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(Translation)

(Securities Code 4063)

June 6, 2012

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

Notice of Convocation of the 135th
Ordinary General Meeting of Shareholders

Dear Shareholder:

You are hereby notified that the 135th 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 Wednesday, June 27, 2012.

Description of Meeting

- | | |
|--|--|
| 1. Date and Time | : June 28, 2012 (Thursday) 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
135th fiscal year (April 1, 2011 through March 31, 2012)
2. Report on the Financial Statements for the 135th fiscal year (April 1,
2011 through March 31, 2012) |
| Matters to be resolved: | |
| 1st Agendum | : Distribution of Retained Earnings to Shareholders |
| 2nd Agendum | : Election of Nine (9) Directors |
| 3rd 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,

Shunzo Mori
Representative Director / President
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, 2011 through March 31, 2012)

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

1. Business Operations

With regard to the world economy, during the consolidated fiscal year 2012 (April 1, 2011 to March 31, 2012), although, on the whole, emerging economies in regional areas such as Asia and Central and South America performed well, the recovery of the United States economy continued to be slow due to a weak employment situation and a sluggish housing market, and in Europe, there continued to be a serious lingering debt concern that has rapidly brought about a strong sense of economic stagnation. On the other hand, due to the effects of the Great East Japan Earthquake, the flood damage in Thailand and the additional headwind resulting from the progression in the rapid appreciation of the Japanese yen, overall, the severe situation of the Japanese economy continued.

Under these circumstances, the Shin-Etsu Group worked to carry out its sales activities to its wide range of customers worldwide, and at the same time, made concerted efforts to restore Shin-Etsu Chemical's Kashima Plant and Shin-Etsu Handotai's Shirakawa Plant that had been damaged by the Great East Japan Earthquake in March 2011, and by the end of June, 2011, we completed the restoration work. In addition, we have focused on building a strong business foundation by such means as working to stably secure raw materials and assiduously carrying out our strategy of establishing multiple manufacturing bases.

As a result, the net sales for the Company's group for this consolidated fiscal year decreased by 1.0% (10,526 million yen) compared with the previous fiscal year to 1,047,731 million yen. Compared to the performance of the previous fiscal year, operating income increased by 0.3% (411 million yen) to 149,632 million yen, ordinary income increased by 3.1% (4,899 million yen) to 165,237 million yen and, net income increased by 0.5% (524 million yen) to 100,643 million yen.

The business operations of each division were as follows.

PVC/Chlor-Alkali

With regard to PVC, despite the prolonged slump in the U.S. housing market, SHINTECH INC. in the U.S. maintained a high level of shipments by expanding its sales to worldwide customers and it greatly increased its business performance. In addition, Shin-Etsu PVC in The Netherlands also continued firm shipments. On the other hand, in Japan, a tough business situation continued due to such factors as the effects of the operation stoppage at our Kashima Plant as a consequence of the Great East Japan Earthquake and sluggish demand.

As a result of the foregoing, this division's total sales increased by 14.3% (40,505 million yen) from the previous fiscal year to 324,030 million yen, and operating income increased by 20.2% (3,977 million yen) to 23,651 million yen.

Silicones

With regard to the silicones business, sales in Japan during the first half of the fiscal year, continued to be firm mainly in product applications areas such as the electronics and cosmetic fields. However, in the latter half of the fiscal year, on the whole, business was slow, although some recovery was seen in applications such as those for automobiles. Our overseas business was strongly affected by sluggish market prices in the Asian region, such as in China.

As a result of the foregoing, this division's total sales decreased by 5.3% (7,603 million yen) from the previous fiscal year to 135,461 million yen, and operating income decreased by 1.1% (370 million yen) to 33,687 million yen.

Specialty Chemicals

With regard to cellulose derivatives, in addition to the business in Japan continuing to do well, mainly in pharmaceutical-use products and industrial-use products, the business of SE Tylose in Germany continued to be firm due to the recovery of demand in building and construction application products. Furthermore, the silicon metal business of Simcoa Operations in Australia continued to do well, aided by rising market conditions.

As a result of the foregoing, this division's total sales increased by 4.3% (3,615 million yen) from the previous fiscal year to 87,127 million yen, and operating income increased by 13.8% (1,784 million yen) to 14,698 million yen.

Semiconductor Silicon

With regard to the semiconductor silicon business, in addition to the stoppage of operations due to the effects of the Great East Japan Earthquake at our major production base in Shirakawa, Japan, there was a continuing slowdown in demand for wafers after the summer due to the sluggish electronics market for such products as PCs and flat panel TVs, and the severe business situation continued.

As a result of the foregoing, this division's total sales decreased by 19.1% (54,133 million yen) from the previous fiscal year to 229,656 million yen, and operating income decreased by 11.7% (4,531 million yen) to 34,333 million yen.

Electronics & Functional Materials

With regard to rare earth magnets, we addressed the sharp rise of raw materials prices, and at the same time, we endeavored to expand sales mainly for applications in hybrid automobiles. As a result, the business continued to do well. Photoresist products remained strong, aided by the progress in semiconductor device miniaturization. The business of materials for LED packaging also continued to do well.

With regard to the optical fiber preform business, although this business was affected by the stoppage of operations at the Kashima Plant due to the Great East Japan Earthquake, after the restoration, firm shipments continued.

As a result of the foregoing, this division's total sales increased by 25.8% (36,409 million yen) from the previous fiscal year to 177,792 million yen, and operating income increased by 5.7% (2,053 million yen) to 38,171 million yen.

Diversified Business

Shin-Etsu Polymer Co., Ltd.'s business of keypads for mobile phones remained in a severe situation due to a large decrease in demand resulting from the rapid spread of touch-panel type smartphones. In addition, the business of semiconductor wafer-related containers continued to be slow due to sluggish semiconductor device demand.

As a result of the foregoing, this division's total sales decreased by 23.8% (29,318 million yen) from the previous fiscal year to 93,663 million yen and operating income decreased by 31.4% (2,308 million yen) to 5,032 million yen.

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

The Company's group invested 87,165 million yen during this consolidated fiscal year mainly in the following:

Major facilities completed during this consolidated fiscal year:

Enhancement of equipment to manufacture raw materials for polyvinyl chloride (SHINTECH INC.)

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

Construction of a plant to manufacture optical fiber preforms (Shin-Etsu (Jiangsu) Optical Preform Co., Ltd.)

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

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

Construction of a silicone manufacturing plant (Shin-Etsu Silicone (Nantong) Co., Ltd.)

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

3. Problems Confronting the Company's Group

With regard to business prospects going forward, although there is an expectation that the trend towards a gradual recovery in the world economy will continue, the business situation continues to not allow for optimism due to such concerns as the sharp rise in crude oil prices and the financial worries associated with Europe's fiscal problems. In Japan as well, the severe economic situation is forecasted to continue because of such concerns as restrictions on electric power supplies and the effects of deflation.

Under these circumstances, the Shin-Etsu Group will manufacture products that have high reliability resulting from its stable production activities and will carry out its aggressive sales activities to its wide range of customers around the world. Moreover, we will focus on further improving our technologies and enhancing product quality, and we will cultivate new demand through the development of products that have special characteristics. Furthermore, we will aim to build an even stronger business foundation by working to stably secure raw materials and striving to establish multiple manufacturing bases on a global scale.

In the PVC business, the integrated manufacturing plant from electrolysis to PVC that was constructed by SHINTECH INC. in the U.S. is smoothly continuing its operations. While making use of the advantageous raw material situation in the U.S., Shin-Etsu will strive to capture the growing worldwide demand for PVC.

In the semiconductor silicon business, as the world's largest silicon wafer manufacturer, we will stably supply to our customers high-quality products from Shin-Etsu's multiple manufacturing bases, both those in Japan and overseas. In addition, we will make efforts aimed at the development and sale of silicon wafers for cutting-edge devices, and at the same time, we will undertake to streamline the business and achieve the strengthening of our competitive power.

In the silicones business, we will move forward with the development of new products and new applications by making the most of the characteristics of silicones, which have a wide range of application fields. At the same time, we will focus on further strengthening our business operations at our existing bases, not only in Japan but also in Thailand and the U.S., and endeavoring to make the new silicones plant in China, which is now under construction, a powerful bridgehead into the China market, as we strive to expand our global silicones business.

In the rare earth magnet business, in order to secure stable supplies of raw materials, we began construction of raw materials plants in China and Vietnam. In the future as well, we will assiduously work to stably procure raw materials and reduce the consumption volume of rare earths through the use of new manufacturing methods, and at the same time, we will strive to develop new products, focusing mainly on applications in hybrid automobiles and other energy saving-related products for which demand is expected to grow.

In other businesses, through the use of the new cellulose manufacturing plant for pharmaceutical-use products that began operations in Germany, the new optical fiber preform plant in China and the plant for manufacturing LED packaging materials that is scheduled to be constructed in Vietnam, we will strive to expand these businesses in global markets.

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

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

4. Trend of Business Results and Financial Conditions

Item \ Year	132nd Fiscal Year	133rd Fiscal Year	134th Fiscal Year	135th Fiscal Year
Net Sales (Million Yen)	1,200,813	916,837	1,058,257	1,047,731
Net Income (Million Yen)	154,731	83,852	100,119	100,643
Net Income per Share (Yen)	362.39	197.53	235.80	237.03
Net Assets (Million Yen)	1,407,353	1,474,212	1,469,429	1,494,573
Total Assets (Million Yen)	1,684,944	1,769,139	1,784,166	1,809,841

Note 1: In the 133rd fiscal year, the effects of a worldwide decline in demand, which particularly impacted the Company's semiconductor silicon and other electronics materials operations, were reflected in decreases in its sales revenues and earnings.

Note 2: In the 135th fiscal year, decreased sales revenues reflected a slowdown in demand for semiconductor silicon wafers due to the sluggish market for PCs and other electronic equipment.

5. Status of Major Subsidiary Companies, etc. (as of March 31, 2012)

(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 1: 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.

Note 2: Kashima Chlorine & Alkali Co., Ltd. and Kashima Vinyl Chloride Monomer Co., Ltd., which are both affiliated to the Company, are joint-venture concerns of Asahi Glass Co., Ltd., ADEKA Corporation, KANEKA Corporation, Mitsubishi Chemical Corporation, and the Company. The Company has agreed in principle with the other joint-venture owners for the Company to convert both joint ventures into subsidiary companies of the Company primarily through the Company's acquisition of additional stock in them. Details of the agreement are currently under negotiation.

(3) Results of Consolidation

For this consolidated fiscal year, there are 77 consolidated subsidiaries etc. and 7 companies to which the equity method is applied, including the Major Subsidiary Companies and the Affiliated Companies mentioned above.

For this consolidated fiscal year, net sales amounted to 1,047,731 million yen (down by 1.0% from the previous fiscal year), and the net income amounted to 100,643 million yen (up by 0.5% from the previous fiscal year).

6. Major Lines of Business of the Company's Group (as of March 31, 2012)

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

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

7. Major Bases of the Company's Group (as of March 31, 2012)

(1) Company

Principal Office: 6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo, Japan

Branch Offices: Osaka Branch, Nagoya Branch, and Fukuoka Branch

Plants: Naoetsu Plant (Niigata Prefecture), Takefu Plant (Fukui Prefecture), Gunma Complex [Isobe Plant and Matsuida Plant], Kashima Plant (Ibaraki Prefecture)

Research & Development Centers: Silicone-Electronics Materials Research Center (Gunma Prefecture), Advanced Functional Materials Research Center (Gunma Prefecture), PVC and Polymer Materials Research Center (Ibaraki Prefecture), Specialty Chemicals Research Center (Niigata Prefecture), New Functional Materials Research Center (Niigata Prefecture) and Magnetic Materials Research Center (Fukui Prefecture)

(2) Subsidiaries

Domestic: Shin-Etsu Handotai Co., Ltd. (Tokyo); Shin-Etsu Polymer Co., Ltd. (Tokyo); Shin-Etsu Engineering Co., Ltd. (Tokyo); Shin-Etsu Astech Co., Ltd. (Tokyo); 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, 2012)

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

Business Dept.	Number of Employees	Increase or Decrease Compared with the End of the Previous Fiscal Year
PVC/Chlor-Alkali	1,134	-24
Silicones	1,874	+90
Specialty Chemicals	1,149	+79
Semiconductor Silicon	4,783	+121
Electronics & Functional Materials	2,659	-10
Diversified Business	4,568	-391
Total	16,167	-135

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
2,695	+39	42.4	20.6

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, 2012)

Name of Lender	Outstanding Borrowings (Million Yen)
Nippon Life Insurance Company	3,600
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,934
Meiji Yasuda Life Insurance Company	2,300
The Hachijuni Bank, Ltd.	2,060

II. Matters Concerning Stock in Company (as of March 31, 2012)

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: 67,762

Note: The total number of issued shares includes 7,512,807 treasury shares.

2. Major Shareholders

Name of Shareholder	Number of Shares Held (Thousand shares)	Holding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	33,953	8.0
Japan Trustee Services Bank, Ltd. (Trust Account)	32,403	7.6
Nippon Life Insurance Company	24,370	5.7
The Hachijuni Bank, Ltd.	11,790	2.8
Japan Trustee Services Bank, Ltd. (Trust Account 4)	11,696	2.8
Meiji Yasuda Life Insurance Company	10,962	2.6
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	9,249	2.2
STATE STREET BANK AND TRUST COMPANY 505225	6,411	1.5
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	6,309	1.5
NIPPONKOA Insurance Co., Ltd.	5,777	1.4

Note: The Company, which owns 7,512,807 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, 2012)

(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
6th Issue of Stock Acquisition Rights (07/02/2007)	8,370	837,000 shares of Common Stock in the Company	Distributed gratis	8,949	July 2, 2007 through March 31, 2012	Directors and employees of Company
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)	2,170	217,000 shares of Common Stock in the Company	Distributed gratis	6,755	July 15, 2009 through March 31, 2013	Employees of Company
8th Issue of Stock Acquisition Rights (for Distribution to Directors) (08/06/2009)	6,850	685,000 shares of Common Stock in the Company	1,235	4,804	August 7, 2010 through March 31, 2014	Directors (excluding External Directors) of Company
8th Issue of Stock Acquisition Rights (for Distribution to Employees) (08/06/2009)	2,520	252,000 shares of Common Stock in the Company	Distributed gratis	4,804	August 7, 2010 through March 31, 2014	Employees of Company
9th Issue of Stock Acquisition Rights (10/29/2010)	2,720	272,000 shares of Common Stock in the Company	Distributed gratis	4,352	October 30, 2011 through March 31, 2015	Same as above
10th Issue of Stock Acquisition Rights (07/27/2011)	2,930	293,000 shares of Common Stock in the Company	Distributed gratis	4,423	July 28, 2012 through March 31, 2016	Same as above

Note 1: The terms and conditions on which to exercise stock acquisition rights in the 6th issue 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 each of the 7th through 10th issues are outlined below:

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

later of such death or the commencement of the exercisable period of rights (but only before the exercisable period of rights expires). Notwithstanding the foregoing, in the event of the death of any recipient of stock options that occurs after such recipient ceases to be a Director or an employee of the Company, heirs of such deceased person may exercise such stock options only within the period during which such deceased recipient would have been entitled to exercise such stock options in accordance with paragraph a. above.

c. Other conditions are as prescribed in the Stock Option Allotment Agreement.

Note 3: The 9th and 10th issues of stock acquisition rights were not intended for distribution to the Directors of the Company.

(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)	6th Issue of Stock Acquisition Rights	5,620	17
	7th Issue of Stock Acquisition Rights	5,700	17
	8th Issue of Stock Acquisition Rights	6,700	17
External Directors	6th Issue of Stock Acquisition Rights	800	3
	7th Issue of Stock Acquisition Rights	-	-
	8th Issue of Stock Acquisition Rights	-	-

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

Pursuant to a resolution adopted by the Board of Directors on July 26, 2011, the 10th Issue of Stock Acquisition Rights (for Distribution to Employees), intended as incentive stock options, was issued as of July 27, 2011 for distribution to 75 employees, as outlined below:

(1) Number of Stock Acquisition Rights Distributed
2,930

(2) Type and Quantity of Shares Subject to Stock Options
293,000 shares of common stock in the Company
(100 common shares of the Company per stock option)

(3) Issue Price
Issued without compensation.

(4) Payment Per Share upon Exercise of Stock Options
¥4,423

(5) Period within Which to Exercise Stock Options
From July 28, 2012, until March 31, 2016

(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, 2012)

Title	Name	Responsibilities, Important Concurrent Positions, etc.
Representative Director - Chairman	Chihiro Kanagawa	Director & Chairman, SHINTECH INC.
Representative Director - President	Shunzo Mori	
Representative Director - Executive Vice President	Fumio Akiya	In charge of Semiconductor Materials, Advanced Materials and Technologies Representative Director & President, Shin-Etsu Handotai Co., Ltd.
Representative Director - Executive Vice President	Yasuhiko Saitoh	In charge of the Office of the President, Public Relations, Finance & Accounting and Legal Affairs General Manager, International Div. Director & President, SHINTECH INC. Representative Director & Vice-President, Shin-Etsu Handotai Co., Ltd. Director & President, Shin-Etsu Handotai America, Inc.
Representative Director - Senior Managing Director	Yoshiaki Ono	General Manager, Silicone Div.
Managing Director	Kiichi Habata	In charge of General Affairs, Personnel & Labor Relations, Environmental Control & Safety and Auditing
Managing Director	Koji Takasugi	In charge of Purchasing General Manager, Special Functional Products Dept.
Managing Director	Toshinobu Ishihara	In charge of New Functional Materials General Manager, Research & Development Dept. General Manager, New Functional Materials Research Center
Managing Director	Masahiko Todoroki	General Manager, Planning & Administration Dept., Semiconductor Materials Div. Managing Director, Shin-Etsu Handotai Co., Ltd.
Managing Director	Toshiya Akimoto	In charge of the Office of the President and Finance & Accounting General Manager, Office of the Secretariat
Director ¹	Frank Peter Popoff	
Director ¹	Masashi Kaneko	Director & Chairman of the Board, Ikyu Corporation
Director ¹	Tsuyoshi Miyazaki	Adviser, Mitsubishi Logistics Corporation
Director ¹	Toshihiko Fukui	President, the Canon Institute for Global Studies
Director ¹	Hiroshi Komiyama	Chairman, Mitsubishi Research Institute, Inc.
Director	Masaki Miyajima	General Manager, PVC Div.
Director	Fumio Arai	General Manager, Organic Chemicals Div. Director & President, Shin-Etsu PVC B.V. Director & President, SE Tylose GmbH & Co. KG
Director	Toshiyuki Kasahara	General Manager, Finance & Accounting Dept.
Director	Hidenori Onezawa	General Manager, Business Development Dept.
Director	Ken Nakamura	General Manager, Office of the President and Public Relations Dept.
Director	Yukihiro Matsui	General Manager, Electronics Materials Div.
Director	Hiroaki Okamoto	In charge of Patents General Manager, Development & Investigation Dept.
Full-Time Statutory Auditor	Osamu Okada	
Statutory Auditor	Masahiko Watase	

Title	Name	Responsibilities, Important Concurrent Positions, etc.
Statutory Auditor ²	Taku Fukui	Lawyer Managing Partner, Kashiwagi Sogo Law Offices Professor, Keio Law School
Statutory Auditor ²	Yoshihito Kosaka	C.P.A./Certified Public Tax Accountant Representative Partner, Grant Thornton Taiyo ASG Representative Partner, HIYU Certified Tax Accountants' Corporation
Statutory Auditor ²	Kiyoshi Nagano	

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

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

3. Mr. Toshihiko Fukui, External Director, serves concurrently as the President of the Canon Institute for Global Studies, a general incorporated foundation; however, the Company has no special relationship with that general incorporated foundation. Mr. Hiroshi Komiyama, External Director, serves concurrently as Chairman of Mitsubishi Research Institute, Inc.; however, the Company has no special relationship with that company. The Kashiwagi Sogo Law Offices, where Mr. Taku Fukui, Statutory Auditor, concurrently serves as Managing Partner, receives attorneys' fees from the Company for certain individual cases; however, the engagement in question has no influence on Mr. Fukui's duties as Statutory Auditor. Mr. Yoshihito Kosaka, Statutory Auditor, serves concurrently as Representative Partners of the Grant Thornton Taiyo ASG and HIYU Certified Tax Accountants' Corporation; however, the Company has no special relationship with them.
4. Concurrent service as External Director or External Statutory Auditor for other companies by External Directors and External Statutory Auditors and the relationship between the Company and such other companies are described in "3. Matters Concerning External Directors and Auditors" herein below.
5. Mr. Yoshihito Kosaka, Statutory Auditor, is licensed as a Certified Public Accountant and as a Certified Tax Accountant, and brings with him a considerable degree of knowledge and experience in the fields of finance and accounting.
6. Four External Directors of the Company -- Mr. Masashi Kaneko, Mr. Tsuyoshi Miyazaki, Mr. Toshihiko Fukui and Mr. Hiroshi Komiyama -- have been reported to the Tokyo Stock Exchange, Inc. etc. as Independent Directors.

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

Designation	Number of Recipients	Amount Payable	Remarks
Directors	Persons 23	Million Yen 1,288	Portion payable to nine External Directors and External Statutory Auditors: 169 million yen
Statutory Auditors	5	77	
Total	28	1,365	

- Notes: 1. The above figures include those relevant to one Director who retired from the office effective at the conclusion of the 134th Ordinary General Meeting of Shareholders held on June 29, 2011.
2. The amount payable to the Directors and Statutory Auditors includes the bonus reserve amount attributable to the fiscal year under review.
3. The amount of remuneration and others payable to the Directors is net of the amount of salaries (including bonuses) payable to the employee Directors in return for serving as employees.
4. In addition to the above, the amounts of remuneration and others paid or payable to External Directors and External Statutory Auditors from subsidiaries of the Company for serving as Director or Statutory Auditor of such subsidiaries in the fiscal year under review aggregated 37 million yen. There is no information reportable under the disclosure item regarding remuneration and others paid or payable to External Directors and External Statutory Auditors from a parent company or its subsidiaries for serving as Director or Statutory Auditor in the fiscal year under review.

3. Matters Concerning External Directors and External Statutory Auditors

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

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

Mr. Hiroshi Komiyama, External Director, serves concurrently as External Director for JX Holdings, Inc. and as External Statutory Auditor for the Tokyo Electric Power Company, Inc. However, there is no special relationship between the Company and either of these companies that must be disclosed under this item.

Mr. Kiyoshi Nagano, External Statutory Auditor, serves concurrently as External Director for SBI Holdings, Inc. However, there is no special relationship between the Company and the company that must be disclosed under this item.

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

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

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

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

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

a. Activities of External Directors

Name	Main Activities
Frank Peter Popoff	<p>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 one meeting 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.</p> <p>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.</p>
Masashi Kaneko	<p>The Director attended Board of Directors meetings (attendance rate 92%), as well as Managing Directors' Committee meetings, and shared his comments from a broad, high-level perspective capitalizing on his management experience at the former Nikko Cordial Corporation. He also provided supervision from an independent standpoint.</p>
Tsuayoshi Miyazaki	<p>The Director attended all meetings of the Board of Directors, as well as Managing Directors' Committee meetings, held during the fiscal year under review, and shared his comments from a broad, high-level perspective capitalizing on his management experience at Mitsubishi Logistics Corporation. He also provided supervision from an independent standpoint.</p>
Toshihiko Fukui	<p>The Director attended Board of Directors meetings (attendance rate 92%), as well as Managing Directors' Committee meetings, and shared his comments from a broad, high-level perspective capitalizing on his outstanding knowledge and wealth of experience related to global finance and economy as an ex-Governor of the Bank of Japan. He also provided supervision from an independent standpoint.</p>
Hiroshi Komiyama	<p>The Director attended Board of Directors meetings (attendance rate 92%), as well as Managing Directors' Committee meetings. The Director, who has served as President of the University of Tokyo, as well as in a variety of distinguished positions, shared his comments from a broad, high-level perspective capitalizing on his outstanding knowledge and wealth of experience in a wide range of disciplines, including chemical engineering, the global environment, and natural resources and energy. He also provided supervision from an independent standpoint.</p>

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 the former Jasdac Securities Exchange, Inc. (currently Osaka Securities Exchange Co., Ltd.) and contributed to the establishment of a compliance structure.

(4) General Description of Limitation of Liability Agreement

No agreement exists that must be disclosed under this item.

V. Status of Accounting Auditor

1. Name of Accounting Auditor (as of March 31, 2012)
Ernst & Young ShinNihon LLC
2. General Description of Limitation of Liability Agreement
No agreement exists that must be disclosed under this item.
3. Amount of Remuneration and Others Payable to Accounting Auditor Attributable to Fiscal Year under Review
 - a. Amount of remuneration and others payable by the Company for the audit service as specified in Paragraph 1, Article 2 of the Certified Public Accountants Law
81 million yen
 - b. Total amount of monetary and other financial benefits payable by the Company and its Subsidiaries
120 million yen

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

4. Details of Non-audit Services
The Company pays the Accounting Auditor a retainer in consideration of its advice etc. on internal controls over financial reporting, which falls outside the scope of audit services specified in Paragraph 1, Article 2 of the Certified Public Accountants Law.
5. Retention of Audit Corporations Other Than Company's Accounting Auditor to Audit Financial Documents of Subsidiaries of the Company
Of the Company's Significant Subsidiaries, those employing an audit corporation (that may be an equivalent auditor qualified outside Japan) other than the Company's Accounting Auditor, to receive audit services (to the extent specified in the Corporations Law and in the Financial Instruments and Exchange Law [or in equivalent legislation applicable outside Japan]) are as follows: Shin-Etsu Handotai Co., Ltd.; Shin-Etsu Polymer Co., Ltd.; S.E.H. Malaysia Sdn. Bhd.; Shin-Etsu PVC B.V.; Shin-Etsu Engineering Co., Ltd.; SE Tylose GmbH & Co. KG; SHIN-ETSU HANDOTAI EUROPE LIMITED; and Shin-Etsu Astech Co., Ltd.
6. Policy for Determining the Dismissal or Non-reappointment of Accounting Auditor
The Company's policy states that, if the Accounting Auditor is found to meet the definition of one of the Items of Paragraph 1, Article 340 of the Corporations Law, subject to the consent of all Statutory Auditors, the Board of Statutory Auditors shall dismiss the Accounting Auditor. Outside the extent delineated above, upon the consent or request of the Board of Statutory Auditors, a proposal to dismiss or not to reappoint the Accounting Auditor may be submitted to the General Meeting of Shareholders, if the Company has a reason or need of its own to do so or if the Accounting Auditor is found to be no longer capable of performing its duties appropriately.

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

“The Group strictly complies with all laws and regulations, conducts fair business practices and contributes to people’s daily lives as well as to the advance of industry and society by providing key materials and technologies.” In accordance with the foregoing corporate tenet, the Board of Directors of the Company has resolved to carry out these principles 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 Auditing Department and other departments that are related to the contents of the audits will perform internal audits concerning the status of the operation of the compliance system.

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

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

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

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

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

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

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

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

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

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

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

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

In connection with the activities of the Company's subsidiaries, the Auditing 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 Auditing Department, and take other measures to facilitate collaboration with them.

10. System to cut ties with anti-social forces

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

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

Note: The above-described arrangements were originally adopted at the Board of Directors meeting held on May 15, 2006, and subsequently were amended in certain respects at the Board of Directors meeting held on February 16, 2012.

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 a PVC/Chlor-Alkali business, a silicones business, a specialty chemicals business, a semiconductor silicon business, an electronics & functional materials business and a diversified 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, and by performing fair corporate activities and by providing key materials and technologies, we contribute to people’s daily lives, industry and society. Through these contributions, we aim to meet the expectations of all shareholders by enhancing the worth of the company. Towards this end, our management policy is to pursue the world’s best technology and product quality, while at the same time continuing with unceasing improvements in productivity. We endeavor to build a stable business relationship with our customers around the world, and strive to appropriately respond to changes in the market and the economic situation.

② Policy Implementation

In the PVC business, the integrated manufacturing plant from electrolysis to PVC that was constructed by SHINTECH INC. in the U.S. is smoothly continuing its operations. While making use of the advantageous raw material situation in the U.S., Shin-Etsu will strive to capture the growing worldwide demand for PVC.

In the semiconductor silicon business, as the world’s largest silicon wafer manufacturer, we will stably supply to our customers high-quality products from Shin-Etsu’s multiple manufacturing bases, both those in Japan and overseas. In addition, we will make efforts aimed at the development and sale of silicon wafers for cutting-edge devices, and at the same time, we will undertake to streamline the business and achieve the strengthening of our competitive power.

In the silicones business, we will move forward with the development of new products and new applications by making the most of the characteristics of silicones, which have a wide range of application fields. At the same time, we will focus on further strengthening our business operations at our existing bases, not only in Japan but also in Thailand and the U.S., and endeavoring to make the new silicones plant in China, which is now under construction, a powerful bridgehead into the China market, as we strive to expand our global silicones business.

In the rare earth magnet business, in order to secure stable supplies of raw materials, we began construction of raw materials plants in China and Vietnam. In the future as well, we will assiduously work to stably procure raw materials and reduce the consumption volume of rare earths through the use of new manufacturing methods, and at the same time, we will strive to develop new products, focusing mainly on applications in hybrid automobiles and other energy saving-related products for which demand is expected to grow.

In other businesses, through the use of the new cellulose manufacturing plant for pharmaceutical-use products that began operations in Germany, the new optical fiber preform plant in China and the plant for manufacturing LED packaging materials that is scheduled to be constructed in Vietnam, we will strive to expand these businesses in global markets.

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

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

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

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

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

① Details of Large-scale Purchase Rule

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

(a) Provision of Necessary Information

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

(b) Setting of the Period of Assessment and Review

Second, the Board of Directors considers that, upon completion of the provision of the Necessary Information by the Large-scale Purchaser, sixty (60) days (in the case of the purchase of all of our shares by tender offer with cash-only (yen) consideration) or ninety (90) days (in the case of any other Large-scale Purchase), according to the degree of difficulty of assessment and review of the Large-scale Purchase, should be ensured as the period for assessment, review, negotiation, forming of opinions, and planning of alternative plans by the Board of Directors (hereinafter called the "Period of Assessment and Review by the Board of Directors"). Accordingly, a Large-scale Purchase shall commence only after the Period of Assessment and Review by the Board of Directors has elapsed. During the Period of Assessment and Review by the Board of Directors, the Board of Directors will sufficiently assess and review the Necessary Information while listening to opinions of independent outside professionals (professionals such as securities companies, investment banks, financial advisors, lawyers, certified public accountants and consultants), and will form and announce its opinions. Also, as is necessary, the Board of Directors may negotiate with the Large-scale Purchaser over the terms of the Large-scale Purchase and/or propose alternative plans to the Company's shareholders.

(c) Establishment and Structure of the Independent Committee

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

There shall be three (3) or more members of the Independent Committee, and to enable fair and neutral judgments, selection of the committee's members will be made from the Company's External Directors and External Statutory Auditors who are independent of the Managing Directors, and outside professionals such as lawyers, certified public accountants, certified tax accountants, academic experts, and business experts having broad administrative experience. At the Board of Directors meeting immediately following the conclusion of the 134th Ordinary General Meeting of Shareholders, Messrs. Toshihiko Fukui, Hiroshi Komiyama, Masashi Kaneko, and Tsuyoshi Miyazaki, four External Directors of the Company, were nominated and appointed to serve on the Independent Committee.

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

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

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

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

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

③ Effective Period of the Handling Policy, Etc.

The effective period of the Handling Policy will be up to the conclusion of the Company's 135th Ordinary General Shareholders' Meeting to be held in June 2012, and in the case the Handling Policy continues after such point of time, it will be conditional upon authorization with the approval of a majority of the voting rights of the shareholders present at the Company's Shareholders' Meeting. Also, even before the expiration of the effective period of the Handling Policy, in the event of a resolution by the Board of Directors to end the Handling Policy from the viewpoint such as an improvement of the common interests of the shareholders, the Handling Policy will end at that point of time.

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

① The Handling Policy is in Compliance with the Basic Policy

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

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

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

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

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

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

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

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

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

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

## CONSOLIDATED BALANCE SHEET

As of March 31, 2012 (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 -----                | 241,390           |
| Notes and accounts receivable-trade-----    | 264,283           |
| Securities -----                            | 89,301            |
| Merchandise and finished products-----      | 121,471           |
| Work in process -----                       | 9,386             |
| Raw materials and supplies -----            | 129,450           |
| Deferred taxes, current -----               | 34,599            |
| Other -----                                 | 59,344            |
| Less: Allowance for doubtful accounts ----- | <u>(6,982)</u>    |
| Total current assets                        | <u>942,244</u>    |

#### Fixed Assets:

##### Property, plant and equipment:

|                                |              |
|--------------------------------|--------------|
| Buildings and structures-----  | 156,403      |
| Machinery and equipment -----  | 330,707      |
| Land-----                      | 65,400       |
| Construction in progress ----- | 40,240       |
| Other -----                    | <u>5,807</u> |
|                                | 598,558      |

##### Intangible fixed assets:

|               |              |
|---------------|--------------|
| Goodwill----- | 9,020        |
| Other -----   | <u>4,566</u> |
|               | 13,587       |

##### Investments and other assets:

|                                             |                |
|---------------------------------------------|----------------|
| Investments in securities -----             | 154,161        |
| Long-term loans -----                       | 3,583          |
| Deferred taxes, non-current-----            | 19,937         |
| Other -----                                 | 77,786         |
| Less: Allowance for doubtful accounts ----- | <u>(17)</u>    |
|                                             | <u>255,451</u> |
| Total fixed assets                          | <u>867,596</u> |

|              |                  |
|--------------|------------------|
| TOTAL ASSETS | <u>1,809,841</u> |
|--------------|------------------|

## LIABILITIES

### Current Liabilities:

|                                       | (Millions of yen) |
|---------------------------------------|-------------------|
| Notes and accounts payable-trade----- | 109,378           |
| Short-term borrowings-----            | 13,862            |
| Accounts payable-other -----          | 32,011            |
| Accrued expenses -----                | 45,375            |
| Accrued income taxes -----            | 34,758            |
| Accrued bonuses for employees-----    | 1,887             |
| Accrued bonuses for directors-----    | 360               |
| Other -----                           | <u>9,807</u>      |
| Total current liabilities             | <u>247,441</u>    |

### Long-term Liabilities:

|                                               |               |
|-----------------------------------------------|---------------|
| Long-term debt -----                          | 1,454         |
| Deferred taxes, non-current-----              | 44,295        |
| Accrued retirement benefits -----             | 16,687        |
| Accrued retirement bonuses for directors----- | 421           |
| Other -----                                   | <u>4,967</u>  |
| Total long-term liabilities                   | <u>67,827</u> |

TOTAL LIABILITIES 315,268

## NET ASSETS

### Stockholders' Equity:

|                                     |                  |
|-------------------------------------|------------------|
| Common stock -----                  | 119,419          |
| Additional paid-in capital-----     | 128,177          |
| Retained earnings -----             | 1,435,693        |
| Less: Treasury stock, at cost ----- | <u>(40,925)</u>  |
| Total stockholders' equity          | <u>1,642,365</u> |

### Accumulated other comprehensive income:

|                                                                  |                  |
|------------------------------------------------------------------|------------------|
| Unrealized gains (losses) on available-for-sale securities ----- | 1,212            |
| Deferred gains (losses) on hedges -----                          | 25               |
| Foreign currency translation adjustments-----                    | <u>(190,249)</u> |
| Total accumulated other comprehensive income                     | <u>(189,011)</u> |

|                                                      |        |
|------------------------------------------------------|--------|
| Share subscription rights -----                      | 3,491  |
| Minority interests in consolidated subsidiaries----- | 37,727 |

TOTAL NET ASSETS 1,494,573

TOTAL LIABILITIES AND NET ASSETS 1,809,841

## CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31, 2012 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million)

|                                                                   | (Millions of yen)     |
|-------------------------------------------------------------------|-----------------------|
| Net sales -----                                                   | 1,047,731             |
| Cost of sales -----                                               | <u>798,592</u>        |
| Gross profit -----                                                | 249,138               |
| <br>                                                              |                       |
| Selling, general and administrative expenses -----                | <u>99,505</u>         |
| Operating income -----                                            | 149,632               |
| <br>                                                              |                       |
| Non-operating income:                                             |                       |
| Interest income -----                                             | 2,978                 |
| Dividend income -----                                             | 1,530                 |
| Equity in earnings of affiliates -----                            | 15,656                |
| Other income -----                                                | <u>4,775</u>          |
|                                                                   | 24,941                |
| <br>                                                              |                       |
| Non-operating expenses:                                           |                       |
| Interest expenses -----                                           | 517                   |
| Other expenses -----                                              | <u>8,819</u>          |
|                                                                   | <u>9,336</u>          |
| Ordinary income -----                                             | 165,237               |
| <br>                                                              |                       |
| Extraordinary income:                                             |                       |
| Reversal of restoration costs for earthquake -----                | <u>5,491</u>          |
|                                                                   | 5,491                 |
| <br>                                                              |                       |
| Extraordinary loss:                                               |                       |
| Loss on impairment -----                                          | 6,191                 |
| Loss on disaster -----                                            | 5,312                 |
| Provision of allowance for doubtful accounts -----                | <u>4,553</u>          |
|                                                                   | <u>16,057</u>         |
| Income before income taxes -----                                  | 154,671               |
| <br>                                                              |                       |
| Income taxes - current -----                                      | 56,417                |
| Income taxes - deferred -----                                     | <u>(2,259)</u>        |
|                                                                   | <u>54,157</u>         |
| Income before minority interests -----                            | 100,513               |
| <br>                                                              |                       |
| Minority interests in earnings of consolidated subsidiaries ----- | <u>(129)</u>          |
| Net income -----                                                  | <u><u>100,643</u></u> |

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended March 31, 2012 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million)

|                                                      | Stockholders' Equity |                            |                   |                         | (Millions of yen) |
|------------------------------------------------------|----------------------|----------------------------|-------------------|-------------------------|-------------------|
|                                                      | Common stock         | Additional paid-in capital | Retained earnings | Treasury stock, at cost | [Total]           |
| Balance as of April 1, 2011                          | 119,419              | 128,177                    | 1,376,043         | (40,917)                | 1,582,724         |
| Changes during the current year                      |                      |                            |                   |                         |                   |
| Cash dividends                                       | -                    | -                          | (42,459)          | -                       | (42,459)          |
| Net Income                                           | -                    | -                          | 100,643           | -                       | 100,643           |
| Change in scope of consolidation                     | -                    | -                          | 1,466             | -                       | 1,466             |
| Purchase of treasury stock                           | -                    | -                          | -                 | (9)                     | (9)               |
| Disposal of treasury stock                           | -                    | -                          | (0)               | 1                       | 1                 |
| Net changes of items other than stockholders' equity | -                    | -                          | -                 | -                       | -                 |
| Total changes during the current year                | -                    | -                          | 59,649            | (8)                     | 59,641            |
| Balance as of March 31, 2012                         | 119,419              | 128,177                    | 1,435,693         | (40,925)                | 1,642,365         |

|                                                      | Accumulated other comprehensive income                     |                                   |                                          |           | Share subscription rights | Minority interests in consolidated subsidiaries | Total Net Assets |
|------------------------------------------------------|------------------------------------------------------------|-----------------------------------|------------------------------------------|-----------|---------------------------|-------------------------------------------------|------------------|
|                                                      | Unrealized gains (losses) on available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustments | [Total]   |                           |                                                 |                  |
| Balance as of April 1, 2011                          | 3,275                                                      | 895                               | (160,087)                                | (155,916) | 3,822                     | 38,798                                          | 1,469,429        |
| Changes during the current year                      |                                                            |                                   |                                          |           |                           |                                                 |                  |
| Cash dividends                                       | -                                                          | -                                 | -                                        | -         | -                         | -                                               | (42,459)         |
| Net Income                                           | -                                                          | -                                 | -                                        | -         | -                         | -                                               | 100,643          |
| Change in scope of consolidation                     | -                                                          | -                                 | -                                        | -         | -                         | -                                               | 1,466            |
| Purchase of treasury stock                           | -                                                          | -                                 | -                                        | -         | -                         | -                                               | (9)              |
| Disposal of treasury stock                           | -                                                          | -                                 | -                                        | -         | -                         | -                                               | 1                |
| Net changes of items other than stockholders' equity | (2,063)                                                    | (869)                             | (30,162)                                 | (33,095)  | (330)                     | (1,070)                                         | (34,496)         |
| Total changes during the current year                | (2,063)                                                    | (869)                             | (30,162)                                 | (33,095)  | (330)                     | (1,070)                                         | 25,144           |
| Balance as of March 31, 2012                         | 1,212                                                      | 25                                | (190,249)                                | (189,011) | 3,491                     | 37,727                                          | 1,494,573        |

# 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-----77

#### Name of principal consolidated subsidiaries

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

#### (2) State of unconsolidated subsidiaries

#### Name of principal unconsolidated subsidiaries

Shin-Etsu Electronics (Malaysia) Sdn. Bhd.

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

There are 33 unconsolidated subsidiaries excluded from the scope of consolidation as their total assets, net sales, net income and retained earnings in the aggregate have minimal effect on the consolidated financial statements.

### 2. Application of equity method

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

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

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

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

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

#### Name of principal unconsolidated subsidiaries and affiliates

Shin-Etsu Electronics (Malaysia) Sdn. Bhd.

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

There are 33 unconsolidated subsidiaries and 10 affiliates excluded from the scope of the equity method as their net income and retained earnings in the aggregate have minimal effect on the consolidated financial statements.

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

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

3. Changes in scope of consolidation

Shin-Etsu Silicone International Trading (Shanghai) Co., Ltd., Shin-Etsu Silicone (Nantong) Co., Ltd. and Shin-Etsu (Jiangsu) Optical Preform Co., Ltd., which had been unconsolidated subsidiaries until the fiscal year ended March 31, 2011, were newly included in the scope of consolidation due to increased importance. Dongguan Shin-Etsu Polymer Co., Ltd. and SHIN-ETSU HANDOTAI SINGAPORE PTE. LTD., which were established during the fiscal year ended March 31, 2012, were also newly included in the scope of consolidation.

4. Fiscal year of consolidated subsidiaries

The fiscal year of SHINTECH INC., Shin-Etsu Handotai America, Inc. and 49 other subsidiaries ends on December 31, and the fiscal year of Nagano Electronics Industrial Co., Ltd., Naoetsu Electronics Co., Ltd. and 5 other subsidiaries ends at the end of February. For consolidation of subsidiaries whose fiscal year-ends are not in agreement with that of the Company, necessary adjustments are made on significant inter-company transactions which occurred during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

5. Significant accounting policies

(1) Valuation policy and method for significant assets

i) Valuation policy and method for securities:

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

Available-for-sale securities

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

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

ii) Valuation policy and method for derivatives:

Valued at fair value based on market quotation

iii) Valuation policy and method for inventories:

The cost of inventories is determined primarily by the weighted-average cost method. (The amount of the inventories presented on the balance sheet is calculated by writing them down based on any decrease in their profitability.)

(2) Depreciation and amortization of fixed assets:

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

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

Useful lives mainly adopted are as follows:

Buildings and structures ----- 15 – 47 years

Machinery and vehicles ----- 2 – 20 years

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

ii) Intangible fixed assets (excluding leased assets):

Straight-line method

iii) Leased assets:

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

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

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

(3) Calculation policy for allowances:

i) Allowance for doubtful accounts:

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

ii) Accrued bonuses for employees:

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

iii) Accrued bonuses for directors:

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

iv) Accrued retirement benefits:

The Company and certain consolidated subsidiaries accrued pension and severance costs for employees based on the estimates of the pension obligations and the plan assets at the end of the current fiscal year.

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

v) Accrued retirement bonuses for directors:

Certain domestic consolidated subsidiaries accrued the required amount for directors’ retirement bonuses, which was calculated based on an internal standard as of the end of the fiscal year.

(4) Other bases for presenting consolidated financial statements

i) Hedge accounting:

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



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

ii) Consumption tax:

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

6. Amortization method of goodwill

Straight-line method within 20 years

7. Application of the “Accounting Standard for Accounting Changes and Error Corrections”

Effective from April 1, 2011, the “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No.24, issued by the ASBJ on December 4, 2009) and the “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No.24 issued on December 4, 2009) have been applied for accounting changes and corrections of prior period errors.

**Notes to the consolidated balance sheet**

(Millions of yen)

|                                                                                  |           |
|----------------------------------------------------------------------------------|-----------|
| 1. Accumulated depreciation of property, plant and equipment-----                | 1,393,976 |
| 2. Contingent liabilities                                                        |           |
| Contingent liabilities for guarantees (employee’s housing loan and others) ----- | 25        |

**Notes to the consolidated statement of income**

1. (1) “Reversal of restoration costs for earthquake” within extraordinary income

This represents a gain on reversal of expenses estimated for restoration work on assets damaged due to the Great East Japan Earthquake in the fiscal year ended March 31, 2011.

(2) “Loss on disaster” within extraordinary loss

This represents losses from the stoppage of operations and others incurred during the first half of the fiscal year ended March 31, 2012 due to the Great East Japan Earthquake.

2. Loss on impairment of fixed assets

During the fiscal year ended March 31, 2012, the Shin-Etsu Group recognized impairment losses for the following asset category, recording a total of ¥6,191 million as extraordinary loss. The fixed assets are grouped according to managerial accounting categories, which are regarded as the smallest units independently generating cash flows. However, idle assets not directly used to manufacture goods are accounted for individually.

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

| Location                                                      | Use         | Asset category           | Impairment loss<br>(Millions of yen) |
|---------------------------------------------------------------|-------------|--------------------------|--------------------------------------|
| Shirakawa Plant (Nishishirakawa-gun,<br>Fukushima-Prefecture) | Idle assets | Construction in progress | 6,191                                |

The Shin-Etsu Group does not have any specific business plan for using the idle assets

above because of the change in climate of the semiconductor silicon business. As a result, the book value of the asset has been marked down to its recoverable amount, which is calculated as the net sale amount.

### Notes to the consolidated statement of changes in net assets

#### 1. Type and numbers of shares outstanding as of March 31, 2012

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

#### 2. Cash dividends

##### (1) Payment of cash dividends

| Resolution                                                     | Type of shares | Total amount of dividends | Cash dividends per share | Date of record     | Effective date    |
|----------------------------------------------------------------|----------------|---------------------------|--------------------------|--------------------|-------------------|
| Ordinary general meeting of shareholders held on June 29, 2011 | Common stock   | 21,229 million yen        | 50.00 yen                | March 31, 2011     | June 30, 2011     |
| Board of directors meeting held on October 27, 2011            | Common stock   | 21,229 million yen        | 50.00 yen                | September 30, 2011 | November 17, 2011 |
| Total                                                          | -              | 42,459 million yen        | -                        | -                  | -                 |

##### (2) Dividends with a record date in the fiscal year ended March 31, 2012 but with an effective date in the following fiscal year

The Company proposes the following agenda at the ordinary general meeting of shareholders which will be held on June 28, 2012.

| Type of shares | Total amount of dividends | Source of dividends | Cash dividends per share | Date of record | Effective date |
|----------------|---------------------------|---------------------|--------------------------|----------------|----------------|
| Common stock   | 21,229 million yen        | Retained earnings   | 50.00 yen                | March 31, 2012 | June 29, 2012  |

#### 3. Share subscription rights as of March 31, 2012

| Details of share subscription rights                                           | Type of shares subject to share subscription rights | Numbers of shares subject to share subscription rights |
|--------------------------------------------------------------------------------|-----------------------------------------------------|--------------------------------------------------------|
| Resolved at the ordinary general meeting of shareholders held on June 28, 2007 | Common stock                                        | 837,000 shares                                         |
| Resolved at the ordinary general meeting of shareholders held on June 27, 2008 | Common stock                                        | 217,000 shares                                         |
| Resolved at the board of directors meeting held on June 27, 2008               | Common stock                                        | 575,000 shares                                         |
| Resolved at the ordinary general meeting of shareholders held on June 26, 2009 | Common stock                                        | 252,000 shares                                         |
| Resolved at the board of directors meeting held on July 22, 2009               | Common stock                                        | 685,000 shares                                         |
| Resolved at the ordinary general meeting held on July 29, 2010                 | Common stock                                        | 272,000 shares                                         |

(Note) Excluding share subscription rights not yet exercisable as of March 31, 2012.

## Financial instruments

### 1. Overview of financial instruments

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

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

### 2. Fair value of financial instruments

As of March 31, 2012, book value, fair value and the difference between the two are as follows:

|                                                 | Millions of yen |            |            |
|-------------------------------------------------|-----------------|------------|------------|
|                                                 | Book value      | Fair value | Difference |
| Assets                                          |                 |            |            |
| (1) Cash and time deposits                      | 241,390         | 241,390    | -          |
| (2) Notes and accounts receivable-trade         | 264,283         | 264,283    | -          |
| (3) Securities and investments in securities    |                 |            |            |
| i) Bonds held to maturity                       | 15,043          | 15,119     | 75         |
| ii) Investments in capital stocks of affiliates | 21,822          | 11,105     | (10,716)   |
| iii) Other securities                           | 119,581         | 119,581    | -          |
| (4) Long-term loans                             | 3,583           | 3,811      | 228        |
| Total                                           | 665,704         | 655,291    | (10,412)   |
| Liabilities                                     |                 |            |            |
| (1) Notes and accounts payable-trade            | 109,378         | 109,378    | -          |
| (2) Short-term borrowings                       | 13,862          | 13,862     | -          |
| (3) Accounts payable-other                      | 32,011          | 32,011     | -          |
| (4) Accrued expenses                            | 45,375          | 45,375     | -          |
| (5) Accrued income taxes                        | 34,758          | 34,758     | -          |
| (6) Long-term debts                             | 1,454           | 1,449      | (4)        |
| Total                                           | 236,840         | 236,835    | (4)        |
| Derivative transactions                         |                 |            |            |
| Hedge accounting not applied                    | 1,124           | 1,124      | -          |
| Hedge accounting applied                        | (100)           | (100)      | -          |
| Total                                           | 1,024           | 1,024      | -          |

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

#### Assets

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

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

(3) Securities and investments in securities

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

(4) Long-term loans

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

#### Liabilities

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

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

(6) Long-term debts

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

#### Derivative transactions

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

(Note 2) Non-listed stocks (book value: ¥87,015 million) are not included in “(3) Securities and investments in securities,” as their fair value is recognized to be extremely difficult to calculate, with no market value available and no future cash flows being estimated.

#### Per share information

|                                         |          |
|-----------------------------------------|----------|
| Net assets per share stated in yen----- | 3,422.93 |
| Net income per share stated in yen----- | 237.03   |

## BALANCE SHEET (Non-Consolidated)

As of March 31, 2012 (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 -----                | 39,658            |
| Notes receivable -----                      | 6,911             |
| Accounts receivable-trade -----             | 179,568           |
| Securities -----                            | 70,499            |
| Merchandise and finished products -----     | 32,558            |
| Semi-finished products -----                | 22,139            |
| Raw materials and supplies -----            | 58,477            |
| Advance payments -----                      | 499               |
| Deferred taxes, current -----               | 23,462            |
| Short-term loans -----                      | 37,111            |
| Accounts receivable-other -----             | 47,478            |
| Other -----                                 | 2,098             |
| Less: Allowance for doubtful accounts ----- | (2,110)           |
| Total current assets                        | <u>518,355</u>    |

#### Fixed Assets:

##### Property, plant and equipment:

|                                     |                |
|-------------------------------------|----------------|
| Buildings -----                     | 35,776         |
| Structures -----                    | 3,597          |
| Machinery and equipment -----       | 43,285         |
| Vehicles -----                      | 78             |
| Tools, furniture and fixtures ----- | 1,875          |
| Land -----                          | 24,287         |
| Leased assets -----                 | 119            |
| Construction in progress -----      | 4,583          |
|                                     | <u>113,604</u> |

Intangible fixed assets ----- 1,312

##### Investments and other assets:

|                                                                    |                |
|--------------------------------------------------------------------|----------------|
| Investments in securities -----                                    | 63,668         |
| Investments in capital stocks of subsidiaries and affiliates ----- | 120,036        |
| Investments in partnerships -----                                  | 11             |
| Investments in partnerships of subsidiaries and affiliates -----   | 10,733         |
| Long-term loans -----                                              | 7,432          |
| Long-term prepaid expenses -----                                   | 54             |
| Deferred taxes, non-current -----                                  | 3,552          |
| Other -----                                                        | 3,072          |
| Less: Allowance for doubtful accounts -----                        | (10)           |
|                                                                    | <u>208,551</u> |
| Total fixed assets                                                 | <u>323,467</u> |

TOTAL ASSETS 841,823

## LIABILITIES

### Current Liabilities:

|                                    | (Millions of yen) |
|------------------------------------|-------------------|
| Accounts payable-trade-----        | 100,481           |
| Short-term borrowings-----         | 10,191            |
| Lease obligations-----             | 31                |
| Accounts payable-other-----        | 9,396             |
| Accrued income taxes-----          | 25,346            |
| Accrued expenses-----              | 16,971            |
| Advances received-----             | 60                |
| Deposits-----                      | 692               |
| Accrued bonuses for directors----- | 307               |
| Total current liabilities          | <u>163,479</u>    |

### Long-term Liabilities:

|                                       |              |
|---------------------------------------|--------------|
| Long-term debt-----                   | 1,159        |
| Lease obligations-----                | 96           |
| Long-term accounts payable-other----- | 1,402        |
| Accrued retirement benefits-----      | 3,316        |
| Asset retirement obligations-----     | 97           |
| Total long-term liabilities           | <u>6,072</u> |

TOTAL LIABILITIES 169,551

## 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-----            | 269             |
| Reserve for particular disaster prevention-----  | 27              |
| Reserve for reduction entry of fixed assets----- | 1,702           |
| Reserve for research-----                        | 88              |
| Reserve for dividend equalization-----           | 15              |
| Reserve for reduction entry of land-----         | 17              |
| General reserve-----                             | 351,137         |
| Retained earnings brought forward-----           | <u>108,873</u>  |
| Total retained earnings                          | <u>462,130</u>  |
| Total retained earnings                          | <u>468,908</u>  |
| Less: Treasury stock, at cost-----               | <u>(40,925)</u> |
| Total stockholders' equity                       | <u>668,174</u>  |

### Valuation and translation adjustments:

|                                                                 |     |
|-----------------------------------------------------------------|-----|
| Unrealized gains (losses) on available-for-sale securities----- | 853 |
|-----------------------------------------------------------------|-----|

|                                |       |
|--------------------------------|-------|
| Share subscription rights----- | 3,243 |
|--------------------------------|-------|

TOTAL NET ASSETS 672,272

TOTAL LIABILITIES AND NET ASSETS 841,823

## STATEMENT OF INCOME (Non-Consolidated)

For the year ended March 31, 2012 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million)

|                                                    | (Millions of yen)    |
|----------------------------------------------------|----------------------|
| Net sales -----                                    | 579,017              |
| Cost of sales -----                                | <u>463,800</u>       |
| Gross profit -----                                 | 115,216              |
| Selling, general and administrative expenses ----- | <u>35,109</u>        |
| Operating income -----                             | 80,107               |
| Non-operating income                               |                      |
| Interest income -----                              | 448                  |
| Dividend income -----                              | 6,235                |
| Other income -----                                 | <u>2,113</u>         |
|                                                    | 8,798                |
| Non-operating expenses                             |                      |
| Interest expenses -----                            | 224                  |
| Other expenses -----                               | <u>6,677</u>         |
|                                                    | <u>6,901</u>         |
| Ordinary income -----                              | 82,003               |
| Extraordinary income                               |                      |
| Reversal of restoration costs for earthquake ----- | <u>766</u>           |
|                                                    | 766                  |
| Extraordinary loss                                 |                      |
| Loss on disaster -----                             | 1,764                |
| Provision of allowance for doubtful accounts ----- | <u>1,730</u>         |
|                                                    | <u>3,494</u>         |
| Income before income taxes -----                   | 79,275               |
| Income taxes - current -----                       | 40,560               |
| Income taxes - deferred -----                      | <u>(10,320)</u>      |
|                                                    | <u>30,240</u>        |
| Net income -----                                   | <u><u>49,035</u></u> |

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

For the year ended March 31, 2012 (Amounts are stated in millions of yen by discarding fractional amounts of less than 1 million)

|                                                         | Stockholders' Equity |                                                                     |                             |                              |          | (Millions of yen)             |          |
|---------------------------------------------------------|----------------------|---------------------------------------------------------------------|-----------------------------|------------------------------|----------|-------------------------------|----------|
|                                                         | Common<br>stock      | Additional<br>paid-in<br>capital                                    | Retained earnings           |                              |          | Treasury<br>stock,<br>at cost | [Total]  |
|                                                         |                      | Capital<br>reserve                                                  | Legal<br>earned<br>reserves | Others*                      | [Total]  |                               |          |
| Balance as of April 1, 2011                             | 119,419              | 120,771                                                             | 6,778                       | 455,554                      | 462,332  | (40,917)                      | 661,606  |
| Changes during the current year                         |                      |                                                                     |                             |                              |          |                               |          |
| Cash dividends                                          | -                    | -                                                                   | -                           | (42,459)                     | (42,459) | -                             | (42,459) |
| Net Income                                              | -                    | -                                                                   | -                           | 49,035                       | 49,035   | -                             | 49,035   |
| Purchase of treasury stock                              | -                    | -                                                                   | -                           | -                            | -        | (9)                           | (9)      |
| Disposal of treasury stock                              | -                    | -                                                                   | -                           | (0)                          | (0)      | 1                             | 1        |
| Net changes of items other than<br>stockholders' equity | -                    | -                                                                   | -                           | -                            | -        | -                             | -        |
| Total changes during the current year                   | -                    | -                                                                   | -                           | 6,575                        | 6,575    | (8)                           | 6,567    |
| Balance as of March 31, 2012                            | 119,419              | 120,771                                                             | 6,778                       | 462,130                      | 468,908  | (40,925)                      | 668,174  |
|                                                         |                      | Valuation and<br>translation<br>adjustments                         |                             | Share subscription<br>rights |          | Total<br>Net Assets           |          |
|                                                         |                      | Unrealized<br>gains (losses) on<br>available-for-sale<br>securities |                             |                              |          |                               |          |
| Balance as of April 1, 2011                             |                      | 1,143                                                               |                             | 3,474                        |          | 666,225                       |          |
| Changes during the current year                         |                      |                                                                     |                             |                              |          |                               |          |
| Cash dividends                                          |                      | -                                                                   |                             | -                            |          | (42,459)                      |          |
| Net Income                                              |                      | -                                                                   |                             | -                            |          | 49,035                        |          |
| Purchase of treasury stock                              |                      | -                                                                   |                             | -                            |          | (9)                           |          |
| Disposal of treasury stock                              |                      | -                                                                   |                             | -                            |          | 1                             |          |
| Net changes of items other than<br>stockholders' equity |                      | (289)                                                               |                             | (230)                        |          | (520)                         |          |
| Total changes during the current year                   |                      | (289)                                                               |                             | (230)                        |          | 6,047                         |          |
| Balance as of March 31, 2012                            |                      | 853                                                                 |                             | 3,243                        |          | 672,272                       |          |



\* Breakdown of other retained earnings

|                                                         | (Millions of yen)                |                                            |                                             |                      |                                   |
|---------------------------------------------------------|----------------------------------|--------------------------------------------|---------------------------------------------|----------------------|-----------------------------------|
|                                                         | Reserve for special depreciation | Reserve for particular disaster prevention | Reserve for reduction entry of fixed assets | Reserve for research | Reserve for dividend equalization |
| Balance as of April 1, 2011                             | 14                               | 21                                         | 1,744                                       | 88                   | 15                                |
| Changes during the current year                         |                                  |                                            |                                             |                      |                                   |
| Cash dividends                                          | -                                | -                                          | -                                           | -                    | -                                 |
| Provision of reserve for special depreciation           | 259                              | -                                          | -                                           | -                    | -                                 |
| Reversal of reserve for special depreciation            | (4)                              | -                                          | -                                           | -                    | -                                 |
| Provision of reserve for particular disaster prevention | -                                | 6                                          | -                                           | -                    | -                                 |
| Reversal of reserve for reduction entry of fixed assets | -                                | -                                          | (42)                                        | -                    | -                                 |
| Net Income                                              | -                                | -                                          | -                                           | -                    | -                                 |
| Disposal of treasury stock                              | -                                | -                                          | -                                           | -                    | -                                 |
| Total changes during the current year                   | 254                              | 6                                          | (42)                                        | -                    | -                                 |
| Balance as of March 31, 2012                            | 269                              | 27                                         | 1,702                                       | 88                   | 15                                |

|                                                         | Reserve for reduction entry of land | General reserve | Retained earnings brought forward | Total    |
|---------------------------------------------------------|-------------------------------------|-----------------|-----------------------------------|----------|
| Balance as of April 1, 2011                             | 17                                  | 351,137         | 102,516                           | 455,554  |
| Changes during the current year                         |                                     |                 |                                   |          |
| Cash dividends                                          | -                                   | -               | (42,459)                          | (42,459) |
| Provision of reserve for special depreciation           | -                                   | -               | (259)                             | -        |
| Reversal of reserve for special depreciation            | -                                   | -               | 4                                 | -        |
| Provision of reserve for particular disaster prevention | -                                   | -               | (6)                               | -        |
| Reversal of reserve for reduction entry of fixed assets | -                                   | -               | 42                                | -        |
| Net Income                                              | -                                   | -               | 49,035                            | 49,035   |
| Disposal of treasury stock                              | -                                   | -               | (0)                               | (0)      |
| Total changes during the current year                   | -                                   | -               | 6,356                             | 6,575    |
| Balance as of March 31, 2012                            | 17                                  | 351,137         | 108,873                           | 462,130  |

## Notes to the Non-Consolidated Financial Statements

### Significant accounting policies

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

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

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

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

Valued at fair value based on market quotation

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

The cost of inventories is determined primarily by the weighted-average cost method. (The amount of the inventories presented on the balance sheet is calculated by writing them down based on any decrease in their profitability.)

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

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

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

Useful lives mainly adopted are as follows:

Buildings----- 15 – 31 years

Machinery and equipment ----- 2 – 9 years

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

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

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

##### (3) Leased assets:

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

3. Calculation policy for allowances:

Allowance for doubtful accounts:

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

Accrued bonuses for directors:

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

Accrued retirement benefits:

The Company accrued pension and severance costs for employees 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.

4. Other bases for presenting non-consolidated financial statements

(1) Hedge accounting:

The Company defers gains or losses on its hedges.

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

(2) Consumption tax:

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

5. Application of the "Accounting Standard for Accounting Changes and Error Corrections"

Effective from April 1, 2011, the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24, issued by the ASBJ on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 issued on December 4, 2009) have been applied for accounting changes and corrections of prior period errors.

**Notes to the non-consolidated balance sheet**

(Millions of yen)

|                                                                   |                     |
|-------------------------------------------------------------------|---------------------|
| 1. Accumulated depreciation of property, plant and equipment----- | 445,141             |
| 2. Contingent liabilities for guarantee                           |                     |
| Shin-Etsu Silicones (Thailand) Limited (Loans with banks) -----   | 458                 |
|                                                                   | (U.S. \$ 5,584,000) |
| Employee's housing loan and others -----                          | 13                  |
| <hr/>                                                             |                     |
| Total                                                             | 472                 |

3. Accounts receivable due from and payable due to subsidiaries and affiliates:

|                                      |         |
|--------------------------------------|---------|
| Short-term accounts receivable ----- | 138,493 |
| Long-term accounts receivable -----  | 7,177   |
| Short-term accounts payable -----    | 80,365  |

## Notes to the non-consolidated statement of income

|                                                                                                                                                                                  |                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| 1. Transactions with subsidiaries and affiliates:                                                                                                                                | (Millions of yen) |
| Sales -----                                                                                                                                                                      | 202,863           |
| Purchases -----                                                                                                                                                                  | 347,899           |
| Transactions of non-operating nature -----                                                                                                                                       | 34,033            |
| 2. (1) "Reversal of restoration costs for earthquake" within extraordinary income                                                                                                |                   |
| This represents a gain on reversal of expenses estimated for restoration work on assets damaged due to the Great East Japan Earthquake in the fiscal year ended March 31, 2011.  |                   |
| (2) "Loss on disaster" within extraordinary loss                                                                                                                                 |                   |
| This represents losses from the stoppage of operations and others incurred during the first half of the fiscal year ended March 31, 2012 due to the Great East Japan Earthquake. |                   |

## Notes to the non-consolidated statement of changes in net assets

Type and numbers of treasury stocks as of March 31, 2012

Common stock ----- 7,512,807 shares

## Deferred tax

Factors of deferred tax assets and liabilities:

|                                                            |                   |
|------------------------------------------------------------|-------------------|
|                                                            | (Millions of yen) |
| Deferred tax assets                                        |                   |
| Loss on valuation of stocks of subsidiaries and affiliates | 4,955             |
| Depreciation and amortization                              | 4,478             |
| Unsettled accounts receivable and payable                  | 4,328             |
| Accrued enterprise taxes                                   | 1,920             |
| Accrued bonus allowance                                    | 1,649             |
| Maintenance cost                                           | 1,622             |
| Others                                                     | 16,085            |
| Deferred tax assets subtotal                               | <u>35,039</u>     |
| Valuation allowance                                        | <u>(6,357)</u>    |
| Deferred tax assets total                                  | <u>28,681</u>     |
| Deferred tax liabilities                                   |                   |
| Reserve for reduction entry of fixed assets                | 1,015             |
| Unrealized gains/losses on available-for-sale securities   | 467               |
| Reserve for special depreciation                           | 157               |
| Reserve for reduction entry of land                        | 10                |
| Others                                                     | 15                |
| Deferred tax liabilities total                             | <u>1,666</u>      |
| Net deferred tax assets                                    | <u>27,015</u>     |

## Leased assets

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

## Per share information

|                                          |          |
|------------------------------------------|----------|
| Net assets per share stated in yen ----- | 1,575.69 |
| Net income per share stated in yen ----- | 115.49   |

(English Translation)

## Report of Independent Auditors

May 11, 2012

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

Ernst & Young ShinNihon LLC  
Hiroshi Saito, CPA  
Designated and Engagement Partner

Noritada Aizawa, 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 accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of Shin-Etsu Chemical Co., Ltd. (the "Company") applicable to the 135th fiscal year from April 1, 2011 through March 31, 2012.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Shin-Etsu Group, which consisted of the Company and consolidated subsidiaries, applicable to the 135th fiscal year ended March 31, 2012 in conformity with accounting principles generally accepted in Japan.

### *Conflicts of Interest*

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

(English Translation)

## Report of Independent Auditors

May 11, 2012

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

Ernst & Young ShinNihon LLC  
Hiroshi Saito, CPA  
Designated and Engagement Partner

Noritada Aizawa, 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 accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets, the notes to the financial statements and the related supplementary schedules of Shin-Etsu Chemical Co., Ltd. (the “Company”) applicable to the 135th fiscal year from April 1, 2011 through March 31, 2012.

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

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

### *Auditors’ Responsibility*

Our responsibility is to express an opinion on the financial statements and the related supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the related supplementary schedules are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of Shin-Etsu Chemical Co., Ltd. applicable to the 135th fiscal year ended March 31, 2012 in conformity with accounting principles generally accepted in Japan.

### *Conflicts of Interest*

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

## Audit Report of 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 135th fiscal year from April 1, 2011 to March 31, 2012, 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. The auditors fulfilled this duty primarily by receiving periodic reports from the Directors and employees and others on their progress in establishing and operating such structures and by requesting explanations from them as needed. They examined the substance of the Basic Policy and the specific procedures to be taken that are described in the Business Report as required under Item 3-(a) and Item 3-(b) of Article 118 of the Corporations Law Enforcement Regulations, respectively, based primarily on a review of the deliberations conducted at Board of Directors meetings and other meetings. With regard to the subsidiaries, the Statutory Auditors promoted communication and information sharing with the Directors, Statutory Auditors, and others of the subsidiaries, and received business reports from subsidiaries as needed. Based on the methodology above, the Board of Statutory Auditors examined the Business Report and its Annexed Schedules covering the fiscal year under review.

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

## 2. Results of Audits

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

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

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

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

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

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

May 15, 2012

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 135th 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; ¥21,229,694,300 in total.
3. Effective Date of Distribution of Retained Earnings  
June 29, 2012  
The Company has distributed an interim cash dividend of ¥50 per share for the current fiscal year; thus, the annual cash dividend for the current fiscal year will be the same amount as the distribution of the preceding fiscal year of ¥100 per share.

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

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

#### Candidates for Directors

| No. | Name<br>(Date of Birth)              | Number of<br>Company Shares<br>Held | Career Summary, Positions, Responsibilities, and Important<br>Positions in Other Entities                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----|--------------------------------------|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.  | Chihiro Kanagawa<br>(March 15, 1926) | 190,900 shares                      | Feb., 1962    Joined the Company<br>Dec., 1970    General Manager of<br>Overseas Business Div.<br>Jan., 1975    Director<br>Aug., 1976    Managing Director<br>Jan., 1979    Senior Managing Director<br>Aug., 1983    Representative Director and Executive Vice<br>President<br>Aug., 1990    Representative Director and President<br>June, 2010    Representative Director and Chairman (to date)<br>- Important Positions in Other Entities -<br>Director and Chairman of SHINTECH INC. |

| No. | Name<br>(Date of Birth)             | Number of<br>Company Shares<br>Held | Career Summary, Positions, Responsibilities, and Important<br>Positions in Other Entities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----|-------------------------------------|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.  | Shunzo Mori<br>(June 27, 1937)      | 34,550 shares                       | <p>Sept., 1963 Joined the Company</p> <p>May, 1985 Director of Shin-Etsu Engineering Co., Ltd.</p> <p>May, 1988 Managing Director of the above</p> <p>Jan., 1992 General Manager of Takefu Plant of the Company</p> <p>June, 1992 Director</p> <p>June, 1996 Managing Director</p> <p>June, 1998 Senior Managing Director</p> <p>July, 2007 Representative Director and Senior Managing Director</p> <p>June, 2009 Representative Director and Executive Vice President</p> <p>June, 2010 Representative Director and President (to date)</p>                                                                                     |
| 3.  | Fumio Akiya<br>(October 20, 1940)   | 6,300 shares                        | <p>Apr., 1964 Joined the Company</p> <p>Oct., 1997 General Manager, Technology Dept.</p> <p>June, 1998 Director</p> <p>June, 2000 Managing Director</p> <p>June, 2002 Senior Managing Director</p> <p>June, 2004 In charge of Advanced Materials and Technology (to date)</p> <p>July, 2007 Representative Director and Senior Managing Director</p> <p>Nov., 2008 In charge of Semiconductor Materials (to date)</p> <p>June, 2009 Representative Director and Executive Vice President (to date)</p> <p>- Important Positions in Other Entities -<br/>Representative Director and President of Shin-Etsu Handotai Co., Ltd.</p> |
| 4.  | Kiichi Habata<br>(March 21, 1941)   | 5,400 shares                        | <p>Apr., 1963 Joined the Company</p> <p>Aug., 1992 Deputy General Manager of Gunma Complex<br/>General Manager of Matsuida Plant</p> <p>June, 1996 Director</p> <p>June, 2004 In charge of Environmental Control &amp; Safety (to date)</p> <p>June, 2005 Managing Director (to date)</p> <p>June, 2007 In charge of Auditing (to date)</p> <p>June, 2010 In charge of General Affairs and Personnel &amp; Labor Relations (to date)</p>                                                                                                                                                                                          |
| 5.  | Masahiko Todoroki<br>(May 16, 1953) | 5,155 shares                        | <p>Apr., 1976 Joined the Company</p> <p>Jan., 2001 General Manager of Planning &amp; Administration Dept. of Semiconductor Division (to date)</p> <p>Apr., 2004 Director of Shin-Etsu Handotai Co., Ltd.</p> <p>June, 2006 Director</p> <p>June, 2009 Managing Director, Shin-Etsu Handotai Co., Ltd. (to date)</p> <p>June, 2010 Managing Director (to date)</p> <p>- Important Positions in Other Entities -<br/>Managing Director, Shin-Etsu Handotai Co., Ltd.</p>                                                                                                                                                            |

| No. | Name<br>(Date of Birth)                 | Number of<br>Company Shares<br>Held | Career Summary, Positions, Responsibilities, and Important<br>Positions in Other Entities                                                                                                                                                                                                                                                                                                                                                            |
|-----|-----------------------------------------|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6.  | Toshiya Akimoto<br>(June 5, 1959)       | 3,300 shares                        | Apr., 1982 Joined the Company<br>Sept., 2007 General manager of Office of the Secretariat (to date)<br>June, 2008 Director<br>June, 2010 Managing Director (to date)<br>In charge of Office of the President and Finance & Accounting (to date)                                                                                                                                                                                                      |
| 7.  | Masashi Kaneko<br>(March 2, 1939)       | 5,000 shares                        | Oct., 2001 Representative Director, Chairman and President of Nikko Cordial Corporation<br>June, 2005 Director and Chairman of the Board of Executive Officers of the above<br>June, 2006 Director (to date)<br>- Important Positions in Other Entities -<br>Director & Chairman of the Board, Ikyu Corporation                                                                                                                                      |
| 8.  | Hiroshi Komiyama<br>(December 15, 1944) | 300 shares                          | July, 1988 Professor, School of Engineering, The University of Tokyo<br>Apr., 2000 Dean of the Graduate School of Engineering, Dean of the School of Engineering, The University of Tokyo<br>Apr., 2005 President of National University Corporation, The University of Tokyo<br>June, 2010 Director (to date)<br>- Important Positions in Other Entities -<br>Chairman, Mitsubishi Research Institute, Inc.<br>External Director, JX Holdings, Inc. |
| 9.  | Fumio Arai<br>(September 15, 1958)      | 5,000 shares                        | Apr., 1981 Joined the Company<br>Mar., 2003 Director and President of Shin-Etsu PVC B.V. (to date)<br>Jan., 2004 Director and President of SE Tylose GmbH & Co. KG (to date)<br>June, 2004 Director (to date)<br>June, 2010 General Manager of Organic Chemicals Division (to date)<br>- Important Positions in Other Entities -<br>Director and President of Shin-Etsu PVC B.V.<br>Director and President of SE Tylose GmbH & Co. KG                |

- Notes:
1. There is no special interest between any of the above candidates and the Company.
  2. Mr. Masashi Kaneko is a candidate for External Director of the Company as defined in Item 15, Article 2 of the Corporations Law and a candidate for Independent Director of the Company provided for in the related rules and regulations of the Tokyo Stock Exchange, Inc. etc. Mr. Kaneko assumed the position of External Director of the Company in June 2006; his term of office as External Director of the Company will have reached six years as of the close of this General Meeting of Shareholders. During his term, Mr. Kaneko has provided the Company with useful advice from broad perspectives based on his management experience at the former Nikko Cordial Corporation, as well as adequate supervision from an independent standpoint. Consequently, in expectation of continued advice and supervision, Mr. Kaneko has been nominated as a candidate for the position.

3. Mr. Hiroshi Komiyama is a candidate for External Director of the Company as defined in Item 15, Article 2 of the Corporations Law and a candidate for Independent Director of the Company provided for in the related rules and regulations of the Tokyo Stock Exchange, Inc. etc. Mr. Komiyama assumed the position of External Director of the Company in June 2010; his term of office as External Director of the Company will have reached two years as of the close of this General Meeting of Shareholders. Mr. Komiyama, who has held, in succession, various important posts, including President of the University of Tokyo, has prominent knowledge of and abundant experience in a wide variety of fields including chemical technology, the global environment, resources, and energy. During his term with the Company, Mr. Komiyama has provided the Company with useful advice from broad perspectives based on his knowledge and experience, as well as adequate supervision from an independent standpoint. Consequently, in expectation of continued advice and supervision, Mr. Komiyama has been nominated as a candidate for the position.

3rd Agendum: Continuance of the Handling Policy (Anti-takeover Defensive Plan)  
toward Large-scale Purchase of the Company's Shares and Other Securities

Upon the approval of the 131st annual meeting of shareholders held on June 27, 2008, the Company introduced the current handling policy toward a Large-scale Purchase of the Company's shares and other securities (the "Handling Policy"). Subsequently, the Handling Policy has been adhered to with the approval of the annual meeting of shareholders. 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 17, 2012, 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. The proposed Handling Policy remains effectively the same in substance as the current Handling Policy, with the exception of modifications that are to be made where necessary. 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 a "PVC/Chlor-Alkali Business" which mainly produces and sells polyvinyl chloride, "Silicones Business" which mainly produces and sells silicones, "Specialty Chemicals Business" which mainly produces and sells cellulose derivatives, etc., "Semiconductor Silicon Business" which mainly produces and sells semiconductor silicon, "Electronics & Functional Materials Business" which mainly produces and sells rare earth magnets, photoresist products, synthetic quartz products, etc., and "Diversified Business" which mainly produces and sells processed plastics, 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, and by performing fair corporate activities and by providing key materials and technologies, we contribute to people's daily lives, industry and society. Through these contributions, we aim to meet the expectations of all shareholders by enhancing the worth of the company. Towards this end, our management policy is to pursue the world's best technology and product quality, while at the same time continuing with unceasing improvements in productivity. We endeavor to build a stable business relationship with our customers around the world, and strive to appropriately respond to changes in the market and the economic situation.

(2) Specific Measures

In the PVC business, the integrated manufacturing plant from electrolysis to PVC that was constructed by SHINTECH INC. in the U.S. is smoothly continuing its operations. While making use of the advantageous raw material situation in the U.S., Shin-Etsu will strive to capture the growing worldwide demand for PVC.

In the semiconductor silicon business, as the world's largest silicon wafer manufacturer, we will stably supply to our customers high-quality products from Shin-Etsu's multiple manufacturing bases, both those in Japan and overseas. In addition, we will make efforts aimed at the development and sale of silicon wafers for cutting-edge devices, and at the same time, we will undertake to streamline the business and achieve the strengthening of our competitive power.

In the silicones business, we will move forward with the development of new products and new applications by making the most of the characteristics of silicones, which have a wide range of application fields. At the same time, we will focus on further strengthening our business operations at our existing bases, not only in Japan but also in Thailand and the U.S., and endeavoring to make the new silicones plant in China, which is now under construction, a powerful bridgehead into the China market, as we strive to expand our global silicones business.

In the rare earth magnet business, in order to secure stable supplies of raw materials, we began construction of raw materials plants in China and Vietnam. In the future as well, we will assiduously work to stably procure raw materials and reduce the consumption volume of rare earths through the use of new manufacturing methods, and at the same time, we will strive to develop new products, focusing mainly on applications in hybrid automobiles and other energy saving-related products for which demand is expected to grow.

In other businesses, through the use of the new cellulose manufacturing plant for pharmaceutical-use products that began operations in Germany, the new optical fiber preform plant in China and the plant for manufacturing LED packaging materials that is scheduled to be constructed in Vietnam, we will strive to expand these businesses in global markets.

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

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

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

### 3. Details of the Handling Policy

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

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

The Handling Policy fulfills all three (3) principles provided in the "Guidelines Regarding Takeover Defense for the Purposes of Protection and Enhancement of Corporate Value and Shareholders' Common Interests", which was released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005; namely, the principle of protecting and enhancing corporate value and shareholders' common interests, the principle of prior disclosure and shareholders' will, and the principle of ensuring the necessity and reasonableness of defensive measures. The Handling Policy also conforms with the contents of the "Takeover

Defense Measures in Light of Recent Environmental Changes” released by the Corporate Value Study Group, set up by the Ministry of Economy, Trade and Industry on June 30, 2008.

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

Note 2: A specific group of shareholders means:

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

Note 3: A ratio of voting rights means:

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

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

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

##### (a) Provision of Necessary Information

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

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

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

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

(b) Setting of the Period of Assessment and Review

Secondly, the Board of Directors considers that, upon completion of provision of the Necessary Information by the Large-scale Purchaser, sixty (60) days (in the case of the purchase of all of our shares by tender offer with cash-only (yen) consideration) or ninety (90) days (in the case of any other Large-scale Purchase), according to the degree of difficulty of assessment and review of the Large-scale Purchase, should be ensured as the period for assessment, review, negotiation, forming of opinions, and planning of alternative plans by the Board of Directors (the "Period of Assessment and Review by the Board of Directors"). Accordingly, a Large-scale Purchase shall commence only after the Period of Assessment and Review by the Board of Directors has elapsed. During this Period of Assessment and Review by the Board of Directors, the Board of Directors will sufficiently assess and review the Necessary Information while listening to opinions of independent outside professionals (professionals such as securities companies, investment banks, financial advisors, lawyers, certified public accountants and consultants), and will form and announce its opinions. Also, as is necessary, the Board of Directors may negotiate with the Large-scale Purchaser over the terms of the Large-scale Purchase and/or propose alternative plans to the Company's shareholders. As a result, shareholders will be able to review the proposals by the Large-scale Purchaser while referring to the opinions of the Board of Directors, and if alternative plans are proposed by the Board of Directors, a comparative review of such alternative plans and the proposals by the Large-scale Purchaser shall be possible, and an opportunity to make an appropriate decision in respect of eventual acceptance or non-acceptance will be provided.

(2) Establishment and Structure of the Independent Committee

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

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

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



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

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

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

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

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

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

If a Large-scale Purchaser complies with the Large-scale Purchase Rules, as a general rule, countermeasures against the Large-scale Purchase will not be taken. Whether or not to accept the purchasing proposal made by the Large-scale Purchaser shall be judged by the Company's shareholders in view of such purchasing proposal, opinions presented by the Company regarding such purchasing proposal, and alternative plans, etc. Even if a Large-scale Purchaser complies with the Large-scale Purchase Rules, however, in the event that such Large-scale Purchase is judged to be significantly damaging the Company's corporate value and/or the common interests of the shareholders, as described in Attachment 1, the Board of Directors may, based on the duty of care of a good manager, take measures as deemed appropriate for protecting the Company's corporate value and/or the common interests of the shareholders. Such action by the Board of Directors against a Large-scale Purchase is to be made for exceptional cases. In order to secure the objectivity and rational judgment, the Board of Directors will, based on the Necessary Information provided by the Large-scale Purchaser, make judgment upon reviewing such Large-scale Purchaser and the specific details of such Large-scale Purchase (such as the purpose, method, subject, amount and type of purchasing value) as well as the effects, etc. of such Large-scale Purchase upon the Company's corporate value and/or the common interests of the shareholders, while listening to opinions of independent outside professionals (professionals such as securities companies, investment banks, financial advisors, lawyers, certified public accountants and consultants) and also, to the maximum extent possible, respecting the advice of the Independent Committee.

(c) Cancellation, etc. of Exercise of Countermeasures

In the event that the board of directors judges that exercise of the countermeasure is not appropriate, such as in the case where, after the board of directors has resolved to take a countermeasure mentioned in (3)(a) above or an exceptional action mentioned in (3)(b) above, the Large-scale Purchaser retracts or changes its Large-scale Purchase, etc., the board of directors may, while respecting the advice of the Independent Committee to the maximum extent possible, cancel or change the exercise of the countermeasure.

For example, if, following a decision to issue stock acquisition rights by the method of gratuitous allotment to stockholders as a countermeasure and after confirming the stockholders who will receive such stock acquisition rights, the board of directors judges that exercise of the countermeasure is no longer appropriate, the board of directors may cancel the exercise of the countermeasure, as follows:

- (i) prior to the effective day of the issue of stock acquisition rights by the method of gratuitous allotment to stockholders, by cancelling the issue of stock acquisition rights, and
- (ii) during the period from the date of issue of acquisition rights by the method of gratuitous allotment to stockholders to the commencement of the exercise term of such stock acquisition rights, by our company acquiring such stock acquisition rights for no consideration.

(4) Resolution, etc. by the Board of Directors

The board of directors will finally resolve whether or not to take a countermeasure promptly after completion of the Period of Assessment and Review by the Board of Directors, and also, in the event that the board of directors makes cancellation, etc. of exercise of countermeasures as stated in (3)(c), it will immediately disclose the contents of the resolution.

(5) 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 Purchase 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, for example, upon selecting the issue of stock acquisition rights by the method of gratuitous allotment to stockholders as a countermeasure, in the case that, after the stockholders who will receive stock acquisition rights by the method of gratuitous allotment to stockholders are confirmed, the issuance of stock acquisition rights is canceled, or the stock acquisition rights issued are acquired by our company for no consideration (please see (3)(c) above), dilution of the value per stock will not take place, and damage may be incurred due to fluctuations in the value of shares by our company's stockholders 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 (6), 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.

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

(a) Issuance of Stock Acquisition Rights

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

(b) Procedures for Exercising Stock Acquisition Rights

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

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

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

The effective period of the Handling Policy will be up to the conclusion of the Company's 136th annual shareholders' meeting to be held in June 2013, 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 10 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 for 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 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 (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                      |
| June, 2009 | External Director of the Company (to date) |

Hiroshi Komiyama

Date of Birth : December 15, 1944

|            |                                                                                                        |
|------------|--------------------------------------------------------------------------------------------------------|
| July, 1988 | Professor, School of Engineering, The University of Tokyo                                              |
| Apr., 2000 | Dean of the Graduate School of Engineering, Dean of the School of Engineering, The University of Tokyo |
| Apr., 2005 | President of National University Corporation, The University of Tokyo                                  |
| June, 2010 | External Director of the Company (to date)                                                             |

Masashi Kaneko

Date of Birth : March 2, 1939

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

Tsuyoshi Miyazaki

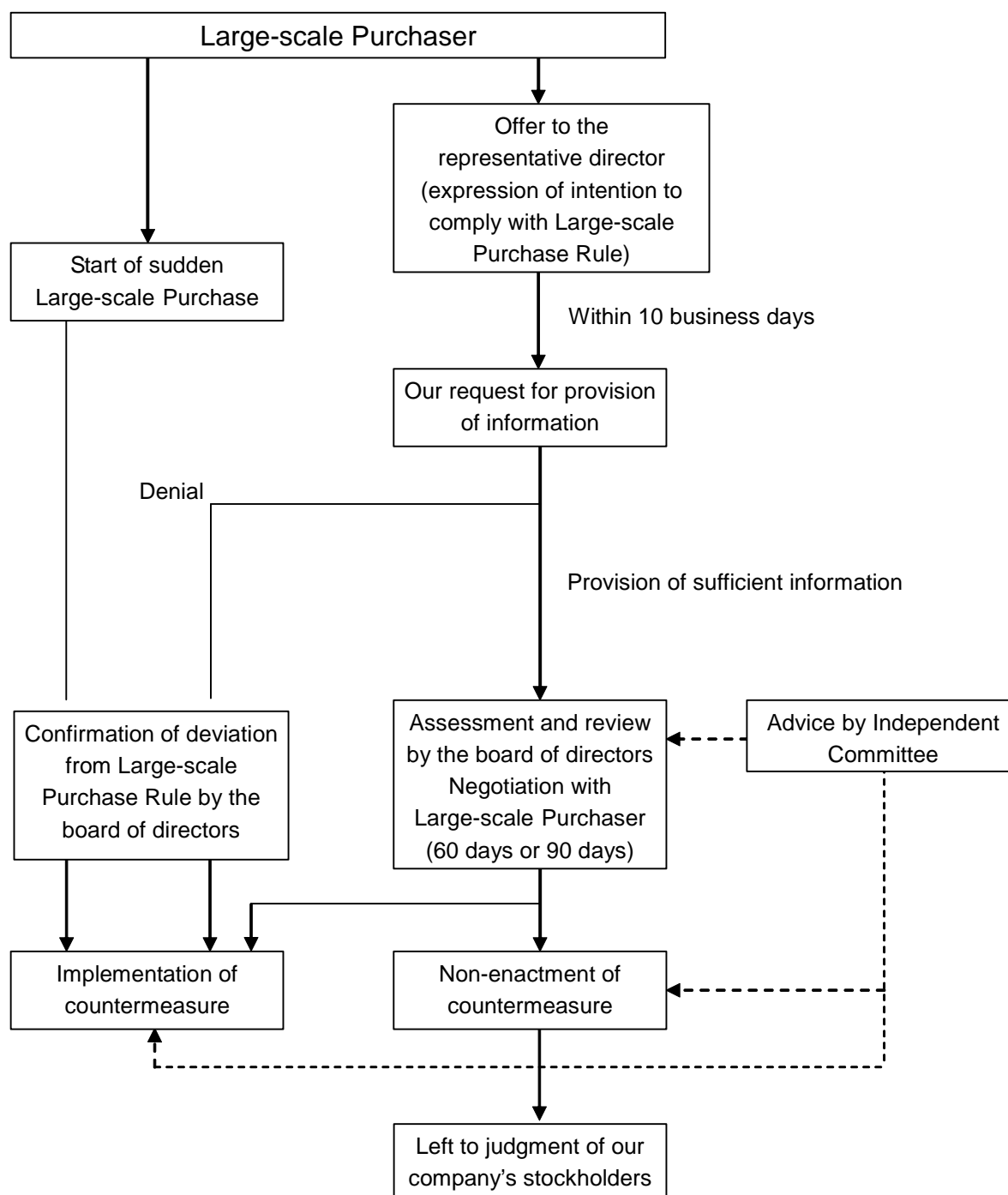
Date of Birth : December 16, 1931

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

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



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 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.