

(Translation)

(Securities Code 4063)

June 5, 2009

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

Notice of Convocation of the 132nd
Ordinary General Meeting of Shareholders

Dear Shareholder:

You are hereby notified that the 132nd Ordinary General Meeting of Shareholders will be held as described below. Your attendance would be much appreciated.

If you are unable to attend the Meeting in person, you are entitled to exercise your voting rights in writing in which case we would appreciate it if you would take the time to review the Reference Documents for the General Meeting of Shareholders attached hereto and indicate your approval or disapproval of each Agenda item on the enclosed Voting Card. Please return your completed Voting Card so that it reaches us by no later than 5:00 p.m. on Thursday, June 25, 2009.

Description of Meeting

1. Date and Time : June 26, 2009 (Friday) at 10:00 a.m.
2. Place : Company’s head office at 6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo
27th floor of Asahi-Seimei Otemachi Building, Otemachi Sun-Sky Room
3. Agenda for the Meeting:
Matters to be reported : 1. Report on the Business Report, the Consolidated Financial Statements, and the Audit Reports of the Accounting Auditor and the Board of Statutory Auditors on the Consolidated Financial Statements for the 132nd fiscal year (April 1, 2008 through March 31, 2009)
2. Report on the Financial Statements for the 132nd fiscal year (April 1, 2008 through March 31, 2009)

Matters to be resolved:
1st Agendum : Distribution of Retained Earnings to Shareholders
2nd Agendum : Amendment of Certain Provisions of the Articles of Incorporation
3rd Agendum : Election of Fourteen (14) Directors
4th Agendum : Election of One (1) Statutory Auditor
5th Agendum : Issuance of Stock Acquisition Rights as Stock Options to Employees
6th Agendum : Continuance of the Handling Policy (Anti-takeover Defensive Plan) toward Large-scale Purchase of the Company’s Shares and Other Securities

Very truly yours,

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

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

BUSINESS REPORT
(April 1, 2008 through March 31, 2009)

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

1. Business Operations

In this consolidated fiscal year under review, the business environment surrounding the Company's group proved extremely challenging, especially with crude oil and other raw material prices trending high during the first half and the global economy slowing down rapidly during the second half in the wake of the financial crisis triggered in the United States. Meanwhile, Japan's economy remained robust through the early months but later ran into serious trouble, especially as a worldwide decline in demand depressed corporate earnings substantially and aggravated employment conditions.

Under these circumstances, the Company's group stepped up sales efforts across a wide range of global customers while also focusing on rationalizing and streamlining business management processes and developing and commercializing new products. Similar emphasis was placed on ensuring safety-first manufacturing and environmental conservation.

The net sales of the Company's group for this consolidated fiscal year reached 1,200,813 million yen, a decrease of 12.8% (175,551 million yen) over the previous fiscal year. Operating income also decreased by 18.9% (54,218 million yen) to 232,927 million yen from the previous fiscal year, and ordinary income decreased by 16.5% (49,507 million yen) to 250,533 million yen. Net income decreased by 15.7% (28,849 million yen) to 154,731 million yen.

The business operations of each division were as follows.

Organic and Inorganic Chemicals

In the polyvinyl chloride business, the U.S.-based SHINTECH INC. achieved substantial growth in earnings, despite continued doldrums in the housing market, by expanding sales among customers worldwide and maintaining high capacity-utilization levels. The Netherlands-based Shin-Etsu PVC B.V. reported continued with solid sales in Europe. Meanwhile, domestic operations in Japan continued to endure a difficult climate as shipments remained sluggish due to the profound effects of weakening demand.

In the silicone business, results were slower year-on-year, despite continued solid sales particularly for use in automobiles and information technology equipment during the first half of the year under review, because demand slackened in wide-ranging sectors during the second half. Shin-Etsu Polymer Co., Ltd. reported substantially weaker results as sales of keypads for mobile phones suffered from increased price competition and slower shipments.

In the cellulose derivatives business, domestic operations in Japan continued brisk sales particularly for use in pharmaceuticals. However, the business results of SE Tylose GmbH & Co. KG in Germany were sluggish because of the decreased demand for

construction materials. Meanwhile, sales of silicon metals continued to be strong owing to increased product prices.

As a result of the foregoing, this division's total sales decreased by 10.2% (71,828 million yen) from the previous fiscal year to 629,174 million yen, and operating income decreased by 4.4% (4,339 million yen) to 95,142 million yen.

Electronics Materials

In the semiconductor silicon business, results were weaker year-on-year, despite continued solid sales particularly of 300-mm wafers during the first half, because demand for devices declined sharply in wide-ranging sectors during the second half.

Rare-earth magnets for the electronics industry posted generally slower sales due to the effects of adjusted levels of production of hard disk drives for PCs. Photoresist products contributed weaker results reflecting subdued shipments.

As a result of the foregoing, this division's total sales decreased by 17.2% (97,176 million yen) from the previous fiscal year to 467,520 million yen, and operating income decreased by 30.8% (49,866 million yen) to 112,234 million yen.

Functional Materials & Others

Synthetic quartz products posted generally weaker results, despite continued solid sales of preforms for optical fibers, the demand for which increased reflecting growing amounts of data communications worldwide, because sales of large-size photomask substrates for LCDs suffered from decreased demand and ongoing market sluggishness.

General-purpose rare-earth magnets contributed slower results, although sales continued to be brisk, particularly for use in energy-saving air conditioner motors, during the first half, because demand declined particularly for use in optical pickups and FA motors during the second half.

As a result of the foregoing, this division's net sales decreased by 5.9% (6,547 million yen) from the previous fiscal year to 104,118 million yen, and operating income decreased by 1.1% (288 million yen) to 25,724 million yen.

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

The Company's group invested 159,406 million yen during this consolidated fiscal year mainly in the following:

Major facilities completed during this consolidated fiscal year:

Enhancement of equipment to manufacture 300-mm wafers of semiconductor silicon (Shin-Etsu Handotai Co., Ltd., Shin-Etsu Handotai America, Inc.)

Construction of integrated equipment to manufacture polyvinyl chloride (Phase 1) (SHINTECH INC.)

Enhancement of rare-earth separation and refinement equipment (Takefu Plant of Shin-Etsu Chemical Co., Ltd.)

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

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

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

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

3. Problems Confronting the Company's Group

Projection for the months ahead suggests that, especially with the global economic slowdown deepening and domestic concerns growing over a prolonged period of declining business investment and weakening personal consumption reflecting deteriorated employment conditions, an extremely difficult business climate lies ahead.

Under these circumstances, the Company's group is striving as hard as it can to overcome this immediate challenging business environment, especially by accurately anticipating market changes and stepping up sales efforts across a wide range of global customers. Furthermore, the Company's group is focusing its efforts on establishing the world's highest standard of technology and quality, and achieving increased productivity so that the Company's group shall establish a stronger operating foundation.

In the polyvinyl chloride business, SHINTECH INC. (USA) has been constructing integrated manufacturing factories that cover all processes from electrolysis to the manufacture of polyvinyl chloride resin. Furthermore, the first-phase of construction of said factories has been completed, and said factories have started to operate. In Europe, in order to strengthen the business base of Shin-Etsu PVC in the Netherlands, the Company's group has also initiated procedures for making CIRES, S.A. in Portugal a fully-owned subsidiary under the Company's group. The Company's group will continue to make full use of the tripolar system that includes Japan, the United States and Europe so as to secure its position as the world's largest manufacture of polyvinyl chloride resin.

In the silicone business, the Company's group will promote the development of new products and new applications of existing products by taking advantage of the characteristics of its products, which are in demand in a wide range of areas. The Company's group will also step up its efforts to improve the productivity of its factories in Japan, Thailand, the United States and other countries in order to expand its business not only in Japan but overseas as well.

In the semiconductor silicon business, the Company's group will maintain a steady supply of high-quality products as the world's largest manufacturer, based on accurate information on market demand for 300-mm wafers. The Company's group will strive to strengthen its competitiveness in the market for wafers of 200 mm or smaller by adding value to and by developing special applications for its products in order to differentiate them from those of other companies.

In the rare-earth magnet business, the Company's group will make efficient use of its newly constructed rare-earth separation and refinement facilities in order to further improve productivity. At the same time, the Company's group will work to expand its business, focusing on products for hybrid cars, which are likely to be in greater demand in the future.

In the cellulose business, the Company's group will provide a steady supply of products used for pharmaceutical purposes. To that end, the Company's group will construct manufacturing facilities in Germany to be managed by SE Tylose, in addition to the Company's Naoetsu Plant in Japan and in this way will continue to strengthen its business base.

For the future business expansion, the Company's group will step up its efforts to develop new businesses, including the research, development and commercialization of new products, and M&A.

The Company's group will also fulfill its corporate social responsibilities, such as implementing proper safety measures, preserving the environment and ensuring compliance with the law, in order to maximize the value of the Company's group.

4. Trend of Business Results and Financial Conditions

Item \ Year	129th Fiscal Year	130th Fiscal Year	131st Fiscal Year	132nd Fiscal Year
Net Sales (Million Yen)	1,127,915	1,304,695	1,376,364	1,200,813
Net Income (Million Yen)	115,045	154,010	183,580	154,731
Net Income per Share (Yen)	266.63	357.78	426.63	362.39
Net Assets (Million Yen)	1,173,679	1,360,315	1,483,669	1,407,353
Total Assets (Million Yen)	1,671,280	1,859,995	1,918,544	1,684,944

Note 1: Effective from the 130th fiscal year, the Company applies the Accounting Standard for the Presentation of Net Assets in the Balance Sheet (Corporate Accounting Standard No. 5 of December 9, 2005) and the Guidance to Implement the Accounting Standard for the Presentation of Net Assets in the Balance Sheet and Others (Corporate Accounting Standard Implementation Guidance No. 8 of December 9, 2005).

Note 2: In the 132nd fiscal year, the effects of a worldwide decline in demand, which particularly impacted the Company's semiconductor silicon and other electronics materials operations, were reflected in decreases in its sales revenues and earnings.

5. Status of Major Subsidiary Companies, etc. (as of March 31, 2009)

(1) Status of Major Subsidiary Companies

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

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

(2) Status of Major Affiliated Companies

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

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

(3) Results of Consolidation

For this consolidated fiscal year, there are 68 consolidated subsidiaries etc. and 8 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 1,200,813 million yen (down by 12.8% from the previous fiscal year), and the net income amounted to 154,731 million yen (down by 15.7% from the previous fiscal year).

(4) The Company's Major Licensors and Licensees

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

6. Major Lines of Business of the Company's Group (as of March 31, 2009)

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

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

7. Major Bases of the Company's Group (as of March 31, 2009)

(1) Company

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

Note: The Kitakanto Sales Office (Gunma Prefecture) was dissolved as of June 30, 2008.

(2) Subsidiaries

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

8. Status of Employees of the Company's Group and the Company (as of March 31, 2009)

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

Business Dept.	Number of Employees	Increase or Decrease Compared with the End of the Previous Fiscal Year
Organic & inorganic chemicals	9,781	-339
Electronics materials	7,900	-757
Functional materials & others	1,489	+25
Total	19,170	-1,071

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

(2) Status of Employees of the Company

Number of Employees	Increase or Decrease Compared with the End of the Previous Fiscal Year	Average Age	Average Years of Service
2,609	+19	41.8	20.1

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

9. Major Lenders to the Company's Group (as of March 31, 2009)

Name of Lender	Outstanding Borrowings (Million Yen)
Nippon Life Insurance Company	3,790
Japan Bank for International Cooperation	3,568
Meiji Yasuda Life Insurance Company	2,424
The Hachijuni Bank, Ltd.	2,121
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,312

Note: The above does not include amounts of syndicated loan borrowing (which totaled 7,888 million yen).

II. Matters Concerning Stock in Company (as of March 31, 2009)

1. Number of Shares and Shareholders

Total number of shares authorized to be issued:	1,720,000,000
Total number of issued shares:	432,106,693
Number of shareholders:	65,376

Note: The total number of issued shares includes 7,636,973 treasury shares.

2. Major Shareholders Who Own One-Tenth or More of the Total Number of Issued Shares Outstanding

The Company has no major shareholders who must be disclosed under this item.

The Company's top ten shareholders are described below:

Name of Shareholder	Status of Investment in the Company	
	Number of Shares Held (Thousand shares)	Holding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	41,662	9.8
Japan Trustee Services Bank, Ltd. (Trust Account)	35,984	8.5
Nippon Life Insurance Company	24,370	5.7
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	20,718	4.9
Japan Trustee Services Bank, Ltd. (Trust Account 4)	12,077	2.8
The Hachijuni Bank, Ltd.	11,790	2.8
Meiji Yasuda Life Insurance Company	11,529	2.7
Nipponkoa Insurance Co., Ltd.	8,077	1.9
JPMorgan Chase Bank 380055	7,424	1.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,095	1.7

Note: The Company, which owns 7,636,973 treasury shares, is excluded from consideration as a major shareholder as defined above. The holding ratios are computed net of this treasury stock.

III. Matters Concerning Stock Acquisition Rights Issued by the Company

1. State of Stock Acquisition Rights (Stock Options) (as of March 31, 2009)

(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
3rd Issue of Stock Acquisition Rights (07/05/2004)	150	15,000 shares of Common Stock in the Company	Distributed gratis	3,957	July 5, 2004 through March 31, 2009	Directors and employees of Company
4th Issue of Stock Acquisition Rights (06/29/2005)	1,560	156,000 shares of Common Stock in the Company	Distributed gratis	4,244	June 29, 2005 through March 31, 2010	Same as above
5th Issue of Stock Acquisition Rights (07/13/2006)	5,871	587,100 shares of Common Stock in the Company	Distributed gratis	6,560	July 13, 2006 through March 31, 2011	Same as above
6th Issue of Stock Acquisition Rights (07/2/2007)	9,150	915,000 shares of Common Stock in the Company	Distributed gratis	8,949	July 2, 2007 through March 31, 2012	Same as above
7th Issue of Stock Acquisition Rights (for Distribution to Directors) (07/14/2008)	5,750	575,000 shares of Common Stock in the Company	943	6,755	July 15, 2009 through March 31, 2013	Directors (excluding External Directors) of Company
7th Issue of Stock Acquisition Rights (for Distribution to Employees) (07/14/2008)	2,510	251,000 shares of Common Stock in the Company	Distributed gratis	6,755	July 15, 2009 through March 31, 2013	Employees of Company

Note 1: The terms and conditions on which to exercise stock acquisition rights in each of the 3rd through 6th issues are outlined below:

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

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

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

(2) State of Stock Acquisition Rights (Stock Options) Held by Directors and Statutory Auditors of the Company

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

Designation	Chronological Number of Issue	Number of Stock Acquisition Rights	Number of Optionees
Directors (Excluding External Directors)	3rd Issue of Stock Acquisition Rights	0	0
	4th Issue of Stock Acquisition Rights	610	4
	5th Issue of Stock Acquisition Rights	4,120	13
	6th Issue of Stock Acquisition Rights	5,670	16
	7th Issue of Stock Acquisition Rights	5,750	16
External Directors	3rd Issue of Stock Acquisition Rights	150	1
	4th Issue of Stock Acquisition Rights	650	2
	5th Issue of Stock Acquisition Rights	650	2
	6th Issue of Stock Acquisition Rights	950	4
	7th Issue of Stock Acquisition Rights	-	-

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

Pursuant to a resolution adopted by the Board of Directors on June 27, 2008, the 7th Issue of Stock Acquisition Rights (for Distribution to Employees), intended as incentive stock options, was issued as of July 14, 2008 for distribution to 61 employees, as outlined below:

- (1) Number of Stock Acquisition Rights Distributed
2,510
- (2) Type and Quantity of Shares Subject to Stock Options
251,000 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
¥6,755
- (5) Period within Which to Exercise Stock Options
From July 15, 2009, until March 31, 2013
- (6) Conditions to Exercise Stock Options
The same terms and conditions apply as described in Note 2 of 1.-(1) General Description of Stock Acquisition Rights above.

IV. Matters Concerning Directors and Statutory Auditors of Company

1. Name and Other Information Concerning Directors and Statutory Auditors (as of March 31, 2009)

Title	Name	Responsibilities, Representation of Other Corporate or Other Legal Entities, etc.
Representative Director - President	Chihiro Kanagawa	Director & President, SHINTECH INC.
Representative Director - Senior Managing Director	Shunzo Mori	In charge of General Affairs and Personnel & Labor Relations General Manager, Electronics Materials Div.
Representative Director - Senior Managing Director	Fumio Akiya	In charge of Semiconductor Materials, Advanced Materials, Technologies and Purchasing Representative Director & President, Shin-Etsu Handotai Co., Ltd.
Representative Director - Senior Managing Director	Yasuhiko Saitoh	In charge of the Office of the President, Public Relations, Finance & Accounting and Legal Affairs Representative Director & Vice-President, Shin-Etsu Handotai Co., Ltd. Director & President, Shin-Etsu Handotai America, Inc.
Managing Director	Kiichi Habata	In charge of Environmental Control & Safety and Auditing
Managing Director	Yoshiaki Ono	General Manager, Silicone Electronics Materials Research Center, Research & Development Dept., Patent Dept. and New Products Dept.
Managing Director	Koji Takasugi	General Manager, Silicone Div. and International Div.
Director ¹	Frank Peter Popoff	
Director ¹	Shunji Kono	Honorary Adviser, Tokio Marine & Nichido Fire Insurance Co., Ltd.
Director ¹	Masashi Kaneko	Director & Chairman of the Board, Ikyu Corporation
Director ¹	Tsuyoshi Miyazaki	Adviser, Mitsubishi Logistics Corporation
Director	Toshinobu Ishihara	General Manager, New Functional Materials Research Center and New Functional Materials Dept.
Director	Masaki Miyajima	General Manager, PVC Div.
Director	Atsushi Nakamura	General Manager, Organic Chemicals Div.
Director	Fumio Arai	Director & President, Shin-Etsu PVC B.V. Director & President, SE Tylose GmbH & Co. KG
Director	Toshiyuki Kasahara	General Manager, Finance & Accounting Dept.
Director	Hidenori Onezawa	Deputy General Manager, Organic Chemicals Div.
Director	Masahiko Todoroki	General Manager, Planning & Administration Dept., Semiconductor Materials Div.
Director	Ken Nakamura	General Manager, Office of the President and Public Relations Dept.
Director	Toshiya Akimoto	General Manager, Office of the Secretariat
Full-Time Statutory Auditor	Osamu Okada	
Statutory Auditor	Masahiko Watase	
Statutory Auditor ²	Taku Fukui	Lawyer/Managing Partner, Kashiwagi Sogo Law Offices Professor, Keio Law School
Statutory Auditor ²	Yoshihito Kosaka	C.P.A./Certified Public Tax Accountant/Partner, Chiba, Kosaka Accountancy Office
Statutory Auditor ²	Kiyoshi Nagano	Senior Corporate Adviser, Jasdq Securities Exchange, Inc.

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

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

3. Mr. Hidenori Onezawa, Director, retired as Managing Director, Shin-Etsu Handotai Co., Ltd., effective as of November 18, 2008.

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

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

Designation	Number of Recipients	Amount Payable	Remarks
Directors	Persons 21	Million Yen 1,423	Portion payable to seven External Directors and External Statutory Auditors: 137 million yen
Statutory Auditors	5	77	
Total	26	1,500	

- Notes:
1. The above figures include those relevant to one Director who retired from the office effective at the conclusion of the 131st Ordinary General Meeting of Shareholders held on June 27, 2008.
 2. The amount payable to the Directors and Statutory Auditors includes the bonus reserve amount and the retirement bonus reserve amount attributable to the fiscal year under review. Additionally, the Director and Statutory Auditor retirement bonus program was discontinued effective at the conclusion of the 131st Ordinary General Meeting of Shareholders held on June 27, 2008.
 3. In addition to the above, pursuant to a resolution adopted by the Board of Directors on June 27, 2008, 16 Directors (not including External Directors) were granted stock acquisition rights intended as incentive stock options, which were valued at 489 million yen.
 4. 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.
 5. In addition to the above, the amounts of remuneration and others paid or payable to External Directors and External Statutory Auditors from subsidiaries of the Company for serving as Director or Statutory Auditor of such subsidiaries in the fiscal year under review aggregated 21 million yen. There is no information reportable under the disclosure item regarding remuneration and others paid or payable to External Directors and External Statutory Auditors from a parent company or its subsidiaries for serving as Director or Statutory Auditor in the fiscal year under review.

3. Matters Concerning External Directors and External Statutory Auditors

- (1) Concurrent Service as Executive Officer, Executive Director or Other Officeholder for Other Companies

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

- (2) Concurrent Service as External Director or External Statutory Auditor for Other Companies

Mr. Shunji Kono, External Director, serves concurrently as External Director for Nikon Corporation and as External Statutory Auditor for Tokyu Corporation.

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

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

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

In addition to the statutory Board of Directors, the Company has a second principal organ, called the Managing Directors' Committee, for considering and deciding the execution of business processes, and each organ holds a meeting once a month as a general rule. The activities of the Company's External Directors and External Statutory Auditors via participation in these meetings and other arrangements are reviewed below:

a. Activities of External Directors

Name	Main Activities
Frank Peter Popoff	As the Director lives in the U.S. and, due to the time difference, it is difficult for him to participate in meetings of the Board of Directors even by videoconference or teleconferencing systems, he attended two meetings of the Board of Directors held during the fiscal year under review. However, in case there are External Directors or External Statutory Auditors who cannot attend meetings, we encourage them to participate in the review and decision-making for business execution by hearing their opinions regarding agenda items in advance, sending them copies of the minutes, and explaining to them the contents of deliberations in detail by telephone. He gave us advice from a broad viewpoint using his management experience at The Dow Chemical Company based in the U.S. and supervised our management from an independent standpoint. He also serves as the commissioner of the Officers' Remuneration Committee.
Shunji Kono	The Director attended Board of Directors meetings (attendance rate 86%), as well as Managing Directors' Committee meetings, and shared his comments from a broad, high-level perspective capitalizing on his management experience at the former Tokio Marine & Fire Insurance Co., Ltd. He also provided supervision from an independent standpoint.
Masashi Kaneko	The Director attended all meetings of the Board of Directors, as well as Managing Directors' Committee meetings, held during the fiscal year under review, and shared his comments from a broad, high-level perspective capitalizing on his management experience at the former Nikko Cordial Corporation. He also provided supervision from an independent standpoint.
Tsuyoshi Miyazaki	The Director attended 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 supervision from an independent standpoint.

b. Activities of External Statutory Auditors

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

(5) General Description of Limitation of Liability Agreement

No agreement exists that must be disclosed under this item.

V. Status of Accounting Auditor

1. Name of Accounting Auditor (as of March 31, 2009)

Ernst & Young ShinNihon LLC

Note: Ernst & Young ShinNihon LLC was renamed from Ernst & Young ShinNihon, effective as of July 1, 2008, as a result of its conversion into a different corporate form.

2. General Description of Limitation of Liability Agreement

No agreement exists that must be disclosed under this item.

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

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

81 million yen

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

118 million yen

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

4. Details of Non-audit Services

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. System for the Purpose of Otherwise Ensuring That the Audits Performed by the Statutory Auditors Will Be Performed Effectively

The Statutory Auditors will hold periodic meetings with the Company's Accounting Auditors to exchange opinions, hold regular reporting meetings with the Company's Business Audit Department, and take other measures to coordinate its work.

VII. Basic Policy Regarding Control of the Company

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

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

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

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

① Basic Management Policies

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

② Policy Implementation

In the polyvinyl chloride business, SHINTECH INC. (USA) has been constructing integrated manufacturing factories that cover all processes from electrolysis to the manufacture of polyvinyl chloride resin. Furthermore, the first-phase of construction of said factories has been completed, and said factories have started to operate. In Europe, in order to strengthen the business base of Shin-Etsu PVC in the Netherlands, the Company’s group has also initiated procedures for making CIREs, S.A. in Portugal a fully-owned subsidiary under the Company’s group. The Company’s group will continue to make full use of the tripolar system that includes Japan, the United States and Europe so as to secure its position as the world’s largest manufacture of polyvinyl chloride resin.

In the silicone business, the Company's group will promote the development of new products and new applications of existing products by taking advantage of the characteristics of its products, which are in demand in a wide range of areas. The Company's group will also step up its efforts to improve the productivity of its factories in Japan, Thailand, the United States and other countries in order to expand its business not only in Japan but overseas as well.

In the semiconductor silicon business, the Company's group will maintain a steady supply of high-quality products as the world's largest manufacturer, based on accurate information on market demand for 300-mm wafers. The Company's group will strive to strengthen its competitiveness in the market for wafers of 200 mm or smaller by adding value to and by developing special applications for its products in order to differentiate them from those of other companies.

In the rare-earth magnet business, the Company's group will make efficient use of its newly constructed rare-earth separation and refinement facilities in order to further improve productivity. At the same time, the Company's group will work to expand its business, focusing on products for hybrid cars, which are likely to be in greater demand in the future.

In the cellulose business, the Company's group will provide a steady supply of products used for pharmaceutical purposes. To that end, the Company's group will construct manufacturing facilities in Germany to be managed by SE Tylose, in addition to the Company's Naoetsu Plant in Japan and in this way will continue to strengthen its business base.

For the future business expansion, the Company's group will step up its efforts to develop new businesses, including the research, development and commercialization of new products, and M&A.

The Company's group will also fulfill its corporate social responsibilities, such as implementing proper safety measures, preserving the environment and ensuring compliance with the law, in order to maximize the value of the Company's group.

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

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

While the Company actively promotes investor relations to shareholders and investors, in order for the shareholders to make accurate judgments, at the start of a Large-scale Purchase (which refers to the purchase of the Company's shares and other securities by a specific group of shareholders, and which is aimed at making the ratio of voting rights of the specific group of shareholders twenty percent (20%) or more, or the purchase of the Company's shares and other securities by a specific group of shareholders in which, as a consequence, the ratio of voting rights of the specific group of shareholders becomes twenty percent (20%) or more; the person making such a purchase is hereinafter called a "Large-scale Purchaser"), as to whether

or not the purchasing value presented by the Large-scale Purchaser is appropriate, it is essential that appropriate and sufficient information is provided by both the Large-scale Purchaser and the Company. In view of this, the Company has instituted its handling policy toward Large-scale Purchases (hereinafter called the “Handling Policy”), effective with the approval of the 131st Ordinary General Shareholders’ Meeting held on June 27, 2008.

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

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

(a) Provision of Necessary Information

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

(b) Setting of the Period of Assessment and Review

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

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

(c) Establishment and Structure of the Independent Committee

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

countermeasures described in Section ②(a) below as well as in the case of taking exceptional responses described in Section ②(b) below, in principle the Board of Directors shall consult with the Independent Committee, and the Board of Directors shall, to the maximum extent possible, respect the advice of the Independent Committee.

There shall be three (3) or more members of the Independent Committee, and to enable fair and neutral judgments, selection of the committee's members will be made from the Company's External Directors and External Statutory Auditors who are independent of the Managing Directors, and outside professionals such as lawyers, certified public accountants, certified tax accountants, academic experts, and business experts having broad administrative experience. At the Board of Directors meeting immediately following the conclusion of the 131st Ordinary General Meeting of Shareholders, Messrs. Shunji Kono, Masashi Kaneko, and Tsuyoshi Miyazaki, three External Directors of the Company, were nominated and appointed to serve on the Independent Committee.

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

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

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

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

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

③ Effective Period of the Handling Policy, Etc.

The effective period of the Handling Policy will be up to the conclusion of the Company's 132nd Ordinary General Shareholders' Meeting to be held in June 2009, and in the case the Handling Policy continues after such point of time, it will be conditional upon authorization with the approval of a majority of the voting rights of the shareholders present at the Company's Shareholders' Meeting. Also, even before the expiration of the effective period of the Handling Policy, in the event of a resolution by the Board of Directors to end the Handling Policy from the viewpoint such as an improvement of the common interests of the shareholders, the Handling Policy will end at that point of time.

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

① The Handling Policy is in Compliance with the Basic Policy

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

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

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

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

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

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

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

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

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

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

## CONSOLIDATED BALANCE SHEETS

As of March 31, 2009 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million.)

### ASSETS

#### Current Assets:

|                                             | (Millions of yen) |
|---------------------------------------------|-------------------|
| Cash and time deposits -----                | 209,541           |
| Notes and accounts receivable-trade-----    | 215,842           |
| Securities -----                            | 111,878           |
| Merchandise and finished products -----     | 117,470           |
| Work in process -----                       | 10,312            |
| Raw materials and supplies -----            | 80,326            |
| Deferred taxes, current -----               | 36,098            |
| Other -----                                 | 37,084            |
| Less: Allowance for doubtful accounts ----- | <u>(2,627)</u>    |
| Total current assets                        | <u>815,926</u>    |

#### Fixed Assets:

##### Property, plant and equipment:

|                                |              |
|--------------------------------|--------------|
| Buildings and structures-----  | 161,392      |
| Machinery and equipment -----  | 294,007      |
| Land-----                      | 62,574       |
| Leased assets-----             | 1,441        |
| Construction in progress ----- | 82,853       |
| Other -----                    | <u>7,409</u> |
|                                | 609,678      |

##### Intangible fixed assets:

|               |              |
|---------------|--------------|
| Goodwill----- | 15,091       |
| Other -----   | <u>3,162</u> |
|               | 18,253       |

##### Investments and other assets:

|                                             |                |
|---------------------------------------------|----------------|
| Investments in securities -----             | 146,893        |
| Long-term loans -----                       | 4,678          |
| Deferred taxes, non-current -----           | 34,868         |
| Other -----                                 | 54,686         |
| Less: Allowance for doubtful accounts ----- | <u>(39)</u>    |
|                                             | <u>241,086</u> |
| Total fixed assets                          | <u>869,018</u> |

|              |                  |
|--------------|------------------|
| TOTAL ASSETS | <u>1,684,944</u> |
|--------------|------------------|

## LIABILITIES

### Current Liabilities:

|                                       | (Millions of yen) |
|---------------------------------------|-------------------|
| Notes and accounts payable-trade----- | 75,188            |
| Short-term borrowings-----            | 10,872            |
| Accounts payable-other -----          | 54,055            |
| Accrued expenses -----                | 44,682            |
| Accrued income taxes -----            | 11,633            |
| Accrued bonuses for employees-----    | 1,930             |
| Accrued bonuses for directors -----   | 735               |
| Other -----                           | <u>10,196</u>     |
| Total current liabilities             | <u>209,294</u>    |

### Long-term Liabilities:

|                                   |               |
|-----------------------------------|---------------|
| Long-term debt -----              | 12,817        |
| Deferred taxes, non-current ----- | 37,385        |
| Accrued retirement benefits ----- | 11,405        |
| Other -----                       | <u>6,687</u>  |
| Total long-term liabilities       | <u>68,296</u> |

**TOTAL LIABILITIES** 277,591

## NET ASSETS

### Stockholders' Equity:

|                                    |                  |
|------------------------------------|------------------|
| Common stock -----                 | 119,419          |
| Additional paid-in capital -----   | 128,177          |
| Retained earnings-----             | 1,277,056        |
| Less: Treasury stock, at cost----- | <u>(41,613)</u>  |
| Total Stockholders' Equity         | <u>1,483,039</u> |

### Valuation and translation adjustments:

|                                                               |                  |
|---------------------------------------------------------------|------------------|
| Unrealized gain (loss) on available-for-sale securities ----- | (1,776)          |
| Deferred gain (loss) on hedges -----                          | (41)             |
| Foreign currency translation adjustments -----                | <u>(115,159)</u> |
| Total Valuation and translation adjustments                   | <u>(116,978)</u> |

|                                                      |               |
|------------------------------------------------------|---------------|
| Share subscription rights -----                      | 2,446         |
| Minority interests in consolidated subsidiaries----- | <u>38,846</u> |

**TOTAL NET ASSETS** 1,407,353

**TOTAL LIABILITIES AND NET ASSETS** 1,684,944

## CONSOLIDATED STATEMENTS OF INCOME

For the year ended March 31, 2009 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million.)

|                                                                  | (Millions of yen)     |
|------------------------------------------------------------------|-----------------------|
| Net sales -----                                                  | 1,200,813             |
| Cost of sales -----                                              | <u>853,433</u>        |
| Gross profit -----                                               | 347,380               |
| <br>                                                             |                       |
| Selling, general and administrative expenses -----               | <u>114,453</u>        |
| Operating income -----                                           | 232,927               |
| <br>                                                             |                       |
| Non-operating income                                             |                       |
| Interest income -----                                            | 6,650                 |
| Dividend income -----                                            | 1,991                 |
| Equity in earnings of affiliates -----                           | 12,441                |
| Other income -----                                               | <u>5,388</u>          |
|                                                                  | 26,472                |
| <br>                                                             |                       |
| Non-operating expenses                                           |                       |
| Interest expenses -----                                          | 1,705                 |
| Other expenses -----                                             | <u>7,160</u>          |
|                                                                  | <u>8,866</u>          |
| Ordinary income -----                                            | 250,533               |
| <br>                                                             |                       |
| Extraordinary expenses                                           |                       |
| Loss on impairment of fixed assets -----                         | 4,363                 |
| Loss on write-down investment securities -----                   | <u>1,684</u>          |
|                                                                  | <u>6,048</u>          |
| Income before income taxes -----                                 | 244,485               |
| <br>                                                             |                       |
| Income taxes - Current -----                                     | 60,129                |
| Income taxes - Deferred -----                                    | <u>28,478</u>         |
|                                                                  | 88,608                |
| <br>                                                             |                       |
| Minority interest in earnings of consolidated subsidiaries ----- | <u>1,145</u>          |
| Net income -----                                                 | <u><u>154,731</u></u> |

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2009 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million.)

(Millions of yen)

|                                                                          | Stockholders' Equity |                            |                   |                |           |
|--------------------------------------------------------------------------|----------------------|----------------------------|-------------------|----------------|-----------|
|                                                                          | Common stock         | Additional paid-in capital | Retained earnings | Treasury stock | [Total]   |
| Balance as of March 31, 2008                                             | 119,419              | 128,177                    | 1,163,680         | (12,217)       | 1,399,059 |
| Effect of changes in accounting policies applied to foreign subsidiaries | -                    | -                          | 1,689             | -              | 1,689     |
| Changes during the current year                                          |                      |                            |                   |                |           |
| Cash dividends                                                           | -                    | -                          | (42,884)          | -              | (42,884)  |
| Net Income                                                               | -                    | -                          | 154,731           | -              | 154,731   |
| Increase of treasury stock                                               | -                    | -                          | -                 | (29,938)       | (29,938)  |
| Disposal of treasury stock                                               | -                    | -                          | (160)             | 542            | 381       |
| Changes other than stockholders' equity (NET)                            | -                    | -                          | -                 | -              | -         |
| Total changes during the current year                                    | -                    | -                          | 111,686           | (29,396)       | 82,290    |
| Balance as of March 31, 2009                                             | 119,419              | 128,177                    | 1,277,056         | (41,613)       | 1,483,039 |

|                                                                          | Valuation and translation adjustments                   |                                |                                          |           | Share subscription rights | Minority Interests in consolidated subsidiaries | Total Net Assets |
|--------------------------------------------------------------------------|---------------------------------------------------------|--------------------------------|------------------------------------------|-----------|---------------------------|-------------------------------------------------|------------------|
|                                                                          | Unrealized gain (loss) on available-for-sale securities | Deferred gain (loss) on hedges | Foreign currency translation adjustments | [Total]   |                           |                                                 |                  |
| Balance as of March 31, 2008                                             | 10,695                                                  | 3,231                          | 25,809                                   | 39,737    | 1,614                     | 43,257                                          | 1,483,669        |
| Effect of changes in accounting policies applied to foreign subsidiaries | -                                                       | -                              | -                                        | -         | -                         | -                                               | 1,689            |
| Changes during the current year                                          |                                                         |                                |                                          |           |                           |                                                 |                  |
| Cash dividends                                                           | -                                                       | -                              | -                                        | -         | -                         | -                                               | (42,884)         |
| Net Income                                                               | -                                                       | -                              | -                                        | -         | -                         | -                                               | 154,731          |
| Increase of treasury stock                                               | -                                                       | -                              | -                                        | -         | -                         | -                                               | (29,938)         |
| Disposal of treasury stock                                               | -                                                       | -                              | -                                        | -         | -                         | -                                               | 381              |
| Changes other than stockholders' equity (NET)                            | (12,472)                                                | (3,273)                        | (140,969)                                | (156,716) | 831                       | (4,410)                                         | (160,295)        |
| Total changes during the current year                                    | (12,472)                                                | (3,273)                        | (140,969)                                | (156,716) | 831                       | (4,410)                                         | (78,004)         |
| Balance as of March 31, 2009                                             | (1,776)                                                 | (41)                           | (115,159)                                | (116,978) | 2,446                     | 38,846                                          | 1,407,353        |

# Notes to the Consolidated Financial Statements

## Basis of Presenting Consolidated Financial Statements

### 1. Scope of consolidation

#### (1) State of consolidated subsidiaries

Number of consolidated subsidiaries-----68

#### Name of principal consolidated subsidiaries

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

#### (2) State of unconsolidated subsidiaries

#### Name of principal unconsolidated subsidiaries

Shin-Etsu Electronics (Malaysia) Sdn. Bhd.

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

29 unconsolidated subsidiaries whose combined assets, net sales, net income and retained earnings in the aggregate are not significant compared with those of the consolidated financial statements of the Company (Shin-Etsu Chemical Co., Ltd.), have not been consolidated with the Company.

### 2. Application of equity method

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

Number of affiliates to which the equity method is applied-----8

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

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

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

#### Name of principal unconsolidated subsidiaries and affiliates

Shin-Etsu Electronics (Malaysia) Sdn. Bhd.

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

The 29 unconsolidated subsidiaries and 8 affiliates which are not included in the scope of equity method have a minimal effect on net income and retained earnings of the Company's consolidated financial statements.

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

Of the affiliates to which the equity method is applied in the Group, six affiliates' fiscal year end is different from that of the Group's consolidated fiscal year end. With regard



to five of the six affiliates, we adopted their latest financial statements. For the rest of the affiliates, we adopted their provisional financial statement as of February 28, 2009.

3. Fiscal year of consolidated subsidiaries

The fiscal year of SHINTECH INC., Shin-Etsu Handotai America, Inc. and 39 other subsidiaries ends on December 31, and the fiscal year of Nagano Electronics Industrial Co., Ltd., Naoetsu Electronics Co., Ltd. and 5 other subsidiaries ends on February 28. For consolidation of these subsidiaries whose fiscal years do not correspond to that of the Company, necessary adjustments are made on significant inter-company transactions which occurred during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

4. Significant accounting policies

(1) Valuation policy and method of significant assets

i) Valuation policy and method of securities:

|                               |       |                                                                                                                                                                                                                                                                                                                  |
|-------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Bonds held to maturity        | ----- | Amortized cost method (straight-line method)                                                                                                                                                                                                                                                                     |
| Available-for-sale securities |       |                                                                                                                                                                                                                                                                                                                  |
| Marketable securities         | ----- | Mark-to-market method based on the fair market value as of the balance sheet date. (Any balances resulting from the valuation of securities shall be directly entered into capital accounts, while any costs of sales of marketable securities shall be calculated based mainly on a moving-average cost method) |
| Non-marketable securities     | ----- | Mainly moving-average cost method                                                                                                                                                                                                                                                                                |

ii) Valuation policy for derivatives:

Valued at fair value based on market quotation

iii) Valuation policy for inventories:

Cost method mainly based on the weighted-average method, which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability

(Change in accounting policy)

Previously, a cost method mainly based on the weighted-average method was adopted for measuring inventories held for sale in the ordinary course of business. However, the “Accounting Standard for Measurement of Inventories” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 9, July 5, 2006) has been applied from the current fiscal year ended March 31, 2009, and now these inventories are measured by means of a cost method mainly based on the weighted-average method, which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability. As a result, Operating income, Ordinary income and Income before income taxes each decreased by ¥3,397 million.

(2) Depreciation and amortization of fixed assets:

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

Depreciation is computed mainly based on the declining-balance method, exceptions being when it is computed using the straight-line method for Buildings (excluding attached facilities) acquired by the Company and certain domestic subsidiaries after April 1, 1998.

Main periods of depreciation are as follows:

|                          |               |
|--------------------------|---------------|
| Buildings and structures | 15 – 47 years |
| Machinery and vehicles   | 2 – 20 years  |

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

(Additional information)

Effective in the current fiscal year ended March 31, 2009, in accordance with the revised Japanese Corporation Tax Law, the Company and its domestic subsidiaries changed the period of depreciation for tangible fixed assets (except for semiconductor silicon manufacturing facilities/equipment). As a result, the depreciation expenses for the current fiscal year decreased by ¥307 million, and Operating income, Ordinary income and Income before income taxes each increased by ¥165 million, compared with the amounts under the formerly applied method.

ii) Intangible fixed assets (excluding Leased assets):

Straight-line method

iii) Leased assets:

|                                                                             |       |                                                                             |
|-----------------------------------------------------------------------------|-------|-----------------------------------------------------------------------------|
| Leased assets concerning finance lease transactions that transfer ownership | ----- | A same method is applied as that of tangible fixed assets the Company owns. |
|-----------------------------------------------------------------------------|-------|-----------------------------------------------------------------------------|

|                                                                                    |       |                                                                                                                                             |
|------------------------------------------------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------|
| Leased assets concerning finance lease transactions that do not transfer ownership | ----- | Depreciation is based on the straight-line method that takes the lease period as the period of depreciation and the residual value as zero. |
|------------------------------------------------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------|

(Change in accounting policy)

Previously, finance lease transactions that do not transfer ownership of the leased property to the lessee followed methods applicable to ordinary rental transactions. However, effective from the current fiscal year ended March 31, 2009, the “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13, issued June 17, 1993 (The 1st Committee of Business Accounting Council), revised March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16, issued January 18, 1994 (Accounting System Committee of Japanese Institute of Certificated Public Accountants), revised March 30, 2007) have been applied, and such transactions are now accounted for as ordinary sale and purchase transactions. Finance lease transactions starting before the current fiscal year ended March 31, 2009 that do not transfer ownership of the leased property to the lessee are accounted for as operating leases. The impact of this change on income is immaterial.

(3) Calculation policy for allowances:

i) Allowance for doubtful accounts:

The Company and consolidated subsidiaries provide an allowance for doubtful accounts by a method which uses a percentage, based on the historic rate of default, of the balance of general receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.

ii) Accrued bonuses for employees:

Certain consolidated subsidiaries accrued the estimated amounts of employees' bonuses based on the estimated amounts to be paid in the subsequent period.

iii) Accrued retirement benefits:

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

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

iv) Accrued bonuses for directors:

The Company and its domestic subsidiaries accrued directors' bonuses based on estimated amounts to be paid in the subsequent period.

(Additional information)

The Company and certain domestic subsidiaries had accrued the required amount of directors' retirement bonuses in Accrued retirement bonuses for directors which was calculated on the basis of an internal standard as at the end of the current fiscal year. However, the Company and certain domestic subsidiaries issued a retirement bonus for the tenure until the close of the General Meeting of Shareholders held in 2008 due to the abolishment of the Retirement Benefits Program. As a result, in the current fiscal year ended March 31, 2009, the amount of retirement bonus for the tenure ¥1,868 million was transferred from Accrued retirement bonuses for directors to Other in Long-term Liabilities.

(4) Other bases for presenting consolidated financial statements

i) Hedge accounting:

The Company defers gains or losses on its hedges.

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

ii) Consumption tax:

Consumption tax withheld by the Company and certain subsidiaries on sales of products and services is not included in the amount of "Net sales" in the accompanying Consolidated Statements of Income. Consumption tax borne by the Company and certain subsidiaries on purchases of goods and services and on expenses is not included either in the amounts of costs or expenses in the accompanying

## Consolidated Statements of Income.

### 5. Valuation method of assets and liabilities of consolidated subsidiaries

Full fair value accounting method

### 6. Changes in Basis of Presenting Consolidated Financial Statements

Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

(Change in accounting policy)

Effective from the current fiscal year ended March 31, 2009, the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ Practical Issues Task Force No.18, May 17, 2006) has been applied, and accordingly some revisions have been made to the consolidated accounts as necessary. As a result, Operating income decreased by ¥459 million, Ordinary income and Income before income taxes decreased by ¥383 million respectively.

### 7. Amortization method of goodwill

Straight-line method within 20 years

## Notes to the Consolidated Balance Sheets

(Millions of yen)

|                                                                                                               |           |
|---------------------------------------------------------------------------------------------------------------|-----------|
| 1. Accumulated depreciation of property, plant and equipment-----                                             | 1,248,324 |
| 2. Pledged assets                                                                                             |           |
| Buildings and structures-----                                                                                 | 634       |
| Machinery and vehicles-----                                                                                   | 4,013     |
| Land-----                                                                                                     | 570       |
|                                                                                                               | 5,218     |
| Total                                                                                                         |           |
| Secured liabilities                                                                                           |           |
| Short-term borrowings-----                                                                                    | 46        |
| 3. Contingent liabilities                                                                                     |           |
| (1)Contingent liabilities for guarantees (employee’s housing loan etc)-----                                   | 70        |
| (2)Contingent liability for debt assumption contracts for debentures issued by a consolidated subsidiary----- | 5,000     |

## Notes to the Consolidated Statement of Income

### 1. Loss on impairment of fixed assets

During the current fiscal year ended March 31, 2009, the Company and its consolidated subsidiaries recognized impairment losses for the following asset categories, recording a total of ¥4,363 million as Extraordinary expenses. The company and its consolidated subsidiaries group fixed assets based on managerial accounting categories, which are regarded as the smallest units independently generating cash flows.

Consolidated subsidiary (Shin-Etsu Handotai Co., Ltd.)

(Millions of Yen)

| Location                                                               | Use                                                                                         | Asset category          | Impairment loss |
|------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|-------------------------|-----------------|
| Saigata Plant<br>(Joetsu-shi,<br>Niigata-<br>Prefecture)<br>and others | Semiconductor silicon<br>manufacturing<br>facilities/equipment for<br>small-diameter wafers | Machinery and equipment | 4,085           |
|                                                                        |                                                                                             | Others                  | 278             |
|                                                                        |                                                                                             | Total                   | 4,363           |

The Semiconductor silicon business for small-diameter wafers of Shin-Etsu Handotai has been suffering from a deteriorating market environmental, which was primarily caused by sluggish demand due to the financial crisis, fierce competition with a supply-demand imbalance and progress in changing over to large-diameter wafers. As a result, the book value of the assets at each Shin-Etsu Handotai plant where this material is produced has been marked down to their recoverable amounts, which is calculated at value-in-use. The discount rate for calculation of the discounted cash flow is zero since the estimated future cash flows are negative.

### Notes to the Consolidated Statements of Changes in Net Assets

1. Type and numbers of shares outstanding as of March 31, 2009

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

2. Dividend

(1)Payment of dividend

| Resolution                                                     | Type of share | Total amount of dividends | Dividends per share | Reference Date     | Effective Date    |
|----------------------------------------------------------------|---------------|---------------------------|---------------------|--------------------|-------------------|
| Ordinary general meeting of shareholders held on June 27, 2008 | Common stock  | 21,512 million yen        | 50.00 yen           | March 31,2008      | June 30, 2008     |
| Board of Directors meeting held on October 23, 2008            | Common stock  | 21,372 million yen        | 50.00 yen           | September 30, 2008 | November 18, 2008 |

(2)Dividend which will be paid for the year ended March 31, 2010, but belongs to the fiscal year ended March 31, 2009

The Company proposes the following agendum at the Ordinary general meeting of shareholders which will be held on June 26, 2009.

| Type of share | Total amount of dividends | Source of dividends | Dividends per share | Reference Date | Effective Date |
|---------------|---------------------------|---------------------|---------------------|----------------|----------------|
| Common stock  | 21,223 million yen        | Retained earnings   | 50.00 yen           | March 31,2009  | June 29, 2009  |

### 3. Share subscription rights as of March 31, 2009

| Details of share subscription rights                                              | <u>Type of shares subject to<br/>share subscription rights</u> | <u>Numbers of shares subject to<br/>share subscription rights</u> |
|-----------------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------|
| Resolved at the ordinary general meeting<br>of shareholders held on June 29, 2004 | Common stock                                                   | 15,000 shares                                                     |
| Resolved at the ordinary general meeting<br>of shareholders held on June 29, 2005 | Common stock                                                   | 156,000 shares                                                    |
| Resolved at the ordinary general meeting<br>of shareholders held on June 29, 2006 | Common stock                                                   | 587,100 shares                                                    |
| Resolved at the ordinary general meeting<br>of shareholders held on June 28, 2007 | Common stock                                                   | 915,000 shares                                                    |
| Resolved at the ordinary general meeting<br>of shareholders held on June 27, 2008 | Common stock                                                   | 575,000 shares                                                    |
| Resolved at the ordinary general meeting<br>of shareholders held on June 27, 2008 | Common stock                                                   | 251,000 shares                                                    |

#### **Per share information**

|                                         |          |
|-----------------------------------------|----------|
| Net assets per share stated in yen----- | 3,218.28 |
| Net income per share stated in yen----- | 362.39   |

## BALANCE SHEETS (Non-Consolidated)

As of March 31, 2009 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million.)

### ASSETS

#### Current Assets:

|                                             | (Millions of yen) |
|---------------------------------------------|-------------------|
| Cash and time deposits -----                | 67,569            |
| Notes receivable -----                      | 4,382             |
| Accounts receivable-trade -----             | 135,967           |
| Securities -----                            | 82,874            |
| Merchandise and finished products -----     | 26,480            |
| Semi-finished products -----                | 13,167            |
| Raw materials and supplies -----            | 35,068            |
| Advance payments -----                      | 1,168             |
| Deferred taxes, current -----               | 10,691            |
| Short-term loans -----                      | 24,454            |
| Accounts receivable-others -----            | 16,396            |
| Other -----                                 | 3,979             |
| Less: Allowance for doubtful accounts ----- | <u>(250)</u>      |
| Total current assets                        | <u>421,951</u>    |

#### Fixed Assets:

##### Property, plant and equipment:

|                                     |              |
|-------------------------------------|--------------|
| Buildings -----                     | 33,214       |
| Structures -----                    | 4,397        |
| Machinery and equipment -----       | 51,416       |
| Vehicles -----                      | 223          |
| Tools, furniture and fixtures ----- | 2,534        |
| Land -----                          | 22,531       |
| Leased assets -----                 | 13           |
| Construction in progress -----      | <u>8,813</u> |
|                                     | 123,144      |

Intangible fixed assets ----- 1,010

##### Investments and other assets:

|                                                                   |                |
|-------------------------------------------------------------------|----------------|
| Investments in securities -----                                   | 69,259         |
| Investments in capital stock of subsidiaries and affiliates ----- | 129,633        |
| Investments in partnerships -----                                 | 11             |
| Investments in partnerships of subsidiaries and affiliates -----  | 1,389          |
| Long-term loans -----                                             | 13,595         |
| Long-term prepaid expenses -----                                  | 71             |
| Deferred taxes, non-current -----                                 | 6,738          |
| Other -----                                                       | 3,967          |
| Less: Allowance for doubtful accounts -----                       | <u>(10)</u>    |
|                                                                   | <u>224,656</u> |

Total fixed assets 348,811

TOTAL ASSETS 770,762

## LIABILITIES

### Current Liabilities:

|                                    | (Millions of yen) |
|------------------------------------|-------------------|
| Accounts payable-trade-----        | 74,207            |
| Short-term borrowings-----         | 5,193             |
| Lease obligations-----             | 2                 |
| Accounts payable-others-----       | 15,246            |
| Accrued income taxes-----          | 785               |
| Accrued expenses-----              | 13,039            |
| Advances received-----             | 69                |
| Deposits-----                      | 699               |
| Accrued bonuses for directors----- | 619               |
| Total current liabilities          | <u>109,864</u>    |

### Long-term Liabilities:

|                                        |              |
|----------------------------------------|--------------|
| Long-term debt-----                    | 6,224        |
| Lease obligations-----                 | 12           |
| Long-term accounts payable-others----- | 1,473        |
| Accrued retirement benefits-----       | 1,423        |
| Total long-term liabilities            | <u>9,133</u> |

TOTAL LIABILITIES 118,997

## NET ASSETS

### Stockholders' Equity:

|                                                          |                |
|----------------------------------------------------------|----------------|
| Common Stock-----                                        | 119,419        |
| Additional paid-in capital:                              |                |
| Capital reserve-----                                     | 120,771        |
| Retained Earnings:                                       |                |
| Legal earned reserve-----                                | 6,778          |
| Other retained earnings:                                 |                |
| Reserve for special depreciation-----                    | 141            |
| Reserve for specified disaster prevention-----           | 12             |
| Reserve for deferred profit on sale of fixed assets----- | 1,846          |
| Reserve for research and development expenditures-----   | 88             |
| Reserve for stable dividend payments-----                | 15             |
| Reserve for deferred profit on sale of land-----         | 17             |
| Reserve for unspecified purposes-----                    | 351,137        |
| Retained earnings brought forward-----                   | 90,914         |
| Total retained earnings                                  | <u>444,173</u> |
| Total retained earnings                                  | <u>450,951</u> |
| Less: Treasury stock, at cost-----                       | (41,613)       |
| Total Stockholders' Equity                               | <u>649,529</u> |

### Valuation and translation adjustments:

|                                                       |    |
|-------------------------------------------------------|----|
| Unrealized gain on available-for-sale securities----- | 63 |
|-------------------------------------------------------|----|

Share subscription rights----- 2,172

TOTAL NET ASSETS 651,765

TOTAL LIABILITIES AND NET ASSETS 770,762



## STATEMENTS OF INCOME (Non-Consolidated)

For the year ended March 31, 2009 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million.)

|                                                    | (Millions of yen)    |
|----------------------------------------------------|----------------------|
| Net sales -----                                    | 606,722              |
| Cost of sales -----                                | <u>496,270</u>       |
| Gross profit -----                                 | 110,452              |
| Selling, general and administrative expenses ----- | <u>32,011</u>        |
| Operating income -----                             | 78,440               |
| Non-operating income                               |                      |
| Interest income -----                              | 1,024                |
| Dividend income -----                              | 15,055               |
| Other income -----                                 | <u>3,249</u>         |
|                                                    | 19,329               |
| Non-operating expenses                             |                      |
| Interest expenses -----                            | 268                  |
| Other expenses -----                               | <u>3,549</u>         |
|                                                    | <u>3,818</u>         |
| Ordinary income -----                              | 93,952               |
| Extraordinary expenses                             |                      |
| Loss on write-down investment securities -----     | <u>1,197</u>         |
|                                                    | <u>1,197</u>         |
| Income before income taxes -----                   | 92,754               |
| Income taxes - Current -----                       | 19,160               |
| Income taxes-deferred -----                        | 9,610                |
|                                                    | <u>28,770</u>        |
| Net income -----                                   | <u><u>63,984</u></u> |

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

For the year ended March 31, 2009 (Amounts are stated in millions of yen by discarding fractional amounts of less than 1 million.)

(Millions of yen)

|                                               | Stockholders' Equity |                                                           |                             |                              |          |                     | [Total]  |
|-----------------------------------------------|----------------------|-----------------------------------------------------------|-----------------------------|------------------------------|----------|---------------------|----------|
|                                               | Common<br>stock      | Additional<br>paid-in<br>capital                          | Retained earnings           |                              |          | Treasury<br>stock   |          |
|                                               |                      | Capital<br>reserve                                        | Legal<br>earned<br>reserves | Others(*)                    | [Total]  |                     |          |
| Balance as of March 31, 2008                  | 119,419              | 120,771                                                   | 6,778                       | 423,233                      | 430,011  | (12,217)            | 657,985  |
| Changes during the current year               |                      |                                                           |                             |                              |          |                     |          |
| Cash dividends                                | -                    | -                                                         | -                           | (42,884)                     | (42,884) | -                   | (42,884) |
| Net Income                                    | -                    | -                                                         | -                           | 63,984                       | 63,984   | -                   | 63,984   |
| Increase of treasury stock                    | -                    | -                                                         | -                           | -                            | -        | (29,938)            | (29,938) |
| Disposal of treasury stock                    | -                    | -                                                         | -                           | (160)                        | (160)    | 542                 | 381      |
| Changes other than stockholders' equity (NET) | -                    | -                                                         | -                           | -                            | -        | -                   | -        |
| Total changes during the current year         | -                    | -                                                         | -                           | 20,940                       | 20,940   | (29,396)            | (8,456)  |
| Balance as of March 31, 2009                  | 119,419              | 120,771                                                   | 6,778                       | 444,173                      | 450,951  | (41,613)            | 649,529  |
|                                               |                      | Valuation and<br>translation<br>adjustments               |                             | Share subscription<br>rights |          | Total<br>Net Assets |          |
|                                               |                      | Unrealized<br>gain on<br>available-for-sale<br>securities |                             |                              |          |                     |          |
| Balance as of March 31, 2008                  |                      | 9,727                                                     |                             | 1,393                        |          | 669,105             |          |
| Changes during the current year               |                      |                                                           |                             |                              |          |                     |          |
| Cash dividends                                |                      | -                                                         |                             | -                            |          | (42,884)            |          |
| Net Income                                    |                      | -                                                         |                             | -                            |          | 63,984              |          |
| Increase of treasury stock                    |                      | -                                                         |                             | -                            |          | (29,938)            |          |
| Disposal of treasury stock                    |                      | -                                                         |                             | -                            |          | 381                 |          |
| Changes other than stockholders' equity (NET) |                      | (9,663)                                                   |                             | 778                          |          | (8,884)             |          |
| Total changes during the current year         |                      | (9,663)                                                   |                             | 778                          |          | (17,340)            |          |
| Balance as of March 31, 2009                  |                      | 63                                                        |                             | 2,172                        |          | 651,765             |          |

(\*) Breakdown of Other Retained Earnings

(Millions of yen)

|                                                                 | Reserve for special depreciation | Reserve for specified disaster prevention | Reserve for deferred profit on sale of fixed assets | Reserve for research and development expenditures | Reserve for stable dividend payments | Reserve for deferred profit on sale of land | Reserve for unspecified purposes | Retained earnings brought forward | Total    |
|-----------------------------------------------------------------|----------------------------------|-------------------------------------------|-----------------------------------------------------|---------------------------------------------------|--------------------------------------|---------------------------------------------|----------------------------------|-----------------------------------|----------|
| Balance as of March 31, 2008                                    | 504                              | 8                                         | 1,914                                               | 88                                                | 15                                   | 17                                          | 351,137                          | 69,547                            | 423,233  |
| Changes during the current year                                 |                                  |                                           |                                                     |                                                   |                                      |                                             |                                  |                                   |          |
| Cash dividends                                                  | -                                | -                                         | -                                                   | -                                                 | -                                    | -                                           | -                                | (42,884)                          | (42,884) |
| Provision of reserve for special depreciation                   | 23                               | -                                         | -                                                   | -                                                 | -                                    | -                                           | -                                | (23)                              | -        |
| Reversal of reserve for special depreciation                    | (386)                            | -                                         | -                                                   | -                                                 | -                                    | -                                           | -                                | 386                               | -        |
| Provision of reserve for specified disaster prevention          | -                                | 4                                         | -                                                   | -                                                 | -                                    | -                                           | -                                | (4)                               | -        |
| Reversal of reserve for deferred profit on sale of fixed assets | -                                | -                                         | (68)                                                | -                                                 | -                                    | -                                           | -                                | 68                                | -        |
| Net Income                                                      | -                                | -                                         | -                                                   | -                                                 | -                                    | -                                           | -                                | 63,984                            | 63,984   |
| Disposal of treasury stock                                      | -                                | -                                         | -                                                   | -                                                 | -                                    | -                                           | -                                | (160)                             | (160)    |
| Total changes during the current year                           | (362)                            | 4                                         | (68)                                                | -                                                 | -                                    | -                                           | -                                | 21,367                            | 20,940   |
| Balance as of March 31, 2009                                    | 141                              | 12                                        | 1,846                                               | 88                                                | 15                                   | 17                                          | 351,137                          | 90,914                            | 444,173  |

## Notes to the Non-Consolidated Financial Statements

(Amounts are stated in millions of yen by discarding fractional amounts less than 1 million.)

### Significant Accounting Policies

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

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

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

Investment in capital stock of subsidiaries and affiliates ----- Moving average cost method

##### Available-for-sale securities

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

Non-marketable securities ----- Moving-average cost method

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

Valued at fair value based on market quotation

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

Cost method mainly based on the weighted-average method, which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability

##### (Change in accounting policy)

Previously, a cost method mainly based on the weighted-average method was adopted for measuring inventories held for sale in the ordinary course of business. However, the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 5, 2006) has been applied from the current fiscal year ended March 31, 2009, and now these inventories are measured by means of a cost method mainly based on the weighted-average method, which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability. As a result, Operating income, Ordinary income and Income before income taxes each decreased by ¥1,642 million.

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

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

Depreciation is computed mainly based on the declining-balance method, exceptions being when it is computed using the straight-line method for polyvinyl chloride equipment and electrolytic equipment in “Machinery and equipment” and “Buildings”(excluding attached facilities) acquired after April 1, 1998.

Main periods of depreciation are as follows:

Buildings and structures 15 – 31 years

Machinery and vehicles 2 – 9 years

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

(Additional information)

Effective in the current fiscal year ended March 31, 2009, in accordance with the revised Japanese Corporation Tax Law, the Company changed the period of depreciation for tangible fixed assets. As a result, the depreciation expenses for the current fiscal year decreased by ¥278 million, and Operating income, Ordinary income and Income before income taxes each increased by ¥143 million, compared with the amounts under the formerly applied method.

(2) Intangible fixed assets (excluding Leased assets):

Amortization is computed based on the straight-line method, and software for internal use is amortized by the straight-line method in the useful period of five years.

(3) Leased assets:

|                                                                                    |       |                                                                                                                                             |
|------------------------------------------------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------|
| Leased assets concerning finance lease transactions that transfer ownership        | ----- | A same method is applied as that of tangible fixed assets the Company owns.                                                                 |
| Leased assets concerning finance lease transactions that do not transfer ownership | ----- | Depreciation is based on the straight-line method that takes the lease period as the period of depreciation and the residual value as zero. |

(Change in accounting policy)

Previously, finance lease transactions that do not transfer ownership of the leased property to the lessee followed methods applicable to ordinary rental transactions. However, effective from the current fiscal year ended March 31, 2009, the “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13, issued June 17, 1993 (The 1st Committee of Business Accounting Council), revised March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16, issued January 18, 1994 (Accounting System Committee of Japanese Institute of Certificated Public Accountants), revised March 30, 2007) have been applied, and such transactions are now accounted for as ordinary sale and purchase transactions. Finance lease transactions starting before the current fiscal year ended March 31, 2009 that do not transfer ownership of the leased property to the lessee are accounted for as operating leases. The impact of this change on income is immaterial.

### 3. Calculation policy for allowances:

#### Allowance for doubtful accounts:

The Company provides an allowance for doubtful accounts by a method which uses a percentage, based on the historic rate of default, of the balance of general receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.

#### Accrued retirement benefits:

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

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

#### Accrued bonuses for directors:

The Company accrued directors' bonuses based on estimated amounts to be paid in the subsequent period.

#### (Additional information)

The Company accrued the required amount of directors' retirement bonuses in Accrued retirement bonuses for directors, which was calculated on the basis of an internal standard as at the end of the current fiscal year. However, the Company issued a retirement bonus for the tenure until the close of the General Meeting of Shareholders held on June 27, 2008 due to the abolishment of the Retirement Benefits Program, in accordance with the prescribed Company standards, within the reasonable range. As a result, in the current fiscal year ended March 31, 2009, the amount of retirement bonus for the tenure ¥1,473 million was transferred from Accrued retirement bonuses for directors to Long-term accounts payable-others in Long-term Liabilities.

### 4. Other bases for presenting non-consolidated financial statements

#### (1) Hedge accounting:

The Company defers gains or losses on its hedges.

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

#### (2) Consumption tax:

Consumption tax withheld by the Company on sales of products is not included in the amount of "Net sales" in the accompanying Statements of Income. Consumption tax borne by the Company on purchases of goods and services and on expenses is not included either in the amounts of costs or expenses in the accompanying Statements of Income.

**Notes to the Non-Consolidated Balance Sheets**

(Millions of Yen)

|                                                                         |                     |
|-------------------------------------------------------------------------|---------------------|
| 1. Accumulated depreciation of property, plant and equipment -----      | 385,132             |
| 2. Contingent liabilities for guarantee                                 |                     |
| Shin-Etsu Silicones (Thailand) Limited (Loans with Banks) -----         | 3,841               |
|                                                                         | (U.S.\$ 39,112,000) |
| Employee's housing loan etc -----                                       | <u>43</u>           |
|                                                                         | <u>3,885</u>        |
| 3. Accounts receivable from and payable to subsidiaries and affiliates: |                     |
| Short-term accounts receivable -----                                    | 80,897              |
| Long-term loans -----                                                   | 13,617              |
| Short-term accounts payable and others -----                            | 60,481              |

**Notes to the Non-Consolidated Statements of Income**

|                                                   |                   |
|---------------------------------------------------|-------------------|
| 1. Transactions with subsidiaries and affiliates: | (Millions of Yen) |
| Sales -----                                       | 193,440           |
| Purchases -----                                   | 397,015           |
| Transactions of non-operating nature -----        | 47,040            |

**Notes to the Non-Consolidated Statements of Changes in Net Assets**

Type and numbers of treasury stocks as of March 31, 2009

Common stock ----- 7,636,973shares

**Deferred Tax**

Factors of deferred tax assets and liabilities

|                                                     |                   |
|-----------------------------------------------------|-------------------|
|                                                     | (Millions of Yen) |
| Deferred Tax Assets                                 |                   |
| Depreciation                                        | 8,416             |
| Maintenance cost                                    | 2,916             |
| Accrued bonus allowance                             | 1,726             |
| Unsettled accounts receivable and payable           | 1,583             |
| Accrued enterprise taxes                            | 242               |
| Others                                              | 6,562             |
| Deferred Tax Assets sub-total                       | <u>21,447</u>     |
| Valuation allowance                                 | (2,605)           |
| Deferred Tax Assets Total                           | <u>18,842</u>     |
| Deferred Tax Liabilities                            |                   |
| Unrealized gain on available-for-sale securities    | 43                |
| Reserve for deferred profit on sale of fixed assets | 1,251             |
| Reserve for special depreciation                    | 96                |
| Reserve for deferred profit on sale of land         | 12                |
| Others                                              | 8                 |
| Deferred Tax Liabilities Total                      | <u>1,411</u>      |
| Net Deferred Tax Assets                             | <u>17,430</u>     |

## Leased Assets

The Company uses a portion of office equipments and manufacturing facilities by finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees other than tangible assets on the balance sheet.

## Transactions with Related Parties

Directors, major individual shareholders and others

(Millions of yen)

| Attribute | Name               | Voting rights ownership rate | Contents of relationship                         | Contents of transactions           | Transaction amount (Thousands of shares) | Item | Ending Balance |
|-----------|--------------------|------------------------------|--------------------------------------------------|------------------------------------|------------------------------------------|------|----------------|
| Director  | Chihiro Kanagawa   | Direct Ownership<br>0.04%    | Representative Director-President of the Company | Execution of stock option (Note 1) | 84<br>(20)                               | -    | -              |
| Director  | Ryoei Miki         | Direct Ownership<br>0.00%    | Managing Director of the Company (Note 2)        | Execution of stock option (Note 1) | 42<br>(10)                               | -    | -              |
| Director  | Frank Peter Popoff | Direct Ownership<br>0.03%    | Director of the Company                          | Execution of stock option (Note 3) | 158<br>(40)                              | -    | -              |

(Note 1) Share subscription rights resolved at the 128th Ordinary General Meeting of Shareholders held on June 29, 2005

(Note 2) Mr. Ryoei Miki retired from the Managing Director of the Company as of June 27, 2008 and the above transaction was executed during his term of office.

(Note 3) Share subscription rights resolved at the 127th Ordinary General Meeting of Shareholders held on June 29, 2004

## Per share information

Net assets per share stated in yen----- 1,530.36  
Net income per share stated in yen----- 149.86



(English Translation)

## Report of Independent Auditors

May 13, 2009

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

Ernst & Young ShinNihon LLC  
Shigemichi Todoroki, CPA  
Designated and Engagement Partner

Hiroshi Saito, CPA  
Designated and Engagement Partner

Yuji Mukaide, CPA  
Designated and Engagement Partner

Ryogo Ichikawa, CPA  
Designated and Engagement Partner

Pursuant to Article 444, Section 4 of the Corporation Law, we have audited the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of Shin-Etsu Chemical Co., Ltd. (the “Company”) applicable to the fiscal year from April 1, 2008 through March 31, 2009. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Shin-Etsu Group, which consisted of the Company and consolidated subsidiaries, applicable to the fiscal year ended March 31, 2009 in conformity with accounting principles generally accepted in Japan.

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

(English Translation)

## Report of Independent Auditors

May 13, 2009

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

Ernst & Young ShinNihon LLC  
Shigemichi Todoroki, CPA  
Designated and Engagement Partner

Hiroshi Saito, CPA  
Designated and Engagement Partner

Yuji Mukaide, CPA  
Designated and Engagement Partner

Ryogo Ichikawa, CPA  
Designated and Engagement Partner

Pursuant to Article 436, Section 2, Paragraph 1 of the Corporation Law, we have audited the balance sheet, the statement of income, the statement of changes in net assets, the notes to the financial statements and the related supplementary schedules of Shin-Etsu Chemical Co., Ltd. (the "Company") applicable to the 132nd fiscal year from April 1, 2008 through March 31, 2009. These financial statements and the related supplementary schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the related supplementary schedules based on our audit.

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

In our opinion, the financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of Shin-Etsu Chemical Co., Ltd. applicable to the 132nd fiscal year ended March 31, 2009 in conformity with accounting principles generally accepted in Japan.

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

## Audit Report of Board of Statutory Auditors

### Audit Report

The Board of Statutory Auditors has prepared this Audit Report on the execution of duties by the Directors during the 132nd fiscal year from April 1, 2008 to March 31, 2009, based upon, and after having considered, the audit reports prepared by the individual Statutory Auditors. The Report follows:

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

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

In accordance with the standards established by the Board of Statutory Auditors for auditing by the Statutory Auditors, pursuant to the audit policy and assigned duties and others, the individual Statutory Auditors promoted communication with the Directors, the internal audit function, and other employees and others, in order to enhance information collection and the overall audit environment. They also attended the Board of Directors' meetings and other important meetings, and received reports from the Directors and employees and others on their progress in executing duties and requested explanations from them as needed. They perused important documented decisions, approvals and others, and conducted on-site investigations to determine the operation of business practices and the status of assets at the Head Office and other principal places of business. Furthermore, they audited the substance of the Board of Directors' resolutions to develop a structure to ensure the conformity of the execution of duties by the Directors with laws and regulations and with the Articles of Incorporation, and other arrangements specified in Paragraphs 1 and 3, Article 100 of the Corporations Law Enforcement Regulations as necessary for ensuring the integrity of business practices undertaken by stock companies, as well as the state of structures (internal control systems) being developed in accordance with such resolutions. They examined the substance of the Basic Policy and the specific procedures to be taken that are described in the Business Report as required under Item 1 and Item 2 of Article 127 of the Corporations Law Enforcement Regulations, respectively, based primarily on a review of the deliberations conducted at Board of Directors meetings and other meetings. With regard to the subsidiaries, the Statutory Auditors promoted communication and information sharing with the Directors, Statutory Auditors, and others of the subsidiaries, and received business reports from subsidiaries as needed. Based on the methodology above, the Board of Statutory Auditors examined the Business Report and its Annexed Schedules covering the fiscal year under review.

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

## 2. Results of Audits

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

- 1 The Board of Statutory Auditors certifies that the Business Report and its Annexed Schedules fairly present the state of affairs of the Company in conformity with laws and regulations and the Articles of Incorporation.
- 2 The Board finds no irregular acts that occurred or significant facts that violated laws and regulations or the Articles of Incorporation, in connection with the execution of duties by the Directors.
- 3 The Board certifies the adequacy of the Board of Directors' resolutions relevant to internal control systems. Also, the Board finds no items that require particular notice in connection with the execution of duties by the Directors relevant to such internal control systems.
- 4 The Board finds no items that require particular notice be given with regard to the Basic Policy as to Who and How the Person(s) Controlling Decisions on Financial and Business Policies of the Company Should Be as described in the Business Report. The Board certifies that the specific procedures under Item 2, Article 127 of the Corporations Law Enforcement Regulations as described in the Business Report, conform to the relevant Basic Policy and are in no way detrimental to the common interests of the shareholders of the Company or intended to maintain the status of the Directors or Statutory Auditors of the Company.

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

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

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

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

May 19, 2009

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

Full-Time Statutory Auditor Osamu Okada (Seal)

Statutory Auditor Masahiko Watase (Seal)

Statutory Auditor

(External Statutory Auditor) Taku Fukui (Seal)

Statutory Auditor

(External Statutory Auditor) Yoshihito Kosaka (Seal)

Statutory Auditor

(External Statutory Auditor) Kiyoshi Nagano (Seal)

## Reference Documents for Exercising Voting Rights

### Agenda and Reference Materials

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

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

The Company proposes a year-end cash dividend distribution for the 132nd fiscal year as summarized below:

1. Type of Assets Proposed for Distribution  
Monetary
2. Asset Allotment Details and Total Amount  
The Company proposes a monetary allotment of ¥50 per share of Common Stock in the Company; ¥21,223,486,000 in total.
3. Effective Date of Distribution of Retained Earnings  
June 29, 2009  
The Company has distributed an interim cash dividend of ¥50 per share for the current fiscal year; thus, the annual cash dividend for the current fiscal year will increase ¥10 per share from the ¥90 distribution of the preceding fiscal year to ¥100 per share.

2nd Agendum: Amendment of Certain Provisions of the Articles of Incorporation

1. Reason for Proposing Amendment

(1) “The Act for Partial Amendments to the Law Concerning Book-entry Transfer of Corporate Bonds and other Securities for the Purpose of Streamlining the Settlement for Trade of Stock and Other Securities” (2004 Act No. 88; hereinafter called the "Act for Streamlining the Settlement" ") came into effect on January 5, 2009, and shares of all listed companies have been moved to a share transfer system (the so-called dematerialization of share certificates).

Accordingly, the Company proposes to delete provisions drafted with the premise that share certificates exist, and reassign certain Article numbers. In addition, with regard to the lost stock certificate register, the Company proposes to establish necessary supplementary provisions because the register must be prepared and retained over a period of one (1) year reckoned from the following day of the date of enforcement of the Act for Streamlining the Settlement.

Article 7 (Issuance of Share Certificates) in the current Articles of Incorporation is deemed deleted in accordance with the Deemed Amendment of the Articles of Incorporation as specified in Paragraph 1, Article 6 in the Supplementary Provisions of the Act for Streamlining the Settlement.

(2) The Company proposes to increase the maximum authorized number of Directors as specified in Article 21 (Number of Directors) of the Articles of Incorporation by four (4) to twenty-six (26) in order to reinforce the management structure preparing for future expansion in the size of the Company’s business operations.

2. Amendment Details

The Board of Directors proposes that certain provisions of the current Articles of Incorporation be amended as follows:

(The language proposed for amendment is underlined.)

| Current                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Proposed Amendment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p style="text-align: center;">CHAPTER II. SHARES</p> <p><u>(Issuance of Share Certificates)</u></p> <p><u>Article 7. The Company shall issue share certificates representing shares of the Company.</u></p> <p>Article <u>8.</u> to <u>9.</u> (The text omitted)</p> <p><u>(Non-Issuance of Share Certificates Representing Less Than One Unit of Shares)</u></p> <p><u>Article 10. Notwithstanding the provisions of Article 7, the Company shall not issue share certificates representing less than one (1) unit of shares; provided, however, that this shall not apply to the cases provided for in the Share Handling Regulations.</u></p> <p>(Rights Attached to Less Than One Unit of Shares)</p> <p>Article <u>11.</u> Shareholders of the Company <u>(including beneficial shareholders; the same applies hereinafter)</u> who own less than one (1) unit of shares of the Company shall not be entitled to exercise any rights with respect thereto except for those listed below:</p> <p style="padding-left: 40px;">(1) to (4) (The text omitted)</p> <p>Article <u>12.</u> (The text omitted)</p> <p>(Shareholder Registrar)</p> <p>Article <u>13.</u> The Company shall have a registrar of shareholders.</p> <p style="padding-left: 40px;">The registrar of shareholders and its place of business for handling shares shall be determined by a resolution of the Board of Directors, and public notice thereof shall be given.</p> <p style="padding-left: 40px;">The preparation and retention of the shareholders' register <u>(including the beneficial shareholders' register of the Company; the same applies hereinafter)</u>, the stock acquisition rights ledger <u>and the lost stock certificate register</u> of the Company, as well as any other business relating to the shareholders' register, the stock acquisition rights ledger <u>and the lost stock certificate register</u>, shall be entrusted to the registrar of shareholders and shall not be handled by the Company.</p> <p>Article <u>14.</u> to <u>20.</u> (The text omitted)</p> | <p style="text-align: center;">CHAPTER II. SHARES</p> <p style="text-align: center;">(Deletion)</p> <p>Article <u>7.</u> to <u>8.</u> (No amendment of the text)</p> <p style="text-align: center;">(Deletion)</p> <p>(Rights Attached to Less Than One Unit of Shares)</p> <p>Article <u>9.</u> Shareholders of the Company who own less than one (1) unit of shares of the Company shall not be entitled to exercise any rights with respect thereto except for those listed below:</p> <p style="padding-left: 40px;">(1) to (4) (No amendment of the text)</p> <p>Article <u>10.</u> (No amendment of the text)</p> <p>(Shareholder Registrar)</p> <p>Article <u>11.</u> The Company shall have a registrar of shareholders.</p> <p style="padding-left: 40px;">The registrar of shareholders and its place of business for handling shares shall be determined by a resolution of the Board of Directors, and public notice thereof shall be given.</p> <p style="padding-left: 40px;">The preparation and retention of the shareholders' register <u>and</u> the stock acquisition rights ledger of the Company, as well as any other business relating to the shareholders' register <u>and</u> the stock acquisition rights ledger shall be entrusted to the registrar of shareholders and shall not be handled by the Company.</p> <p>Article <u>12.</u> to <u>18.</u> (No amendment of the text)</p> |

| Current                                                                                                                                                                                                                                                                                                                                                                                                                                    | Proposed Amendment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p data-bbox="240 262 773 317">CHAPTER IV. DIRECTORS AND THE BOARD OF DIRECTORS</p> <p data-bbox="240 333 480 363">(Number of Directors)</p> <p data-bbox="240 380 773 468">Article <u>21</u>. The number of the Directors of the Company shall be not more than <u>twenty-two (22)</u>.</p> <p data-bbox="240 485 594 514">Article <u>22</u>. to <u>39</u>. (The text omitted)</p> <p data-bbox="240 531 448 560">(New establishment)</p> | <p data-bbox="820 262 1352 317">CHAPTER IV. DIRECTORS AND THE BOARD OF DIRECTORS</p> <p data-bbox="820 333 1060 363">(Number of Directors)</p> <p data-bbox="820 380 1385 468">Article <u>19</u>. The number of the Directors of the Company shall be not more than <u>twenty-six (26)</u>.</p> <p data-bbox="820 485 1304 514">Article <u>20</u>. to <u>37</u>. (No amendment of the text)</p> <p data-bbox="963 531 1243 560"><u>Supplementary Provisions</u></p> <p data-bbox="820 577 1385 753"><u>Article 1. Preparation, retention, and other business relating to the lost stock certificate register of the Company shall be entrusted to the registrar of shareholders and shall not be handled by the Company.</u></p> <p data-bbox="820 770 1385 861"><u>Article 2. The preceding Article and this Article shall remain in force until January 5, 2010, and be deleted on January 6, 2010.</u></p> |



3rd Agendum: Election of Fourteen (14) Directors

Upon the conclusion of this General Meeting of Shareholders, the terms of office of eleven (11) Directors, namely, Messrs. Yasuhiko Saitoh, Yoshiaki Ono, Koji Takasugi, Frank Peter Popoff, Shunji Kono, Tsuyoshi Miyazaki, Toshinobu Ishihara, Masaki Miyajima, Toshiyuki Kasahara, Hidenori Onezawa and Ken Nakamura, will expire. Accordingly, the Board of Directors proposes that fourteen (14) persons be elected as Directors subject to the approval of the 2nd agendum entitled "Amendment of Certain Provisions of the Articles of Incorporation." The Candidates for election to the position of Director are as follows:

Candidates for Director

| No. | Name<br>(Date of Birth)               | Number of<br>Company<br>Shares Held | Career Summary, Positions, Responsibilities,<br>Representation of Other Corporate or Other Legal<br>Entities, etc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----|---------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.  | Yasuhiko Saitoh<br>(December 5, 1955) | 7,000 shares                        | Apr., 1978 Joined the Company<br>Mar., 1998 Director and President of SILICA PRODUCTS, INC. (to date)<br>Dec., 1999 Director of Shin-Etsu PVC B.V. (to date)<br>June, 2001 Director of the Company<br>Nov., 2001 Responsible for the Office of the President and Public Relations (to date)<br>June, 2002 Managing Director<br>June, 2003 Responsible for Finance & Accounting (to date)<br>Jan., 2004 Responsible for Legal Affairs (to date)<br>June, 2005 Senior Managing Director<br>July, 2007 Representative Senior Managing Director (to date)<br>June, 2009 General Manager of International Div. (to date)<br>(Representation of Other Corporate or Other Legal Entities)<br>Representative Director and Vice President of Shin-Etsu Handotai Co., Ltd.<br>Director and President of Shin-Etsu Handotai America, Inc. |

| No. | Name<br>(Date of Birth)                  | Number of<br>Company<br>Shares Held | Career Summary, Positions, Responsibilities,<br>Representation of Other Corporate or Other Legal<br>Entities, etc.                                                                                                                                                                                                                               |
|-----|------------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.  | Yoshiaki Ono<br>(January 1, 1944)        | 5,800 shares                        | <p>July, 1967 Joined the Company</p> <p>June, 2000 General Manager of Silicone-Electronics Materials Research Center (to date)</p> <p>June, 2003 Director</p> <p>June, 2005 Managing Director (to date)</p> <p>Dec., 2007 General Manager of R&amp;D and Patent Dept. (to date)</p> <p>June, 2009 General Manager of Silicone Div. (to date)</p> |
| 3.  | Koji Takasugi<br>(August 21, 1941)       | 3,200 shares                        | <p>Mar., 1960 Joined the Company</p> <p>Dec., 2001 General Manager of International Div.</p> <p>June, 2005 Director</p> <p>June, 2007 Managing Director (to date)</p> <p>June, 2009 Responsible for Purchasing (to date)<br/>General Manager of New Products Dept. (to date)</p>                                                                 |
| 4.  | Frank Peter Popoff<br>(October 27, 1935) | 86,600 shares                       | <p>Dec., 1987 CEO of The Dow Chemical Company</p> <p>Dec., 1992 Director and Chairman of the above</p> <p>Jan., 2001 Counselor of the Company<br/>Director of SHINTECH INC. (to date)</p> <p>June, 2001 Director of the Company (to date)</p>                                                                                                    |

| No. | Name<br>(Date of Birth)                   | Number of<br>Company<br>Shares Held | Career Summary, Positions, Responsibilities,<br>Representation of Other Corporate or Other Legal<br>Entities, etc.                                                                                                                                                                                                                                                                                                                                     |
|-----|-------------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5.  | Shunji Kono<br>(August 1, 1927)           | 11,500 shares                       | <p>June, 1990 Representative Director and President of The Tokio Marine and Fire Insurance Company, Limited (currently Tokio Marine &amp; Nichido Fire Insurance Co., Ltd.)</p> <p>June, 1996 Representative Director and Chairman of the above</p> <p>June, 2001 Counselor of the above</p> <p>June, 2003 Director of the Company (to date)</p> <p>June, 2008 Honorary Counselor of Tokio Marine &amp; Nichido Fire Insurance Co., Ltd. (to date)</p> |
| 6.  | Tsuyoshi Miyazaki<br>(December 16, 1931)  | 0 shares                            | <p>Mar., 1990 Representative Director and President of Mitsubishi Logistics Corporation</p> <p>June, 1998 Representative Director and Chairman of the above</p> <p>June, 2003 Adviser of the above (to date)</p> <p>Aug., 2004 Statutory Auditor of Shin-Etsu Handotai Co., Ltd.</p> <p>June, 2007 Director of the Company (to date)</p>                                                                                                               |
| 7.  | Toshinobu Ishihara<br>(September 8, 1947) | 5,900 shares                        | <p>Apr., 1970 Joined the Company</p> <p>June, 2001 General Manager of New Functional Materials Research Center (to date)<br/>Director (to date)</p> <p>Nov., 2004 General Manager of New Functional Materials Dept. (to date)</p>                                                                                                                                                                                                                      |
| 8.  | Masaki Miyajima<br>(February 8, 1947)     | 21,100 shares                       | <p>July, 1971 Joined the Company</p> <p>May, 1997 General Manager of Opto-Electronics Materials Dept., Advanced Materials Div.</p> <p>June, 2001 Director (to date)</p> <p>Nov., 2002 General Manager of PVC Div. (to date)</p>                                                                                                                                                                                                                        |
| 9.  | Toshiyuki Kasahara<br>(May 7, 1951)       | 3,300 shares                        | <p>Mar., 1970 Joined the Company</p> <p>Dec., 2001 General Manager of Finance &amp; Accounting Dept. (to date)</p> <p>June, 2005 Director (to date)</p>                                                                                                                                                                                                                                                                                                |

| No. | Name<br>(Date of Birth)                 | Number of<br>Company<br>Shares Held | Career Summary, Positions, Responsibilities,<br>Representation of Other Corporate or Other Legal<br>Entities, etc.                                                                                                                                            |
|-----|-----------------------------------------|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10. | Hidenori Onezawa<br>(February 27, 1952) | 3,900 shares                        | 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>Nov., 2008 Deputy General Manager of<br>Organic Chemicals Div. (to date) |
| 11. | Ken Nakamura<br>(May 27, 1951)          | 3,200 shares                        | Apr., 1975 Joined the Company<br>Dec., 2000 General Manager of Public<br>Relations Dept. (to date)<br>July, 2005 General Manager of the Office of<br>the President (to date)<br>June, 2007 Director (to date)                                                 |
| 12. | Toshihiko Fukui<br>(September 7, 1935)  | 0 shares                            | Apr., 1958 Joined the Bank of Japan<br>Dec., 1994 Deputy Governor of the above<br>Mar., 2003 Governor of the above<br>Nov., 2008 Special Counselor of the Company<br>(to date)                                                                                |
| 13. | Yukihiro Matsui<br>(October 2, 1948)    | 3,000 shares                        | Apr., 1973 Joined the Company<br>Apr., 2004 General Manager of Magnet Dept.,<br>Electronics Materials Div. (to date)                                                                                                                                          |
| 14. | Hiroaki Okamoto<br>(January 3, 1949)    | 3,300 shares                        | July, 1971 Joined the Company<br>Dec., 2007 Acting General Manager of<br>Research and Development Dept.<br>(to date)                                                                                                                                          |

Notes 1: Mr. Ken Nakamura, a candidate for a Director, is Representative Director and President of Skyward Information Systems Co., Ltd., and the Company is entrusting information processing operations, etc. to the said company.

2: Other than the above, there is no special interest between any of the above candidates and the Company.

3: Mr. Frank Peter Popoff is a candidate for an External Director as defined in Item 15, Article 2 of the Corporations Law. He first became an External Director of the Company in June 2001, and will have held this position for eight (8) years at the conclusion of this 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 The Dow Chemical Company of the United States and supervision from an independent standpoint. In view of this, his

nomination reflects the confidence that the Company places in him to continue to provide the same quality of advice and supervision.

- 4: Mr. Shunji Kono is a candidate for an External Director as defined in Item 15, Article 2 of the Corporations Law. He first became an External Director of the Company in June 2003, and will have held this position for six (6) years at the conclusion of this 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 the former Tokio Marine & Fire Insurance Co., Ltd. and supervision from an independent standpoint. In view of this, his nomination reflects the confidence that the Company places in him to continue to provide the same quality of advice and supervision.

In addition, during the assumption of an External Director at Seiko Instruments Inc., Mr. Shunji Kono affirmatively voted, at the Board of Directors' meeting held in November 2006, for the dismissal of the ex-representative director from the positions of Representative Director/Chairman and Deputy President because the fact that such ex-representative director acted arbitrarily without consultation on matters, such as the unreasonable relocation of the research and development bases, increased the likelihood of incurring damage. Mr. Shunji Kono had always expressed his opinion that important matters should be deliberated at the Board of Directors' meetings, and also expressed his opinion regarding the necessity to prevent the recurrence at the Board of Directors' meeting held following the occurrence of the above-mentioned fact.

- 5: Mr. Tsuyoshi Miyazaki is a candidate for an External Director as defined in Item 15, Article 2 of the Corporations Law. He first became an External Director of the Company in June 2007, and will have held this position for two (2) years at the conclusion of this 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 reflects the confidence that the Company places in him to continue to provide the same quality of advice and supervision.
- 6: Mr. Toshihiko Fukui is a candidate for an External Director as defined in Item 15, Article 2 of the Corporations Law. He served as the Governor of the Bank of Japan, and has extraordinary knowledge and abundant experience regarding global finance and global economy. In view of this, his nomination reflects the confidence that the Company places in him to provide useful advice from a high-level perspective and supervision from an independent standpoint.

4th Agendum: Election of One (1) Statutory Auditor

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

The candidate for the above is as follows:

The Board of Statutory Auditors has consented to this agendum.

Candidate for Statutory Auditor

| Name<br>(Date of Birth)         | Number of<br>Company<br>Shares Held | Career Summary, Positions, Responsibilities,<br>Representation of Other Corporate or Other Legal<br>Entities, etc.                                                                                                                                                                                                                                                                                                             |
|---------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Taku Fukui<br>(August 24, 1961) | 0 shares                            | Apr., 1987 Registered as a lawyer (with Daini<br>Tokyo Bar Association)<br>Entered Kashiwagi Sogo Law Offices<br>Apr., 2004 Professor at the Keio Law School (to<br>date)<br>June, 2005 Statutory Auditor of the Company (to<br>date)<br>Jan., 2009 Managing Partner of the above Law<br>Offices (to date)<br>(Representation of Other Corporate or Other Legal<br>Entities)<br>Managing Partner of Kashiwagi Sogo Law Offices |

- Notes 1: Kashiwagi Sogo Law Offices, at which Mr. Taku Fukui serves as the Managing Partner, receives legal fees from the Company for individual cases.
- 2: Other than the above, there are no special interest between the above candidate and the Company.
- 3: Mr. Taku Fukui is a candidate for an External Statutory Auditor as defined in Item 16, Article 2 of the Corporations Law. He first became an External Statutory Auditor of the Company in June 2005, and will have held this position for four (4) years at the conclusion of this General Meeting of Shareholders. During this period, he has performed a satisfactory audit job from a professional perspective as a lawyer. In view of this, his nomination reflects the confidence that the Company places in him to continue to provide the same appropriate performance as an External Statutory Auditor and contribute to ensuring a compliance system of the Company.

5th Agendum: Issuance of Stock Acquisition Rights as Stock Options to Employees

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

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

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

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

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

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

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

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

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

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

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

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

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

(3) Payment for the stock acquisition rights

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

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

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

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

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

Exercise Price after adjustment = Exercise Price before adjustment

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

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



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

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

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

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

From the day following the day that is one year after the Allocation Day, to March 31, 2014.

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

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

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

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

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

(8) Conditions for acquisition of the stock acquisition rights

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

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

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

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

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

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

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

Common shares of the Reorganized Corporation.

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

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

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

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

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

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

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

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

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

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

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

(viii) Conditions for acquisition of the stock acquisition rights

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

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

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

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

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

(Note) As regards the issuance of Stock Options (stock acquisition rights) to Directors, "Determination of the Amount of Compensation, etc. in Stock Options for Directors, and its Details" was approved at the 129th Ordinary General Meeting of Shareholders held on June 29, 2006. Stock options for Directors for the current year are to be issued within the aforementioned approved range of compensations. In addition, Stock Options for External Directors are not to be issued in the current year.

6th Agendum: Continuance of the Handling Policy (Anti-takeover Defensive Plan)  
toward Large-scale Purchase of the Company's Shares and Other Securities

At the Board of Directors' meeting held on May 19, 2008, conditional upon authorization with the approval of the shareholders who were present at the 131st Ordinary General Meeting of Shareholders held on June 27, 2008, the Company made decisions on the introduction of the Handling Policy toward Large-scale Purchase of the Company's Shares and Other Securities (hereinafter called the "Handling Policy"). In accordance with the expiration of the effective period of the Handling Policy at the conclusion of this General Meeting of Shareholders, in order to continuously secure and improve the Company's corporate value and/or the common interests of the Company's shareholders, the Company made decisions on the continuance of the Handling Policy with the details mentioned below at the Board of Directors' meeting held on May 21, 2009, subject to the condition of authorization at this General Meeting of Shareholders.

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

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

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

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

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

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

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

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

(1) Management Policies

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

(2) Specific Measures

In the polyvinyl chloride business, SHINTECH INC. (USA) has been constructing integrated manufacturing factories that cover all processes from electrolysis to the

manufacture of polyvinyl chloride resin. Furthermore, the first-phase of construction of said factories has been completed, and said factories have started to operate. In Europe, in order to strengthen the business base of Shin-Etsu PVC in the Netherlands, the Company's group has also initiated procedures for making CIRES, S.A. in Portugal a fully-owned subsidiary under the Company's group. The Company's group will continue to make full use of the tripolar system that includes Japan, the United States and Europe so as to secure its position as the world's largest manufacture of polyvinyl chloride resin.

In the silicone business, the Company's group will promote the development of new products and new applications of existing products by taking advantage of the characteristics of its products, which are in demand in a wide range of areas. The Company's group will also step up its efforts to improve the productivity of its factories in Japan, Thailand, the United States and other countries in order to expand its business not only in Japan but overseas as well.

In the semiconductor silicon business, the Company's group will maintain a steady supply of high-quality products as the world's largest manufacturer, based on accurate information on market demand for 300-mm wafers. The Company's group will strive to strengthen its competitiveness in the market for wafers of 200 mm or smaller by adding value to and by developing special applications for its products in order to differentiate them from those of other companies.

In the rare-earth magnet business, the Company's group will make efficient use of its newly constructed rare-earth separation and refinement facilities in order to further improve productivity. At the same time, the Company's group will work to expand its business, focusing on products for hybrid cars, which are likely to be in greater demand in the future.

In the cellulose business, the Company's group will provide a steady supply of products used for pharmaceutical purposes. To that end, the Company's group will construct manufacturing facilities in Germany to be managed by SE Tylose, in addition to the Company's Naoetsu Plant in Japan and in this way will continue to strengthen its business base.

For the future business expansion, the Company's group will step up its efforts to develop new businesses, including the research, development and commercialization of new products, and M&A.

The Company's group will also fulfill its corporate social responsibilities, such as implementing proper safety measures, preserving the environment and ensuring compliance with the law, in order to maximize the value of the Company's group.

The Company considers that, because it is believed that the above-mentioned measures will improve the corporate value of the Company's group and reduce the risk that Large-scale Purchasers who significantly damage the common interests of the shareholders will appear, such measures will contribute to the realization of the Basic Policy stated in Article 1 above. In addition, the Board of Directors decided to introduce the Handling Policy as further measures to ensure the realization of the Basic Policy.

### 3. Details of the Handling Policy

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

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

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

Note 2: A specific group of shareholders means:

- (i) A holder (including a person deemed as a holder pursuant to Paragraph 3, Article 27-23 of the FIEL; hereinafter the same) of the Company’s shares and other securities (defined in Paragraph 1, Article 27-23 of the FIEL) and any joint holders (defined in Paragraph 5, Article 27-23 of the FIEL, including a person deemed as a joint holder pursuant to the provision of Paragraph 6, Article 27-23 of the FIEL; hereinafter the same); or
- (ii) A person making a purchase and the like (defined in Paragraph 1, Article 27-2 of the FIEL, and includes any purchase made in a security exchange market) of the Company’s shares and other securities (defined in Paragraph 1, Article 27-2 of the FIEL) and any specially related parties (defined in Paragraph 7, Article 27-2 of the FIEL).

Note 3: A ratio of voting rights means:

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

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

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

### (a) Provision of Necessary Information

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

Specifically, the Company will firstly have the Large-scale Purchaser submit to the Company’s Representative Director, prior to a commencement of a Large-scale Purchase, a written document clearly specifying the name, address, governing law of incorporation of the Large-scale Purchaser, name of the representative, domestic



contact information, and details of the Large-scale Purchase to start, as well as the intention to follow the Large-scale Purchase Rules. Within ten (10) business days after receipt of such written document, the Company will issue to the Large-scale Purchaser a list of Necessary Information to be initially provided. If, upon reviewing in detail the information initially provided, such information is recognized as insufficient, the Board of Directors will request additional provision of information from the Large-scale Purchaser until the provision of Necessary Information is complete. The fact of a proposal of a Large-scale Purchase as well as the Necessary Information provided with the Board of Directors will, if deemed necessary for shareholders in making their judgment, be made public in whole or in part at the time the Board of Directors judges appropriate.

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

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

(vii) If the Large-scale Purchaser operates the same type of business as the Company's group, views on legality from the perspective of antimonopoly law of Japan and competition laws of other relevant countries.

(b) Setting of the Period of Assessment and Review

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

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

(2) Establishment and Structure of the Independent Committee

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

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

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

There shall be three (3) or more members of the Independent Committee, and to enable fair and neutral judgments, selection of the committee's members will be made from External Directors and External Statutory Auditors of the Company who are independent of the Managing Directors, and outside professionals such as lawyers, certified public accountants, certified tax accountants, academic experts, and business experts having broad administrative experience. The brief overview of the Independent Committee is as described in Attachment 2. Also, four (4) persons described in Attachment 3 are going to be appointed or reappointed as the member of the Independent Committee as from the conclusion of the Annual Meeting of Shareholders.

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

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

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

Specific countermeasures shall be chosen by the Board of Directors as it judges as the most appropriate at the time, but a brief outline of stock acquisition rights in the

case of the issuance of stock acquisition rights by the method of gratuitous allotment to shareholders is shown in Attachment 5. Upon the issuance of stock acquisition rights, certain exercise conditions and exercise period may be set so that such issuance of stock acquisition rights shall have an effect as a countermeasure, such as a person who belongs to a specific group of shareholders whose ratio of voting rights is more than a certain level cannot exercise the stock acquisition rights held by such person. Also, as the terms of stock acquisition rights, such terms may be set that the Company may acquire stock acquisition rights in exchange for our shares and other assets (acquisition terms), and the Company may place a condition, as a condition for any person having stock acquisition rights of the stock acquisition rights to be affected, such as that such person cannot belong to a specific shareholder group whose ratio of voting rights is more than a certain level.

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

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

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

accountants and consultants) and also, to the maximum extent possible, respecting the advice of the Independent Committee.

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

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

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

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

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

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

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

(a) Issuance of Stock Acquisition Rights

In the event of a resolution by the Board of Directors to issue stock acquisition rights according to the method of gratuitous allotment to shareholders as stipulated in Article 277 of the Corporate Law, the Company will make a public notice to set the date of allotment of stock acquisition rights. In this event, stock acquisition rights will be issued to the shareholders who are recorded in the shareholders registry as of the end of the allotment date, and it is necessary that the shareholders shall be recorded in the shareholders registry as of the end of the allotment date in order to obtain stock acquisition rights. The shareholders recorded in the shareholders registry as of the end of the allotment date will become entitled to be granted the stock acquisition rights on the effective date of issuance of such stock acquisition rights and will not need to take any procedures or otherwise apply for such gratuitous allotment of stock acquisition rights to shareholders.

(b) Procedures for Exercising Stock Acquisition Rights

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

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

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

The effective period of the Handling Policy will be up to the conclusion of the Company's 133rd annual shareholders' meeting to be held in June 2010, and in the case the Handling Policy continues after such point of time, it will be conditional upon authorization with the approval of a majority of the voting rights of the shareholders present at the Company's shareholders' meeting. Also, even before the expiration of the effective period of the Handling Policy, in the event of a resolution by the Board of Directors to end the Handling Policy from the viewpoint such as an improvement of the common interests of the shareholders, the Handling Policy will end at that point of time. In addition, the Board of Directors will review the Handling Policy as is necessary from the viewpoint such as an improvement of the common interests of the shareholders, in light of factors such as any amendment to related laws such as the Corporate Law, trends of legal judgment, and responses by the financial instruments exchange and other public institutions.

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

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

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

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

on the duty of care of a good manager, take any countermeasures deemed appropriate.

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

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

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

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

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

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

Under the Handling Policy, the requirements for the taking of countermeasures by the Board of Directors are provided in an objective manner, and such requirements shall be announced in advance. Further, the Handling Policy provides that, upon assessment, review, negotiation and formation of the opinions, etc. by the Board of Directors regarding Large-scale Purchases, the Board of Directors shall listen to opinions of independent outside professionals (professionals such as securities companies, investment banks, financial advisors, lawyers, certified public



accountants and consultants) and that, upon the exercise of countermeasures, the Board of Directors, to enable a fair and neutral judgment, shall consult with the Independent Committee consisting of members who are independent of the Managing Directors of the Company, and the Board of Directors shall respect, to the maximum extent possible, the judgment of the Independent Committee.

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

[End of Notification]

(Reference Information) The status of the Company's major shareholders is as described in "Matters Concerning Stock in Company" on page 11 of the Business Report.

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

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

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

Brief Overview of Independent Committee

1. Purpose

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

2. Establishment and Members, etc.

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

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

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

4. Matters to be Resolved by the Independent Committee

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

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

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

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

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

Toshihiko Fukui

Date of Birth : September 7, 1935

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

Shunji Kono

Date of Birth : August 1, 1927

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

Masashi Kaneko

Date of Birth : March 2, 1939

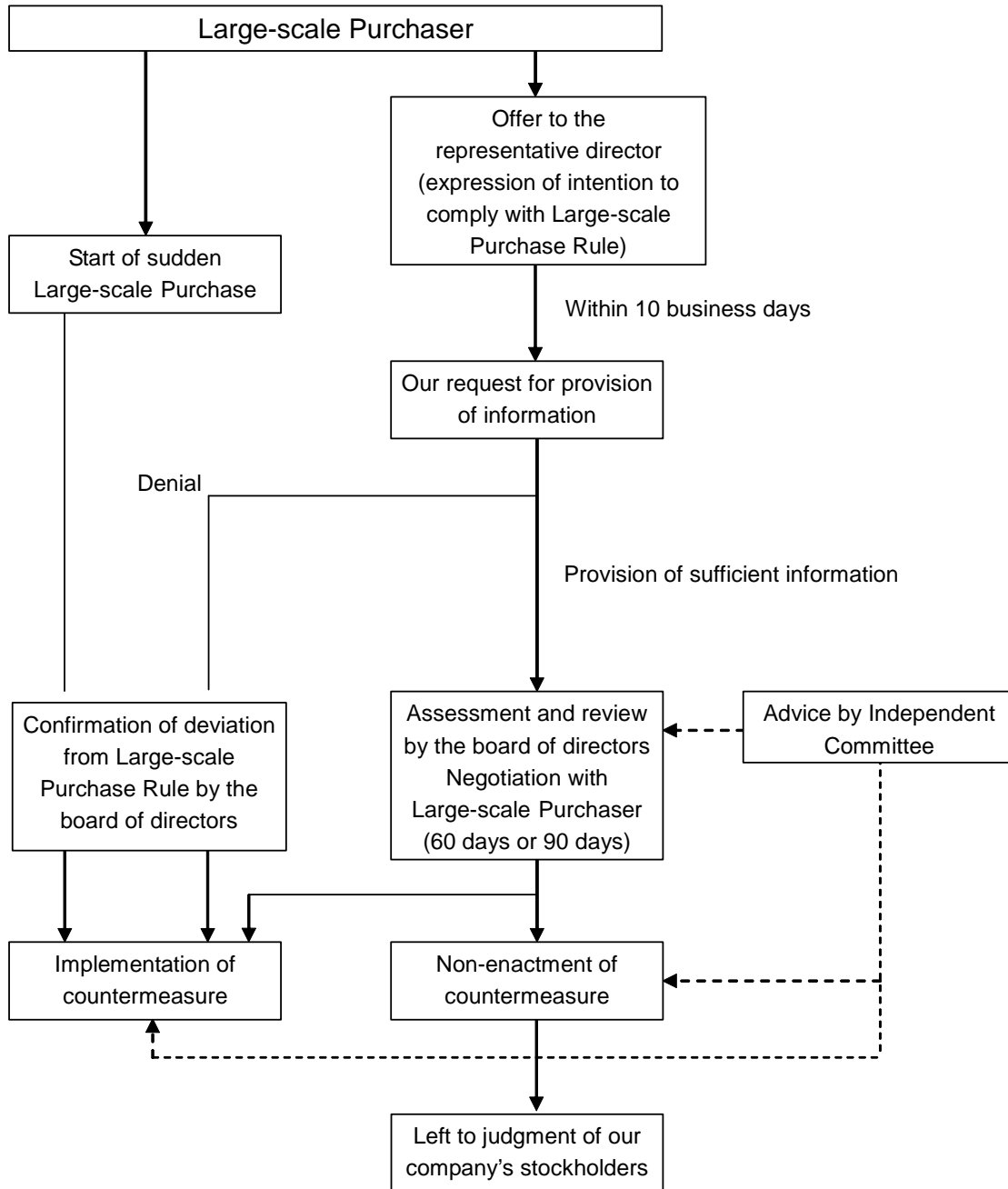
|            |                                                                                                                 |
|------------|-----------------------------------------------------------------------------------------------------------------|
| Oct., 2001 | Representative Director, Chairman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

Tsuyoshi Miyazaki

Date of Birth : December 16, 1931

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

Handling Policy for Large-scale Purchase: Overview Chart



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

Brief Outline of Stock Acquisition Rights

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

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

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

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

3. Total Number of Stock Acquisition Rights to be Issued

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

4. Method of Issuance of Stock Acquisition Rights

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

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

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

6. Restriction on Transfer of Stock Acquisition Rights

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

7. Conditions for Exercise of Stock Acquisition Rights

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

8. Period of Exercise and Other

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

9. Stock Acquisition Rights with Acquisition Clause

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