Corporate Calculation Regulations as constituting a "structure to ensure the proper execution of duties," and asked for explanations as needed. Based on the methodology above, the Board of Statutory Auditors examined the Financial Documents (Balance Sheet, Income Statement, Statement of Changes in Shareholders' Equity and Other Net Assets, and Non-consolidated Notes thereto) along with their Annexed Schedules, as well as the Consolidated Financial Documents (Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Changes in Shareholders' Equity and Other Net Assets, and Consolidated Notes thereto), all covering the fiscal year under review.

## 2. Results of Audits

### (1) Results of Auditing Business Report and Others

- 1 The Board of Statutory Auditors certifies that the Business Report and its Annexed Schedules fairly present the state of affairs of the Company in conformity with laws and regulations and the Articles of Incorporation.
- 2 The Board finds no irregular acts that occurred or significant facts that violated laws and regulations or the Articles of Incorporation, in connection with the execution of duties by the Directors.
- 3 The Board certifies the adequacy of the Board of Directors' resolutions relevant to internal control systems. Also, the Board finds no items that require particular notice in connection with the execution of duties by the Directors relevant to such internal control systems.
- 4 The Board finds no items that require particular notice be given with regard to the Basic Policy as to Who and How the Person(s) Controlling Decisions on Financial and Business Policies of the Company Should Be as described in the Business Report. The Board certifies that the specific procedures under Item 3-(b), Article 118 of the Corporations Law Enforcement Regulations as described in the Business Report, conform to the relevant Basic Policy and are in no way detrimental to the common interests of the shareholders of the Company or intended to maintain the status of the Directors or Statutory Auditors of the Company.

### (2) Results of Auditing Financial Documents and their Annexed Schedules

The Board of Statutory Auditors certifies the appropriateness of audit procedures used by the Accounting Auditor, Ernst & Young ShinNihon LLC, and of the results of its audit.

### (3) Results of Auditing Consolidated Financial Documents

The Board of Statutory Auditors certifies the appropriateness of audit procedures used by the Accounting Auditor, Ernst & Young ShinNihon LLC, and of the results of its audit.

May 18, 2010

The Board of Statutory Auditors, Shin-Etsu Chemical Co., Ltd.

Full-Time Statutory Auditor Osamu Okada (Seal)

Statutory Auditor Masahiko Watase (Seal)

Statutory Auditor  
(External Statutory Auditor) Taku Fukui (Seal)

Statutory Auditor  
(External Statutory Auditor) Yoshihito Kosaka (Seal)

Statutory Auditor  
(External Statutory Auditor) Kiyoshi Nagano (Seal)

## Reference Documents for Exercising Voting Rights

### Agenda and Reference Materials

#### 1st Agendum: Distribution of Retained Earnings to Shareholders

Taking a long-term perspective, the Company will focus on expanding company earnings and strengthening the make-up of the Group's structure as well as on sharing the results of such successful management efforts. It is the Company's basic policy to distribute dividends so as to appropriately reward all of our shareholders.

The Company proposes a year-end cash dividend distribution for the 133rd fiscal year as summarized below:

1. Type of Assets Proposed for Distribution

Monetary

2. Asset Allotment Details and Total Amount

The Company proposes a monetary allotment of ¥50 per share of Common Stock in the Company; ¥21,230,081,950 in total.

3. Effective Date of Distribution of Retained Earnings

June 30, 2010

The Company has distributed an interim cash dividend of ¥50 per share for the current fiscal year; thus, the annual cash dividend for the current fiscal year will be the same amount as the distribution of the preceding fiscal year of ¥100 per share.

#### 2nd Agendum: Election of Nine (9) Directors

Upon the close of this General Meeting of Shareholders, the terms of office of nine (9) Directors, namely, Messrs. Chihiro Kanagawa, Shunzo Mori, Fumio Akiya, Kiichi Habata, Masashi Kaneko, Atsushi Nakamura, Fumio Arai, Masahiko Todoroki and Toshiya Akimoto, will expire. Accordingly, the Board of Directors proposes that nine (9) persons be elected as Directors. The candidates for election to the position of Director are as follows:



Candidates for Directors

| No. | Name<br>(Date of Birth)              | Number of<br>Company<br>Shares Held | Career Summary, Positions, Responsibilities, and<br>Important Positions in Other Entities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----|--------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.  | Chihiro Kanagawa<br>(March 15, 1926) | 188,700<br>shares                   | <p>Feb., 1962 Joined the Company</p> <p>Dec., 1970 General Manager of Overseas Business Div.</p> <p>Jan., 1975 Director</p> <p>Aug., 1976 Managing Director</p> <p>Jan., 1979 Senior Managing Director</p> <p>Aug., 1983 Representative Director and Executive Vice President</p> <p>Aug., 1990 Representative Director and President (to date)</p> <p>- Important Positions in Other Entities -</p> <p>Director and President of SHINTECH INC.</p>                                                                                                                                                                                                                                 |
| 2.  | Shunzo Mori<br>(June 27, 1937)       | 33,350 shares                       | <p>Sept., 1963 Joined the Company</p> <p>May, 1985 Director of Shin-Etsu Engineering Co., Ltd.</p> <p>May, 1988 Managing Director of the above</p> <p>Jan., 1992 General Manager of Takefu Plant of the Company</p> <p>June, 1992 Director</p> <p>June, 1996 Managing Director<br/>General Manager of Electronics Materials Div. (to date)</p> <p>June, 1998 Senior Managing Director</p> <p>Nov., 2001 In charge of General Affairs (to date)</p> <p>June, 2002 In charge of Personnel &amp; Labor Relations (to date)</p> <p>July, 2007 Representative Director and Senior Managing Director</p> <p>June, 2009 Representative Director and Executive Vice President (to date)</p> |

| No. | Name<br>(Date of Birth)           | Number of<br>Company<br>Shares Held | Career Summary, Positions, Responsibilities, and<br>Important Positions in Other Entities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----|-----------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.  | Fumio Akiya<br>(October 20, 1940) | 6,000 shares                        | <p>Apr., 1964 Joined the Company</p> <p>Oct., 1997 General Manager, Technology Dept.</p> <p>June, 1998 Director</p> <p>June, 2000 Managing Director</p> <p>June, 2002 Senior Managing Director</p> <p>June, 2004 In charge of Advanced Materials and Technology (to date)</p> <p>July, 2007 Representative Director and Senior Managing Director</p> <p>Nov., 2008 In charge of Semiconductor Materials (to date)</p> <p>June, 2009 Representative Director and Executive Vice President (to date)</p> <p>- Important Positions in Other Entities -</p> <p>Representative Director and President of Shin-Etsu Handotai Co., Ltd.</p> |
| 4.  | Kiichi Habata<br>(March 21, 1941) | 5,400 shares                        | <p>Apr., 1963 Joined the Company</p> <p>Aug., 1992 Deputy General Manager of Gunma Complex<br/>General Manager of Matsuida Plant</p> <p>June, 1996 Director</p> <p>June, 2004 In charge of Environment Control &amp; Safety (to date)</p> <p>June, 2005 Managing Director (to date)</p> <p>June, 2007 In charge of Auditing (to date)</p>                                                                                                                                                                                                                                                                                            |
| 5.  | Masashi Kaneko<br>(March 2, 1939) | 5,000 shares                        | <p>Oct., 2001 Representative Director, Chairman and President of Nikko Cordial Corporation</p> <p>June, 2005 Director and Chairman of the Board of Executive Officers of the above</p> <p>June, 2006 Director (to date)</p> <p>- Important Positions in Other Entities -</p> <p>Director &amp; Chairman of the Board, Ikyu Corporation</p>                                                                                                                                                                                                                                                                                           |

| No. | Name<br>(Date of Birth)             | Number of<br>Company<br>Shares Held | Career Summary, Positions, Responsibilities, and<br>Important Positions in Other Entities                                                                                                                                                                                                                                                                                                                                                              |
|-----|-------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6.  | Fumio Arai<br>(September 15, 1958)  | 5,000 shares                        | Apr., 1981 Joined the Company<br>Mar., 2003 Director and President of Shin-Etsu<br>PVC B.V. (to date)<br>Jan., 2004 Director and President of SE Tylose<br>GmbH & Co. KG (to date)<br>June, 2004 Director (to date)<br>Sept., 2007 Deputy General Manager of Organic<br>Chemicals Division (to date)<br>- Important Positions in Other Entities -<br>Director and President of Shin-Etsu PVC B.V.<br>Director and President of SE Tylose GmbH & Co. KG |
| 7.  | Masahiko Todoroki<br>(May 16, 1953) | 4,155 shares                        | Apr., 1976 Joined the Company<br>Jan., 2001 General Manager of Planning &<br>Administration Dept. of<br>Semiconductor Division (to date)<br>Apr., 2004 Director of Shin-Etsu Handotai Co.,<br>Ltd.<br>June, 2006 Director (to date)<br>June, 2009 Managing Director, Shin-Etsu<br>Handotai Co., Ltd. (to date)<br>- Important Positions in Other Entities -<br>Managing Director, Shin-Etsu Handotai Co., Ltd.                                         |
| 8.  | Toshiya Akimoto<br>(June 5, 1959)   | 3,000 shares                        | Apr., 1982 Joined the Company<br>Sept., 2007 General manager of Office of the<br>Secretariat (to date)<br>June, 2008 Director (to date)                                                                                                                                                                                                                                                                                                                |

| No. | Name<br>(Date of Birth)                 | Number of<br>Company<br>Shares Held | Career Summary, Positions, Responsibilities, and<br>Important Positions in Other Entities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----|-----------------------------------------|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 9.  | Hiroshi Komiyama<br>(December 15, 1944) | 0 shares                            | <p>July, 1988 Professor, School of Engineering, The University of Tokyo</p> <p>Apr., 2000 Dean of the Graduate School of Engineering, Dean of the School of Engineering, The University of Tokyo</p> <p>Apr., 2005 President of National University Corporation, The University of Tokyo</p> <p>May, 2009 Special Advisor of the Company (to date)</p> <p>- Important Positions in Other Entities -</p> <p>Chairman, Mitsubishi Research Institute, Inc.</p> <p>External Director, JX Holdings, Inc.</p> <p>External Statutory Auditor, The Tokyo Electric Power Company, Inc.</p> |

Notes: 1. There is no special interest between any of the above candidates and the Company.

2. Mr. Masashi Kaneko is a candidate for External Director of the Company as defined in Item 15, Article 2 of the Corporations Law and a candidate for Independent Director of the Company provided for in the related rules and regulations of the Tokyo Stock Exchange, Inc. etc. Mr. Kaneko assumed the position of External Director of the Company in June 2006; his term of office as External Director of the Company will have reached four years as of the close of this General Meeting of Shareholders. During his term, Mr. Kaneko has provided the Company with useful advice from broad perspectives based on his management experience at the former Nikko Cordial Corporation, as well as adequate supervision from an independent standpoint. Consequently, in expectation of continued advice and supervision, Mr. Kaneko has been nominated as a candidate for the position.

During Mr. Masashi Kaneko's tenure as Director and Chairman of the Board of Executive Officers of the former Nikko Cordial Corporation, there was an "act of causing investors to purchase marketable securities through invitations to subscribe, based on disclosure documents carrying false statements on substantive matter" regarding Nikko's Nov. 2005 issue of corporate bonds. A fine was imposed on Nikko Cordial Corporation by the Financial Services Agency, effective Jan. 5, 2007.

3. Mr. Hiroshi Komiyama is a candidate for External Director of the Company as defined in Item 15, Article 2 of the Corporations Law and a candidate for Independent Director of the Company provided for in the related rules and

regulations of the Tokyo Stock Exchange, Inc. etc. Mr. Komiyama, who has held, in succession, various important posts, including President of the University of Tokyo, has prominent knowledge of and abundant experience in a wide variety of fields including chemical technology, the global environment, resources, and energy. Consequently, in expectation of his further advice from broad perspectives and supervision from an independent standpoint, Mr. Komiyama has been nominated as a candidate for the position.

**3rd Agendum: Election of One (1) Statutory Auditor**

Upon the conclusion of this General Meeting of Shareholders, the term of office of one (1) Statutory Auditor, namely, Mr. Yoshihito Kosaka, will expire. Accordingly, the Board of Directors proposes that one (1) person be elected as Statutory Auditor.

The candidate for the above is as follows:

The Board of Statutory Auditors has consented to this agendum.

**Candidate for Statutory Auditor**

| Name<br>(Date of Birth)             | Number of<br>Company<br>Shares Held | Career Summary, Positions, and Important<br>Positions in Other Entities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Yoshihito Kosaka<br>(July 13, 1955) | 600 shares                          | Dec., 1984 Registered as a Certified Public Tax Accountant<br>Mar. 1990 Registered as a Certified Public Accountant<br>Apr., 1991 Representative Partner, Actus Audit Corporation (curently Grant Thornton Taiyo ASG) (to date)<br>June, 2006 Statutory Auditor of the Company (to date)<br>July, 2009 Representative Partner, HIYU Certified Tax Accountants' Corporation (to date)<br>- Important Positions in Other Entities -<br>Representative Partner, Grant Thornton Taiyo ASG<br>Representative Partner, HIYU Certified Tax Accountants' Corporation |

Notes 1: There is no special interest between the above candidate and the Company.

2: Mr. Yoshihito Kosaka is a candidate for External Statutory Auditor of the Company as defined in Item 16, Article 2 of the Corporations Law. Mr. Kosaka assumed the position of External Statutory Auditor of the Company in June 2006; his terms of office as External Statutory Auditor of the Company will have reached four (4) years as of the close of this General Meeting of Shareholders. During his term, Mr. Kosaka has satisfactorily performed his auditing duties from a professional perspective as a certified public accountant and a certified tax accountant. As the Company has judged that Mr. Kosaka will continue to provide the same appropriate performances as External Statutory Auditor and to contribute to ensuring the compliance system of the Company, Mr. Kosaka has been nominated as a candidate for the position.

#### 4th Agendum: Issuance of Stock Acquisition Rights as Stock Options to Employees

In accordance with the provisions of Articles 236, 238 and 239 of the Corporations Law, the Company proposes to issue stock acquisition rights as stock options to executive-level employees, and to entrust the authorization of such issue, and the determination of the conditions for invitation to the stock acquisition, to the Board of Directors.

1. Reason for issuing stock acquisition rights with particularly advantageous terms and conditions:

For the purpose of enhancing the willingness and the morale to perform their duties and to improve the Company's business performance, stock acquisition rights may be issued to executive-level employees without the requirement for cash payment, in accordance with the outlines described below.

2. Substance and maximum quantity of the stock acquisition rights, etc. conditions for invitation of which may be determined based on authorization

- (1) Type and quantity of shares subject to the stock acquisition rights:

The type of share subject to the stock acquisition rights shall be the common shares of the Company, and the quantity of shares subject to the stock acquisition rights (hereinafter called the "Number of Granted Shares") shall be one hundred (100) shares per one (1) stock acquisition right.

After the day when the stock acquisition rights are allocated (hereinafter called the "Allocation Day"), if the Company makes a share split (including gratis distribution, and the same is hereinafter applicable to the descriptions of share split) or a share consolidation of common shares of the Company, the Number of Granted Shares shall be adjusted according to the formula described below. Such adjustment, however, shall be made to the Number of Granted Shares for the stock acquisition rights that are not yet exercised at that point of time, and if, as a result of the adjustment, there arises any share less than one (1) share, such fraction shall be omitted.

Number of Granted Shares after adjustment = Number of Granted Shares before adjustment × Ratio of share split or share consolidation

In addition to the above, if any cause arises to force the Company to adjust the Number of Granted Shares, the Company shall make the adjustments considered necessary.

- (2) Upper limit of the number of stock acquisition rights

The number of stock acquisition rights shall be limited to 3,000 rights.

(Up to 300,000 common shares of the Company shall be issued at the exercise of stock acquisition rights. If the Number of Granted Shares is adjusted as prescribed in (1) above, however, the Company shall adjust the upper limit by multiplying the

adjusted Number of Granted Shares by the upper limit of the number of stock acquisition rights.)

(3) Payment for the stock acquisition rights

No payment of cash is needed for issuance of the stock acquisition rights.

(4) Calculation of the value of assets to be contributed at exercise of each stock acquisition right

The value of assets to be contributed at the exercise of each stock acquisition right shall be (x) the amount of investment per share issued at the exercise of a stock acquisition right calculated in the following (hereinafter called the “Exercise Price”) multiplied by (y) the Number of Granted Shares.

The Exercise Price shall be 1.025 times as high as the closing price of the common shares of the Company at the Tokyo Stock Exchange averaged on a daily basis (excluding days with no transactions closed) during the month prior to the month including the day of resolution by the Board of Directors to decide conditions for invitation of the stock acquisition rights, or the closing price of the common shares of the Company at the Tokyo Stock Exchange on the day prior to the day of resolution by the Board of Directors to decide conditions for invitation of the stock acquisition rights (if there is no closing price on such date, the closing price of the closest preceding day), whichever is higher, and fractions less than one (1) yen shall be rounded up.

After an Allocation Day, when the Company issues new common shares or disposes of treasury shares at a price lower than the market price (excluding the sale of treasury stock in accordance with the provisions of Article 194 (Request by the Holder of Fractional Shares for Sale of the Fractional Shares) of the Corporations Law, the conversion of any certificate that shall or may be converted to common shares of the Company, and the exercise of a stock acquisition right (including a right attached to a corporate bond with a stock acquisition right)), the Company shall adjust the Exercise Price according to the formula described below, and if, as a result thereof, there arises any fraction less than one (1) yen, such fraction shall be rounded up.

Exercise Price after adjustment = Exercise Price before adjustment

$$\times \frac{\text{Number of issued shares} + \frac{\text{Number of shares newly issued} \times \text{Payment amount per share}}{\text{Market price}}}{\text{Number of issued shares} + \text{Number of shares newly issued}}$$

(In the formula above, “Number of issued shares” is the gross total number of shares issued by the Company minus the number of treasury shares held by the Company, and at the disposal of treasury shares, “Number of shares newly issued” shall be replaced with “Number of treasury shares to be disposed of.”)



If a share split or a share consolidation is effected after an Allocation Day, the Exercise Price shall be adjusted according to the formula described below, and any fractions less than one (1) yen resulting from such adjustment shall be rounded up.

$$\text{Exercise Price after adjustment} = \text{Exercise Price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In addition to the above, if any cause arises to force the Company to adjust the Exercise Price, the Company shall make adjustments considered necessary.

(5) Period during which a stock acquisition right may be exercised

From the day following the day that is one year after the Allocation Day, to March 31, 2015.

(6) Matters related to capital stock and capital reserve to be increased by issuance of shares at exercise of the stock acquisition rights

(i) The amount of capital stock increased by issuance of shares at exercise of the stock acquisition rights shall be half (1/2) of the limit of an increase in capital stock and the like to be calculated in accordance with Paragraph 1, Article 17 of the Corporate Accounting Rules, and a resulting fraction less than one (1) yen shall be rounded up.

(ii) The amount of capital reserve increased by issuance of shares at the exercise of the stock acquisition rights shall be the limit of an increase in capital stock and the like in (i) minus the amount of capital stock increased prescribed in (i).

(7) Restriction on acquisition of a stock acquisition right through transfer

Acquisition of a stock acquisition right through transfer requires approval by a resolution of the Board of Directors of the Company.

(8) Conditions for acquisition of the stock acquisition rights

(i) If an agendum to approve a merger agreement that will make the Company a disappearing company is approved at a General Meeting of Shareholders of the Company, or if an agendum to approve a corporate split agreement or a corporate split plan that will make the Company a split company, or if an agendum for a share exchange agreement or a share transfer plan that will make the Company become a wholly-owned subsidiary of another company is approved at a General Meeting of Shareholders of the Company (in either case, if no resolution at a General Meeting of Shareholders is needed, resolved by the Board of Directors of the Company), the Company may acquire back the stock acquisition rights without compensation on the day specified by the Board of Directors of the Company.

(ii) If those persons to whom the stock acquisition rights are issued or the heirs of such persons no longer satisfy the conditions to exercise the stock acquisition

rights prescribed in the “Stock Acquisition Right Agreement” concluded between the Company and employees concerned based on the resolution at a General Meeting of Shareholders and at a meeting of the Board of Directors, the Company may acquire back the stock acquisition rights concerned without compensation on the day specified by the Board of Directors of the Company.

(9) When the Company effects a merger (only when the Company disappears), an absorption corporate split, a foundation corporate split, a share exchange or a share transfer (hereinafter collectively called a “Reorganization Action”), under the following conditions, stock acquisition rights of a joint stock corporation listed in any of Sub-Items a - e in Item 8, Paragraph 1, Article 236 of the Corporations Law (hereinafter called the “Reorganized Corporation”) shall be delivered to holders of stock acquisition rights (hereinafter called “Remaining Stock Acquisition Rights”) remaining unexercised as of the point of time when the Reorganization Action comes into effect. In this case, the Remaining Stock Acquisition Rights shall expire, and the Reorganized Corporation shall issue new stock acquisition rights. This issuance, however, shall be limited to the case where the issuance of the stock acquisition rights of the Reorganized Corporation under the following conditions is prescribed in the absorption merger agreement, the foundation merger agreement, the absorption corporate split agreement, the plan of the foundation corporate split, the share exchange agreement, or the plan of the share transfer:

(i) Number of the stock acquisition rights to be issued by the Reorganized Corporation

The same number of stock acquisition rights shall be issued as the number of the Remaining Stock Acquisition Rights.

(ii) Type of share of the Reorganized Corporation subject to the stock acquisition rights

Common shares of the Reorganized Corporation.

(iii) Number of shares of the Reorganized Corporation subject to the stock acquisition rights

This number shall be decided in the same manner as (1) above taking into consideration the conditions for the Reorganization Action.

(iv) Value of assets to be contributed at exercise of each stock acquisition right

The value of assets to be contributed at exercise of each stock acquisition right shall be the amount of contribution calculated through adjustments, taking into consideration the conditions for the Reorganization Action, multiplied by the number of shares subject to the stock acquisition right as decided in (iii) above.

(v) Period during which a stock acquisition right may be exercised

This period shall commence on the starting day of the period for exercising the stock acquisition right specified in (5) above, or the day when the Reorganization Action comes into effect, whichever is later, and end on the day

of expiration of the period during which a stock acquisition right may be exercised as specified in (5) above.

(vi) Matters related to capital stock and capital reserve to be increased by issuance of shares at the exercise of the stock acquisition rights

They shall be decided in the same manner as (6) above.

(vii) Restriction on acquisition of a stock acquisition right through transfer

Acquisition of a stock acquisition right through transfer requires approval by the Reorganized Corporation.

(viii) Conditions for acquisition of the stock acquisition rights

They shall be decided in the same manner as (8) above.

(10) Omission of fractions resulting from the exercise of stock acquisition rights

Fractions less than one (1) share shall be omitted from the shares issued to holders of stock acquisition rights at the exercise of the rights.

(11) Authorization to decide the conditions for invitation of the stock acquisition rights, and the like

Conditions for invitation of the stock acquisition rights, and related details, other than the aforementioned, shall be decided by resolutions at meetings of the Board of Directors to be held separately.

5th Agendum: Continuance of the Handling Policy (Anti-takeover Defensive Plan)  
toward Large-scale Purchase of the Company's Shares and Other Securities

Upon the approval of the 131st annual meeting of stockholders held on June 27, 2008, the Company introduced the current handling policy toward a Large-scale Purchase of the Company's shares and other securities (the "Handling Policy"), and subsequently the Company has continued the Handling Policy upon the approval of the 132nd annual meeting of stockholders held on June 26, 2009. In accordance with the expiration of the effective period of the Handling Policy at the conclusion of this General Meeting of Shareholders, in order to continuously secure and improve the Company's corporate value and/or the common interests of the Company's shareholders, the Company made decisions on the continuance of the Handling Policy with the details mentioned below at the Board of Directors' meeting held on May 20, 2010, subject to the condition of authorization at this General Meeting of Shareholders.

Accordingly, the Company proposes this Handling Policy for approval by an affirmative vote with a majority of voting rights of the shareholders present at this General Meeting of Shareholders. Regarding the Handling Policy, the Company's five (5) Statutory Auditors have expressed the intention to agree to the Handling Policy, provided that the specific operation of the Handling Policy will be performed appropriately. At the present moment, the Company is not aware of any signs of a specific Large-scale Purchase of the Company's shares and other securities.

Note: If laws, provisions, etc. quoted in the Agendum have been revised, the reference to the laws, provisions, etc. before the revision should be read as the reference to the corresponding laws, provisions, etc. after the revision.

1. Basic Policy for Introduction of the Handling Policy ("Basic Policy as to Who and How the Person(s) Controlling Decisions on Financial and Business Policies of the Company Shall be"; hereinafter Called the "Basic Policy")

The Company's group operates an "organic and inorganic chemicals business" which mainly produces and sells vinyl chloride, silicone and cellulose derivatives, etc., an "electronic materials business" which mainly produces and sells semiconductor silicon, organic materials for the electronics industry, rare earth magnets for the electronics industry, and photoresist products, etc., and "functional materials and other business" which provides various services such as the production and sales of synthetic quartz products and rare earth magnets for general purposes, etc., and construction and repair, and the Company and the Company's affiliates share the roles of production, sales and other roles, and work together in development of the business activities. Extensive knowledge of and rich experience in these businesses, as well as sufficient understanding of the relationships built with stakeholders such as customers, employees, and business partners of nations around the world, are indispensable to the management of the Company's group.

While the Company believes that a person or persons who contribute(s) to the maximization of the Company's corporate value should control decisions on the Company's financial and

business policies, in the event of an intended Large-scale Purchase of the Company's shares, the Company understands that the final judgment as to whether or not to sell the Company's shares in response thereto should be left to the Company's shareholders. Still, in order for the shareholders to make accurate judgments as to whether or not the purchasing value presented in the event of such Large-scale Purchase is appropriate, the Company considers it essential that sufficient information regarding such Large-scale Purchase is provided by both the Large-scale Purchaser and the Company. Also, for those persons intending to continuously hold the Company's shares, the effect of a Large-scale Purchase upon the Company's group as well as the management style and business plan for the Company's group as contemplated by a Large-scale Purchaser are extremely important criteria in making decisions upon reviewing such continued holding.

Meanwhile, because some Large-scale Purchases may be judged to be significantly damaging the Company's corporate value and/or the common interests of the Company's shareholders (please refer to Attachment 1 for details), the Company considers it necessary for the Board of Directors, based on the duty of care of a good manager, to take measures against such Large-scale Purchases as the Board of Directors deems appropriate.

2. Measures to Improve the Corporate Value of the Company's Group (Special Measures Which Contribute to the Realization of the Basic Policy, Such as the Effective Utilization of Assets of the Company, Formation of Appropriate Corporate Group, and Others)

(1) Management Policies

The Company's group makes safety its utmost priority in each and every instance, conducts fair corporate activities, enhances its corporate value by contributing to people's daily lives, industry and society through materials and technologies, and thus aims to meet the expectations of all shareholders. For such purposes, the Company's group, while establishing the world's best technologies and product quality and continuously striving to improve productivity, is building stable business relationships with our customers around the world, and striving for management which is able to respond appropriately to changes in economic conditions and the market.

(2) Specific Measures

In the PVC business, at SHINTECH INC. in the U.S., an integrated manufacturing plant from electrolysis to PVC is being constructed, and following the first-phase construction of its plant, which has already started operation, the second-phase

construction is under way. In addition, in order to double the production capacity of vinyl chloride monomer (VCM), we began the construction of a new raw materials plant. In Europe, in order to strengthen the business foundation of Shin-Etsu PVC in The Netherlands, we made CIRES in Portugal a 100%-owned Shin-Etsu Group company in August 2009. By fully utilizing Shin-Etsu's Japan-U.S.-Europe tri-polar production system, we will continue to further strengthen the position of Shin-Etsu as the world's largest PVC maker.

In the semiconductor silicon business, as the world's largest maker, Shin-Etsu will continue to stably supply high-quality products. Moreover, we will focus on strengthening our competitive power by moving forward with the development of high-quality silicon wafers that will fit the requirements created by further progress in the miniaturization of semiconductor devices.

In the silicone business, we will promote development of new products and new applications by utilizing product characteristics that have a wide range of new application fields. At the same time, while striving to further improve productivity in each silicone manufacturing plant, such as in Japan, Thailand and U.S., we will strengthen our silicone business not only in Japan but also globally.

In the rare earth magnets business, we will carry out sales expansion, particularly for applications in hybrid cars and energy-saving products that are expected to have strong demand growth in the future.

In the cellulose business, in order to achieve stable supply of pharmaceutical-use products, in addition to Shin-Etsu's Naoetsu Plant in Japan, we are going ahead with the construction of new manufacturing facilities at SE Tylose in Germany. We will continue to strive to strengthen our cellulose business.

Furthermore, for future business expansion, we will focus on R&D of new products and their commercialization, and we will also cultivate new businesses, including through M&A.

In addition, we will carry out such corporate social responsibilities as the ensuring of safety, conservation of the environment and full compliance with all laws and regulations, and we will continue to strive to maximize Shin-Etsu's corporate value.

The Company considers that, because it is believed that the above-mentioned measures will improve the corporate value of the Company's group and reduce the risk that Large-scale Purchasers who significantly damage the common interests of

the shareholders will appear, such measures will contribute to the realization of the Basic Policy stated in Article 1 above. In addition, the Board of Directors decided to continue the Handling Policy as further measures to ensure the realization of the Basic Policy.

### 3. Details of the Handling Policy

("Measures in Light of the Basic Policy to Prevent Inappropriate Persons from Controlling Decisions on Financial and Business Policies of the Company")

The Handling Policy provides for the situation of (i) the purchase of the Company's shares and other securities (Note 1) by a specific group of shareholders (Note 2), which is aimed at making the ratio of voting rights (Note 3) of the specific group of shareholders twenty percent (20%) or more, or (ii) the purchase of the Company's shares and other securities by a specific group of shareholders in which, as a consequence, the ratio of voting rights of the specific group of shareholders becomes twenty percent (20%) or more (the purchases set out in (i) or (ii) above do not include any purchase to which the Board of Directors has given consent in advance; the purchases set out in (i) or (ii) above are not limited to any specific type of purchase, such as market transactions or tender offers; herein, such a purchase is called a "Large-scale Purchase," and the person making such a purchase is called a "Large-scale Purchaser"). In the event of a Large-Scale Purchase, the Handling Policy requires the Large-Scale Purchaser to comply with Large-scale Purchase Rules that prescribe the prior provision of information and the establishment of a period of review by the Board of Directors, and, where the Large-scale Purchaser fails to comply with these Rules or where the Large-scale Purchase is judged as significantly damaging the Company's corporate value and/or the common interests of the Company's shareholders, countermeasures against the Large-scale Purchaser can be made after consulting an Independent Committee that includes External Directors for advice. The details of the Handling Policy are described below.

Note 1: Shares and other securities mean the shares and other securities as defined in Paragraph 1, Article 27-23 of the Financial Instruments and Exchange Law (the "FIEL").

Note 2: A specific group of shareholders means:

- (i) A holder (including a person deemed as a holder pursuant to Paragraph 3, Article 27-23 of the FIEL; hereinafter the same) of the Company's shares and other securities (defined in Paragraph 1, Article 27-23 of the FIEL) and any joint holders (defined in Paragraph 5, Article 27-23 of the FIEL, including a

person deemed as a joint holder pursuant to the provision of Paragraph 6, Article 27-23 of the FIEL; hereinafter the same); or

- (ii) A person making a purchase and the like (defined in Paragraph 1, Article 27-2 of the FIEL, and includes any purchase made in a financial instruments exchange market) of the Company's shares and other securities (defined in Paragraph 1, Article 27-2 of the FIEL) and any specially related parties (defined in Paragraph 7, Article 27-2 of the FIEL).

Note 3: A ratio of voting rights means:

- (i) If the specific group of shareholders falls under (i) of Note 2, the share holding ratio (defined in Paragraph 4, Article 27-23 of the FIEL; the number of shares and other securities held by any joint holders (defined in the same paragraph) shall also be added); or
- (ii) If the specific group of shareholders falls under (ii) of Note 2, the sum of the share holding ratio (defined in Paragraph 8, Article 27-2 of the FIEL) of such Large-scale Purchaser and any specially related parties.

For calculation of the ratio of each voting right, the financial report, the quarterly report, or the treasury stock purchase report, whichever is submitted at a later date, may be referred to in deciding the total voting rights (defined in Paragraph 8, Article 27-2 of the FIEL) or the total number of outstanding shares (defined in Paragraph 4, Article 27-23 of the FIEL).

## (1) Details of Large-scale Purchase Rules

### (a) Provision of Necessary Information

The essential features of the "Large-scale Purchase Rules" as established by the Company are: (i) a Large-scale Purchaser shall provide the Board of Directors in advance with necessary and sufficient information for judgment by shareholders and forming of opinions by the Board of Directors (the "Necessary Information"); and (ii) a Large-scale Purchase can be commenced only after a certain period for assessment and review by the Board of Directors has elapsed.

Specifically, the Company will firstly have the Large-scale Purchaser submit to the Company's Representative Director, prior to a commencement of a Large-scale Purchase, a written document clearly specifying the name, address, governing law of incorporation of the Large-scale Purchaser, name of the representative, domestic contact information, and details of the Large-scale Purchase to start, as well as the intention to follow the Large-scale Purchase Rules. Within ten (10) business days after receipt of such written document, the Company will issue to the Large-scale Purchaser a list of Necessary Information to be initially provided. If, upon reviewing in detail the information initially provided, such information is recognized as insufficient, the Board of Directors will request additional provision of information from the Large-scale Purchaser until the provision of Necessary



Information is complete. The fact of a proposal of a Large-scale Purchase as well as the Necessary Information provided with the Board of Directors will, if deemed necessary for shareholders in making their judgment, be made public in whole or in part at the time the Board of Directors judges appropriate.

Specific details of Necessary Information vary depending on the attributes of the Large-scale Purchaser and the contents of a Large-scale Purchase, but information related to the following items shall be, as a general rule, included in the Necessary Information:

- (i) Brief overview of the Large-scale Purchaser and its group (including the specific name of the Large-scale Purchaser, contents of business, information on experience, etc. of the same type of business as the Company's group, capital structure, and composition of finances);
- (ii) The purpose, method, and details of the Large-scale Purchase (including the amount and type of purchasing value, time of purchase, and legality of purchasing method);
- (iii) Whether or not there is any communication with a third party regarding the Large-scale Purchase, and if there is, the details thereof;
- (iv) Basis for calculation of the purchasing value of the Company's shares and the proof of the purchasing fund (including the specific name and the method of financing by the provider of the purchasing fund (including the substantial provider));
- (v) Management policy, business plan, financial plan, capital policy, dividend policy and asset-utilization policy, etc. scheduled after completion of the Large-scale Purchase;
- (vi) Existence or nonexistence of any change scheduled after the completion of the Large-scale Purchase concerning the relationship between the Company's group and the Company's business partners, customers, clients, and employees as well as its contents; and
- (vii) If the Large-scale Purchaser operates the same type of business as the Company's group, views on legality from the perspective of antimonopoly law of Japan and competition laws of other relevant countries.

(b) Setting of the Period of Assessment and Review

Secondly, the Board of Directors considers that, upon completion of provision of the Necessary Information by the Large-scale Purchaser, sixty (60) days (in the case of the purchase of all of our shares by tender offer with cash-only (yen) consideration) or ninety (90) days (in the case of any other Large-scale Purchase), according to the degree of difficulty of assessment and review of the Large-scale Purchase, should be ensured as the period for assessment, review, negotiation, forming of opinions, and planning of alternative plans by the Board of Directors (the “Period of Assessment and Review by the Board of Directors”). Accordingly, a Large-scale Purchase shall commence only after the Period of Assessment and Review by the Board of Directors has elapsed.

During this Period of Assessment and Review by the Board of Directors, the Board of Directors will sufficiently assess and review the Necessary Information while listening to opinions of independent outside professionals (professionals such as securities companies, investment banks, financial advisors, lawyers, certified public accountants and consultants), and will form and announce its opinions. Also, as is necessary, the Board of Directors may negotiate with the Large-scale Purchaser over the terms of the Large-scale Purchase and/or propose alternative plans to the Company’s shareholders. As a result, shareholders will be able to review the proposals by the Large-scale Purchaser while referring to the opinions of the Board of Directors, and if alternative plans are proposed by the Board of Directors, a comparative review of such alternative plans and the proposals by the Large-scale Purchaser shall be possible, and an opportunity to make an appropriate decision in respect of eventual acceptance or non-acceptance will be provided.

## (2) Establishment and Structure of the Independent Committee

The Independent Committee shall be established as an organ for eliminating arbitrary judgments and guaranteeing fairness in judgments by the Board of Directors regarding the operation of the Handling Policy.

Whereas the Handling Policy stipulates objective requirements for taking countermeasures in Section (3)(a) and Section (3)(b) below, with respect to a significant judgment regarding the execution of the Handling Policy such as in the case of taking countermeasures described in Section (3)(a) below as well as in the case of taking exceptional responses described in Section (3)(b) below, in principle the Board of Directors shall consult with the Independent Committee, and the Board

of Directors shall, to the maximum extent possible, respect the advice of the Independent Committee.

The consideration by the Independent Committee shall be made during the Period of Assessment and Review by the Board of Directors as described in Section (1)(b).

There shall be three (3) or more members of the Independent Committee, and to enable fair and neutral judgments, selection of the committee's members will be made from External Directors and External Statutory Auditors of the Company who are independent of the Managing Directors, and outside professionals such as lawyers, certified public accountants, certified tax accountants, academic experts, and business experts having broad administrative experience. The brief overview of the Independent Committee is as described in Attachment 2. Also, five (5) persons described in Attachment 3 are going to be appointed as the member of the Independent Committee as from the conclusion of the Annual Meeting of Shareholders.

(3) Handling in the Case of Implementation of a Large-scale Purchase (Please See the Overview Chart in Attachment 4)

(a) In the Case a Large-scale Purchaser Does not Comply with the Large-scale Purchase Rules

In the case a Large-scale Purchaser does not comply with the Large-scale Purchase Rules, the Board of Directors may, in order to protect the Company's corporate value and/or the common interests of the shareholders, take countermeasures that are permitted under the Corporate Law and other laws and the articles of incorporation, such as the issuance of stock acquisition rights, so as to resist the Large-scale Purchase.

Specific countermeasures shall be chosen by the Board of Directors as it judges as the most appropriate at the time, but a brief outline of stock acquisition rights in the case of the issuance of stock acquisition rights by the method of gratuitous allotment to shareholders is shown in Attachment 5. Upon the issuance of stock acquisition rights, certain exercise conditions and exercise period may be set so that such issuance of stock acquisition rights shall have an effect as a countermeasure, such as a person who belongs to a specific group of shareholders whose ratio of voting rights is more than a certain level cannot exercise the stock acquisition rights held by such person. Also, as the terms of stock acquisition rights, such terms may be set that the

Company may acquire stock acquisition rights in exchange for our shares and other assets (acquisition terms), and the Company may place a condition, as a condition for any person having stock acquisition rights of the stock acquisition rights to be affected, such as that such person cannot belong to a specific shareholder group whose ratio of voting rights is more than a certain level.

(b) In the Case a Large-scale Purchaser Complies with the Large-scale Purchase Rules

If a Large-scale Purchaser complies with the Large-scale Purchase Rules, as a general rule, countermeasures against the Large-scale Purchase will not be taken. Whether or not to accept the purchasing proposal made by the Large-scale Purchaser shall be judged by the Company's shareholders in view of such purchasing proposal, opinions presented by the Company regarding such purchasing proposal, and alternative plans, etc. Even if a Large-scale Purchaser complies with the Large-scale Purchase Rules, however, in the event that such Large-scale Purchase is judged to be significantly damaging the Company's corporate value and/or the common interests of the shareholders, as described in Attachment 1, the Board of Directors may, based on the duty of care of a good manager, take measures as deemed appropriate for protecting the Company's corporate value and/or the common interests of the shareholders. Such action by the Board of Directors against a Large-scale Purchase is to be made for exceptional cases.

In order to secure the objectivity and rational judgment, the Board of Directors will, based on the Necessary Information provided by the Large-scale Purchaser, make judgment upon reviewing such Large-scale Purchaser and the specific details of such Large-scale Purchase (such as the purpose, method, subject, amount and type of purchasing value) as well as the effects, etc. of such Large-scale Purchase upon the Company's corporate value and/or the common interests of the shareholders, while listening to opinions of independent outside professionals (professionals such as securities companies, investment banks, financial advisors, lawyers, certified public accountants and consultants) and also, to the maximum extent possible, respecting the advice of the Independent Committee.

(4) Effects on the Company's Shareholders and Investors

(a) Effects on the Company's Shareholders and Investors at the Time of Introduction of the Handling Policy

Upon introduction of the Handling Policy, no specific countermeasures such as the issuance of stock acquisition rights by the method of gratuitous allotment to shareholders will be taken, and there will be no direct and/or specific effects on the legal rights of or economic impact on the Company's shareholders and investors.

(b) Effects on the Company's Shareholders and Investors at the Time of Exercise of Countermeasures

In the case a Large-scale Purchaser does not comply with the Large-scale Purchaser Rules, the Board of Directors may, for the purpose of protecting the Company's corporate value and/or the common interests of the shareholders, take countermeasures that are permitted under the Corporate Law, other laws and the articles of incorporation, upon consultation with the Independent Committee. However, because of the function of such countermeasure itself, the Company shall not assume the occurrence of a situation in which particular damage may be incurred by the shareholders (excluding any Large-scale Purchaser who does not comply with the Large-scale Purchase Rules) in either legal rights or economic impact; provided, however, that upon selecting the issue of stock acquisition rights as a countermeasure, in the case that, after the shareholders who will receive stock acquisition rights by the method of gratuitous allotment to shareholders are confirmed, the issuance of stock acquisition rights is canceled, or the stock acquisition rights issued are acquired by the Company with no consideration, dilution of the value per stock will not take place, and damage may be incurred due to fluctuations in the value of shares by the Company's shareholders who have traded shares based on the assumption of a dilution of value per stock.

Of the possible countermeasures, the procedures relating to the Company's shareholders concerning the issuance of stock acquisition rights are as described in Section (5), but in the event that the Board of Directors decides to take specific countermeasures, such countermeasures will be disclosed appropriately from time to time according to the laws and regulations of the financial instruments exchange.

(5) Procedures to Be Required by the Company's Shareholders upon the Issuance of Stock Acquisition Rights

(a) Issuance of Stock Acquisition Rights

In the event of a resolution by the Board of Directors to issue stock acquisition rights according to the method of gratuitous allotment to shareholders as stipulated in Article 277 of the Corporate Law, the Company will make a public notice to set the

date of allotment of stock acquisition rights. The shareholders recorded in the shareholders registry as of the end of the allotment date will become entitled to be granted the stock acquisition rights on the effective date of issuance of such stock acquisition rights and will not need to take any procedures or otherwise apply for such gratuitous allotment of stock acquisition rights to shareholders.

(b) Procedures for Exercising Stock Acquisition Rights

After the issuance of stock acquisition rights, shareholders may receive the Company's shares by submitting documents, etc. necessary for exercising the rights of stock acquisition rights and paying the exercise price to the payment handling place within the period for exercising rights (in this case, the Company may have such shareholders separately submit the Company's specified written document declaring that such shareholders are not Large-scale Purchasers, etc.).

If, however, as the terms of stock acquisition rights, a provision which allows the Company to acquire stock acquisition rights in exchange for the shares and other assets (acquisition terms) is set, provided that the Company goes through the acquisition procedures, the shareholders holding the stock acquisition rights that are decided by the Board of Directors as the subject of acquisition will, without paying the money equivalent to the exercise price, receive the shares and other assets as the compensation for acquisition of the stock acquisition rights (in this case, the Company may have such shareholders separately submit the Company's specified written document declaring that such shareholders are not Large-scale Purchasers, etc.).

(6) Effective Period of the Handling Policy, etc.

The effective period of the Handling Policy will be up to the conclusion of the Company's 134th annual shareholders' meeting to be held in June 2011, and in the case the Handling Policy continues after such point of time, it will be conditional upon authorization with the approval of a majority of the voting rights of the shareholders present at the Company's shareholders' meeting. Also, even before the expiration of the effective period of the Handling Policy, in the event of a resolution by the Board of Directors to end the Handling Policy from the viewpoint such as an improvement of the common interests of the shareholders, the Handling Policy will end at that point of time. In addition, the Board of Directors will review the Handling Policy as is necessary from the viewpoint such as an improvement of the common interests of the shareholders, in light of factors such as any amendment

to related laws such as the Corporate Law, trends of legal judgment, and responses by the financial instruments exchange and other public institutions.

In the event of the end or a change to the Handling Policy, such matters and the details of any change (in the event of a change), as well as any other matters as acknowledged by the Board of Directors as appropriate will be promptly disclosed.

4. The Handling Policy is in Compliance with the Basic Policy and is not Damaging the Common Interests of the Company's Shareholders; the Purpose of the Handling Policy is not Maintenance of the Status of the Officers of the Company

- (1) The Handling Policy is in Compliance with the Basic Policy

The Handling Policy stipulates that, by setting the Large-scale Purchase Rules, a Large-scale Purchaser shall provide the Board of Directors with necessary and sufficient information regarding a Large-scale Purchase, in advance, and that a Large-scale Purchase can be commenced only after the Period of Assessment and Review by the Board of Directors has elapsed. The Handling Policy also stipulates that the Board of Directors may take any countermeasures deemed appropriate against a Large-scale Purchaser who does not comply with the above-mentioned provisions. Meanwhile, the Handling Policy provides that, even if a Large-scale Purchaser complies with the Large-scale Purchase Rules, in the event that a Large-scale Purchase is judged to be significantly damaging the Company's corporate value and/or the common interests of the shareholders, the Board of Directors may, based on the duty of care of a good manager, take any countermeasures deemed appropriate.

As described in the above, the Handling Policy is to realize the Basic Policy, as described in Article 1, and is in compliance with the contents of the Basic Policy.

- (2) The Handling Policy is not Damaging the Common Interests of the Company's Shareholders

The Handling Policy provides that, based on the understanding that the final judgment as to whether or not to sell the Company's shares in response to a Large-scale Purchase should be left to the Company's shareholders and aiming for ensuring the opportunity to receive information that is necessary and sufficient for the Company's shareholders to make an appropriate decision in respect of acceptance or non-acceptance of a Large-scale Purchase, the Board of Directors may take any countermeasures deemed appropriate in the event that a Large-scale Purchase is judged to be significantly damaging the Company's corporate value and/or the

common interests of the shareholders. Therefore, the purpose of the Handling Policy is securing and improving the common interests of the shareholders of the Company, and the Handling Policy is not damaging such common interests in any way.

Also, since introduction and continuance of the Handling Policy is conditional upon authorization with the approval of a majority of the voting rights of the shareholders present at the shareholders' meeting of the Company, the Company considers that the will of the Company's shareholders may be fully reflected in the Handling Policy.

(3) The Purpose of the Handling Policy is not Maintenance of the Status of the Officers of the Company

As described in Article 4(2) above, the purpose of the Handling Policy is securing and improving the common interests of the Company's shareholders, and the introduction and continuation of the Handling Policy may not be conducted solely upon the judgment of the Board of Directors, but shall require the approval of the Company's shareholders.

Under the Handling Policy, the requirements for the taking of countermeasures by the Board of Directors are provided in an objective manner, and such requirements shall be announced in advance. Further, the Handling Policy provides that, upon assessment, review, negotiation and formation of the opinions, etc. by the Board of Directors regarding Large-scale Purchases, the Board of Directors shall listen to opinions of independent outside professionals (professionals such as securities companies, investment banks, financial advisors, lawyers, certified public accountants and consultants) and that, upon the exercise of countermeasures, the Board of Directors, to enable a fair and neutral judgment, shall consult with the Independent Committee consisting of members who are independent of the Managing Directors of the Company, and the Board of Directors shall respect, to the maximum extent possible, the judgment of the Independent Committee.

As described in the above, since the Handling Policy includes an arrangement to eliminate any arbitrary judgment by the officers of the Company, countermeasures would not be exercised for the purpose of maintenance of the status of the officers of the Company.

[End of Notification]

(Reference Information) The status of the Company's major shareholders is as described in "Matters Concerning Stock in Company" on page 9 of the Business Report.



Cases Where a Large-scale Purchase is Judged as Significantly Damaging Our Corporate Value and/or the Common Interests of the Shareholders

For example, if it is recognized that any of the following cases are applicable, then in principle it is considered that the Company's corporate value and/or the common interests of the shareholders shall be significantly damaged.

1. In the case where it is judged that an acquisition of shares is being conducted for the purpose of only driving up the stock price to have those shares purchased by the Company's group (and its related persons) at a high price, whereas there is no intention of truly participating in the management of the Company's group (so-called "green mailer").
2. In the case where it is judged that an acquisition of our shares is being conducted for the purpose of so-called "scorched management" by, for example, temporarily controlling the management of the Company's group and having the intellectual property, know-how, confidential business information, main clients and customers, etc., which are necessary for the management of the Company or the Company's related companies, transferred to the Large-scale Purchaser or its group companies, etc.
3. In the case where it is judged that an acquisition of our shares is being conducted after controlling the management of the Company's group with the intention of taking our assets or the assets of the Company's related companies to the Large-scale Purchaser and its group companies, etc. for provision of their collateral or repayment.
4. In the case where it is judged that an acquisition of our shares is being conducted for the purpose of temporarily controlling the management of the Company's group and having the Company or the Company's related companies sell or otherwise dispose of expensive assets such as real property and valuable securities, and make temporary high dividends with the profit of disposal, or for the purpose of taking the opportunity of a rapid increase in stock prices due to temporary high dividends and selling our shares at a high price.
5. In the case where it is judged that the purchasing method of our shares as suggested by the Large-scale Purchaser may actually force the selling of our shares upon the Company's shareholders by restricting the opportunity or freedom of judgment by shareholders, such as a coercive two-tier purchase (refers to the purchase of shares such as a tender offer, in which the purchase of all the shares is not induced in the first stage of purchase, and the purchasing conditions in the second stage of purchase are set unfavorably, or not stated clearly) (provided, however, that a partial tender offer does not fall under this category by definition).
6. In the case where significant damage to the Company's corporate value and/or the common interests of shareholders is expected with reasonable grounds, as a result of a possible degradation of technology and production capabilities essential with regard to generating the Company's corporate value or relationships with our company's employees, business partners, customers, and people in the local community, or otherwise.

Brief Overview of Independent Committee

1. Purpose

The Independent Committee has as its purposes the eliminating of any arbitrary judgment by the Board of Directors regarding the exercise, etc. of countermeasures against a Large-scale Purchase of the Company's shares and other securities, and the guaranteeing of fairness in such judgments.

2. Establishment and Members, etc.

- (1) The Independent Committee shall be established by a resolution of the Board of Directors.
- (2) There shall be three (3) or more members of the Independent Committee (the "Independent Members"), and such Independent Members shall be selected by the Board of Directors among the persons who satisfy any of the following conditions:
  - (i) External Directors or External Statutory Auditors of the Company, who are independent of the Managing Directors; or
  - (ii) Outside professionals such as lawyers, certified public accountants, certified tax accountants, academic experts, and business experts having broad administrative experience, and who are independent of the Managing Directors.
- (3) The term of the Independent Members shall expire upon the conclusion of the annual meeting of shareholders for the last fiscal year which concludes within one (1) year after the selection of such members; provided, however, the Board of Directors may reappoint such Independent Members.

3. Convocation and Resolutions, etc. of the Independent Committee

- (1) The Independent Committee shall be convened by any Independent Member or the Board of Directors.
- (2) The chairman of the Independent Committee shall be elected by mutual election of each Independent Member.
- (3) In principle, resolutions of the Independent Committee shall be, with all the Independent Members attending, adopted by a majority of the Independent Members present; provided, however, that if there is any accident or other special circumstances affecting any of the Independent Members, such resolutions shall be, with a majority of all the Independent Members attending, adopted by a majority of the Independent Members present.

4. Matters to be Resolved by the Independent Committee

In cases where consulted by the Board of Directors, the Independent Committee shall adopt resolutions for the matters described below, and advise the contents of such resolutions and the reasons therefor to the Board of Directors:

- (1) Exercise or non-exercise of gratuitous allotment of stock acquisition rights as a countermeasure against a Large-scale Purchase;
- (2) Cancellation of gratuitous allotment of stock acquisition rights as a countermeasure against a Large-scale Purchase or acquisition of the said stock acquisition rights by the Company with no consideration;
- (3) Exercise or non-exercise of countermeasures other than gratuitous allotment of stock acquisition rights; and
- (4) Among other matters to be judged by the Board of Directors, the matters on which the Board of Directors consults the Independent Committee.

#### 5. Authority, etc. of Independent Committee

- (1) The Independent Members shall adopt the resolutions set forth in Article 4 above in consideration of whether such resolutions contribute to the Company's corporate value and/or the common interests of the Company's shareholders. The Independent members who have special interests regarding an agenda of the Independent Committee may not participate in the said resolutions, and the number of such Independent members shall be deducted from the quorum;
- (2) In cases where the Independent Committee judges that information provided by the Large-scale Purchaser is insufficient as the Necessary Information, the Independent Committee may request for the provision of additional information by itself or through the Board of Directors;
- (3) Also, the Independent Committee may request from the Board of Directors for (i) opinions about the Large-scale Purchase and any material which provides grounds for such opinions, (ii) in cases where the Board of Directors determines alternative plans, such alternative plans, and (iii) any other information or materials, etc. which are deemed to be necessary by the Independent Committee from time to time;
- (4) In order to collect sufficient information, the Independent Committee may require that the Board of Directors ensures the attendance of Directors, Statutory Auditors, employees or any other person whose attendance is deemed to be necessary by the Independent Committee at Independent Committee meetings, and may request from such Directors, Statutory Auditors, employees or other necessary persons opinions or explanations regarding the matters required by the Independent Committee; and
- (5) The Independent Committee may, in performing its duties, obtain advice from an independent third party (professionals such as securities companies, investment banks, financial advisors, lawyers, certified public accountants and consultants, etc.) at the expense of the Company, within a reasonable amount.

Names and Brief Personal Histories of Members of Independent Committee (Candidates)

Toshihiko Fukui

Date of Birth : September 7, 1935

|            |                                            |
|------------|--------------------------------------------|
| Apr., 1958 | Joined the Bank of Japan                   |
| Dec., 1994 | Deputy Governor of the above               |
| Mar., 2003 | Governor of the above                      |
| Nov., 2008 | Special Counselor of the Company           |
| June, 2009 | External Director of the Company (to date) |

Hiroshi Komiyama

Date of Birth : December 15, 1944

|            |                                                                                                        |
|------------|--------------------------------------------------------------------------------------------------------|
| July, 1988 | Professor, School of Engineering, The University of Tokyo                                              |
| Apr., 2000 | Dean of the Graduate School of Engineering, Dean of the School of Engineering, The University of Tokyo |
| Apr., 2005 | President of National University Corporation, The University of Tokyo                                  |
| May, 2009  | Special Advisor of the Company (to date)                                                               |

Shunji Kono

Date of Birth : August 1, 1927

|            |                                                                                                                                                         |
|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| June, 1990 | Representative Director and President of The Tokio Marine and Fire Insurance Company, Limited (present Tokio Marine & Nichido Fire Insurance Co., Ltd.) |
| June, 1996 | Representative Director and Chairman of the above                                                                                                       |
| June, 2001 | Counselor of the above                                                                                                                                  |
| June, 2003 | External Director of the Company (to date)                                                                                                              |
| June, 2008 | Honorary Counselor of Tokio Marine & Nichido Fire Insurance Co., Ltd. (to date)                                                                         |

Masashi Kaneko

Date of Birth : March 2, 1939

|            |                                                                              |
|------------|------------------------------------------------------------------------------|
| Oct., 2001 | Representative Director, Chairman and President of Nikko Cordial Corporation |
| June, 2005 | Director and Chairman of the Board of Executive Officers of the above        |
| June, 2006 | External Director of the Company (to date)                                   |

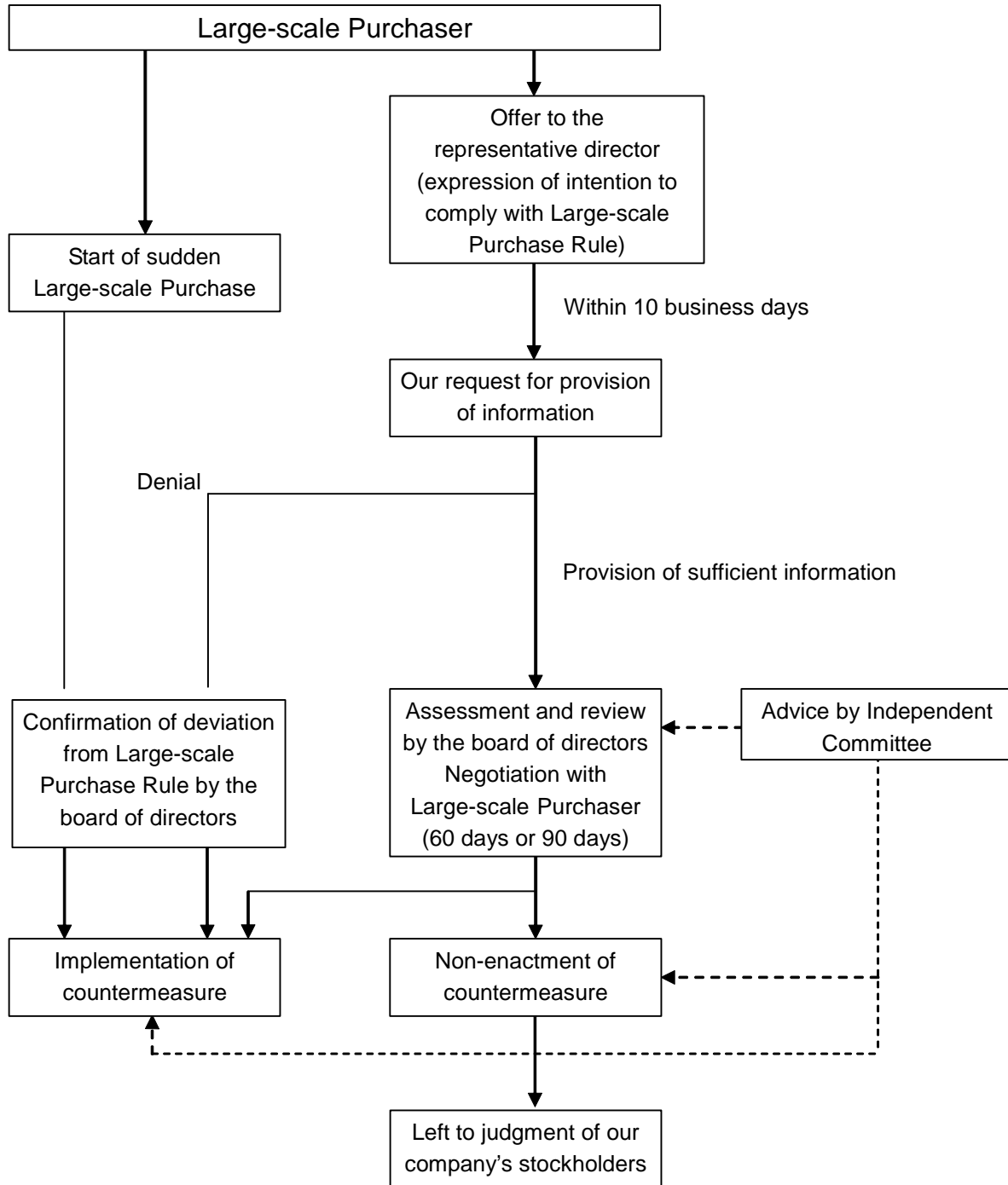
Tsuyoshi Miyazaki

Date of Birth : December 16, 1931

|            |                                                                           |
|------------|---------------------------------------------------------------------------|
| Mar., 1990 | Representative Director and President of Mitsubishi Logistics Corporation |
| June, 1998 | Representative Director and Chairman of the above                         |
| June, 2003 | Counselor of the above (to date)                                          |
| June, 2007 | External Director of the Company (to date)                                |

Notes: Four External Directors of the Company -- Mr. Toshihiko Fukui, Mr. Shunji Kono, Mr. Masashi Kaneko and Mr. Tsuyoshi Miyazaki -- have been reported to the Tokyo Stock Exchange, Inc. etc. as Independent Directors. Mr. Hiroshi Komiyama is a new candidate for External Director of the Company, as described in the "2nd Agendum: Election of Nine (9) Directors," as well as a candidate for Independent Director of the Company.

Handling Policy for Large-scale Purchase: Overview Chart



(Note) The overview above is to facilitate the understanding of the contents of the Handling Policy. For details, please see the body of the text.

Brief Outline of Stock Acquisition Rights

1. Shareholders who are Entitled to Receive Stock Acquisition Rights and the Conditions for Issuance

Stock acquisition rights will be issued to the shareholders recorded in the shareholders registry as of the end of the allotment date, at the ratio as separately determined by the Board of Directors per share of common stock held by such shareholders (provided, however, that common stock held by the Company shall be excluded).

2. Type and Number of Shares That are the Object of Stock Acquisition Rights

The type of shares that are the object of stock acquisition rights shall be the common stock, and the total number of shares that are the object of stock acquisition rights will have an upper limit of 1,287 million shares; provided, however, that in the case the Company conducts a stock split, an issuance of shares by the method of gratuitous allotment to shareholders and stock consolidation, etc., required adjustment will be made.

3. Total Number of Stock Acquisition Rights to be Issued

The total number of the issue of stock acquisition rights will be the number as separately determined by the Board of Directors. The Board of Directors may issue stock acquisition rights not only once but for multiple times.

4. Method of Issuance of Stock Acquisition Rights

The method will be the method of gratuitous allotment to shareholders.

5. Amount to be Paid upon Exercise of Each Stock Acquisition Right

Amount to be paid upon exercise of each stock acquisition right will be one (1) yen or more and as determined by the Board of Directors.

6. Restriction on Transfer of Stock Acquisition Rights

Transfer of stock acquisition rights will require approval by the Board of Directors.

7. Conditions for Exercise of Stock Acquisition Rights

As the conditions for exercise of stock acquisition rights, a condition such as a person who belongs to a specific group of shareholders whose ratio of voting rights is twenty percent (20%) or more cannot exercise the stock acquisition rights, etc., shall be provided. The details shall be as separately determined by the Board of Directors.

8. Period of Exercise and Other

Period of exercise of stock acquisition rights and other necessary matters shall be as separately determined by the Board of Directors.

9. Stock Acquisition Rights with Acquisition Clause

As previously described in the Details of the Handling Policy, the term that the Company may acquire stock acquisition rights in exchange for the shares or other assets (acquisition term) may be established.