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(Translation)

(Securities Code 4063)

June 5, 2019

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

Notice of Convocation of the 142nd  
Ordinary General Meeting of Shareholders

Dear Shareholder:

You are hereby notified that the 142nd 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 or via the Internet. We would appreciate it if you would take the time to review the Reference Documents for the General Meeting of Shareholders attached hereto and exercise your voting rights no later than 5:00 p.m. on Wednesday, June 26, 2019.

Description of Meeting

1. Date and Time : June 27, 2019 (Thursday) at 10:00 a.m. (the reception is to start at 9:00 a.m.)
2. Place : Conference Center on the 2nd floor of Otemachi Place East Tower at 3-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo  
(Please note that the place is not the same as last year. Please refer to the map for this year’s venue at the end of this notice.)
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 Audit & Supervisory Board on the Consolidated Financial Statements for the 142nd fiscal year (April 1, 2018 through March 31, 2019)  
2. Report on the Financial Statements for the 142nd fiscal year (April 1, 2018 through March 31, 2019)

Matters to be resolved:

- 1st Agendum : Distribution of Retained Earnings to Shareholders
- 2nd Agendum : Election of Ten (10) Directors
- 3rd Agendum : Election of Three (3) Audit & Supervisory Board Members
- 4th Agendum : Issuance of Stock Acquisition Rights as Stock Options to Employees

Very truly yours,

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Yasuhiko Saitoh  
Representative Director / President  
Shin-Etsu Chemical Co., Ltd.  
6-1, Ohtemachi 2-chome  
Chiyoda-ku, Tokyo

- 
- ⊙ The Notes to Consolidated Financial Statements and the Notes to Non-Consolidated Financial Statements, which are to be attached to this notice of convocation, are published via the Internet on the website of the Company (<http://www.shinetsu.co.jp/>) pursuant to laws and the articles of incorporation of the Company. Therefore, the Consolidated Financial Statements and the Financial Statements attached to this notice of convocation are part of the Consolidated Financial Statements and the Financial Statements which the Audit & Supervisory Board Members and the Accounting Auditor audited in the course of preparing the audit report.
  - ⊙ 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/>).

## **Guidance on How to Exercise Voting Rights**

### **If you are attending the Meeting of Shareholders in person**

Date: Thursday, June 27, 2019 at 10:00 a.m.

(The reception desk would be opened at 9:00 a.m.)

Please hand in the enclosed Voting Card at the reception desk. In the interest of preserving resources, please bring this “Notice of Convocation” with you on the day of the Meeting.

### **If you are not attending the Meeting of Shareholders in person**

#### **By Voting Card**

To reach us by: Wednesday, June 26, 2019 5:00 p.m.

Please indicate your approval or disapproval on the enclosed Voting Card and send it back by postal mail to reach us by the date and time shown above.

#### **Via the Internet**

To be exercised by: Wednesday, June 26, 2019 5:00 p.m.

Please access the voting rights exercise site which we specify below and indicate your approval or disapproval and send it via the internet by the date and time shown above.

Voting rights exercise site: <https://evote.tr.mufg.jp/>

### **If you exercise your voting rights multiple times**

1. If you exercise your voting rights both by Voting Card and via the Internet, the rights exercised via the Internet will be treated as effective.
2. If you exercise your voting rights multiple times via the Internet, the latest exercised voting rights will be treated as effective. In addition, if you exercise your voting rights multiple times from a PC, smartphone or a cell phone, the latest voting rights exercised from whichever devices will be treated as effective.

### **To Institutional Investors**

You may exercise your voting rights using the “Electronic Voting System Platform,” operated by ICJ, Inc.

**Notice of Convocation of the 142nd  
Ordinary General Meeting of Shareholders**

Table of Contents

Annex

Business Report

I. Matters Concerning the Current State of the Company’s Group	1
II. Matters Concerning Stock in the Company	10
III. Matters Concerning Stock Acquisition Rights Issued by the Company	11
IV. Matters Concerning Directors and Audit & Supervisory Board Members of the Company	13
V. Status of Accounting Auditor	19
VI. System to Ensure the Properness of Operations and the Progress thereof	21

Consolidated Financial Statements

Consolidated Balance Sheet	26
Consolidated Statement of Income	28
Consolidated Statement of Changes in Net Assets	29

Financial Statements (Non-Consolidated)

Balance Sheet (Non-Consolidated)	30
Statement of Income (Non-Consolidated)	32
Statement of Changes in Net Assets (Non-Consolidated)	33

Audit Reports

Audit Report of Accounting Auditor on the Consolidated Financial Statements	35
Audit Report of Accounting Auditor on the Financial Statements (Non-Consolidated)	36
Audit Report of Audit & Supervisory Board	37

Reference Documents for Exercising Voting Rights

Agenda and Reference Materials

1st Agendum: Distribution of Retained Earnings to Shareholders	39
2nd Agendum: Election of Ten (10) Directors	40
3rd Agendum: Election of Three (3) Audit & Supervisory Board Members	46
4th Agendum: Issuance of Stock Acquisition Rights as Stock Options to Employees	49

## ANNEX

# BUSINESS REPORT

(April 1, 2018 through March 31, 2019)

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

### 1. Business Operations

During the consolidated fiscal year (April 1, 2018 to March 31, 2019), the situation in the world economy significantly changed. The IMF's "WORLD ECONOMIC OUTLOOK," issued in April 2019, described a trend toward a global slowdown, stating: "One year ago economic activity was accelerating in almost all regions of the world and the global economy was projected to grow at 3.9 percent in 2018 and 2019. One year later, much has changed."

In these circumstances, in order to achieve continued increases in the Shin-Etsu Group's business results, we endeavored—without making premature judgments—to always speedily and effectively adjust to the changing economic environment. Toward these ends, the Shin-Etsu Group continued to carry out the following policies: (1) to deepen our relationship with our customers and further expand our global customer base, (2) to constantly carry out product development that strongly supports our customers' needs, improve product quality and achieve further differentiation in technologies, (3) to continue our policies of precisely keeping scheduled delivery times and carrying out strict cost management and at the same time, (4) to appropriately make investments in order to respond to market demand and customers' needs.

As a result, the net sales for the Company's group for this consolidated fiscal year increased by 10.6% (152,604 million yen) compared with the previous fiscal year to 1,594,036 million yen. Compared to the performance of the previous fiscal year, operating income increased by 19.9% (66,883 million yen) to 403,705 million yen, ordinary income increased by 22.0% (75,003 million yen) to 415,311 million yen, and profit attributable to owners of parent increased by 16.1% (42,890 million yen) to 309,125 million yen.

The business operations of each division were as follows.

#### PVC/Chlor-Alkali

This division's total sales increased by 4.6% (22,924 million yen) from the previous fiscal year to 524,270 million yen, and operating income increased by 14.2% (13,285 million yen) to 106,521 million yen.

With regard to the PVC/Chlor-Alkali Business, at SHINTECH INC. in the U.S. with its advantageous U.S. domestic raw materials situation in its background, both PVC and caustic soda continued high levels of shipments and increased its business results. Because market conditions in Europe continued to be steady, our European bases increased sales volume and did well. Shipments to overseas decreased at our bases in Japan due to the effects of the large-scale periodic maintenance held during the first quarter of this fiscal year.

#### Silicones

This division's total sales increased by 13.1% (27,115 million yen) from the previous fiscal year to 233,383 million yen, and operating income increased by 12.7% (6,592 million yen) to 58,546 million yen.

With regard to the silicones business, as a result of price adjustments made for both general-purpose and functional products and, at the same time, meeting strong worldwide demand by carrying out maximum production and selling it out, the segment's business results increased.

#### Specialty Chemicals

This division's total sales increased by 3.4% (3,946 million yen) from the previous fiscal year to 121,143 million yen, and operating income increased by 3.4% (874 million yen) to 26,603 million yen.

With regard to cellulose derivatives, in addition to pharmaceutical-use products continuing to have good shipments, construction materials products and coating products continued to perform steadily. Pheromone products and POVAL products and others also on the whole had firm shipments.

#### Semiconductor Silicon

This division's total sales increased by 23.3% (71,959 million yen) from the previous fiscal year to 380,349 million yen, and operating income increased by 42.0% (39,035 million yen) to 131,998 million yen.

With regard to semiconductor silicon, in addition to its high level of shipments, the implementation of a product price adjustment contributed as well, and as a result this segment's business results increased.

#### Electronics & Functional Materials

This division's total sales increased by 9.0% (18,644 million yen) from the previous fiscal year to 226,098 million yen, and operating income increased by 8.7% (5,362 million yen) to 66,993 million yen.

With regard to the rare earth magnets business, although since the latter half of this fiscal year (April 1, 2018 to March 31, 2019), customers' inventory adjustments were seen in a part of the applications, products for applications in automobiles including those for hybrid cars resulted in continued good shipments. With regard to our photoresist products business, KrF resists, ArF resists and trilayer materials all continued to be firm. With regard to photomask blanks, in addition to our most advanced cutting-edge products, both our general-purpose products and leading-edge products increased sales and did well. With regard to the business of optical fiber preform, although signs of a slowdown in optical fiber demand were seen, the sales of our joint-venture companies in China continued to be firm.

#### Processing, Trading & Specialized Services Business

This division's total sales increased by 8.0% (8,015 million yen) from the previous fiscal year to 108,790 million yen, and operating income increased by 15.8% (1,814 million yen) to 13,296 million yen.

Shin-Etsu Polymer Co., Ltd.'s business of semiconductor wafer-related containers maintained a high level of shipments and continued to do well.

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

The Company's group invested 240,618 million yen during this consolidated fiscal year mainly in the following:

Major facilities completed during this consolidated fiscal year:

Enhancement of the facility for manufacturing silicone (the Company's Gunma Complex, Naoetsu Plant, Asia Silicones Monomer Limited and Shin-Etsu Silicones (Thailand) Limited)

Construction of a photoresist manufacturing plant (Shin-Etsu Electronic Material Taiwan Co., Ltd.)

Construction of a rare earth magnets manufacturing plant (2nd phase) (Shin-Etsu Magnetic Materials Vietnam Co., Ltd.)

Enhancement of the facility for manufacturing semiconductor wafer-related containers (Shin-Etsu Polymer Co., Ltd.)

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

Construction of an ethylene manufacturing plant (SHINTECH INC.)

Construction of an integrated PVC manufacturing plant (SHINTECH INC.)

Enhancement of the facility for manufacturing silicone monomer (the Company's Gunma Complex and Asia Silicones Monomer Limited)

Enhancement of the facility for manufacturing silicone (Shin-Etsu Silicones of America, Inc.)

Enhancement of the facility for manufacturing cellulose (the Company's Naoetsu Plant and SE Tylose GmbH & Co. KG)

Enhancement of the facility for manufacturing optical fiber preform (the Company's Kashima Plant, Shin-Etsu (Jiangsu) Optical Preform Co., Ltd. and Shin-Etsu YOFC (Hubei) Optical Preform Co., Ltd.)

Enhancement of the facility for manufacturing photomask blanks (the Company's Takefu Plant and Naoetsu Plant)

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, the world economy has many uncertain factors and it does not allow for optimism.

Facing such a situation, the Shin-Etsu Group will carefully focus on developments in world markets and aggressively develop our sales activities while accurately capturing trends in demand. At the same time, we will take further steps to accelerate the development of our global business by such means as constructing manufacturing bases at optimal locations in the world and strengthening and expanding existing facilities. In addition, we will continue to focus on enhancing productivity and product quality, and at the same time, we will strive to develop products that have value for customers and we will also strive to assure the stable supply of our products. For this purpose, while continuing to maintain a sound financial base, we will proactively utilize our financial strength to carry out appropriate investments in a timely manner.

In the PVC business, in order to strengthen its integrated PVC manufacturing system from the raw materials, SHINTECH INC. in the U.S. is striving towards making full use at an early stage of its new ethylene plant, which is manufacturing one of the main raw materials for PVC, and working to complete the construction of its new PVC manufacturing plant. In addition, we will continue to adopt various measures in a timely manner as the world's largest PVC manufacturer

through making good use of our existing production capabilities and the advantageous raw materials situation in the U.S. as well as through carrying out sales that accurately capture the movement in worldwide demand from our tripolar production bases in Japan, the U.S. and Europe.

In the semiconductor silicon business, in the midst of the expectation of an expanding semiconductor device market, we will continue to stably supply our high-quality products to worldwide customers from our manufacturing bases both in Japan and globally. Furthermore, we will carefully assess customers' demand trends in the semiconductor market, and in all fields of semiconductors, including R&D, we will strive to strengthen our competitive power.

In the silicones business, in Japan, Thailand, the U.S. and other major bases, we are going forward with large-scale production capacity expansion of our silicone monomer and end products, and we are working on the expansion of our supply system to our worldwide customers. Furthermore, by utilizing our Technical Centers, we are promoting the development of new products and new applications and will contribute to solving the issues before our customers. By means of these endeavors, with research, manufacturing and sales united as one, we will strive for further business expansion.

In the rare earth magnets business, by making the most of the Vietnam Plant that has realized integrated production from the refining of raw materials to final products, we are striving to build a production system that has strong cost competitive power and to improve our stable supply system. Furthermore, by using our own in-house recycling and diversifying supply sources, we are ensuring the stable procurement of raw materials, and we will meet the demand for these magnets both in Japan and outside of Japan, mainly for applications in automobiles.

With regard to other businesses, in the cellulose business, at our two production bases in Japan and Germany, we are going forward with facility investments that will meet the demand for the diversification of our product line-up, and we are meeting our customers demand from three production bases, including that in the U.S. Moreover, we aim to achieve a further leap forward into the world market as the main supplier of each of our products by making good use of our other production bases, such as our photoresists plant in Taiwan and photomask blanks No. 2 plant in Japan, in addition to the optical fiber preform plants which are undergoing production capacity expansions at a total of three bases in Japan and China.

Furthermore, in order to create businesses that will become future business pillars, we will accelerate R&D and the commercialization of new products with unique characteristics that will anticipate new global needs, and we will also strive to pioneer new businesses, including by such means as M&A.

In addition, we will faithfully carry out corporate social responsibilities, such 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	139th Fiscal Year	140th Fiscal Year	141st Fiscal Year	142nd Fiscal Year
Net Sales	(Million Yen)	1,279,807	1,237,405	1,441,432	1,594,036
Profit attributable to owners of parent	(Million Yen)	148,840	175,912	266,235	309,125
Net Income per Share	(Yen)	349.46	412.86	624.28	725.99
Net Assets	(Million Yen)	2,080,465	2,190,082	2,413,025	2,532,556
Total Assets	(Million Yen)	2,510,085	2,655,636	2,903,137	3,038,717

Note: 1. In the 140th fiscal year, a decrease in net sales was mainly due to the effects of the yen's appreciation.

2. The Company's group applied Accounting Standards Board of Japan ("ASBJ") Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. issued on February 16, 2018, from this consolidated fiscal year. The Company's group changed to the method for presenting deferred tax assets in Investments and Other Assets, and deferred tax liabilities in Long-Term Liabilities, and the figures of the previous consolidated fiscal years are presented to conform with the current classification.



5. Status of Major Subsidiary Companies, etc. (as of March 31, 2019)

(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.	¥10,000 million	100.0	Manufacture and sales of semiconductor silicon
Shin-Etsu Handotai America, Inc. (U.S.A.)	US\$150 million	100.0 (100.0)	Manufacture and sales of semiconductor silicon
Shin-Etsu PVC B.V. (Netherlands)	EUR18 thousand	100.0 (100.0)	Manufacture and sales of polyvinyl chloride
S.E.H. Malaysia Sdn. Bhd. (Malaysia)	RM188 million	100.0 (100.0)	Processing and sales of semiconductor silicon
Shin-Etsu Polymer Co., Ltd.	¥11,635 million	53.1 (0.1)	Manufacture and sales of plastic products, etc.
SE Tylose GmbH & Co. KG (Germany)	EUR500 thousand	100.0 (100.0)	Manufacture and sales of cellulose derivative products
Shin-Etsu Engineering Co., Ltd.	¥200 million	100.0	Design, engineering and construction of plants, etc.
Shin-Etsu Astech Co., Ltd.	¥495 million	99.6 (1.8)	Sales of chemical products, etc., and construction under contract
Shin-Etsu Handotai Taiwan Co., Ltd. (Taiwan)	NT\$1,500 million	70.0 (70.0)	Processing and sales of semiconductor silicon
Shin-Etsu Silicones (Thailand) Limited (Thailand)	THB6,325 million	100.0	Manufacture and sales of silicone products
SIMCOA OPERATIONS PTY. LTD. (Australia)	A\$32 million	100.0 (100.0)	Manufacture and sales of silicon metal
JAPAN VAM & POVAL CO., LTD.	¥2,000 million	100.0	Manufacture and sales of vinyl acetate monomer and polyvinyl alcohol
Asia Silicones Monomer Limited (Thailand)	THB3,393 million	100.0 (100.0)	Manufacture of silicone monomer
Nagano Electronics Industrial Co., Ltd.	¥80 million	90.0	Processing of semiconductor silicon

Notes: 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. The holding ratios are computed net of any treasury shares held.

(2) Status of Major Affiliated Companies

Name of Company	Amount of Capital	Holding Ratio (%)	Major Lines of Business
Mimasu Semiconductor Industry Co., Ltd.	¥18,824 million	43.9 (1.1)	Processing of semiconductor silicon and sales of precision equipment
SHIN-ETSU QUARTZ PRODUCTS COMPANY LTD.	¥1,000 million	50.0	Manufacture and sales of quartz glass products

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. The holding ratios are computed net of any treasury shares held.

(3) Results of Consolidation

For this consolidated fiscal year, there are 95 consolidated subsidiaries etc. and 3 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 1,594,036 million yen (up by 10.6% from the previous fiscal year), and the profit attributable to owners of parent amounted to 309,125 million yen (up by 16.1% from the previous fiscal year).

6. Major Lines of Business of the Company's Group (as of March 31, 2019)

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

PVC/Chlor-Alkali	Polyvinyl Chloride, Caustic Soda, Methanol, Chloromethanes
Silicones	Silicone
Specialty Chemicals	Cellulose Derivatives, Silicon Metal, Poval, Synthetic Pheromones, Vinyl Chloride - Vinyl Acetate Copolymer Resin
Semiconductor Silicon	Semiconductor Silicon
Electronics & Functional Materials	Rare-earth Magnets, Semiconductor Encapsulating Materials, LED Packaging Materials, Photoresists, Photomask Blanks, Synthetic Quartz Products, Liquid Fluoroelastomers, Pellicles
Processing, Trading & Specialized Services Business	Processed Plastics, Export of Technologies and Plants, Export and Import of Products, Engineering

7. Major Bases of the Company's Group (as of March 31, 2019)

(1) Company

Principal Office: 6-1, Ohtemachi 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); JAPAN VAM & POVAL CO., LTD. (Osaka Prefecture); and Nagano Electronics Industrial Co., Ltd. (Nagano Prefecture)

Overseas: SHINTECH INC. (U.S.A.); Shin-Etsu Handotai America, Inc. (U.S.A.); Shin-Etsu PVC B.V. (Netherlands); S.E.H. Malaysia Sdn. Bhd. (Malaysia); SE Tylose GmbH & Co. KG (Germany); Shin-Etsu Handotai Taiwan Co., Ltd. (Taiwan); Shin-Etsu Silicones (Thailand) Limited (Thailand); Asia Silicones Monomer Limited (Thailand); and SIMCOA OPERATIONS PTY. LTD. (Australia)

8. Status of Employees of the Company's Group and the Company (as of March 31, 2019)

(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
PVC/Chlor-Alkali	1,392	+63
Silicones	2,516	+147
Specialty Chemicals	1,386	+44
Semiconductor Silicon	4,682	+75
Electronics & Functional Materials	4,813	+836
Processing, Trading & Specialized Services Business	6,946	+415
Total	21,735	+1,580

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
3,011	+107	42.1	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, 2019)

Name of Lender	Outstanding Borrowings (Million Yen)
Nippon Life Insurance Company	3,600
MUFG Bank, Ltd.	3,580
The Hachijuni Bank, Ltd.	2,615
Meiji Yasuda Life Insurance Company	2,300

## II. Matters Concerning Stock in the Company (as of March 31, 2019)

### 1. Number of Shares and Shareholders

Total number of shares authorized to be issued:	1,720,000,000
Total number of issued shares:	427,606,693
Number of shareholders:	56,062

Note: 1. The total number of issued shares decreased by 4,500,000 shares from the end of the previous term due to the cancellation of treasury shares implemented as of May 2, 2018.

2. The total number of issued shares includes 10,801,943 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)	52,287	12.5
Japan Trustee Services Bank, Ltd. (Trust Account)	26,655	6.4
Nippon Life Insurance Company	21,933	5.3
Japan Trustee Services Bank, Ltd. (Trust Account 4)	12,069	2.9
The Hachijuni Bank, Ltd.	11,790	2.8
SSBTC CLIENT OMNIBUS ACCOUNT	11,433	2.7
Meiji Yasuda Life Insurance Company	10,687	2.6
Japan Trustee Services Bank, Ltd. (Trust Account 5)	6,772	1.6
JP MORGAN CHASE BANK 385151	6,326	1.5
Japan Trustee Services Bank, Ltd. (Trust Account 7)	6,053	1.5

Note: The Company, which owns 10,801,943 treasury shares, is excluded from consideration as a major shareholder as defined above. The holding ratios are computed net of this treasury stock.

### 3. Other Major Matters Concerning Stock in the Company

The Company hereby announces that the Board of Directors Meeting held on March 12, 2019, resolved to repurchase a total of 14 million shares (common shares of the Company), which could be purchased between March 13, 2019 and September 30, 2019 for a total purchase amount of 100 billion yen, based on the provisions of Article 156 of the Corporations Law, as applied pursuant to Paragraph 3, Article 165 of the Corporations Law. Progress in the purchase is as follows. All the purchased shares are planned to be cancelled.

Share Type Purchased	Common shares of the Company
Total Number of Shares Purchased	9,841,300 shares
Total Share Purchase Amount	89,457,417,000 yen
Purchase Period	March 13, 2019 to March 31, 2019 (trade basis)

### III. Matters Concerning Stock Acquisition Rights Issued by the Company

#### 1. State of Stock Acquisition Rights (Stock Options) (as of March 31, 2019)

##### (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
11th Issue of Stock Acquisition Rights (for Distribution to Directors) (09/24/2015)	100	10,000 shares of Common Stock in the Company	277	7,339	September 25, 2016 through March 31, 2020	Directors of Company (excluding Outside Directors)
11th Issue of Stock Acquisition Rights (for Distribution to Employees) (09/24/2015)	895	89,500 shares of Common Stock in the Company	Distributed gratis	7,339	September 25, 2016 through March 31, 2020	Employees of Company
12th Issue of Stock Acquisition Rights (for Distribution to Directors) (09/21/2017)	1,345	134,500 shares of Common Stock in the Company	1,479	10,000	September 22, 2018 through March 31, 2022	Directors of Company (excluding Outside Directors)
12th Issue of Stock Acquisition Rights (for Distribution to Employees) (09/21/2017)	1,000	100,000 shares of Common Stock in the Company	Distributed gratis	10,000	September 22, 2018 through March 31, 2022	Employees of Company
13th Issue of Stock Acquisition Rights (for Distribution to Directors) (09/05/2018)	1,750	175,000 shares of Common Stock in the Company	1,202	10,721	September 6, 2019 through March 31, 2023	Directors of Company (excluding Outside Directors)
13th Issue of Stock Acquisition Rights (for Distribution to Employees) (09/05/2018)	3,220	322,000 shares of Common Stock in the Company	Distributed gratis	10,721	September 6, 2019 through March 31, 2023	Employees of Company

Note: The terms and conditions on which to exercise stock acquisition rights in each issue are outlined below:

- 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).
- 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 1. above.
- Other conditions are as prescribed in the Stock Option Allotment Agreement.

(2) State of Stock Acquisition Rights (Stock Options) Held by Directors and Audit & Supervisory Board Members 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 Audit & Supervisory Board Members of the Company are broken down as below:

	Chronological Number of Issue	Number of Stock Acquisition Rights	Number of Optionees
Directors (Excluding Outside Directors)	11th Issue of Stock Acquisition Rights	150	4
	12th Issue of Stock Acquisition Rights	1,420	18
	13th Issue of Stock Acquisition Rights	2,000	18

Notes: 1. The 11th issue of stock acquisition rights described above includes the stock acquisition rights distributed to employees of the Company before appointment of a Director.

2. The 12th and 13th issue of stock acquisition rights described above include the stock acquisition rights granted to employee Directors in their capacity as employees.

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 August 21, 2018, the 13th Issue of Stock Acquisition Rights (for Distribution to Employees), intended as incentive stock options, was issued as of September 5, 2018 for distribution to 89 employees, as outlined below:

(1) Number of Stock Acquisition Rights Distributed

2,970

(2) Type and Quantity of Shares Subject to Stock Options

297,000 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

¥10,721

(5) Period within Which to Exercise Stock Options

From September 6, 2019, until March 31, 2023

(6) Conditions to Exercise Stock Options

The same terms and conditions apply as described in the Notes of 1.-(1) General Description of Stock Acquisition Rights above.

Note: The above figures do not include the stock acquisition rights granted to employee Directors in their capacity as employees.

#### IV. Matters Concerning Directors and Audit & Supervisory Board Members of the Company

##### 1. Name and Other Information Concerning Directors and Audit & Supervisory Board Members (as of March 31, 2019)

Title	Name	Responsibilities, Important Concurrent Positions, etc.
Representative Director - Chairman	Chihiro Kanagawa	Director & Chairman, SHINTECH INC.
Representative Director - Vice Chairman	Fumio Akiya	In charge of Semiconductor Materials and Technologies Representative Director & President, Shin-Etsu Handotai Co., Ltd.
Representative Director - President	Yasuhiko Saitoh	Director & President, SHINTECH INC. Director & President, Shin-Etsu Handotai America, Inc.
Senior Managing Director	Toshinobu Ishihara	In charge of New Functional Materials and Special Functional Products
Senior Managing Director	Susumu Ueno	General Manager, Silicone Div.
Senior Managing Director	Masahiko Todoroki	General Manager, Planning & Administration Dept., Semiconductor Materials Div. Senior Managing Director, Shin-Etsu Handotai Co., Ltd.
Managing Director	Toshiya Akimoto	In charge of Office of the Secretariat, Office of the President, Public Relations and Legal Affairs
Managing Director	Fumio Arai	General Manager, Organic Chemicals Div. Director & President, Shin-Etsu PVC B.V. Director & President, SE Tylose GmbH & Co. KG
Managing Director	Yukihiro Matsui	General Manager, Electronics Materials Div.
Managing Director	Masaki Miyajima	In charge of Advanced Materials General Manager, PVC Div.
Director - Adviser	Shunzo Mori	
Director <sup>1</sup>	Frank Peter Popoff	
Director <sup>1</sup>	Tsuyoshi Miyazaki	Adviser, Mitsubishi Logistics Corporation
Director <sup>1</sup>	Toshihiko Fukui	President, the Canon Institute for Global Studies
Director <sup>1</sup>	Hiroshi Komiyama	Chairman, Mitsubishi Research Institute, Inc.
Director	Toshiyuki Kasahara	General Manager, Finance & Accounting Dept.
Director	Hidenori Onezawa	In charge of Business Auditing
Director	Kazumasa Maruyama	General Manager, New Functional Materials Dept.
Director	Kenji Ikegami	In charge of General Affairs, Personnel & Labor Relations and Purchasing
Director	Toshio Shiobara	In charge of R&D and Patents Deputy General Manager, Electronics Materials Div. (In charge of Organic Electronics Materials)
Director	Yoshimitsu Takahashi	In charge of Environmental Control & Safety General Manager, Business Development Dept.
Director	Kai Yasuoka	General Manager, International Div.



Title	Name	Responsibilities, Important Concurrent Positions, etc.
Full-time Audit & Supervisory Board Member	Osamu Okada	
Full-time Audit & Supervisory Board Member	Hiroaki Okamoto	
Audit & Supervisory Board Member <sup>2</sup>	Taku Fukui	Lawyer Managing Partner, Kashiwagi Sogo Law Offices Professor, Keio University Law School
Audit & Supervisory Board Member <sup>2</sup>	Yoshihito Kosaka	C.P.A./Certified Public Tax Accountant Counselor, Kisaragi Audit Corporation
Audit & Supervisory Board Member <sup>2</sup>	Kiyoshi Nagano	

Notes: 1. <sup>1</sup> indicates an Outside Director as defined in Item 15, Article 2 of the Corporations Law.

2. <sup>2</sup> indicates an Outside Audit & Supervisory Board Member as defined in Item 16, Article 2 of the Corporations Law.

3. Mr. Toshihiko Fukui, Outside Director, serves in a concurrent role at the Canon Institute for Global Studies, a general incorporated foundation; however, the Company has no special relationship with that foundation. Mr. Hiroshi Komiyama, Outside Director, serves in a concurrent role at Mitsubishi Research Institute, Inc.; however, the Company has no special relationship with that company. Mr. Taku Fukui, Outside Audit & Supervisory Board Member, serves in a concurrent role at the Kashiwagi Sogo Law Offices; however, the Company has no special relationship with that firm.

4. Concurrent service as Outside Director or Outside Audit & Supervisory Board Member for other companies by Outside Directors and Outside Audit & Supervisory Board Members and the relationship between the Company and such other companies are described in “3. Matters Concerning Outside Directors and Outside Audit & Supervisory Board Members” herein below.

5. Mr. Yoshihito Kosaka, Outside Audit & Supervisory Board Member, is licensed as a Certified Public Accountant and as a Certified Public Tax Accountant, and brings with him a considerable degree of knowledge and experience in the fields of finance and accounting.

6. The Company has entered into an agreement with each of the Outside Directors and Audit & Supervisory Board Members, pursuant to Paragraph 1, Article 427 of the Corporations Law, to limit the amount of the liability for damages stipulated in Paragraph 1, Article 423 of said law to the amount set forth in the applicable law.

7. Four Outside Directors and three Outside Audit & Supervisory Board Members of the Company -- Mr. Frank Peter Popoff, Mr. Tsuyoshi Miyazaki, Mr. Toshihiko Fukui and Mr. Hiroshi Komiyama as Directors, Mr. Taku Fukui, Mr. Yoshihito Kosaka and Mr. Kiyoshi Nagano as Audit & Supervisory Board Members -- have been reported to the Tokyo Stock Exchange, Inc. etc. as Independent Officers.

8. Following the reorganization effective April 1, 2019, Mr. Kazumasa Maruyama, Director, is serving in the role of General Manager of New Functional Materials Div.

## 2. Amounts of Remuneration and Others Payable to Directors and Audit & Supervisory Board Members

Designation	Number of Recipients	Amount Payable	Remarks
Directors	Persons 22	Million Yen 1,746	Portion payable to seven Outside Directors and Outside Audit & Supervisory Board Members: 149 million yen
Audit & Supervisory Board Members	5	78	
Total	27	1,825	

- Notes: 1. The amount payable to the Directors and Audit & Supervisory Board Members 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 August 21, 2018, 18 Directors (excluding Outside Directors) were granted stock acquisition rights intended as incentive stock options, which were valued at 210 million yen (excluding the stock acquisition rights granted to employee Directors in their capacity as employees).
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 Outside Directors and Outside Audit & Supervisory Board Members from subsidiaries of the Company for serving as Director or Audit & Supervisory Board Member of such subsidiaries in the fiscal year under review aggregated 45 million yen. There is no information reportable under the disclosure item regarding remuneration and others paid or payable to Outside Directors and Outside Audit & Supervisory Board Members from a parent company or its subsidiaries for serving as Director or Audit & Supervisory Board Member in the fiscal year under review.

3. Matters Concerning Outside Directors and Outside Audit & Supervisory Board Members

(1) Concurrent Service as Outside Director or Outside Audit & Supervisory Board Member for Other Companies by Outside Directors and Outside Audit & Supervisory Board Members and the Relationship between the Company and Such Other Companies

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

Mr. Taku Fukui, Outside Audit & Supervisory Board Member, serves concurrently as Outside Director for YAMAHA CORPORATION. However, there is no special relationship between the Company and the company that must be disclosed under this item.

Mr. Yoshihito Kosaka, Outside Audit & Supervisory Board Member, serves concurrently as Outside Director for Star Mica Co., Ltd. However, there is no special relationship between the Company and the company that must be disclosed under this item.

Mr. Kiyoshi Nagano, Outside Audit & Supervisory Board Member, serves concurrently as Outside Director for LEC, INC. However, there is no special relationship between the Company and the company that must be disclosed under this item.

Note: Current service of Outside Directors and Outside Audit & Supervisory Board Members 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 Audit & Supervisory Board Members” above.

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

No Outside Directors or Outside Audit & Supervisory Board Members 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 (The Board of Directors meetings were held 13 times during the fiscal year under review.) as a general rule. The activities of the Company’s Outside Directors and Outside Audit & Supervisory Board Members via participation in these meetings and other arrangements are reviewed below:

a. Activities of Outside Directors

Name	Main Activities
Frank Peter Popoff	<p>The Director attended all meetings of the Board of Directors held during the current fiscal year.</p> <p>For the Outside Directors or Outside Audit &amp; Supervisory Board Members, we encourage them to participate in the review and decision-making process regarding business execution by explaining to them the agenda items of the meetings of the Board of Directors, asking them about their opinions in advance, and sending them copies of the minutes fully translated into English; thus, he supervised our management sufficiently from an independent standpoint.</p> <p>Furthermore, the Company has been aggressively promoting its business development overseas through the establishment of business locations all over the world, including in the U.S., Asia, and Europe. Mr. Popoff's opinions and practical advice, from a broad perspective based on his management experience as CEO of the former The Dow Chemical Company, a U.S. company that has a long history as a global company, have been of significant importance for the Company to expand its business overseas and enhance its corporate value.</p> <p>He also serves as the commissioner of the Officers' Remuneration Committee, and his work so far includes repealing the Officers' Retirement Benefits Program and making other significant revisions to the officers' remuneration system, thus striving to achieve an appropriate corporate governance structure with regard to the officers' remuneration system.</p>
Tsuyoshi Miyazaki	<p>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 Mitsubishi Logistics Corporation. He also provided thorough supervision from an independent standpoint.</p>
Toshihiko Fukui	<p>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 outstanding knowledge and wealth of experience related to global finance and economy as an ex-Governor of the Bank of Japan. He also provided thorough supervision from an independent standpoint.</p>
Hiroshi Komiyama	<p>The Director attended Board of Directors meetings (attendance rate 92%), as well as Managing Directors' Committee meetings. The Director, who has served as President of the University of Tokyo, as well as in a variety of distinguished positions, shared his comments from a broad, high-level perspective capitalizing on his outstanding knowledge and wealth of experience in a wide range of disciplines, including chemical engineering, the global environment, and natural resources and energy. He also provided thorough supervision from an independent standpoint.</p>

b. Activities of Outside Audit & Supervisory Board Members

Name	Main Activities
Taku Fukui	The Audit & Supervisory Board Member attended meetings of the Board of Directors (attendance rate 92%) and of the Audit & Supervisory Board (attendance rate 100%), as well as Managing Directors' Committee meetings. At the Audit & Supervisory Board meetings he shared his comments from a legal specialist's point of view and contributed to the establishment of a compliance structure.
Yoshihito Kosaka	The Audit & Supervisory Board Member attended all meetings of the Board of Directors and of the Audit & Supervisory Board, as well as Managing Directors' Committee meetings, held during the fiscal year under review. At the Audit & Supervisory Board 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 Audit & Supervisory Board Member attended all meetings of the Board of Directors and of the Audit & Supervisory Board, as well as Managing Directors' Committee meetings, held during the fiscal year under review. At the Audit & Supervisory Board meetings he shared his comments from an extensive viewpoint based on his management experience at the former Jasdac Securities Exchange, Inc. and contributed to the establishment of a compliance structure.

## V. Status of Accounting Auditor

### 1. Name of Accounting Auditor

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

88 million yen

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

133 million yen

Notes: 1. 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.

2. With respect to remuneration and others payable to the Accounting Auditor, the Audit & Supervisory Board of the Company gives consent set forth in Paragraph 1, Article 399 of the Corporations Law after confirming and reviewing the audit plan of the Accounting Auditor, the performance of duties relating to accounting audit, the necessity for amending the amount of remuneration and others payable and other matters.

### 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 PVC B.V.; S.E.H. Malaysia Sdn. Bhd.; Shin-Etsu Polymer Co., Ltd.; SE Tylose GmbH & Co. KG; Shin-Etsu Engineering Co., Ltd.; Shin-Etsu Astech Co., Ltd.; Shin-Etsu Handotai Taiwan Co., Ltd.; Shin-Etsu Silicones (Thailand) Limited; SIMCOA OPERATIONS PTY. LTD.; and Asia Silicones Monomer Limited.

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 Audit & Supervisory Board Members, the Audit & Supervisory Board shall dismiss the Accounting Auditor. In addition to the cases mentioned above, the Audit & Supervisory Board determines the content of the proposal to be submitted to the General Meeting of Shareholders concerning the dismissal or non-reappointment of the Accounting Auditor if the Company has a reason or need of its own to do so or if it is difficult for the Accounting Auditor to perform its duties appropriately.

## **VI. System to Ensure the Properness of Operations and the Progress thereof**

### **1. System to Ensure the Properness of Operations**

“The Group strictly complies with all laws and regulations, conducts fair business practices and contributes to people’s daily lives as well as to the advance of industry and society by creating value through providing key materials and technologies.” In accordance with the foregoing business principle, the Board of Directors of the Company has resolved to carry out these systems and arrangements as described below.

#### **(1) System to Ensure That the Company’s and Its Subsidiaries’ Directors and Employees Perform Their Work Duties in Accordance with Applicable Laws and the Company’s and Its Subsidiaries’ Articles of Incorporation**

The Company and its subsidiaries (hereinafter the “Group Companies”) have a business principle of taking appropriate corporate actions, based on a desire to act in a lawful manner.

The Company will maintain regulations concerning the Group Companies’ compliance system, and the Group Companies’ Directors and employees will perform their work duties in accordance with these regulations. The Internal 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, the Company will establish a compliance consultation office and administer a compliance consulting/reporting system for Group Company executives and employees in accordance with the relevant internal regulations. Also, the Company will provide compliance training in an appropriate manner.

The Company will appoint independent Outside Directors and Outside Audit & Supervisory Board Members, 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 Company’s 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 Audit & Supervisory Board Members.

#### **(3) Regulations Concerning Management of Risk of Damage to the Company and Its Subsidiaries, and Other Systems**

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

The Company will appoint Outside Directors and Outside Audit & Supervisory Board Members, 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 Company’s and Its Subsidiaries’ Directors Perform Their Work Duties in an Effective Manner**

The Company will establish a system to ensure that the Group Companies’ Directors and employees perform their work duties in an effective manner, in accordance with (i) decision-making rules and division of work duties based on the regulations of the Board of Directors, division of duties, the Group Companies’ management regulations, and other internal regulations and (ii) the holding of meetings of Group Companies and meetings of Presidents of Group Companies (hereinafter “Group Company Meetings”).



Also, in order to increase the effectiveness of the Directors' performance of their work duties, the Company will appoint Outside Directors, and these Outside 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 Group Companies have a business principle of taking appropriate corporate actions, based on a desire to act in a lawful manner.

The Company's Group Company Management Department, based on the Group Companies' Management Regulations and the Group Company Meetings, will require Group Companies to report to them important matters relating to the business of the subsidiaries. Also, the Company's Internal Audit Department and other departments that are related to the contents of the audits will, as necessary, work together with the Internal Audit Departments and other departments of the subsidiaries to perform internal audits of the relevant subsidiaries.

The Company will establish an Audit & Supervisory Board Member Liaison Committee and Group Audit & Supervisory Board Member Liaison Committee comprised of Full-time Audit & Supervisory Board Members and others from the Company and its main subsidiaries, and the Company's Full-time Audit & Supervisory Board Members will gather relevant information by attending Group Company Meetings and/or by other actions, together with other Audit & Supervisory Board Members (including Outside Audit & Supervisory Board Members).

(6) Matters Concerning Employees Who Are Requested by Audit & Supervisory Board Members to Assist with the Work Duties of the Audit & Supervisory Board Members

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 Audit & Supervisory Board Members with their work duties.

(7) Matters Concerning the Independence from the Directors of the Employees Referenced in the Previous Item and Ensuring of Such Employees' Compliance with the Instructions of the Audit & Supervisory Board Members

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 Audit & Supervisory Board Members.

The audit staff will comply with the instructions and orders of the Audit & Supervisory Board Members and assist with the work of the Audit & Supervisory Board Members.

(8) System for Reporting to the Audit & Supervisory Board Members and for Ensuring that Persons Making Such Reports Are Not Treated in an Unfavorable Manner for Making Such Reports

The Company's Directors and employees and the Company's subsidiaries' Directors, Audit & Supervisory Board Members, and employees, as well as any persons who received reports from any of the above-referenced persons, shall promptly report the following matters to the Company's Audit & Supervisory Board Members, in accordance with the methods set forth in the Company's internal regulations:

- matters that will cause substantial damage to the Company or which have the potential of doing so;
- important matters concerning management or financial information;
- the status of the performance of internal audits;
- material breaches of law or the Company's Articles of Incorporation;
- the status of the administration of the compliance consulting/reporting system and the contents of reports made in connection with the system.

Also, the Group Companies shall not unfavorably evaluate (in internal personnel records) or otherwise treat in an unfavorable manner, any of the above-referenced persons who makes a report, because of the making of such report.

(9) System for the Purpose of Otherwise Ensuring That the Audits Performed by the Audit & Supervisory Board Members Will Be Performed Effectively

The Audit & Supervisory Board Members will hold periodic meetings with the Company's Accounting Auditors to exchange opinions, hold regular reporting meetings with the Company's Internal Audit Department, and take other measures to facilitate collaboration with them.

(10) Matters Concerning Procedures for Advance Payment/Reimbursement of Expenses Arising From the Work of Audit & Supervisory Board Members and Other Matters Relating to the Treatment of Expenses and Other Financial Obligations Arising from Such Work

If the Audit & Supervisory Board Members requests prepayment or reimbursement of any amounts necessarily incurred in the course of their audit work, the Company shall pay such amounts within a reasonable time and in a reasonable manner, unless it is clearly proven that such expenses were not necessarily incurred in the course of the audit work.

(11) System to Cut Ties with Anti-social Forces

The Company's group shall adopt a consistently resolute attitude towards anti-social forces and shall take all measures necessary to cut itself off from any and all associations with anti-social forces.

In accordance with this policy, our group will endeavor to develop internal systems under the leadership of the department in charge of managing these issues. Working closely with the police and other external organizations addressing these issues, our group will strongly push forward initiatives aimed at eradicating anti-social forces.

2. Overview of the Progress of the System to Ensure the Properness of Operations

The following shows an overview of the progress of the system to ensure the properness of operations for the fiscal year.

(1) Progress of Compliance

In order to perform corporate activities in compliance with laws and regulations, the Company's Group has included legal compliance in its business principle and its management objectives for each term and is working to ensure legal compliance.

Out of laws and regulations related to corporate activities to be established or revised, the Legal Department took the leadership in notifying and informing other departments of the Company of matters which are important. In addition, the Company bolstered the regulations for preventing bribes in overseas group companies. Furthermore, the Internal Audit Department made the annual audit plan in terms of the legality and reasonableness of business activities and audited each department, and reported the results thereof to the Directors and the Audit & Supervisory Board Members, etc.

With respect to compliance training, the Company held lectures on compliance with the Unfair Competition Prevention Act given by lawyers at the head office and held webinars for compliance with the Antimonopoly Act and the prevention of bribes. In addition, the Company held seminars reflecting the Company's ideas about compliance and the incidents of other companies in training for new employees as well as seminars on the Antimonopoly Act, Security Export Control and the like in training for each class of managerial personnel, and also attended training seminars held by outside institutions such as government agencies, and thereby ensured compliance awareness.

(2) Progress of Preserving and Managing Information

The Company audited each division concerning information management under the information management system, which was established following the Regulations of Information Management to confirm the preservation and management status of information including important documents. In addition, the Company provided education on information security to new employees, and regularly provided all employees who use e-mail with training which assumed an outside cyberattack using e-mail.

(3) Progress of Managing the Risk of Damage

In the Company, the Risk Management Committee (meetings were held three times in this fiscal year) took the leadership in performing cross-sectional risk management activities in accordance with the Risk Management Regulations and thereby established a risk management system in order to detect and prevent the risks associated with the execution of operations. In addition, the Company held seminars on risk management in training for each class of managerial personnel thereby ensuring awareness.

Furthermore, the Company treated the prevention of accidents and disasters, etc. as its most important issue under the management policy that placed the first priority on safety, and regularly conducted environment and safety audits at the plants of the Company and its major subsidiaries in order to enhance the management system and take measures against the risks associated with processes and operations.

(4) Progress of Efficient Execution of Duties by the Directors

The Company has the Board of Directors and the Managing Directors' Committee as the bodies that discuss and determine the execution of operations. The Board of Directors determines the basic policy of the Company, and discusses and determines the execution of important operations specified in the Corporations Law or the Articles of Incorporation, etc. In this fiscal year, the Company held meetings of the Board of Directors thirteen times and meetings of the Managing Directors' Committee twelve times. All the meetings were attended by the Outside Directors and the Audit & Supervisory Board Members and various matters relating to the execution of operations were discussed and determined by receiving advices from the Outside Directors.

Furthermore, the Company has developed an efficient organizational framework and various regulations that will enable the Company to speedily respond to changes in the business environment.

(5) Progress of Ensuring the Properness of Operations at the Company's Group

The Company worked for proper and efficient management of the Company's Group in accordance with the Group Companies' Management Regulations and regularly held Group Company Meetings, and also received reports on important matters relating to the management of major Group Companies at the Managing Directors' Committee.

The Internal Audit Department audited each Group Company in terms of the legality and reasonableness of business activities in cooperation with the Group Companies as needed, and reported the results thereof to the Directors and the Audit & Supervisory Board Members, etc.

(6) Progress of Ensuring the Effectiveness of Audit Performed by the Audit & Supervisory Board Members

The Audit & Supervisory Board Members attended the meetings of the Board of Directors and the Managing Directors' Committee and other important internal meetings, and audited the execution of operations by the Directors through reviewing approval documents and other documents. In order to improve the effectiveness of audits, the Audit & Supervisory Board Members received reports and explanations about accounting audit quarterly from the Accounting Auditor and exchanged opinions, and also exchanged information and opinions as needed to facilitate collaboration. Furthermore, the Full-time Audit & Supervisory Board Member held the regular reporting meeting with the Internal Audit Department every month to receive reports on the status of activities, results of internal audit and other matters as well as

giving advice and making requests as needed. In addition, the Audit & Supervisory Board Member Liaison Committee and the Group Audit & Supervisory Board Member Liaison Committee exchanged information and opinions to strengthen collaboration between the Audit & Supervisory Board Members of the Group.

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The monetary amounts and numbers of shares set out in this BUSINESS 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, 2019 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

### ASSETS

#### Current Assets:

|                                            | (Millions of yen) |
|--------------------------------------------|-------------------|
| Cash and time deposits -----               | 826,680           |
| Notes and accounts receivable-trade-----   | 338,701           |
| Securities -----                           | 215,444           |
| Merchandise and finished goods -----       | 158,717           |
| Work in process -----                      | 16,711            |
| Raw materials and supplies -----           | 154,064           |
| Other -----                                | 47,527            |
| Less: Allowance for doubtful accounts----- | <u>(7,379)</u>    |
| Total current assets                       | <u>1,750,469</u>  |

#### Fixed Assets:

|                                     |              |
|-------------------------------------|--------------|
| Property, Plant and Equipment:      |              |
| Buildings and structures, net-----  | 188,268      |
| Machinery and equipment, net -----  | 445,974      |
| Land-----                           | 88,806       |
| Construction in progress -----      | 255,232      |
| Other, net-----                     | <u>9,678</u> |
| Total property, plant and equipment | 987,960      |

|                        |       |
|------------------------|-------|
| Intangible Assets----- | 8,740 |
|------------------------|-------|

#### Investments and Other Assets:

|                                            |                  |
|--------------------------------------------|------------------|
| Investments in securities -----            | 141,685          |
| Deferred tax assets -----                  | 59,154           |
| Other -----                                | 93,332           |
| Less: Allowance for doubtful accounts----- | <u>(2,624)</u>   |
| Total investments and other assets         | <u>291,548</u>   |
| Total fixed assets                         | <u>1,288,248</u> |

|              |                  |
|--------------|------------------|
| TOTAL ASSETS | <u>3,038,717</u> |
|--------------|------------------|

## LIABILITIES

### Current Liabilities:

|                                       | (Millions of yen) |
|---------------------------------------|-------------------|
| Notes and accounts payable-trade----- | 141,027           |
| Short-term borrowings-----            | 7,008             |
| Accounts payable-other -----          | 75,128            |
| Accrued expenses -----                | 74,354            |
| Accrued income taxes -----            | 45,739            |
| Accrued bonuses for employees-----    | 3,551             |
| Accrued bonuses for directors-----    | 694               |
| Other -----                           | 44,350            |
| Total current liabilities             | <u>391,854</u>    |

### Long-Term Liabilities:

|                                    |                |
|------------------------------------|----------------|
| Long-term debt -----               | 7,624          |
| Deferred tax liabilities-----      | 62,669         |
| Net defined benefit liability----- | 30,473         |
| Other -----                        | 13,540         |
| Total long-term liabilities        | <u>114,306</u> |
| TOTAL LIABILITIES                  | <u>506,161</u> |

## NET ASSETS

### Stockholders' Equity:

|                                    |                  |
|------------------------------------|------------------|
| Common stock -----                 | 119,419          |
| Additional paid-in capital-----    | 128,299          |
| Retained earnings -----            | 2,283,760        |
| Less: Treasury stock, at cost----- | (94,702)         |
| Total stockholders' equity         | <u>2,436,777</u> |

### Accumulated Other Comprehensive Income:

|                                                                  |               |
|------------------------------------------------------------------|---------------|
| Unrealized gains (losses) on available-for-sale securities ----- | 22,955        |
| Deferred gains (losses) on hedges -----                          | (266)         |
| Foreign currency translation adjustments-----                    | 5,143         |
| Remeasurements of defined benefit plans -----                    | 987           |
| Total accumulated other comprehensive income                     | <u>28,820</u> |

|                                                              |                  |
|--------------------------------------------------------------|------------------|
| Share Subscription Rights-----                               | 1,143            |
| Non-Controlling Interests in Consolidated Subsidiaries ----- | 65,814           |
| TOTAL NET ASSETS                                             | <u>2,532,556</u> |
| TOTAL LIABILITIES AND NET ASSETS                             | <u>3,038,717</u> |

## CONSOLIDATED STATEMENT OF INCOME

For the fiscal year ended March 31, 2019 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

|                                                                       | (Millions of yen)     |
|-----------------------------------------------------------------------|-----------------------|
| Net Sales-----                                                        | 1,594,036             |
| Cost of Sales -----                                                   | <u>1,039,979</u>      |
| Gross profit-----                                                     | 554,057               |
| <br>Selling, General and Administrative Expenses-----                 | <br><u>150,352</u>    |
| Operating income-----                                                 | 403,705               |
| <br>Non-Operating Income:                                             |                       |
| Interest income -----                                                 | 9,093                 |
| Dividend income -----                                                 | 5,896                 |
| Equity in earnings of affiliates -----                                | 4,669                 |
| Other income -----                                                    | <u>3,618</u>          |
| Total non-operating income -----                                      | 23,277                |
| <br>Non-Operating Expenses:                                           |                       |
| Interest expenses -----                                               | 746                   |
| Loss on retirement of fixed assets-----                               | 2,611                 |
| Loss on revaluation of investments in securities -----                | 1,565                 |
| Other expenses -----                                                  | <u>6,748</u>          |
| Total non-operating expenses -----                                    | <u>11,671</u>         |
| Ordinary income-----                                                  | 415,311               |
| <br>Income before income taxes and<br>non-controlling interests ----- | <br>415,311           |
| <br>Income Taxes:                                                     |                       |
| Current-----                                                          | 104,186               |
| Deferred -----                                                        | <u>(2,861)</u>        |
| Total income taxes -----                                              | <u>101,325</u>        |
| Net Income -----                                                      | 313,986               |
| <br>Net Income Attributable to Non-Controlling Interests -----        | <br><u>4,860</u>      |
| Net Income Attributable to Owners of Parent -                         | <u><u>309,125</u></u> |

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the fiscal year ended March 31, 2019 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

|                                                               | Stockholders' Equity |                            |                   |                         | (Millions of yen) |
|---------------------------------------------------------------|----------------------|----------------------------|-------------------|-------------------------|-------------------|
|                                                               | Common stock         | Additional paid-in capital | Retained earnings | Treasury stock, at cost | [Total]           |
| Balance as of April 1, 2018                                   | 119,419              | 129,937                    | 2,070,779         | (30,207)                | 2,289,929         |
| Changes during the year                                       |                      |                            |                   |                         |                   |
| Cash dividends                                                | -                    | -                          | (74,655)          | -                       | (74,655)          |
| Net income attributable to owners of parent                   | -                    | -                          | 309,125           | -                       | 309,125           |
| Purchase of treasury stock                                    | -                    | -                          | -                 | (89,475)                | (89,475)          |
| Disposal of treasury stock                                    | -                    | 166                        | -                 | 429                     | 596               |
| Retirement of treasury stock                                  | -                    | (24,551)                   | -                 | 24,551                  | -                 |
| Transfer to additional paid-in capital from retained earnings | -                    | 22,719                     | (22,719)          | -                       | -                 |
| Other                                                         | -                    | 27                         | 1,230             | -                       | 1,257             |
| Net changes of items other than stockholders' equity          | -                    | -                          | -                 | -                       | -                 |
| Total changes during the year                                 | -                    | (1,637)                    | 212,980           | (64,495)                | 146,848           |
| Balance as of March 31, 2019                                  | 119,419              | 128,299                    | 2,283,760         | (94,702)                | 2,436,777         |

|                                                               | Accumulated Other Comprehensive Income                     |                                   |                                          |                                         |          | Share subscription rights | Non-controlling interests in consolidated subsidiaries | Total net assets |
|---------------------------------------------------------------|------------------------------------------------------------|-----------------------------------|------------------------------------------|-----------------------------------------|----------|---------------------------|--------------------------------------------------------|------------------|
|                                                               | Unrealized gains (losses) on available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustments | Remeasurements of defined benefit plans | [Total]  |                           |                                                        |                  |
| Balance as of April 1, 2018                                   | 26,446                                                     | 1,671                             | 34,611                                   | (1,416)                                 | 61,313   | 524                       | 61,258                                                 | 2,413,025        |
| Changes during the year                                       |                                                            |                                   |                                          |                                         |          |                           |                                                        |                  |
| Cash dividends                                                | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | (74,655)         |
| Net income attributable to owners of parent                   | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | 309,125          |
| Purchase of treasury stock                                    | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | (89,475)         |
| Disposal of treasury stock                                    | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | 596              |
| Retirement of treasury stock                                  | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | -                |
| Transfer to additional paid-in capital from retained earnings | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | -                |
| Other                                                         | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | 1,257            |
| Net changes of items other than stockholders' equity          | (3,491)                                                    | (1,938)                           | (29,467)                                 | 2,403                                   | (32,493) | 619                       | 4,556                                                  | (27,317)         |
| Total changes during the year                                 | (3,491)                                                    | (1,938)                           | (29,467)                                 | 2,403                                   | (32,493) | 619                       | 4,556                                                  | 119,530          |
| Balance as of March 31, 2019                                  | 22,955                                                     | (266)                             | 5,143                                    | 987                                     | 28,820   | 1,143                     | 65,814                                                 | 2,532,556        |



## NON-CONSOLIDATED BALANCE SHEET

As of March 31, 2019 (Amounts are stated in millions of yen; amounts less than 1 million are omitted)

### ASSETS

#### Current Assets:

|                                             | (Millions of yen) |
|---------------------------------------------|-------------------|
| Cash and time deposits -----                | 155,946           |
| Notes receivable -----                      | 6,930             |
| Accounts receivable-trade -----             | 220,956           |
| Securities -----                            | 138,500           |
| Merchandise and finished goods -----        | 37,444            |
| Semi-finished products -----                | 21,186            |
| Raw materials and supplies -----            | 63,825            |
| Advance payments -----                      | 3,613             |
| Short-term loans -----                      | 3,173             |
| Accounts receivable-other -----             | 42,317            |
| Other -----                                 | 1,899             |
| Less: Allowance for doubtful accounts ----- | <u>(2,730)</u>    |
| Total current assets                        | <u>693,063</u>    |

#### Fixed Assets:

##### Property, Plant and Equipment:

|                                          |               |
|------------------------------------------|---------------|
| Buildings, net -----                     | 49,770        |
| Structures, net -----                    | 5,673         |
| Machinery and equipment, net -----       | 45,507        |
| Vehicles, net -----                      | 109           |
| Tools, furniture and fixtures, net ----- | 2,023         |
| Land -----                               | 24,318        |
| Leased assets, net -----                 | 96            |
| Construction in progress -----           | <u>20,705</u> |
| Total property, plant and equipment      | 148,206       |

Intangible Assets ----- 1,125

##### Investments and Other Assets:

|                                                                  |                |
|------------------------------------------------------------------|----------------|
| Investments in securities -----                                  | 75,985         |
| Investments in capital of subsidiaries and affiliates -----      | 146,045        |
| Investments in partnerships -----                                | 11             |
| Investments in partnerships of subsidiaries and affiliates ----- | 22,517         |
| Long-term loans -----                                            | 2,607          |
| Long-term prepaid expenses -----                                 | 87             |
| Deferred tax assets -----                                        | 17,399         |
| Other -----                                                      | 2,711          |
| Less: Allowance for doubtful accounts -----                      | <u>(10)</u>    |
| Total investments and other assets                               | <u>267,356</u> |
| Total fixed assets                                               | <u>416,688</u> |

TOTAL ASSETS 1,109,751

## LIABILITIES

### Current Liabilities:

|                                                       | (Millions of yen) |
|-------------------------------------------------------|-------------------|
| Accounts payable-trade-----                           | 118,546           |
| Electronically recorded obligations - operating ----- | 3,775             |
| Short-term borrowings-----                            | 5,190             |
| Lease obligations-----                                | 44                |
| Accounts payable-other -----                          | 19,873            |
| Accrued income taxes -----                            | 21,411            |
| Accrued expenses -----                                | 16,871            |
| Advances received -----                               | 834               |
| Deposits -----                                        | 106,821           |
| Accrued bonuses for directors -----                   | 568               |
| Other -----                                           | <u>1,815</u>      |
| Total current liabilities                             | <u>295,754</u>    |

### Long-Term Liabilities:

|                                       |               |
|---------------------------------------|---------------|
| Long-term debt -----                  | 6,150         |
| Lease obligations-----                | 79            |
| Long-term accounts payable-other----- | 1,177         |
| Accrued retirement benefits -----     | 8,607         |
| Asset retirement obligations -----    | <u>70</u>     |
| Total long-term liabilities           | <u>16,084</u> |

**TOTAL LIABILITIES** 311,839

## NET ASSETS

### Stockholders' Equity:

|                                                   |                 |
|---------------------------------------------------|-----------------|
| Common stock -----                                | 119,419         |
| Additional paid-in capital:                       |                 |
| Capital reserve -----                             | 120,771         |
| Total additional paid-in capital -----            | <u>120,771</u>  |
| Retained earnings:                                |                 |
| Legal earned reserve -----                        | 6,778           |
| Other retained earnings:                          |                 |
| Reserve for special depreciation-----             | 250             |
| Reserve for disaster prevention-----              | 65              |
| Reserve for reduction entry of fixed assets ----- | 1,922           |
| Reserve for research -----                        | 88              |
| Reserve for dividend equalization-----            | 15              |
| Reserve for reduction entry of land -----         | 20              |
| General reserve -----                             | 351,137         |
| Retained earnings brought forward -----           | <u>269,734</u>  |
| Total other retained earnings-----                | <u>623,234</u>  |
| Total retained earnings                           | <u>630,013</u>  |
| Less: Treasury stock, at cost-----                | <u>(94,702)</u> |
| Total stockholders' equity-----                   | <u>775,501</u>  |

### Valuation and Translation Adjustments:

|                                                                  |        |
|------------------------------------------------------------------|--------|
| Unrealized gains (losses) on available-for-sale securities ----- | 21,438 |
|------------------------------------------------------------------|--------|

|                                  |                  |
|----------------------------------|------------------|
| Share Subscription Rights-----   | <u>971</u>       |
| TOTAL NET ASSETS                 | <u>797,912</u>   |
| TOTAL LIABILITIES AND NET ASSETS | <u>1,109,751</u> |

## NON-CONSOLIDATED STATEMENT OF INCOME

For the fiscal year ended March 31, 2019 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

|                                                   |                                   | (Millions of yen)    |
|---------------------------------------------------|-----------------------------------|----------------------|
| Net Sales-----                                    |                                   | 822,515              |
| Cost of Sales-----                                |                                   | <u>646,166</u>       |
|                                                   | Gross profit -----                | 176,349              |
|                                                   |                                   |                      |
| Selling, General and Administrative Expenses----- |                                   | <u>46,337</u>        |
|                                                   | Operating income -----            | 130,011              |
|                                                   |                                   |                      |
| Non-Operating Income:                             |                                   |                      |
| Interest income -----                             |                                   | 484                  |
| Dividend income -----                             |                                   | 8,529                |
| Other income -----                                |                                   | <u>325</u>           |
|                                                   | Total non-operating income-----   | 9,339                |
|                                                   |                                   |                      |
| Non-Operating Expenses:                           |                                   |                      |
| Interest expenses -----                           |                                   | 190                  |
| Other expenses -----                              |                                   | <u>4,416</u>         |
|                                                   | Total non-operating expenses----- | <u>4,607</u>         |
|                                                   | Ordinary income -----             | 134,743              |
|                                                   |                                   |                      |
|                                                   | Income before income taxes -----  | 134,743              |
|                                                   |                                   |                      |
| Income Taxes:                                     |                                   |                      |
| Current-----                                      |                                   | 39,420               |
| Deferred -----                                    |                                   | <u>(2,080)</u>       |
|                                                   | Total income taxes -----          | <u>37,340</u>        |
|                                                   | Net Income-----                   | <u><u>97,403</u></u> |

## NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the fiscal year ended March 31, 2019 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

|                                                               | Stockholders' Equity |                            |                             |          |                            |                                |          | (Millions of yen)             |          |
|---------------------------------------------------------------|----------------------|----------------------------|-----------------------------|----------|----------------------------|--------------------------------|----------|-------------------------------|----------|
|                                                               | Common<br>stock      | Additional paid-in capital |                             |          | Retained earnings          |                                |          | Treasury<br>stock,<br>at cost | [Total]  |
|                                                               |                      | Capital<br>reserve         | Other<br>capital<br>reserve | [Total]  | Legal<br>earned<br>reserve | *Other<br>retained<br>earnings | [Total]  |                               |          |
| Balance as of April 1, 2018                                   | 119,419              | 120,771                    | 1,664                       | 122,436  | 6,778                      | 623,206                        | 629,985  | (30,207)                      | 841,633  |
| Changes during the year                                       |                      |                            |                             |          |                            |                                |          |                               |          |
| Cash dividends                                                | -                    | -                          | -                           | -        | -                          | (74,655)                       | (74,655) | -                             | (74,655) |
| Net income                                                    | -                    | -                          | -                           | -        | -                          | 97,403                         | 97,403   | -                             | 97,403   |
| Purchase of treasury stock                                    | -                    | -                          | -                           | -        | -                          | -                              | -        | (89,475)                      | (89,475) |
| Disposal of treasury stock                                    | -                    | -                          | 166                         | 166      | -                          | -                              | -        | 429                           | 596      |
| Retirement of treasury stock                                  | -                    | -                          | (24,551)                    | (24,551) | -                          | -                              | -        | 24,551                        | -        |
| Transfer to additional paid-in capital from retained earnings | -                    | -                          | 22,719                      | 22,719   | -                          | (22,719)                       | (22,719) | -                             | -        |
| Net changes of items other than stockholders' equity          | -                    | -                          | -                           | -        | -                          | -                              | -        | -                             | -        |
| Total changes during the year                                 | -                    | -                          | (1,664)                     | (1,664)  | -                          | 28                             | 28       | (64,495)                      | (66,131) |
| Balance as of March 31, 2019                                  | 119,419              | 120,771                    | -                           | 120,771  | 6,778                      | 623,234                        | 630,013  | (94,702)                      | 775,501  |

|                                                               | 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 April 1, 2018                                   | 24,699                                                              | 396                          | 866,729             |
| Changes during the year                                       |                                                                     |                              |                     |
| Cash dividends                                                | -                                                                   | -                            | (74,655)            |
| Net income                                                    | -                                                                   | -                            | 97,403              |
| Purchase of treasury stock                                    | -                                                                   | -                            | (89,475)            |
| Disposal of treasury stock                                    | -                                                                   | -                            | 596                 |
| Retirement of treasury stock                                  | -                                                                   | -                            | -                   |
| Transfer to additional paid-in capital from retained earnings | -                                                                   | -                            | -                   |
| Net changes of items other than stockholders' equity          | (3,260)                                                             | 575                          | (2,685)             |
| Total changes during the year                                 | (3,260)                                                             | 575                          | (68,817)            |
| Balance as of March 31, 2019                                  | 21,438                                                              | 971                          | 797,912             |

\* Breakdown of other retained earnings

|                                                               | (Millions of yen)                |                                 |                                             |                      |                                   |
|---------------------------------------------------------------|----------------------------------|---------------------------------|---------------------------------------------|----------------------|-----------------------------------|
|                                                               | Reserve for special depreciation | Reserve for disaster prevention | Reserve for reduction entry of fixed assets | Reserve for research | Reserve for dividend equalization |
| Balance as of April 1, 2018                                   | 134                              | 60                              | 1,955                                       | 88                   | 15                                |
| Changes during the year                                       |                                  |                                 |                                             |                      |                                   |
| Cash dividends                                                | -                                | -                               | -                                           | -                    | -                                 |
| Provision of reserve for special depreciation                 | 172                              | -                               | -                                           | -                    | -                                 |
| Reversal of reserve for special depreciation                  | (56)                             | -                               | -                                           | -                    | -                                 |
| Provision of reserve for disaster prevention                  | -                                | 4                               | -                                           | -                    | -                                 |
| Reversal of reserve for reduction entry of fixed assets       | -                                | -                               | (33)                                        | -                    | -                                 |
| Transfer to additional paid-in capital from retained earnings | -                                | -                               | -                                           | -                    | -                                 |
| Net income                                                    | -                                | -                               | -                                           | -                    | -                                 |
| Total changes during the year                                 | 116                              | 4                               | (33)                                        | -                    | -                                 |
| Balance as of March 31, 2019                                  | 250                              | 65                              | 1,922                                       | 88                   | 15                                |

|                                                               | Reserve for reduction entry of land | General reserve | Retained earnings brought forward | Total other retained earnings |
|---------------------------------------------------------------|-------------------------------------|-----------------|-----------------------------------|-------------------------------|
| Balance as of April 1, 2018                                   | 20                                  | 351,137         | 269,794                           | 623,206                       |
| Changes during the year                                       |                                     |                 |                                   |                               |
| Cash dividends                                                | -                                   | -               | (74,655)                          | (74,655)                      |
| Provision of reserve for special depreciation                 | -                                   | -               | (172)                             | -                             |
| Reversal of reserve for special depreciation                  | -                                   | -               | 56                                | -                             |
| Provision of reserve for disaster prevention                  | -                                   | -               | (4)                               | -                             |
| Reversal of reserve for reduction entry of fixed assets       | -                                   | -               | 33                                | -                             |
| Transfer to additional paid-in capital from retained earnings | -                                   | -               | (22,719)                          | (22,719)                      |
| Net income                                                    | -                                   | -               | 97,403                            | 97,403                        |
| Total changes during the year                                 | -                                   | -               | (59)                              | 28                            |
| Balance as of March 31, 2019                                  | 20                                  | 351,137         | 269,734                           | 623,234                       |

**Audit Report of Accounting Auditor on the Consolidated Financial Statements**  
(English Translation)

**Independent Auditor's Report**

May 17, 2019

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

Ernst & Young ShinNihon LLC  
Yuji Mukaide, CPA  
Designated and Engagement Partner

Ryogo Ichikawa, CPA  
Designated and Engagement Partner

Yasuyuki Kitamura, CPA  
Designated and Engagement Partner

Pursuant to Article 444, Section 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise 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 142nd fiscal year from April 1, 2018 through March 31, 2019.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*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 142nd fiscal year ended March 31, 2019 in conformity with accounting principles generally accepted in Japan.

*Conflicts of Interest*

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

**Audit Report of Accounting Auditor on the Financial Statements (Non-Consolidated)**  
(English Translation)

**Independent Auditor's Report**

May 17, 2019

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

Ernst & Young ShinNihon LLC  
Yuji Mukaide, CPA  
Designated and Engagement Partner

Ryogo Ichikawa, CPA  
Designated and Engagement Partner

Yasuyuki Kitamura, CPA  
Designated and Engagement Partner

Pursuant to Article 436, Section 2, Paragraph 1 of the Companies Act, we have audited the accompanying financial statements, which comprise 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 142nd fiscal year from April 1, 2018 through March 31, 2019.

*Management's Responsibility for the Financial Statements and the Related Supplementary Schedules*

Management is responsible for the preparation and fair presentation of these financial statements and the related supplementary schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements and the related supplementary schedules that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the related supplementary schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the related supplementary schedules, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements and the related supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*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 142nd fiscal year ended March 31, 2019 in conformity with accounting principles generally accepted in Japan.

*Conflicts of Interest*

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

## Audit Report of Audit & Supervisory Board

### Audit Report

The Audit & Supervisory Board has prepared this Audit Report on the execution of duties by the Directors during the 142nd fiscal year from April 1, 2018 to March 31, 2019, based upon, and after having considered, the audit reports prepared by the individual Audit & Supervisory Board Members. The Report follows:

#### 1. Audit Methods and Procedures Used by Audit & Supervisory Board Members and by the Audit & Supervisory Board

(1) The Audit & Supervisory Board established its audit policy, plan and so forth, and received reports from the individual Audit & Supervisory Board Members 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.

(2) In accordance with the standards established by the Audit & Supervisory Board for auditing by the Audit & Supervisory Board Members, pursuant to the audit policy and assigned duties and others, the individual Audit & Supervisory Board Members 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, and conducted audits by the following methods.

① 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. With regard to the subsidiaries, the Audit & Supervisory Board Members promoted communication and information sharing with the Directors, Audit & Supervisory Board Members and others of the subsidiaries, and received business reports from subsidiaries as needed.

② They audited the substance of the Board of Directors' resolutions regarding the development of the systems to ensure the Directors to execute their duties in conformity with laws and regulations and the Articles of Incorporation, and other systems specified in Paragraphs 1 and 3, Article 100 of the Corporations Law Enforcement Regulations necessary for ensuring the properness of operations undertaken by the company group composed of the stock company and its subsidiaries, as well as the systems (internal control systems) being developed in accordance with such resolutions. The Audit & Supervisory Board Members received periodic reports from the Directors and employees and others on their progress in establishing and operating such systems and requested explanations from them as needed.

③ The Audit & Supervisory Board 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 systems enumerated in the Items of Article 131 of the Corporate Calculation Regulations as constituting a "system to ensure the proper execution of duties," and asked for explanations as needed.

Based on the methods above, the Audit & Supervisory Board examined the Business Report and its Annexed Schedules, 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 Audit & Supervisory Board 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 substance of the Business Report or the execution of duties by the Directors relevant to such internal control systems.

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

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

May 20, 2019

The Audit & Supervisory Board, Shin-Etsu Chemical Co., Ltd.

|                                                                             |                  |        |
|-----------------------------------------------------------------------------|------------------|--------|
| Full-time Audit & Supervisory Board Member                                  | Osamu Okada      | (Seal) |
| Full-time Audit & Supervisory Board Member                                  | Hiroaki Okamoto  | (Seal) |
| Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) | Taku Fukui       | (Seal) |
| Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) | Yoshihito Kosaka | (Seal) |
| Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) | 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 142nd 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 ¥100 per share of Common Stock in the Company; ¥41,680,475,000 in total.
3. Effective Date of Distribution of Retained Earnings  
June 28, 2019

The Company has paid an interim cash dividend of ¥100 per share for the current fiscal year; thus, dividend payment for the full year will be ¥200 per share, ¥60 up from the ¥140 for the previous term.

2nd Agendum: Election of Ten (10) Directors

Upon the conclusion of this Ordinary General Meeting of Shareholders, the terms of office of eleven (11) Directors, namely, Messrs. Yasuhiko Saitoh, Toshinobu Ishihara, Susumu Ueno, Yukihiro Matsui, Masaki Miyajima, Frank Peter Popoff, Tsuyoshi Miyazaki, Toshihiko Fukui, Toshiyuki Kasahara, Hidenori Onezawa and Kazumasa Maruyama will expire. Accordingly, the Board of Directors proposes that ten (10) persons be elected as Directors. The candidates for election to the position of Director are as follows:

|                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
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| <p>No. 1</p> <p style="text-align: center;"><b>Yasuhiko Saitoh</b><br/>(December 5, 1955)</p> <p>Number of Company Shares Held<br/>25,400 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u></p>    | <p><b>▶Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1978    Joined the Company<br/> Dec., 1999    Director of Shin-Etsu PVC B.V. (to date)<br/> June, 2001    Director of the Company<br/> June, 2002    Managing Director<br/> June, 2005    Senior Managing Director<br/> July, 2007    Representative Director and Senior Managing Director<br/> June, 2010    Representative Director and Executive Vice President<br/> June, 2016    Representative Director and President (to date)</p> <p><b>-Important Positions in Other Entities-</b><br/> Director and President of SHINTECH INC.<br/> Director and President of Shin-Etsu Handotai America, Inc.</p> <p>▶There is no special interest between the candidate and the Company.</p> <p><b>▶Reasons for Electing the Candidate for Director</b><br/> Mr. Yasuhiko Saitoh has been contributing to the development of the international business of the Group, including our PVC operations in the U.S., for many years, and since taking office as the President in June 2016, he has used his global management experience and done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p> |
| <p>No. 2</p> <p style="text-align: center;"><b>Toshinobu Ishihara</b><br/>(September 8, 1947)</p> <p>Number of Company Shares Held<br/>7,000 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u></p> | <p><b>▶Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1970    Joined the Company<br/> June, 2001    General Manager of New Functional Materials Research Center Director<br/> June, 2010    Managing Director<br/>                   In charge of New Functional Materials<br/> June, 2013    Senior Managing Director (to date)<br/> June, 2018    In charge of Special Functional Products (to date)<br/> Apr., 2019    In charge of New Functional Materials (to date)</p> <p>▶There is no special interest between the candidate and the Company.</p> <p><b>▶Reasons for Electing the Candidate for Director</b><br/> Mr. Toshinobu Ishihara has done his utmost to increase the Company's value such as driving the process of the commercialization from R&amp;D stage for New Functional Materials operation, such as photoresist products, and endeavoring to expand their operations, and being in charge of Special Functional Products operation, etc. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                                                                                                                                          |

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| <p>No. 3</p> <p style="text-align: center;"><b>Susumu Ueno</b><br/>(May 24, 1943)</p> <p>Number of Company Shares Held<br/>13,406 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u></p>         | <p>▶ <b>Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1968    Joined the Company<br/> June, 2005    General Manager of Gunma Complex<br/> June, 2013    Director<br/>                   General Manager of Silicone Div. (to date)<br/> June, 2015    Managing Director<br/> June, 2016    Senior Managing Director (to date)</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p>▶ <b>Reasons for Electing the Candidate for Director</b></p> <p>Mr. Susumu Ueno has extensive knowledge on the field of production and has endeavored to expand the Silicone operation which produces diverse products for many years, and has done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                                                                                                                                                                                       |
| <p>No. 4</p> <p style="text-align: center;"><b>Yukihiro Matsui</b><br/>(October 2, 1948)</p> <p>Number of Company Shares Held<br/>4,800 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u></p>   | <p>▶ <b>Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1973    Joined the Company<br/> Apr., 2004    General Manager of Magnet Dept., Electronics Materials Div.<br/> June, 2009    Director<br/> June, 2010    General Manager of Electronics Materials Div. (to date)<br/> June, 2013    Managing Director (to date)</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p>▶ <b>Reasons for Electing the Candidate for Director</b></p> <p>Mr. Yukihiro Matsui has endeavored to expand the Electronics Materials operation for many years and has done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                                                                                                                                                                                                                                                                      |
| <p>No. 5</p> <p style="text-align: center;"><b>Masaki Miyajima</b><br/>(February 8, 1947)</p> <p>Number of Company Shares Held<br/>22,100 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u></p> | <p>▶ <b>Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>July, 1971    Joined the Company<br/> May, 1997    General Manager of Opto-Electronics Materials Dept., Advanced Materials Div.<br/> June, 2001    Director<br/> Nov., 2002    General Manager of PVC Div. (to date)<br/> June, 2016    Managing Director (to date)<br/>                   In charge of Advanced Materials (to date)</p> <p>▶ The candidate is a Representative Director and the President of KASHIMA VINYL CHLORIDE MONOMER COMPANY LIMITED and Kashima Chlorine &amp; Alkali Co., Ltd. The Company is purchasing materials from, and otherwise conducting business with, the said two companies.</p> <p>▶ <b>Reasons for Electing the Candidate for Director</b></p> <p>Mr. Masaki Miyajima has done his utmost to increase the Company's value such as endeavoring to strengthen the PVC operation in Japan and being in charge of the Advanced Materials operation. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p> |

No. 6

**Frank Peter Popoff**

(October 27, 1935)

Number of Company Shares Held  
31,600 shares

Reappointment Candidate

Outside Director

Independent Officer

**► Career Summary, Positions, Responsibilities, and Important Positions in Other Entities**

Dec., 1987 CEO of The Dow Chemical Company  
Dec., 1992 Director and Chairman of the above  
Jan., 2001 Director of SHINTECH INC. (to date)  
June, 2001 Director of the Company (to date)

► There is no special interest between the candidate and the Company.

**► Reasons, etc. for Electing the Candidate for Outside Director**

Mr. Frank Peter Popoff is a candidate for Outside Director as defined in Item 7, Paragraph 3, Article 2 of the Corporations Law Enforcement Regulations. He first became an Outside Director of the Company in June 2001, and will have held this position for eighteen (18) years at the conclusion of this Ordinary General Meeting of Shareholders. During this period, he has performed a satisfactory job of providing supervision from an independent standpoint.

Furthermore, the Company has been aggressively promoting its business development overseas through the establishment of business locations all over the world, including in the U.S., Asia, and Europe. Mr. Popoff's opinions and practical advice, from a broad perspective based on his management experience as CEO of the former The Dow Chemical Company, a U.S. company that has a long history as a global company, have been of significant importance for the Company to expand its business overseas and enhance its corporate value.

He also serves as the commissioner of the Officers' Remuneration Committee. His work so far includes repealing the Officers' Retirement Benefit Program and making other significant revisions to the officers' remuneration system, thus striving to achieve an appropriate corporate governance structure with regard to the officers' remuneration system. In view of this, his nomination as a candidate for Outside Director reflects the confidence that the Company places in him to continue to provide the same quality of advice and supervision, and also to consistently contribute to the development of an appropriate corporate governance structure for the Company.

► Mr. Frank Peter Popoff has been serving as a Non-executive Director of our subsidiary SHINTECH INC. since January 2001.

► The Company has reported Mr. Frank Peter Popoff as an Independent Officer as provided in the applicable regulations of the Tokyo Stock Exchange, Inc., etc. If Mr. Popoff will be reappointed as Director, he is planned to continue acting as an Independent Officer.

No. 7

**Tsuyoshi Miyazaki**

(December 16, 1931)

Number of Company Shares Held  
0 shares

Reappointment Candidate

Outside Director

Independent Officer

**► Career Summary, Positions, Responsibilities, and Important Positions in Other Entities**

Mar., 1990 Representative Director and President of Mitsubishi Logistics Corporation  
June, 1998 Representative Director and Chairman of the above  
June, 2003 Adviser of the above (to date)  
Aug., 2004 Audit & Supervisory Board Member of Shin-Etsu Handotai Co., Ltd.  
June, 2007 Director of the Company (to date)

► There is no special interest between the candidate and the Company.

**► Reasons, etc. for Electing the Candidate for Outside Director**

Mr. Tsuyoshi Miyazaki is a candidate for Outside Director as defined in Item 7, Paragraph 3, Article 2 of the Corporations Law Enforcement Regulations. He first became an Outside Director of the Company in June 2007, and will have held this position for twelve (12) years at the conclusion of this Ordinary General Meeting of Shareholders. During this period, he has performed a satisfactory job of providing useful advice from a high-level perspective by capitalizing on his management experience at Mitsubishi Logistics Corporation and supervision from an independent standpoint. In view of this, his nomination as a candidate for Outside Director reflects the confidence that the Company places in him to continue to provide the same quality of advice and supervision.

► Mr. Tsuyoshi Miyazaki served as an Audit & Supervisory Board Member of our subsidiary Shin-Etsu Handotai Co., Ltd. from August 2004 to June 2007.

► The Company has reported Mr. Tsuyoshi Miyazaki as an Independent Officer as provided in the applicable regulations of the Tokyo Stock Exchange, Inc., etc. If Mr. Miyazaki will be reappointed as Director, he is planned to continue acting as an Independent Officer.

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| <p>No. 8</p> <p style="text-align: center;"><b>Toshihiko Fukui</b><br/>(September 7, 1935)</p> <p>Number of Company Shares Held<br/>0 shares</p> <p style="text-align: center;"> <span style="border: 1px solid black; padding: 2px;">Reappointment Candidate</span><br/> <span style="border: 1px solid black; padding: 2px; margin-left: 40px;">Outside Director</span><br/> <span style="border: 1px solid black; padding: 2px; margin-left: 40px;">Independent Officer</span> </p> | <p><b>▶ Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1958    Joined the Bank of Japan<br/> Dec., 1994    Deputy Governor of the above<br/> Mar., 2003    Governor of the above<br/> June, 2009    Director of the Company (to date)</p> <p><b>-Important Positions in Other Entities-</b></p> <p>President of the Canon Institute for Global Studies<br/> Outside Director of Kikkoman Corporation</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p><b>▶ Reasons, etc. for Electing the Candidate for Outside Director</b></p> <p>Mr. Toshihiko Fukui is a candidate for Outside Director as defined in Item 7, Paragraph 3, Article 2 of the Corporations Law Enforcement Regulations. He first became an Outside Director of the Company in June 2009, and will have held this position for ten (10) years at the conclusion of this Ordinary General Meeting of Shareholders. During this period, he has performed a satisfactory job of providing both supervision from an independent standpoint and useful advice from a high-level perspective by capitalizing on his outstanding knowledge and wealth of experience related to global finance and global economy as a former Governor of the Bank of Japan. In view of this, his nomination as a candidate for Outside Director reflects the confidence that the Company places in him to continue to provide the same quality of advice and supervision.</p> <p>▶ The Company has reported Mr. Toshihiko Fukui as an Independent Officer as provided in the applicable regulations of the Tokyo Stock Exchange, Inc., etc. If Mr. Fukui will be reappointed as Director, he is planned to continue acting as an Independent Officer.</p> |
| <p>No. 9</p> <p style="text-align: center;"><b>Toshiyuki Kasahara</b><br/>(May 7, 1951)</p> <p>Number of Company Shares Held<br/>7,300 shares</p> <p style="text-align: center;"><span style="border: 1px solid black; padding: 2px;">Reappointment Candidate</span></p>                                                                                                                                                                                                               | <p><b>▶ Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Mar., 1970    Joined the Company<br/> Dec., 2001    General Manager of Finance &amp; Accounting Dept. (to date)<br/> June, 2005    Director (to date)</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p><b>▶ Reasons for Electing the Candidate for Director</b></p> <p>Mr. Toshiyuki Kasahara has extensive knowledge on financial accounting and has done his utmost to increase the Company's value such as endeavoring to strengthen the sound financial foundation of the Group. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

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| <p>No. 10</p> <p><b>Kazumasa Maruyama</b><br/>(December 2, 1949)</p> <p>Number of Company Shares Held<br/>4,200 shares</p> <p style="text-align: center;"><span style="border: 1px solid black; padding: 2px;">Reappointment Candidate</span></p> | <p><b>► Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1975    Joined the Company<br/> June, 2010    General Manager of New Functional Materials Dept.<br/> June, 2013    Director (to date)<br/> Apr., 2019    General Manager of New Functional Materials Div. (to date)</p> <p>► There is no special interest between the candidate and the Company.</p> <p><b>► Reasons for Electing the Candidate for Director</b></p> <p>Mr. Kazumasa Maruyama has endeavored to expand the New Functional Materials operation for many years and has done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p> |
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Note: The Company has entered into an agreement with each of the three persons, Mr. Frank Peter Popoff, Mr. Tsuyoshi Miyazaki, and Mr. Toshihiko Fukui, pursuant to Paragraph 1, Article 427 of the Corporations Law, to limit the amount of the liability for damages stipulated in Paragraph 1, Article 423 of the said law to the amount set forth in the applicable law. If their reelections are approved, the relevant agreements are scheduled to remain effective.



3rd Agendum: Election of Three (3) Audit & Supervisory Board Members

Upon the close of this Ordinary General Meeting of Shareholders, the terms of office of three (3) Audit & Supervisory Board Members, namely, Messrs. Osamu Okada, Hiroaki Okamoto and Kiyoshi Nagano will expire. Accordingly, the Board of Directors proposes that three (3) persons be elected as Audit & Supervisory Board Members.

The candidates for the above are as follows:

In addition, this agendum has obtained the consent of the Audit & Supervisory Board.

|                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
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| <p>No. 1</p> <p><b>Hiroaki Okamoto</b><br/>(January 3, 1949)</p> <p>Number of Company Shares Held<br/>4,200 shares</p> <p><u>Reappointment Candidate</u></p> | <p><b>►Career Summary, Positions, and Important Positions in Other Entities</b></p> <p>July, 1971    Joined the Company<br/>Dec., 2007    Acting General Manager of Research and Development Dept.<br/>June, 2009    Director<br/>June, 2010    General Manager of Development and Investigation Dept.<br/>June, 2015    Full-time Audit &amp; Supervisory Board Member of the Company (to date)</p> <p>►There is no special interest between the candidate and the Company.</p> <p><b>►Reasons for Electing the Candidate for Audit &amp; Supervisory Board Member</b></p> <p>Mr. Hiroaki Okamoto is very knowledgeable about the businesses of the Company after having assumed a series of important positions in Research and Development and also has performed a satisfactory job of auditing by capitalizing on his knowledge after becoming an Audit &amp; Supervisory Board Member. In view of this, his nomination as a candidate for Audit &amp; Supervisory Board Member reflects the confidence that the Company places in him to continue to provide the same appropriate performance as an Audit &amp; Supervisory Board Member and to contribute to the establishment of a compliance structure for the Company.</p> |
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No. 2

**Kiyoshi Nagano**

(November 29, 1940)

Number of Company Shares Held  
0 shares

Reappointment Candidate

Outside Audit & Supervisory Board Member

Independent Officer

**▶ Career Summary, Positions, and Important Positions in Other Entities**

Dec., 2004 Representative Director/Chairman/President of Jasdac Securities Exchange, Inc.  
June, 2005 Senior Corporate Advisor of the above  
June, 2006 Chairman of Management Advisory Council of the above  
June, 2007 Audit & Supervisory Board Member of the Company (to date)

**-Important Positions in Other Entities-**

Outside Director of LEC, INC.

▶ There is no special interest between the candidate and the Company.

**▶ Reasons, etc. for Electing the Candidate for Outside Audit & Supervisory Board Member**

Mr. Kiyoshi Nagano is a candidate for Outside Audit & Supervisory Board Member as defined in Item 8, Paragraph 3, Article 2 of the Corporations Law Enforcement Regulations. He first became an Outside Audit & Supervisory Board Member of the Company in June 2007, and will have held this position for twelve (12) years at the conclusion of this Ordinary General Meeting of Shareholders. During this period, he has performed a satisfactory job of auditing from a broad perspective based on his management experience at the former Jasdac Securities Exchange, Inc. In view of this, his nomination as a candidate for Outside Audit & Supervisory Board Member reflects the confidence that the Company places in him to continue to provide the same appropriate performance as an Outside Audit & Supervisory Board Member and to contribute to the establishment of a compliance structure for the Company.

▶ The Company has reported Mr. Kiyoshi Nagano as an Independent Officer as provided in the applicable regulations of the Tokyo Stock Exchange, Inc., etc. If Mr. Nagano will be reappointed as an Audit & Supervisory Board Member, he is planned to continue acting as an Independent Officer.

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| <p>No. 3</p> <p style="text-align: center;"><b>Hidenori Onezawa</b><br/>(February 27, 1952)</p> <p>Number of Company Shares Held<br/>5,100 shares</p> <p style="text-align: center; border: 1px solid black; padding: 2px;">Newly nominated Candidate</p> | <p><b>▶ Career Summary, Positions, and Important Positions in Other Entities</b></p> <p>Apr., 1977    Joined the Company<br/> June, 2001    Director of Shin-Etsu Handotai Co., Ltd.<br/> Aug., 2004    Managing Director of the above<br/> June, 2005    Director of the Company (to date)<br/> June, 2015    In charge of Business Auditing (to date)</p> <p>Note: The candidate will retire from the position of Director and will no longer have the responsibility of Business Auditing at the conclusion of this Ordinary General Meeting of Shareholders.</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p><b>▶ Reasons for Electing the Candidate for Audit &amp; Supervisory Board Member</b></p> <p>Mr. Hidenori Onezawa is very knowledgeable about the businesses of the Company after having assumed a series of important positions, such as in Semiconductor operation and Business Auditing. In view of this, his nomination as a candidate for Audit &amp; Supervisory Board Member reflects the confidence that the Company places in him to provide the appropriate performance as an Audit &amp; Supervisory Board Member and to contribute to the establishment of a compliance structure for the Company.</p> |
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Note The Company has entered into an agreement with each of Mr. Hiroaki Okamoto and Mr. Kiyoshi Nagano, pursuant to Paragraph 1, Article 427 of the Corporations Law, to limit the amount of liability for damages stipulated in Paragraph 1, Article 423 of the said law to the amount set forth in the applicable law. If their reelections are approved, the relevant agreements are scheduled to remain effective. If Mr. Hidenori Onezawa is appointed as an Audit & Supervisory Board Member and assumes the position, the Company will enter into the same agreement with him.

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 4,600 rights.

(Up to 460,000 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, 2024.

(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) Handling of the stock acquisition rights under the Reorganization Action

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.

[End of Notification]