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6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo  
Shin-Etsu Chemical Co., Ltd.  
Chihiro Kanagawa, President and CEO  
(Code No. 4063)  
Contact:  
Ken Nakamura  
Director and General Manager  
Public Relations Department  
TEL: (03) 3246-5091

## **Agreement under Mutual Agreement Procedure between Japan and the United States relating to Transfer Pricing Taxation**

Shin-Etsu Chemical Co., Ltd. (“the Company”) announces that it has received a notice from the Japan National Tax Agency (“NTA”) informing that an agreement has been reached through the Mutual Agreement Procedure between Japan and the U.S. (“MAP”) concerning transfer pricing taxation relating to profit derived from transactions between the Company and its U.S. subsidiary Shintech Incorporated (“Shintech”), which has been negotiated under the income tax treaty between the two countries.

Following an audit conducted by the Tokyo Regional Taxation Bureau (“TRTB”), the Company received an amended assessment from the TRTB based on transfer pricing taxation for the five fiscal years from April 2001 to March 2006. The amount of income deemed to have been transferred to the U.S. was about ¥23.3 billion and the total additional tax was about ¥11 billion, which the Company paid in February 2008. The Company subsequently filed an objection with the TRTB, together with a request to the NTA to implement a MAP proceeding, in order to eliminate double taxation. The Company recently received a notice from NTA of its agreement with the U.S. through the MAP.

Through this agreement, double taxation will be eliminated and the amount of income deemed to have been transferred to the U.S. is reduced to about ¥3.9 billion. The Company will receive a correction decision from the TRTB and Shintech will receive a correction decision from the tax authorities in the U.S. The total tax refund amount, including interest in both Japan and the U.S. is estimated at about ¥11.9 billion and it will have an affect of increasing the Company’s consolidated net income for the fiscal year ending March 2011 (the impact on the non-consolidated net income will be approximately 90% of ¥11.9 billion).

As the agreement was reached for the above-mentioned fiscal years through MAP, double taxation relating to this issue for succeeding fiscal years is also expected to be eliminated through mutual agreement procedures based on an advance pricing arrangement.