

This English language translation is prepared for reference only. In the event of any discrepancy between the text of this translation and the text of the original Japanese-language, the Japanese language text will prevail.

(Translation)

(Securities Code 4063)

June 5, 2013

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

Notice of Convocation of the 136th
Ordinary General Meeting of Shareholders

Dear Shareholder:

You are hereby notified that the 136th 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 26, 2013.

Description of Meeting

1. Date and Time : June 27, 2013 (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 Audit & Supervisory Board on the Consolidated Financial Statements for the 136th fiscal year (April 1, 2012 through March 31, 2013)
2. Report on the Financial Statements for the 136th fiscal year (April 1, 2012 through March 31, 2013)
- Matters to be resolved:
1st Agendum : Distribution of Retained Earnings to Shareholders
2nd Agendum : Election of Fourteen (14) Directors
3rd Agendum : Election of One (1) Audit & Supervisory Board Member
4th 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

-
- ◎ 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>).

**Notice of Convocation of the 136th
Ordinary General Meeting of Shareholders**

Table of Contents

Annex

Business Report

I. Matters Concerning the Current State of the Company's Group	1
II. Matters Concerning Stock in the Company	10
III. Matters Concerning Stock Acquisition Rights Issued by the Company	11
IV. Matters Concerning Directors and Audit & Supervisory Board Members of the Company	13
V. Status of Accounting Auditor	18
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	19
VII. Basic Policy Regarding Control of the Company	21

Consolidated Financial Statements

Consolidated Balance Sheet	26
Consolidated Statement of Income	28
Consolidated Statement of Changes in Net Assets	29
Notes to the Consolidated Financial Statements	30

Financial Statements (Non-Consolidated)

Balance Sheet (Non-Consolidated)	37
Statement of Income (Non-Consolidated)	39
Statement of Changes In Net Assets (Non-Consolidated)	40
Notes to the Non-Consolidated Financial Statements	42

Audit Reports

Audit Report of Accounting Auditor on the Consolidated Financial Statements	46
Audit Report of Accounting Auditor on the Financial Statements (Non-Consolidated)	47
Audit Report of Audit & Supervisory Board	48

Reference Documents for Exercising Voting Rights

Agenda and Reference Materials

1st Agendum: Distribution of Retained Earnings to Shareholders	50
2nd Agendum: Election of Fourteen (14) Directors	50
3rd Agendum: Election of One (1) Audit & Supervisory Board Member	55
4th Agendum: Continuance of the Handling Policy (Anti-takeover Defensive Plan) toward Large-scale Purchase of the Company's Shares and Other Securities	56

BUSINESS REPORT
(April 1, 2012 through March 31, 2013)

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 (April 1, 2012 to March 31, 2013), although a gradual recovery continued in the U.S., there was sluggishness in the European economy due to Europe's financial problems, as well as a slowdown in economic growth in emerging markets such as China. As a whole, a deceleration trend continued in the world economy. On the other hand, with regard to the Japanese economy, although some encouraging signs have been seen since the start of the New Year, due in part to such affects as the slowdown of the world economy, overall, the severe situation of the Japanese economy continued.

Under these circumstances, the Shin-Etsu Group worked aggressively to carry out sales activities to its wide range of customers around the world, and at the same time, we assiduously worked on the development of new products in addition to enhancing our technology and product quality. Furthermore, we endeavored to build a strong business foundation by, for example, turning our new global plants into an advantageous strategic asset at an early stage, and by focusing on stably securing raw materials.

As a result, the net sales for the Company's group for this consolidated fiscal year decreased by 2.1% (22,322 million yen) compared with the previous fiscal year to 1,025,409 million yen. Compared to the performance of the previous fiscal year, operating income increased by 5.0% (7,411 million yen) to 157,043 million yen, ordinary income increased by 3.0% (4,970 million yen) to 170,207 million yen and, net income increased by 5.0% (5,071 million yen) to 105,714 million yen.

The business operations of each division were as follows.

PVC/Chlor-Alkali

With regard to the PVC business, although the recovery in demand in the U.S. remained at a low level, SHINTECH in the U.S. maintained a high level of shipments by expanding sales to its customers worldwide, starting with its customers in Central and South America, and its business performance increased greatly. Shin-Etsu PVC in the Netherlands also maintained its good shipments. On the other hand, the tough business situation in Japan continued due in part to sluggish demand and the effect of the increase in price of raw materials.

As a result of the foregoing, this division's total sales increased by 6.1% (19,667 million yen) from the previous fiscal year to 343,697 million yen, and operating income increased by 92.6% (21,901 million yen) to 45,552 million yen.

Silicones

With regard to the silicones business, sales in Japan were firm for product applications for the cosmetics field. However, sales of product applications for the automobile field were sluggish from the latter half of FY2013. In addition, sales of product applications for electronic equipment generally continued to be slow. On the other hand, in our silicones business outside of Japan, the business was strongly affected by a slump in market prices in the Asian region, such as in China.

As a result of the foregoing, this division's total sales decreased by 4.7% (6,432 million yen) from the previous fiscal year to 129,029 million yen, and operating income decreased by 15.0% (5,044 million yen) to 28,643 million yen.

Specialty Chemicals

With regard to cellulose derivatives, in Japan, this business continued to do well mainly in products for building and construction applications and for pharmaceutical-use, and in addition, the business of SE Tylose in Germany also continued to be firm, mainly in coating applications. The silicon metal business of Simcoa Operations in Australia was affected by the sluggish market for silicon metal.

As a result of the foregoing, this division's total sales decreased by 4.1% (3,601 million yen) from the previous fiscal year to 83,526 million yen, and operating income decreased by 1.6% (231 million yen) to 14,467 million yen.

Semiconductor Silicon

With regard to semiconductor silicon, although the demand for some cutting-edge semiconductor devices, such as smartphones and tablet PCs, remained strong, demand for consumer electronics products such as PCs and flat-panel TVs continued to be slow, and a severe business situation continued.

As a result of the foregoing, this division's total sales decreased by 11.8% (27,190 million yen) from the previous fiscal year to 202,466 million yen, and operating income decreased by 36.1% (12,396 million yen) to 21,937 million yen.

Electronics & Functional Materials

With regard to the rare earth magnets business, although shipments of products for applications such as for hard disk drives and air-conditioners continued to be slow, shipments of products for applications for automobiles were strong, starting with hybrid vehicles. The photoresist products business continued to be good, aided by the progress in semiconductor device miniaturization. The business of materials for LED packaging continued to be firm. Shipments of optical fiber preform continued to be robust by the operations of our new plant in China as well as by the continued strong demand.

As a result of the foregoing, this division's total sales increased by 2.8% (4,989 million yen) from the previous fiscal year to 182,781 million yen, and operating income increased by 7.1% (2,692 million yen) to 40,863 million yen.

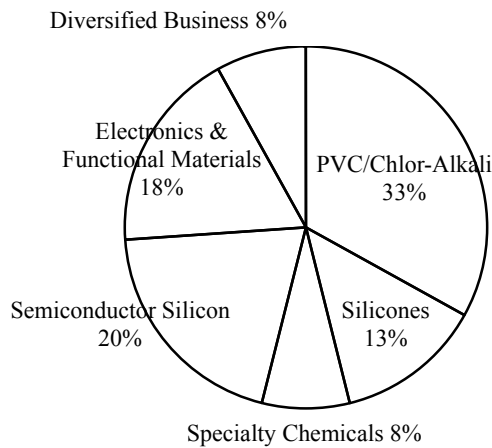
Diversified Business

Shin-Etsu Polymer Co., Ltd.'s business of keypads for automobile applications remained steady. However, the company's business of semiconductor wafer-related containers continued to be slow due to sluggish demand for semiconductor devices.

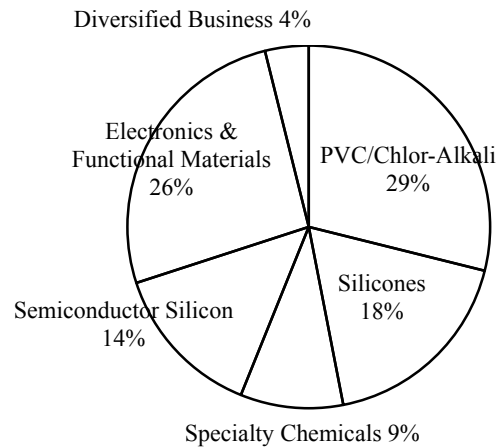
As a result of the foregoing, this division's total sales decreased by 10.4% (9,756 million yen) from the previous fiscal year to 83,907 million yen and operating income increased by 11.3% (569 million yen) to 5,601 million yen.

(Reference Data)

Divisional Breakdown of Consolidated Net Sales



Divisional Breakdown of Consolidated Operating Income



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

The Company's group invested 83,018 million yen during this consolidated fiscal year mainly in the following:

Major facilities completed during this consolidated fiscal year:

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

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

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

Construction of a cellulose manufacturing plant (SE Tylose USA, Inc.)

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 the world economy is expected to move in the direction of gradual recovery, the situation of the world economy remains uncertain because of such issues as concerns about the effects of Europe's financial problems. In Japan as well, although a recovery in the economy is expected, the situation is such that it does not allow for optimism because of concerns about the future employment situation and the effects of the world economy's downward movement.

Facing such situations, the Shin-Etsu Group will utilize the Group's overall strengths to expand its aggressive sales activities to a wide range of customers worldwide. Moreover, we will focus on enhancing productivity and product quality, and at the same time, we will cultivate new demand through the development of products that have special characteristics. Furthermore, we will aim to build a strong business foundation, by accelerating global business development by constructing manufacturing bases at optimal locations, and at the same time, by striving to assure the stable securing of raw materials.

In the PVC business, we will further strengthen our position as the world's largest PVC manufacturer by making use of our advantageous raw materials situation in the U.S. and the integrated manufacturing plant from electrolysis to PVC that was constructed by SHINTECH in the U.S. as well as by our sales strategies that accurately grasp global trends in demand.

In the semiconductor silicon business, as the world's largest silicon wafer manufacturer, going forward we will continue to strive to assure a stable supply of high-quality products from our multiple manufacturing bases both in Japan and overseas, and we will meet the increase in demand for devices which comes with the expanding market for smartphones and tablet PCs in an appropriate manner. At the same time, we will focus on the development and sales of silicon wafers for cutting-edge devices and strive to strengthen our competitive power in these cutting-edge fields.

In the silicones business, by utilizing its product characteristics that have various applications in a wide range of industrial fields, we will accelerate the development of high-value added new products. We will strive to expand our silicones business not only in Japan but also overseas by endeavoring to make the new silicone plant in China

into a pioneering strategic base at an early stage and by focusing on further strengthening of our business operations at our existing bases, such as those in Thailand and the U.S.

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

In the cellulose business, following the cellulose manufacturing plant for pharmaceutical-use products that began operations in Germany, we are constructing a cellulose manufacturing plant for coating-use products in the U.S. In the future as well, we will work to strengthen this overseas business and to build up a stable supply system by dispersing our manufacturing bases.

In other businesses, through the use of the new plant for manufacturing optical fiber preform in China and the new plant for manufacturing LED packaging materials in Vietnam, we will strive to leap forward in the global markets.

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

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	133rd Fiscal Year	134th Fiscal Year	135th Fiscal Year	136th Fiscal Year
Net Sales (Million Yen)	916,837	1,058,257	1,047,731	1,025,409
Net Income (Million Yen)	83,852	100,119	100,643	105,714
Net Income per Share (Yen)	197.53	235.80	237.03	248.94
Net Assets (Million Yen)	1,474,212	1,469,429	1,494,573	1,623,176
Total Assets (Million Yen)	1,769,139	1,784,166	1,809,841	1,920,903

Note: In the 135th and 136th fiscal years, 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, 2013)

(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	53.0 (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
KASHIMA VINYL CHLORIDE MONOMER COMPANY LIMITED	¥1,500M	70.6	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. The holding ratios are computed net of any treasury shares held.

Note 2: Kashima Chlorine & Alkali Co., Ltd. and KASHIMA VINYL CHLORIDE MONOMER COMPANY LIMITED have been operated as joint ventures of the Company with Asahi Glass Company, Limited, ADEKA CORPORATION, KANEKA CORPORATION, and Mitsubishi Chemical Corporation. These two operations have now been reorganized as subsidiary companies of the Company as a result of the Company's additional acquisition of their stock. Accordingly, from this consolidated fiscal year, the Company has reclassified KASHIMA VINYL CHLORIDE MONOMER COMPANY LIMITED, previously a major affiliated company, as a major subsidiary company of the Company.

(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	42.1 (1.1)	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

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

Note 2: From this consolidated fiscal year, the Company has reclassified KASHIMA VINYL CHLORIDE MONOMER COMPANY LIMITED, previously a major affiliated company, as a major subsidiary company of the Company.

(3) Results of Consolidation

For this consolidated fiscal year, there are 87 consolidated subsidiaries etc. and 4 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 1,025,409 million yen (down by 2.1% from the previous fiscal year), and the net income amounted to 105,714 million yen (up by 5.0% from the previous fiscal year).

6. Major Lines of Business of the Company's Group (as of March 31, 2013)

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, 2013)

(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); Naoetsu Electronics Co., Ltd. (Niigata Prefecture); and KASHIMA VINYL CHLORIDE MONOMER COMPANY LIMITED (Ibaraki 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, 2013)

(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	1,250	+116
Silicones	1,950	+76
Specialty Chemicals	1,177	+28
Semiconductor Silicon	4,626	-157
Electronics & Functional Materials	3,291	+632
Diversified Business	5,418	+850
Total	17,712	+1,545

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
2,692	-3	42.3	20.5

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, 2013)

Name of Lender	Outstanding Borrowings (Million Yen)
Nippon Life Insurance Company	3,600
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,638
Meiji Yasuda Life Insurance Company	2,300
The Hachijuni Bank, Ltd.	2,060

II. Matters Concerning Stock in the Company (as of March 31, 2013)

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: 58,910

Note: The total number of issued shares includes 7,190,226 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)	37,667	8.9
Japan Trustee Services Bank, Ltd. (Trust Account)	29,538	7.0
Nippon Life Insurance Company	24,370	5.7
The Hachijuni Bank, Ltd.	11,790	2.8
Japan Trustee Services Bank, Ltd. (Trust Account 4)	11,330	2.7
Meiji Yasuda Life Insurance Company	10,687	2.5
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	8,975	2.1
STATE STREET BANK AND TRUST COMPANY 505225	6,773	1.6
THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	5,889	1.4
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	5,474	1.3

Note: The Company, which owns 7,190,226 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, 2013)

(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
7th Issue of Stock Acquisition Rights (for Distribution to Directors) (07/14/2008)	5,600	560,000 shares of Common Stock in the Company	943	6,755	July 15, 2009 through March 31, 2013	Directors (excluding Outside Directors) of Company
7th Issue of Stock Acquisition Rights (for Distribution to Employees) (07/14/2008)	2,080	208,000 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)	5,343	534,300 shares of Common Stock in the Company	1,235	4,804	August 7, 2010 through March 31, 2014	Directors (excluding Outside Directors) of Company
8th Issue of Stock Acquisition Rights (for Distribution to Employees) (08/06/2009)	2,065	206,500 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)	1,495	149,500 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)	2,570	257,000 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 each issue are outlined below:

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

Note 2: 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 Audit & Supervisory Board Members of the Company

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

	Chronological Number of Issue	Number of Stock Acquisition Rights	Number of Optionees
Directors (Excluding Outside Directors)	7th Issue of Stock Acquisition Rights	5,700	17
	8th Issue of Stock Acquisition Rights	5,343	17

Note: The above figures include the stock acquisition rights distributed to employees of the Company before appointment of a director.

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

No stock acquisition rights (stock options) were issued for distribution to employees during the fiscal year under review.

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

1. Name and Other Information Concerning Directors and Audit & Supervisory Board Members (as of March 31, 2013)

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.
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. Representative Director & President, KASHIMA VINYL CHLORIDE MONOMER COMPANY LIMITED
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.

Title	Name	Responsibilities, Important Concurrent Positions, etc.
Full-time Audit & Supervisory Board Member	Osamu Okada	
Audit & Supervisory Board Member	Masahiko Watase	
Audit & Supervisory Board Member ²	Taku Fukui	Lawyer Managing Partner, Kashiwagi Sogo Law Offices
Audit & Supervisory Board Member ²	Yoshihito Kosaka	C.P.A./Certified Public Tax Accountant Representative Partner, Grant Thornton Taiyo ASG Representative Partner, HIYU Certified Tax Accountants' Corporation
Audit & Supervisory Board Member ²	Kiyoshi Nagano	

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

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

3. Mr. Toshihiko Fukui, Outside Director, serves in a concurrent role at the Canon Institute for Global Studies, a general incorporated foundation; however, the Company has no special relationship with that foundation. Mr. Hiroshi Komiyama, Outside Director, serves in a concurrent role at Mitsubishi Research Institute, Inc.; however, the Company has no special relationship with that company. Mr. Taku Fukui, Audit & Supervisory Board Member, serves in a concurrent role at the Kashiwagi Sogo Law Offices; however, the Company has no special relationship with that firm. Mr. Yoshihito Kosaka, Audit & Supervisory Board Member, serves in concurrent roles at the Grant Thornton Taiyo ASG and HIYU Certified Tax Accountants' Corporation; however, the Company has no special relationship with either of these organizations.

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

5. Mr. Yoshihito Kosaka, Audit & Supervisory Board Member, 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 Outside 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 Audit & Supervisory Board Members

Designation	Number of Recipients	Amount Payable	Remarks
Directors	Persons 22	Million Yen 1,302	Portion payable to eight Outside Directors and Outside Audit & Supervisory Board Members: 170 million yen
Audit & Supervisory Board Members	5	77	
Total	27	1,379	

Notes: 1. The amount payable to the Directors and Audit & Supervisory Board Members includes the bonus reserve amount attributable to the fiscal year under review.

2. 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.

3. In addition to the above, the amounts of remuneration and others paid or payable to Outside Directors and Outside Audit & Supervisory Board Members from subsidiaries of the Company for serving as Director or Audit & Supervisory Board Member of such subsidiaries in the fiscal year under review aggregated 39 million yen. There is no information reportable under the disclosure item regarding remuneration and others paid or payable to Outside Directors and Outside Audit & Supervisory Board Members from a parent company or its subsidiaries for serving as Director or Audit & Supervisory Board Member in the fiscal year under review.

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

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

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

Mr. Hiroshi Komiyama, Outside Director, serves concurrently as Outside Director for JX Holdings, Inc. However, there is no special relationship between the Company and the company that must be disclosed under this item.

Mr. Kiyoshi Nagano, Outside Audit & Supervisory Board Member, serves concurrently as Outside Director for SBI Holdings, Inc. However, there is no special relationship between the Company and the company that must be disclosed under this item. Also, effective as of June 28, 2012, Mr. Kiyoshi Nagano serves concurrently as Outside Audit & Supervisory Board Member for LEC, INC. However, there is no special relationship between the Company and the company that must be disclosed under this item.

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

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

No Outside Directors or Outside Audit & Supervisory Board Members hold such a relationship that must be disclosed under this item.

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

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

a. Activities of Outside Directors

Name	Main Activities
Frank Peter Popoff	<p>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. From these reasons, he attended one meeting of the Board of Directors held during the fiscal year under review. However, for Outside Directors or Outside Audit & Supervisory Board Members who cannot attend meetings, we encourage them to participate in the review and decision-making process regarding business execution by asking them about their opinions regarding the agenda items in advance, sending them copies of the minutes, and explaining to them the contents of the deliberations in detail by telephone, thus he supervised our management sufficiently from an independent standpoint.</p> <p>Furthermore, as the Company has been aggressively promoting its business development overseas through the establishment of business locations all over the world, including in the U.S., Asia, and Europe, Mr. Popoff's advice, from a broad perspective based on his management experience as CEO of The Dow Chemical Company, a U.S company that has a long history as a global company, has been of significant importance in the Company's deliberations and decision-making processes concerning its global management.</p> <p>He also serves as the commissioner of the Officers' Remuneration Committee, and his work so far includes repealing the Officers' Retirement Benefits Program and making other significant revisions to the officers' remuneration system, thus striving to achieve an appropriate corporate governance structure with regard to the officers' remuneration system.</p>
Masashi Kaneko	<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 the former Nikko Cordial Corporation. He also provided thorough supervision from an independent standpoint.</p>
Tsuyoshi Miyazaki	<p>The Director attended all meetings of the Board of Directors, as well as Managing Directors' Committee meetings, held during the fiscal year under review, and shared his comments from a broad, high-level perspective capitalizing on his management experience at Mitsubishi Logistics Corporation. He also provided thorough supervision from an independent standpoint.</p>
Toshihiko Fukui	<p>The Director attended 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 outstanding knowledge and wealth of experience related to global finance and economy as an ex-Governor of the Bank of Japan. He also provided thorough supervision from an independent standpoint.</p>

Name	Main Activities
Hiroshi Komiyama	The Director attended Board of Directors meetings (attendance rate 69%), as well as Managing Directors' Committee meetings. The Director, who has served as President of the University of Tokyo, as well as in a variety of distinguished positions, shared his comments from a broad, high-level perspective capitalizing on his outstanding knowledge and wealth of experience in a wide range of disciplines, including chemical engineering, the global environment, and natural resources and energy. He also provided thorough supervision from an independent standpoint.

b. Activities of Outside Audit & Supervisory Board Members

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

(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

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

132 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; Shin-Etsu Handotai Taiwan Co., Ltd.; 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 Audit & Supervisory Board Members, the Audit & Supervisory Board shall dismiss the Accounting Auditor. Outside the extent delineated above, upon the consent or request of the Audit & Supervisory Board, 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 Outside Directors and Outside Audit & Supervisory Board Members, who will endeavor to preserve the compliance system from an independent point of view, by attending meetings of the Board of Directors and Managing Directors’ meetings and/or by other actions.

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

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

3. Regulations Concerning Management of Risk of Damage to the Company, and 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 Outside Directors and Outside Audit & Supervisory Board Members, who will endeavor to ensure the exchange of relevant information and appropriate risk management, by attending meetings of the Board of Directors and Managing Directors’ meetings and/or by other actions.

4. System to Ensure That the 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 Outside Directors, and these Outside Directors will not only observe and manage the Company’s affairs from an independent viewpoint but also provide suggestions concerning all aspects of the Company’s corporate management.

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

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

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

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

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

The Company will appoint, terminate, and take other actions concerning the audit staff, in accordance with the methods set forth in the Company's internal regulations, with the consent of the Audit & Supervisory Board Members.

8. System for Reporting to the Audit & Supervisory Board Members by the Directors and Employees and Other Systems Concerning Reporting to the Audit & Supervisory Board Members

The Directors and employees shall promptly report the following matters to the Audit & Supervisory Board Members, 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 Audit & Supervisory Board Members Will Be Performed Effectively

The Audit & Supervisory Board Members will hold periodic meetings with the Company's Accounting Auditors to exchange opinions, hold regular reporting meetings with the Company's 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, we will further strengthen our position as the world’s largest PVC manufacturer by making use of our advantageous raw materials situation in the U.S. and the integrated manufacturing plant from electrolysis to PVC that was constructed by SHINTECH in the U.S. as well as by our sales strategies that accurately grasp global trends in demand.

In the semiconductor silicon business, as the world’s largest silicon wafer manufacturer, going forward we will continue to strive to assure a stable supply of high-quality products from our multiple manufacturing bases both in Japan and overseas, and we will meet the increase in demand for devices which comes with the expanding market for smartphones and tablet PCs in an appropriate manner. At the same time, we will focus on the development and sales of silicon wafers for cutting-edge devices and strive to strengthen our competitive power in these cutting-edge fields.

In the silicones business, by utilizing its product characteristics that have various applications in a wide range of industrial fields, we will accelerate the development of high-value added new products. We will strive to expand our silicones business not only in Japan but also overseas by endeavoring to make the new silicone plant in China into a pioneering strategic base at an early stage and by focusing on further strengthening of our business operations at our existing bases, such as those in Thailand and the U.S.

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

In the cellulose business, following the cellulose manufacturing plant for pharmaceutical-use products that began operations in Germany, we are constructing a cellulose manufacturing plant for coating-use products in the U.S. In the future as well, we will work to strengthen this overseas business and to build up a stable supply system by dispersing our manufacturing bases.

In other businesses, through the use of the new plant for manufacturing optical fiber preform in China and the new plant for manufacturing LED packaging materials in Vietnam, we will strive to leap forward in the global markets.

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

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 assessment 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 Outside Directors and Outside Audit & Supervisory Board Members 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 135th Ordinary General Meeting of Shareholders, Messrs. Toshihiko Fukui, Hiroshi Komiyama, Masashi Kaneko, and Tsuyoshi Miyazaki, four Outside 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 136th Ordinary General 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.

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 Independent 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 Independent 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.

~~~~~  
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, 2013 (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 -----                | 252,881           |
| Notes and accounts receivable-trade-----    | 243,785           |
| Securities -----                            | 214,380           |
| Merchandise and finished products -----     | 123,442           |
| Work in process -----                       | 11,012            |
| Raw materials and supplies -----            | 134,922           |
| Deferred taxes, current -----               | 27,462            |
| Other -----                                 | 31,290            |
| Less: Allowance for doubtful accounts ----- | (6,664)           |
| Total current assets                        | <u>1,032,513</u>  |

#### Fixed Assets:

|                                     |                |
|-------------------------------------|----------------|
| Property, plant and equipment:      |                |
| Buildings and structures, net-----  | 164,885        |
| Machinery and equipment, net -----  | 356,970        |
| Land-----                           | 70,110         |
| Construction in progress -----      | 50,862         |
| Other, net -----                    | 6,822          |
| Total property, plant and equipment | <u>649,650</u> |

#### Intangible fixed assets:

|                               |               |
|-------------------------------|---------------|
| Goodwill-----                 | 9,363         |
| Other -----                   | 5,274         |
| Total intangible fixed assets | <u>14,637</u> |

#### Investments and other assets:

|                                             |                |
|---------------------------------------------|----------------|
| Investments in securities -----             | 129,551        |
| Long-term loans -----                       | 6,405          |
| Deferred taxes, non-current -----           | 14,590         |
| Other -----                                 | 73,900         |
| Less: Allowance for doubtful accounts ----- | (347)          |
| Total investments and other assets          | <u>224,101</u> |
| Total fixed assets                          | <u>888,389</u> |

|              |                         |
|--------------|-------------------------|
| TOTAL ASSETS | <u><u>1,920,903</u></u> |
|--------------|-------------------------|

## LIABILITIES

### Current Liabilities:

|                                       | (Millions of yen) |
|---------------------------------------|-------------------|
| Notes and accounts payable-trade----- | 100,197           |
| Short-term borrowings-----            | 5,507             |
| Accounts payable-other -----          | 28,882            |
| Accrued expenses -----                | 45,537            |
| Accrued income taxes -----            | 6,220             |
| Accrued bonuses for employees-----    | 1,995             |
| Accrued bonuses for directors-----    | 372               |
| Other -----                           | <u>10,921</u>     |
| Total current liabilities             | <u>199,635</u>    |

### Long-term Liabilities:

|                                               |               |
|-----------------------------------------------|---------------|
| Long-term debt -----                          | 7,709         |
| Deferred taxes, non-current-----              | 65,033        |
| Accrued retirement benefits -----             | 20,185        |
| Accrued retirement bonuses for directors----- | 276           |
| Other -----                                   | <u>4,887</u>  |
| Total long-term liabilities                   | <u>98,091</u> |

TOTAL LIABILITIES 297,727

## NET ASSETS

### Stockholders' Equity:

|                                     |                  |
|-------------------------------------|------------------|
| Common stock -----                  | 119,419          |
| Additional paid-in capital-----     | 128,234          |
| Retained earnings -----             | 1,470,015        |
| Less: Treasury stock, at cost ----- | <u>(39,167)</u>  |
| Total stockholders' equity          | <u>1,678,502</u> |

### Accumulated other comprehensive income:

|                                                                  |                  |
|------------------------------------------------------------------|------------------|
| Unrealized gains (losses) on available-for-sale securities ----- | 11,591           |
| Deferred gains (losses) on hedges -----                          | 174              |
| Foreign currency translation adjustments-----                    | <u>(114,172)</u> |
| Total accumulated other comprehensive income                     | <u>(102,406)</u> |

|                                                      |        |
|------------------------------------------------------|--------|
| Share subscription rights -----                      | 2,149  |
| Minority interests in consolidated subsidiaries----- | 44,931 |

TOTAL NET ASSETS 1,623,176

TOTAL LIABILITIES AND NET ASSETS 1,920,903

## CONSOLIDATED STATEMENT OF INCOME

For the fiscal year ended March 31, 2013 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million)

|                                                                   | (Millions of yen)     |
|-------------------------------------------------------------------|-----------------------|
| Net sales -----                                                   | 1,025,409             |
| Cost of sales -----                                               | <u>769,427</u>        |
| Gross profit -----                                                | 255,981               |
| <br>                                                              |                       |
| Selling, general and administrative expenses -----                | <u>98,938</u>         |
| Operating income -----                                            | 157,043               |
| <br>                                                              |                       |
| Non-operating income:                                             |                       |
| Interest income -----                                             | 2,417                 |
| Dividend income -----                                             | 1,560                 |
| Equity in earnings of affiliates -----                            | 6,430                 |
| Other income -----                                                | <u>7,851</u>          |
| Total non-operating income -----                                  | 18,259                |
| <br>                                                              |                       |
| Non-operating expenses:                                           |                       |
| Interest expenses -----                                           | 465                   |
| Other expenses -----                                              | <u>4,630</u>          |
| Total non-operating expenses -----                                | <u>5,095</u>          |
| Ordinary income -----                                             | 170,207               |
| <br>                                                              |                       |
| Extraordinary loss:                                               |                       |
| Loss on sales of investment securities -----                      | <u>6,137</u>          |
| Total extraordinary loss -----                                    | <u>6,137</u>          |
| Income before income taxes -----                                  | 164,070               |
| <br>                                                              |                       |
| Income taxes - current -----                                      | 37,059                |
| Income taxes - deferred -----                                     | <u>19,696</u>         |
| Total income taxes -----                                          | <u>56,755</u>         |
| Income before minority interests -----                            | 107,314               |
| <br>                                                              |                       |
| Minority interests in earnings of consolidated subsidiaries ----- | <u>1,599</u>          |
| Net income -----                                                  | <u><u>105,714</u></u> |

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the fiscal year ended March 31, 2013 (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, 2012                                       | 119,419              | 128,177                    | 1,435,693         | (40,925)                | 1,642,365         |
| Changes during the current fiscal year                            |                      |                            |                   |                         |                   |
| Cash dividends                                                    | -                    | -                          | (42,459)          | -                       | (42,459)          |
| Net Income                                                        | -                    | -                          | 105,714           | -                       | 105,714           |
| Change in scope of consolidation and application of equity method | -                    | -                          | (28,932)          | -                       | (28,932)          |
| Purchase of treasury stock                                        | -                    | -                          | -                 | (11)                    | (11)              |
| Disposal of treasury stock                                        | -                    | 56                         | -                 | 1,769                   | 1,825             |
| Net changes of items other than stockholders' equity              | -                    | -                          | -                 | -                       | -                 |
| Total changes during the current fiscal year                      | -                    | 56                         | 34,322            | 1,757                   | 36,137            |
| Balance as of March 31, 2013                                      | 119,419              | 128,234                    | 1,470,015         | (39,167)                | 1,678,502         |

|                                                                   | 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, 2012                                       | 1,212                                                      | 25                                | (190,249)                                | (189,011) | 3,491                     | 37,727                                          | 1,494,573        |
| Changes during the current fiscal year                            |                                                            |                                   |                                          |           |                           |                                                 |                  |
| Cash dividends                                                    | -                                                          | -                                 | -                                        | -         | -                         | -                                               | (42,459)         |
| Net Income                                                        | -                                                          | -                                 | -                                        | -         | -                         | -                                               | 105,714          |
| Change in scope of consolidation and application of equity method | -                                                          | -                                 | -                                        | -         | -                         | -                                               | (28,932)         |
| Purchase of treasury stock                                        | -                                                          | -                                 | -                                        | -         | -                         | -                                               | (11)             |
| Disposal of treasury stock                                        | -                                                          | -                                 | -                                        | -         | -                         | -                                               | 1,825            |
| Net changes of items other than stockholders' equity              | 10,378                                                     | 148                               | 76,077                                   | 86,605    | (1,342)                   | 7,203                                           | 92,465           |
| Total changes during the current fiscal year                      | 10,378                                                     | 148                               | 76,077                                   | 86,605    | (1,342)                   | 7,203                                           | 128,602          |
| Balance as of March 31, 2013                                      | 11,591                                                     | 174                               | (114,172)                                | (102,406) | 2,149                     | 44,931                                          | 1,623,176        |

# 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-----87

#### 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.          | Kashima Vinyl Chloride Monomer 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 32 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-----4

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

Mimasu Semiconductor Industry Co., Ltd.  
Shin-Etsu Quartz Products Co., Ltd.

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

#### Name of principal unconsolidated subsidiaries and affiliates to which equity method is not applied

Shin-Etsu Electronics (Malaysia) Sdn. Bhd.

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

There are 32 unconsolidated subsidiaries and 12 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

3 of the affiliates accounted for under the equity method have a different closing date from that of the consolidated financial statements with 2 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 and application of equity method  
 Kashima Vinyl Chloride Monomer Co., Ltd., which had previously been an affiliate under the equity method, and Kashima Chlorine & Alkali Co., Ltd., which had previously been a non-equity-method affiliate, were newly included in the scope of consolidation due to the acquisition of additional shares and increased importance respectively. Shin-Etsu Magnetics Philippines, Inc., which had previously been an unconsolidated subsidiary, was newly included in the scope of consolidation due to increased importance. Hemlock Semiconductor Corp. and Hemlock Semiconductor L.L.C., which had previously been affiliates under the equity method, were excluded from the scope of equity method application due to a decrease in equity interests in these affiliates.

4. Fiscal year of consolidated subsidiaries  
 The fiscal year of SHINTECH INC., Shin-Etsu Handotai America, Inc. and 58 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.

(Changes in accounting policy)

Effective from the fiscal year ended March 31, 2013, due to a revision of the corporate tax law in Japan, the Company and some of its domestic consolidated subsidiaries have applied a depreciation method based on the revised law for tangible assets purchased on or after April 1, 2012. The impact of this change on operating income, ordinary income and income before income taxes for the fiscal year ended March 31, 2013 is immaterial.

ii) Intangible fixed assets (excluding leased assets):

Straight-line method

iii) Leased assets:

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

Leased assets under finance lease ----- The straight-line method taking the  
transactions that do not transfer lease period as the useful life with  
ownership 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 basis 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. For the fiscal year ended March 31, 2013, the consumption tax borne by the Company and certain subsidiaries that could not be fully deducted from the consumption tax withheld was recognized as an expense.

6. Amortization method of goodwill

Straight-line method within 20 years

**Notes to the consolidated balance sheet**

|                                                                   | (Millions of yen) |
|-------------------------------------------------------------------|-------------------|
| 1. Accumulated depreciation of property, plant and equipment----- | 1,550,390         |
| 2. Contingent liabilities                                         |                   |
| Kashima Berth Co., Ltd. (Loans with banks) -----                  | 451               |
| Employee's housing loan -----                                     | 23                |
|                                                                   | <hr/>             |
| Total                                                             | 474               |

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

### 1. Type and numbers of shares outstanding as of March 31, 2013

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 | Record date        | Effective date    |
|----------------------------------------------------------------|----------------|---------------------------|--------------------------|--------------------|-------------------|
| Ordinary general meeting of shareholders held on June 28, 2012 | Common stock   | 21,229 million yen        | 50.00 yen                | March 31, 2012     | June 29, 2012     |
| Board of directors meeting held on October 25, 2012            | Common stock   | 21,229 million yen        | 50.00 yen                | September 30, 2012 | November 19, 2012 |
| Total                                                          | -              | 42,459 million yen        | -                        | -                  | -                 |

#### (2) Dividends with a record date in the fiscal year ended March 31, 2013 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 27, 2013.

| Type of shares | Total amount of dividends | Source of dividends | Cash dividends per share | Record date    | Effective date |
|----------------|---------------------------|---------------------|--------------------------|----------------|----------------|
| Common stock   | 21,245 million yen        | Retained earnings   | 50.00 yen                | March 31, 2013 | June 28, 2013  |

### 3. Share subscription rights as of March 31, 2013

| 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 27, 2008 | Common stock                                        | 208,000 shares                                         |
| Resolved at the board of directors meeting held on June 27, 2008               | Common stock                                        | 560,000 shares                                         |
| Resolved at the ordinary general meeting of shareholders held on June 26, 2009 | Common stock                                        | 206,500 shares                                         |
| Resolved at the board of directors meeting held on July 22, 2009               | Common stock                                        | 534,300 shares                                         |
| Resolved at the ordinary general meeting of shareholders held on June 29, 2010 | Common stock                                        | 149,500 shares                                         |
| Resolved at the ordinary general meeting of shareholders held on June 28, 2011 | Common stock                                        | 257,000 shares                                         |

## Financial instruments

### 1. Overview of financial instruments

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

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

### 2. Fair value of financial instruments

As of March 31, 2013, book value, fair value and the difference between the two are as follows:

|                                                 | Millions of yen |            |            |
|-------------------------------------------------|-----------------|------------|------------|
|                                                 | Book value      | Fair value | Difference |
| <b>Assets</b>                                   |                 |            |            |
| (1) Cash and time deposits                      | 252,881         | 252,881    | -          |
| (2) Notes and accounts receivable-trade         | 243,785         | 243,785    | -          |
| (3) Securities and investments in securities    |                 |            |            |
| i) Bonds held to maturity                       | 11,890          | 11,933     | 42         |
| ii) Investments in capital stocks of affiliates | 21,932          | 13,008     | (8,924)    |
| iii) Other securities                           | 265,575         | 265,575    | -          |
| (4) Long-term loans                             | 6,405           | 6,644      | 238        |
| Total                                           | 802,471         | 793,829    | (8,642)    |
| <b>Liabilities</b>                              |                 |            |            |
| (1) Notes and accounts payable-trade            | 100,197         | 100,197    | -          |
| (2) Short-term borrowings                       | 5,507           | 5,507      | -          |
| (3) Accounts payable-other                      | 28,882          | 28,882     | -          |
| (4) Accrued expenses                            | 45,537          | 45,537     | -          |
| (5) Accrued income taxes                        | 6,220           | 6,220      | -          |
| (6) Long-term debts                             | 7,709           | 7,665      | (44)       |
| Total                                           | 194,055         | 194,011    | (44)       |

|                              |         |         |   |
|------------------------------|---------|---------|---|
| Derivative transactions      |         |         |   |
| Hedge accounting not applied | (1,376) | (1,376) | - |
| Hedge accounting applied     | 416     | 416     | - |
| Total                        | (959)   | (959)   | - |

(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, bonds and negotiable certificates of deposit. 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. Negotiable certificates of deposit 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.

##### (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: ¥44,533 million) are not included in “(3) Securities and investments in securities,” as their fair value is recognized to be extremely difficult to calculate, because no market value is available and future cash flows cannot be estimated.

### Per share information

|                                    |          |
|------------------------------------|----------|
|                                    | (Yen)    |
| Net assets per share -----         | 3,709.19 |
| Net income per share -----         | 248.94   |
| Diluted net income per share ----- | 248.92   |

## BALANCE SHEET (Non-Consolidated)

As of March 31, 2013 (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 -----                | 19,244            |
| Notes receivable -----                      | 6,194             |
| Accounts receivable-trade -----             | 158,948           |
| Securities -----                            | 157,000           |
| Merchandise and finished products -----     | 31,837            |
| Semi-finished products -----                | 19,184            |
| Raw materials and supplies -----            | 54,956            |
| Advance payments -----                      | 272               |
| Deferred taxes, current -----               | 17,117            |
| Short-term loans -----                      | 12,481            |
| Accounts receivable-other -----             | 29,212            |
| Other -----                                 | 2,160             |
| Less: Allowance for doubtful accounts ----- | <u>(2,470)</u>    |
| Total current assets                        | <u>506,141</u>    |

#### Fixed Assets:

##### Property, plant and equipment:

|                                          |               |
|------------------------------------------|---------------|
| Buildings, net -----                     | 35,403        |
| Structures, net -----                    | 3,400         |
| Machinery and equipment, net -----       | 43,930        |
| Vehicles, net -----                      | 70            |
| Tools, furniture and fixtures, net ----- | 2,349         |
| Land -----                               | 24,314        |
| Leased assets, net -----                 | 98            |
| Construction in progress -----           | <u>10,074</u> |
| Total property, plant and equipment      | 119,641       |

|                               |       |
|-------------------------------|-------|
| Intangible fixed assets ----- | 1,279 |
|-------------------------------|-------|

##### Investments and other assets:

|                                                                    |                |
|--------------------------------------------------------------------|----------------|
| Investments in securities -----                                    | 65,408         |
| Investments in capital stocks of subsidiaries and affiliates ----- | 123,094        |
| Investments in partnerships -----                                  | 11             |
| Investments in partnerships of subsidiaries and affiliates -----   | 12,045         |
| Long-term loans -----                                              | 8,592          |
| Long-term prepaid expenses -----                                   | 66             |
| Other -----                                                        | 3,016          |
| Less: Allowance for doubtful accounts -----                        | <u>(10)</u>    |
| Total investments and other assets                                 | <u>212,224</u> |
| Total fixed assets                                                 | <u>333,146</u> |

|              |                |
|--------------|----------------|
| TOTAL ASSETS | <u>839,287</u> |
|--------------|----------------|

## LIABILITIES

### Current Liabilities:

|                                    | (Millions of yen) |
|------------------------------------|-------------------|
| Accounts payable-trade-----        | 94,486            |
| Short-term borrowings-----         | 5,190             |
| Lease obligations-----             | 41                |
| Accounts payable-other-----        | 12,932            |
| Accrued income taxes-----          | 2,158             |
| Accrued expenses-----              | 10,745            |
| Advances received-----             | 5                 |
| Deposits-----                      | 742               |
| Accrued bonuses for directors----- | 323               |
| Other-----                         | 1,264             |
| Total current liabilities          | <u>127,891</u>    |

### Long-term Liabilities:

|                                       |                |
|---------------------------------------|----------------|
| Long-term debt-----                   | 6,156          |
| Lease obligations-----                | 104            |
| Long-term accounts payable-other----- | 1,402          |
| Deferred taxes, non-current-----      | 2,086          |
| Accrued retirement benefits-----      | 3,953          |
| Asset retirement obligations-----     | 65             |
| Total long-term liabilities           | <u>13,769</u>  |
| TOTAL LIABILITIES                     | <u>141,660</u> |

## NET ASSETS

### Stockholders' Equity:

|                                                  |                 |
|--------------------------------------------------|-----------------|
| Common stock-----                                | 119,419         |
| Additional paid-in capital:                      |                 |
| Capital reserve-----                             | 120,771         |
| Other capital reserve-----                       | 56              |
| Total additional paid-in capital-----            | <u>120,828</u>  |
| Retained earnings:                               |                 |
| Legal earned reserve-----                        | 6,778           |
| Other retained earnings:                         |                 |
| Reserve for special depreciation-----            | 212             |
| Reserve for particular disaster prevention-----  | 32              |
| Reserve for reduction entry of fixed assets----- | 1,798           |
| Reserve for research-----                        | 88              |
| Reserve for dividend equalization-----           | 15              |
| Reserve for reduction entry of land-----         | 19              |
| General reserve-----                             | 351,137         |
| Retained earnings brought forward-----           | 123,071         |
| Total other retained earnings-----               | <u>476,375</u>  |
| Total retained earnings                          | <u>483,153</u>  |
| Less: Treasury stock, at cost-----               | <u>(39,167)</u> |
| Total stockholders' equity                       | <u>684,233</u>  |

### Valuation and translation adjustments:

|                                                                 |        |
|-----------------------------------------------------------------|--------|
| Unrealized gains (losses) on available-for-sale securities----- | 11,428 |
|-----------------------------------------------------------------|--------|

|                                  |                |
|----------------------------------|----------------|
| Share subscription rights-----   | 1,964          |
| TOTAL NET ASSETS                 | <u>697,627</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>839,287</u> |



## STATEMENT OF INCOME (Non-Consolidated)

For the year ended March 31, 2013 (Amounts are stated in millions of yen by discarding fractional amounts less than 1 million)

|                                                    | (Millions of yen) |
|----------------------------------------------------|-------------------|
| Net sales -----                                    | 559,499           |
| Cost of sales -----                                | <u>446,680</u>    |
| Gross profit -----                                 | 112,819           |
| <br>                                               |                   |
| Selling, general and administrative expenses ----- | <u>35,565</u>     |
| Operating income -----                             | 77,253            |
| <br>                                               |                   |
| Non-operating income:                              |                   |
| Interest income -----                              | 300               |
| Dividend income -----                              | 6,012             |
| Other income -----                                 | <u>5,478</u>      |
| Total non-operating income -----                   | 11,791            |
| <br>                                               |                   |
| Non-operating expenses:                            |                   |
| Interest expenses -----                            | 201               |
| Other expenses -----                               | <u>1,819</u>      |
| Total non-operating expenses -----                 | <u>2,020</u>      |
| Ordinary income -----                              | 87,024            |
| <br>                                               |                   |
| Income before income taxes -----                   | 87,024            |
| <br>                                               |                   |
| Income taxes – current -----                       | 24,130            |
| Income taxes – deferred -----                      | <u>6,190</u>      |
| Total income taxes -----                           | <u>30,320</u>     |
| Net income -----                                   | <u>56,704</u>     |

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

For the fiscal year ended March 31, 2013 (Amounts are stated in millions of yen by discarding fractional amounts of less than 1 million)

|                                                      | Stockholders' Equity |                            |                       |         |                       |          |          | (Millions of yen)       |          |
|------------------------------------------------------|----------------------|----------------------------|-----------------------|---------|-----------------------|----------|----------|-------------------------|----------|
|                                                      | Common stock         | Additional paid-in capital |                       |         | Retained earnings     |          |          | Treasury stock, at cost | [Total]  |
|                                                      |                      | Capital reserve            | Other capital reserve | [Total] | Legal earned reserves | Others*  | [Total]  |                         |          |
| Balance as of April 1, 2012                          | 119,419              | 120,771                    | -                     | 120,771 | 6,778                 | 462,130  | 468,908  | (40,925)                | 668,174  |
| Changes during the current fiscal year               |                      |                            |                       |         |                       |          |          |                         |          |
| Cash dividends                                       | -                    | -                          | -                     | -       | -                     | (42,459) | (42,459) | -                       | (42,459) |
| Net Income                                           | -                    | -                          | -                     | -       | -                     | 56,704   | 56,704   | -                       | 56,704   |
| Purchase of treasury stock                           | -                    | -                          | -                     | -       | -                     | -        | -        | (11)                    | (11)     |
| Disposal of treasury stock                           | -                    | -                          | 56                    | 56      | -                     | -        | -        | 1,769                   | 1,825    |
| Net changes of items other than stockholders' equity | -                    | -                          | -                     | -       | -                     | -        | -        | -                       | -        |
| Total changes during the current fiscal year         | -                    | -                          | 56                    | 56      | -                     | 14,245   | 14,245   | 1,757                   | 16,059   |
| Balance as of March 31, 2013                         | 119,419              | 120,771                    | 56                    | 120,828 | 6,778                 | 476,375  | 483,153  | (39,167)                | 684,233  |

|                                                      | Valuation and translation adjustments<br>Unrealized gains (losses) on available-for-sale securities | Share subscription rights | Total Net Assets |
|------------------------------------------------------|-----------------------------------------------------------------------------------------------------|---------------------------|------------------|
| Balance as of April 1, 2012                          | 853                                                                                                 | 3,243                     | 672,272          |
| Changes during the current fiscal year               |                                                                                                     |                           |                  |
| Cash dividends                                       | -                                                                                                   | -                         | (42,459)         |
| Net Income                                           | -                                                                                                   | -                         | 56,704           |
| Purchase of treasury stock                           | -                                                                                                   | -                         | (11)             |
| Disposal of treasury stock                           | -                                                                                                   | -                         | 1,825            |
| Net changes of items other than stockholders' equity | 10,574                                                                                              | (1,278)                   | 9,295            |
| Total changes during the current fiscal year         | 10,574                                                                                              | (1,278)                   | 25,354           |
| Balance as of March 31, 2013                         | 11,428                                                                                              | 1,964                     | 697,627          |

\* 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, 2012                              | 269                              | 27                                         | 1,702                                       | 88                   | 15                                |
| Changes during the current fiscal year                   |                                  |                                            |                                             |                      |                                   |
| Cash dividends                                           | -                                | -                                          | -                                           | -                    | -                                 |
| Reversal of reserve for special depreciation             | (56)                             | -                                          | -                                           | -                    | -                                 |
| Provision of reserve for particular disaster prevention  | -                                | 4                                          | -                                           | -                    | -                                 |
| Provision of reserve for reduction entry of fixed assets | -                                | -                                          | 138                                         | -                    | -                                 |
| Reversal of reserve for reduction entry of fixed assets  | -                                | -                                          | (41)                                        | -                    | -                                 |
| Provision of reserve for reduction entry of land         | -                                | -                                          | -                                           | -                    | -                                 |
| Net Income                                               | -                                | -                                          | -                                           | -                    | -                                 |
| Total changes during the current fiscal year             | (56)                             | 4                                          | 96                                          | -                    | -                                 |
| Balance as of March 31, 2013                             | 212                              | 32                                         | 1,798                                       | 88                   | 15                                |

|                                                          | Reserve for reduction entry of land | General reserve | Retained earnings brought forward | Total    |
|----------------------------------------------------------|-------------------------------------|-----------------|-----------------------------------|----------|
| Balance as of April 1, 2012                              | 17                                  | 351,137         | 108,873                           | 462,130  |
| Changes during the current fiscal year                   |                                     |                 |                                   |          |
| Cash dividends                                           | -                                   | -               | (42,459)                          | (42,459) |
| Reversal of reserve for special depreciation             | -                                   | -               | 56                                | -        |
| Provision of reserve for particular disaster prevention  | -                                   | -               | (4)                               | -        |
| Provision of reserve for reduction entry of fixed assets | -                                   | -               | (138)                             | -        |
| Reversal of reserve for reduction entry of fixed assets  | -                                   | -               | 41                                | -        |
| Provision of reserve for reduction entry of land         | 1                                   | -               | (1)                               | -        |
| Net Income                                               | -                                   | -               | 56,704                            | 56,704   |
| Total changes during the current fiscal year             | 1                                   | -               | 14,198                            | 14,245   |
| Balance as of March 31, 2013                             | 19                                  | 351,137         | 123,071                           | 476,375  |

## 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<br>of subsidiaries and affiliates | ----- | Moving-average cost method                                                                                                                                                                                                                                                                                             |
| Available-for-sale securities                                   |       |                                                                                                                                                                                                                                                                                                                        |
| Marketable securities                                           | ----- | Mark-to-market method based on the fair<br>market value as of the balance sheet date (Any<br>adjustments resulting from the valuation of<br>securities shall be directly entered into net<br>assets, while costs of sales of marketable<br>securities shall be calculated based on the<br>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.

##### (Changes in accounting policy)

Effective from the fiscal year ended March 31, 2013, due to a revision of the corporate tax law  
in Japan, the Company has applied a depreciation method based on the revised law for tangible  
assets purchased on or after April 1, 2012. The impact of this change on operating income,  
ordinary income and income before income taxes for the fiscal year ended March 31, 2013 is  
immaterial.

(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 basis 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 and services 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. For the fiscal year ended March 31, 2013, the consumption tax borne by the Company that could not be fully deducted from the consumption tax withheld was recognized as an expense.

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

(Millions of yen)

|                                                                                 |         |
|---------------------------------------------------------------------------------|---------|
| 1. Accumulated depreciation of property, plant and equipment-----               | 466,745 |
| 2. Contingent liabilities for guarantee                                         |         |
| Employee's housing loan-----                                                    | 10      |
| 3. Accounts receivable due from and payable due to subsidiaries and affiliates: |         |
| Short-term accounts receivable-----                                             | 96,181  |
| Long-term accounts receivable-----                                              | 8,377   |
| Short-term accounts payable-----                                                | 77,251  |

**Notes to the non-consolidated statement of income**

Transactions with subsidiaries and affiliates:

(Millions of yen)

|                                           |         |
|-------------------------------------------|---------|
| Sales-----                                | 203,726 |
| Purchases-----                            | 354,194 |
| Transactions of non-operating nature----- | 35,375  |

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

Type and numbers of treasury stocks as of March 31, 2013

|                    |                  |
|--------------------|------------------|
| Common stock ----- | 7,190,226 shares |
|--------------------|------------------|

**Deferred taxes**

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                              | 4,284   |
| Unsettled accounts receivable and payable                  | 2,361   |
| Accrued bonuses                                            | 1,721   |
| Maintenance cost                                           | 1,502   |
| Accrued enterprise taxes                                   | 472     |
| Others                                                     | 13,495  |
| Deferred tax assets subtotal                               | 28,792  |
| Valuation allowance                                        | (6,357) |
| Deferred tax assets total                                  | 22,434  |

|                                                          |               |
|----------------------------------------------------------|---------------|
| Deferred tax liabilities                                 |               |
| Unrealized gains/losses on available-for-sale securities | 6,262         |
| Reserve for reduction entry of fixed assets              | 990           |
| Reserve for special depreciation                         | 123           |
| Others                                                   | 28            |
| Deferred tax liabilities total                           | <u>7,404</u>  |
| Net deferred tax assets                                  | <u>15,030</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.

### Transactions with Related Parties

Directors, major individual shareholders and others (Millions of yen)

| Attribute | Name               | Voting rights ownership rate | Contents of relationship                         | Contents of transactions         | Transaction amount (Thousands of shares) | Item | Ending Balance |
|-----------|--------------------|------------------------------|--------------------------------------------------|----------------------------------|------------------------------------------|------|----------------|
| Director  | Shunzo Mori        | Direct Ownership 0.01%       | Representative Director-President                | Execution of stock option (Note) | 360 (75)                                 | -    | -              |
| Director  | Fumio Akiya        | Direct Ownership 0.00%       | Representative Director-Executive-Vice-President | Execution of stock option (Note) | 48 (10)                                  | -    | -              |
| Director  | Yasuhiko Saitoh    | Direct Ownership 0.00%       | Representative Director-Executive-Vice-President | Execution of stock option (Note) | 36 (7.7)                                 | -    | -              |
| Director  | Kiichi Habata      | Direct Ownership 0.00%       | Managing Director                                | Execution of stock option (Note) | 72 (15)                                  | -    | -              |
| Director  | Masahiko Todoroki  | Direct Ownership 0.00%       | Managing Director                                | Execution of stock option (Note) | 38 (8)                                   | -    | -              |
| Director  | Toshiyuki Kasahara | Direct Ownership 0.00%       | Director                                         | Execution of stock option (Note) | 28 (6)                                   | -    | -              |
| Director  | Hidenori Onezawa   | Direct Ownership 0.00%       | Director                                         | Execution of stock option (Note) | 14 (3)                                   | -    | -              |
| Director  | Ken Nakamura       | Direct Ownership 0.00%       | Director                                         | Execution of stock option (Note) | 28 (6)                                   | -    | -              |
| Director  | Yukihiro Matsui    | Direct Ownership 0.00%       | Director                                         | Execution of stock option (Note) | 24 (5)                                   | -    | -              |

(Note) Share subscription rights resolved at the board of directors meeting held on July 22, 2009.

### Per share information

|                           |          |
|---------------------------|----------|
|                           | (Yen)    |
| Net assets per share----- | 1,637.17 |
| Net income per share----- | 133.53   |

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

**Independent Auditor's Report**

May 13, 2013

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  
  
Hisashi Atobe, CPA  
Designated and Engagement Partner

Pursuant to Article 444, Section 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of Shin-Etsu Chemical Co., Ltd. (the "Company") applicable to the 136th fiscal year from April 1, 2012 through March 31, 2013.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Shin-Etsu Group, which consisted of the Company and consolidated subsidiaries, applicable to the 136th fiscal year ended March 31, 2013 in conformity with accounting principles generally accepted in Japan.

*Conflicts of Interest*

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



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

**Independent Auditor's Report**

May 13, 2013

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

Hisashi Atobe, CPA  
Designated and Engagement Partner

Pursuant to Article 436, Section 2, Paragraph 1 of the Companies Act, we have audited the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets, the notes to the financial statements and the related supplementary schedules of Shin-Etsu Chemical Co., Ltd. (the "Company") applicable to the 136th fiscal year from April 1, 2012 through March 31, 2013.

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

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of Shin-Etsu Chemical Co., Ltd. applicable to the 136th fiscal year ended March 31, 2013 in conformity with accounting principles generally accepted in Japan.

*Conflicts of Interest*

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

## Audit Report of Audit & Supervisory Board

### Audit Report

The Audit & Supervisory Board has prepared this Audit Report on the execution of duties by the Directors during the 136th fiscal year from April 1, 2012 to March 31, 2013, based upon, and after having considered, the audit reports prepared by the individual Audit & Supervisory Board Members. The Report follows:

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

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

In accordance with the standards established by the Audit & Supervisory Board for auditing by the Audit & Supervisory Board Members, pursuant to the audit policy and assigned duties and others, the individual Audit & Supervisory Board Members promoted communication with the Directors, the internal audit function, and other employees and others, in order to enhance information collection and the overall audit environment. 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 Audit & Supervisory Board Members 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 Audit & Supervisory Board Members promoted communication and information sharing with the Directors, Audit & Supervisory Board Members, and others of the subsidiaries, and received business reports from subsidiaries as needed. Based on the methodology above, the Audit & Supervisory Board examined the Business Report and its Annexed Schedules covering the fiscal year under review.

Furthermore, the Audit & Supervisory Board monitored the Accounting Auditor to determine whether it maintained its independence and conducted appropriate audits, and received reports from the Accounting Auditor on its progress in executing duties and asked for explanations as needed. The Board was also advised by the Accounting Auditor of its appropriate development of 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 Audit & Supervisory Board 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 Audit & Supervisory Board certifies that the Business Report and its Annexed Schedules fairly present the state of affairs of the Company in conformity with laws and regulations and the Articles of Incorporation.
- 2 The Board finds no irregular acts that occurred or significant facts that violated laws and regulations or the Articles of Incorporation, in connection with the execution of duties by the Directors.
- 3 The Board certifies the adequacy of the Board of Directors' resolutions relevant to internal control systems. Also, the Board finds no items that require particular notice in connection with the 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 Audit & Supervisory Board Members of the Company.

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

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

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

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

May 14, 2013

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

|                                                                             |                  |        |
|-----------------------------------------------------------------------------|------------------|--------|
| Full-time Audit & Supervisory Board Member                                  | Osamu Okada      | (Seal) |
| Audit & Supervisory Board Member                                            | Masahiko Watase  | (Seal) |
| Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) | Taku Fukui       | (Seal) |
| Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) | Yoshihito Kosaka | (Seal) |
| Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) | Kiyoshi Nagano   | (Seal) |

## Reference Documents for Exercising Voting Rights

### Agenda and Reference Materials

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

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

The Company proposes a year-end cash dividend distribution for the 136th 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; ¥21,245,823,350 in total.

3. Effective Date of Distribution of Retained Earnings

June 28, 2013

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 Fourteen (14) Directors

Upon the conclusion of this General Meeting of Shareholders, the terms of office of thirteen (13) Directors, namely, Messrs. Yasuhiko Saitoh, Yoshiaki Ono, Koji Takasugi, Toshinobu Ishihara, Frank Peter Popoff, Tsuyoshi Miyazaki, Toshihiko Fukui, Masaki Miyajima, Toshiyuki Kasahara, Hidenori Onezawa, Ken Nakamura, Yukihiro Matsui and Hiroaki Okamoto, will expire. Accordingly, the Board of Directors proposes that the total number of Directors be increased by one (1) in order to further strengthen the management setup, and that fourteen (14) persons be elected as Directors.

The Candidates for election to the position of Director are as follows:

## Candidates for Director

| No. | Name<br>(Date of Birth)                   | Number of<br>Company<br>Shares Held | Career Summary, Positions, Responsibilities, and<br>Important Positions in Other Entities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----|-------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.  | Yasuhiko Saitoh<br>(December 5, 1955)     | 7,000 shares                        | <p>Apr., 1978 Joined the Company</p> <p>Dec., 1999 Director of Shin-Etsu PVC B.V. (to date)</p> <p>June, 2001 Director of the Company</p> <p>Nov., 2001 In charge of the Office of the President and Public Relations (to date)</p> <p>June, 2002 Managing Director</p> <p>June, 2003 In charge of Finance &amp; Accounting (to date)</p> <p>Jan., 2004 In charge of Legal Affairs (to date)</p> <p>June, 2005 Senior Managing Director</p> <p>July, 2007 Representative Director and Senior Managing Director</p> <p>June, 2009 General Manager of International Div. (to date)</p> <p>June, 2010 Representative Director and Executive Vice President (to date)</p> <p>-Important Positions in Other Entities-</p> <p>Director and President of SHINTECH INC.</p> <p>Representative Director and Vice President of Shin-Etsu Handotai Co., Ltd.</p> <p>Director and President of Shin-Etsu Handotai America, Inc.</p> |
| 2.  | Koji Takasugi<br>(August 21, 1941)        | 3,500 shares                        | <p>Mar., 1960 Joined the Company</p> <p>Dec., 2001 General Manager of International Div.</p> <p>June, 2005 Director</p> <p>June, 2007 Managing Director (to date)</p> <p>June, 2009 In charge of Purchasing (to date)</p> <p>General Manager of Special Functional Products Dept. (to date)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 3.  | Toshinobu Ishihara<br>(September 8, 1947) | 6,500 shares                        | <p>Apr., 1970 Joined the Company</p> <p>June, 2001 General Manager of New Functional Materials Research Center</p> <p>Director</p> <p>June, 2010 Managing Director (to date)</p> <p>In charge of New Functional Materials (to date)</p> <p>General Manager of Research and Development Dept. (to date)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

| No. | Name<br>(Date of Birth)                  | Number of<br>Company<br>Shares Held | Career Summary, Positions, Responsibilities, and<br>Important Positions in Other Entities                                                                                                                                                                                                                                                                |
|-----|------------------------------------------|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.  | Frank Peter Popoff<br>(October 27, 1935) | 91,600 shares                       | Dec., 1987 CEO of The Dow Chemical Company<br>Dec., 1992 Director and Chairman of the above<br>Jan., 2001 Director of SHINTECH INC. (to date)<br>June, 2001 Director of the Company (to date)                                                                                                                                                            |
| 5.  | Tsuyoshi Miyazaki<br>(December 16, 1931) | 0 shares                            | Mar., 1990 Representative Director and President of<br>Mitsubishi Logistics Corporation<br>June, 1998 Representative Director and Chairman of<br>the above<br>June, 2003 Adviser of the above (to date)<br>Aug., 2004 Audit & Supervisory Board Member of<br>Shin-Etsu Handotai Co., Ltd.<br>June, 2007 Director of the Company (to date)                |
| 6.  | Toshihiko Fukui<br>(September 7, 1935)   | 0 shares                            | Apr., 1958 Joined the Bank of Japan<br>Dec., 1994 Deputy Governor of the above<br>Mar., 2003 Governor of the above<br>June, 2009 Director of the Company (to date)<br>-Important Positions in Other Entities-<br>President of the Canon Institute for Global Studies<br>Outside Director of Kikkoman Corporation                                         |
| 7.  | Masaki Miyajima<br>(February 8, 1947)    | 21,600 shares                       | July, 1971 Joined the Company<br>May, 1997 General Manager of Opto-Electronics<br>Materials Dept., Advanced Materials Div.<br>June, 2001 Director (to date)<br>Nov., 2002 General Manager of PVC Div. (to date)<br>-Important Positions in Other Entities-<br>Representative Director and President of KASHIMA<br>VINYL CHLORIDE MONOMER COMPANY LIMITED |
| 8.  | Toshiyuki Kasahara<br>(May 7, 1951)      | 5,000 shares                        | Mar., 1970 Joined the Company<br>Dec., 2001 General Manager of Finance & Accounting<br>Dept. (to date)<br>June, 2005 Director (to date)                                                                                                                                                                                                                  |
| 9.  | Hidenori Onezawa<br>(February 27, 1952)  | 4,600 shares                        | Apr., 1977 Joined the Company<br>June, 2001 Director of Shin-Etsu Handotai Co., Ltd.<br>Aug., 2004 Managing Director of the above<br>June, 2005 Director of the Company (to date)<br>Mar., 2010 General Manager of Business<br>Development Dept. (to date)                                                                                               |
| 10. | Ken Nakamura<br>(May 27, 1951)           | 5,000 shares                        | Apr., 1975 Joined the Company<br>Dec., 2000 General Manager of Public Relations Dept.<br>(to date)<br>July, 2005 General Manager of the Office of the<br>President (to date)<br>June, 2007 Director (to date)                                                                                                                                            |

| No.  | Name<br>(Date of Birth)                 | Number of<br>Company<br>Shares Held | Career Summary, Positions, Responsibilities, and<br>Important Positions in Other Entities                                                                                                                                                                    |
|------|-----------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11.  | Yukihiro Matsui<br>(October 2, 1948)    | 3,600 shares                        | Apr., 1973 Joined the Company<br>Apr., 2004 General Manager of Magnet Dept.,<br>Electronics Materials Div. (to date)<br>June, 2009 Director (to date)<br>June, 2010 General Manager of Electronics Materials<br>Div. (to date)                               |
| 12.  | Hiroaki Okamoto<br>(January 3, 1949)    | 3,700 shares                        | July, 1971 Joined the Company<br>Dec., 2007 Acting General Manager of Research and<br>Development Dept.<br>June, 2009 Director (to date)<br>In charge of Patents (to date)<br>June, 2010 General Manager of Development and<br>Investigation Dept. (to date) |
| *13. | Susumu Ueno<br>(May 24, 1943)           | 13,406 shares                       | Apr., 1968 Joined the Company<br>June, 2005 General Manager of Gunma Complex (to<br>date)                                                                                                                                                                    |
| *14. | Kazumasa Maruyama<br>(December 2, 1949) | 3,200 shares                        | Apr., 1975 Joined the Company<br>June, 2010 General Manager of New Functional<br>Materials Dept.(to date)                                                                                                                                                    |

- Notes
- 1: Mr. Masaki Miyajima, a candidate for a Director, is a Representative Director and the President of KASHIMA VINYL CHLORIDE MONOMER COMPANY LIMITED and the Company is purchasing materials from, and otherwise conducting business with, the said company.
  - 2: Mr. Ken Nakamura, a candidate for a Director, is a Representative Director and the President of Skyward Information Systems Co., Ltd., and the Company is entrusting information processing operations, etc. to the said company.
  - 3: Other than the above, there is no special interest between any of the above candidates and the Company.
  - 4: Mr. Frank Peter Popoff is a candidate for an Outside Director as defined in Item 15, Article 2 of the Corporations Law. He first became an Outside Director of the Company in June 2001, and will have held this position for twelve (12) years at the conclusion of this General Meeting of Shareholders. During this period, he has performed a satisfactory job of providing supervision from an independent standpoint. Furthermore, as the Company has been aggressively promoting its business development overseas through the establishment of business locations all over the world, including in the U.S., Asia, and Europe, Mr. Popoff's advice, from a broad perspective based on his management experience as CEO of The Dow Chemical Company, a U.S. company that has a long history as a global company, has been of significant importance in the Company's deliberations and decision-making processes concerning its global management. He also serves as the commissioner of the Officers' Remuneration Committee; and his work so far includes repealing the Officers' Retirement Benefits Program and making other significant revisions to the officers' remuneration system, thus striving to achieve an appropriate corporate governance structure with regard to the officers' remuneration system. In view of this, his nomination reflects the confidence that the Company places in him to continue to provide the same quality of advice and supervision, and also to consistently contribute to the development of an appropriate corporate governance structure for the Company.
  - 5: Mr. Tsuyoshi Miyazaki is a candidate for an Outside Director as defined in Item 15, Article 2 of the Corporations Law, as well as a candidate for an Independent Director as required by the applicable regulations of the Tokyo Stock Exchange, Inc., etc. He first became an Outside Director of the Company in June 2007, and will have held this position for six (6) years at the conclusion of this

General Meeting of Shareholders. During this period, he has performed a satisfactory job of providing useful advice from a high-level perspective by capitalizing on his management experience at Mitsubishi Logistics Corporation and supervision from an independent standpoint. In view of this, his nomination reflects the confidence that the Company places in him to continue to provide the same quality of advice and supervision.

- 6: Mr. Toshihiko Fukui is a candidate for an Outside Director as defined in Item 15, Article 2 of the Corporations Law, as well as a candidate for an Independent Director as required by the applicable regulations of the Tokyo Stock Exchange, Inc., etc. He first became an Outside Director of the Company in June 2009, and will have held this position for four (4) years at the conclusion of this General Meeting of Shareholders. During this period, he has performed a satisfactory job of providing both supervision from an independent standpoint and useful advice from a high-level perspective by capitalizing on his outstanding knowledge and wealth of experience related to global finance and the global economy as a former Governor of the Bank of Japan. In view of this, his nomination reflects the confidence that the Company places in him to continue to provide the same quality of advice and supervision.
- 7: \* indicates that the candidate is a new nominee for a Director.



3rd Agendum: Election of One (1) Audit & Supervisory Board Member

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

The candidate for the above is as follows:

The Audit & Supervisory Board has consented to this agendum.

Candidate for Audit & Supervisory Board Member

| Name<br>(Date of Birth)         | Number of<br>Company<br>Shares Held | Career Summary, Positions, and Important Positions in Other<br>Entities                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Taku Fukui<br>(August 24, 1961) | 0 shares                            | Apr., 1987 Registered as a lawyer (with Daini Tokyo Bar Association)<br>Entered Kashiwagi Sogo Law Offices<br>Apr., 2004 Professor at the Keio Law School (to date)<br>(except for the period from April 1, 2012 to March 31, 2013)<br>June, 2005 Audit & Supervisory Board Member of the Company (to date)<br>Jan., 2009 Managing Partner of the above Law Offices (to date)<br>-Important Positions in Other Entities-<br>Managing Partner of Kashiwagi Sogo Law Offices |

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

- 2: Mr. Taku Fukui is a candidate for an Outside Audit & Supervisory Board Member as defined in Item 16, Article 2 of the Corporations Law. He first became an Outside Audit & Supervisory Board Member of the Company in June 2005, and will have held this position for eight (8) years at the conclusion of this General Meeting of Shareholders. During this period, he has performed a satisfactory job in auditing from a professional, legal perspective. In view of this, his nomination reflects the confidence that the Company places in him to continue to provide the same appropriate performance as an Outside Audit & Supervisory Board Member and to contribute to ensuring the compliance system for the Company. Mr. Fukui has sat on the compliance review and recommendation committees (as a third-party member) for several listed companies, and has a wealth of experience and knowledge in the field of corporate compliance.

**4th 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 16, 2013, 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) Audit & Supervisory Board Members 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, we will further strengthen our position as the world's largest PVC manufacturer by making use of our advantageous raw materials situation in the U.S. and the integrated manufacturing plant from electrolysis to PVC that was constructed by SHINTECH in the U.S. as well as by our sales strategies that accurately grasp global trends in demand.

In the semiconductor silicon business, as the world's largest silicon wafer manufacturer, going forward we will continue to strive to assure a stable supply of high-quality products from our multiple manufacturing bases both in Japan and overseas, and we will meet the increase in demand for devices which comes with the expanding market for smartphones and tablet PCs in an appropriate manner. At the same time, we will focus on the development and sales of silicon wafers for cutting-edge devices and strive to strengthen our competitive power in these cutting-edge fields.

In the silicones business, by utilizing its product characteristics that have various applications in a wide range of industrial fields, we will accelerate the development of high-value added new products. We will strive to expand our silicones business not only in Japan but also overseas by endeavoring to make the new silicone plant in China into a pioneering strategic base at an early stage and by focusing on further strengthening of our business operations at our existing bases, such as those in Thailand and the U.S.

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

In the cellulose business, following the cellulose manufacturing plant for pharmaceutical-use products that began operations in Germany, we are constructing a cellulose manufacturing plant for coating-use products in the U.S. In the future as well, we will work to strengthen this overseas business and to build up a stable supply system by dispersing our manufacturing bases.

In other businesses, through the use of the new plant for manufacturing optical fiber preform in China and the new plant for manufacturing LED packaging materials in Vietnam, we will strive to leap forward in the global markets.

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

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 Outside 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 Outside Directors and Outside Audit & Supervisory Board Members 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 137th annual shareholders' meeting to be held in June 2014, 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 the 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) Outside Directors or Outside Audit & Supervisory Board Members 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, Audit & Supervisory Board Members, 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, Audit & Supervisory Board Members, 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 | Outside 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 | Outside 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 | Outside Director of the Company (to date)                                    |

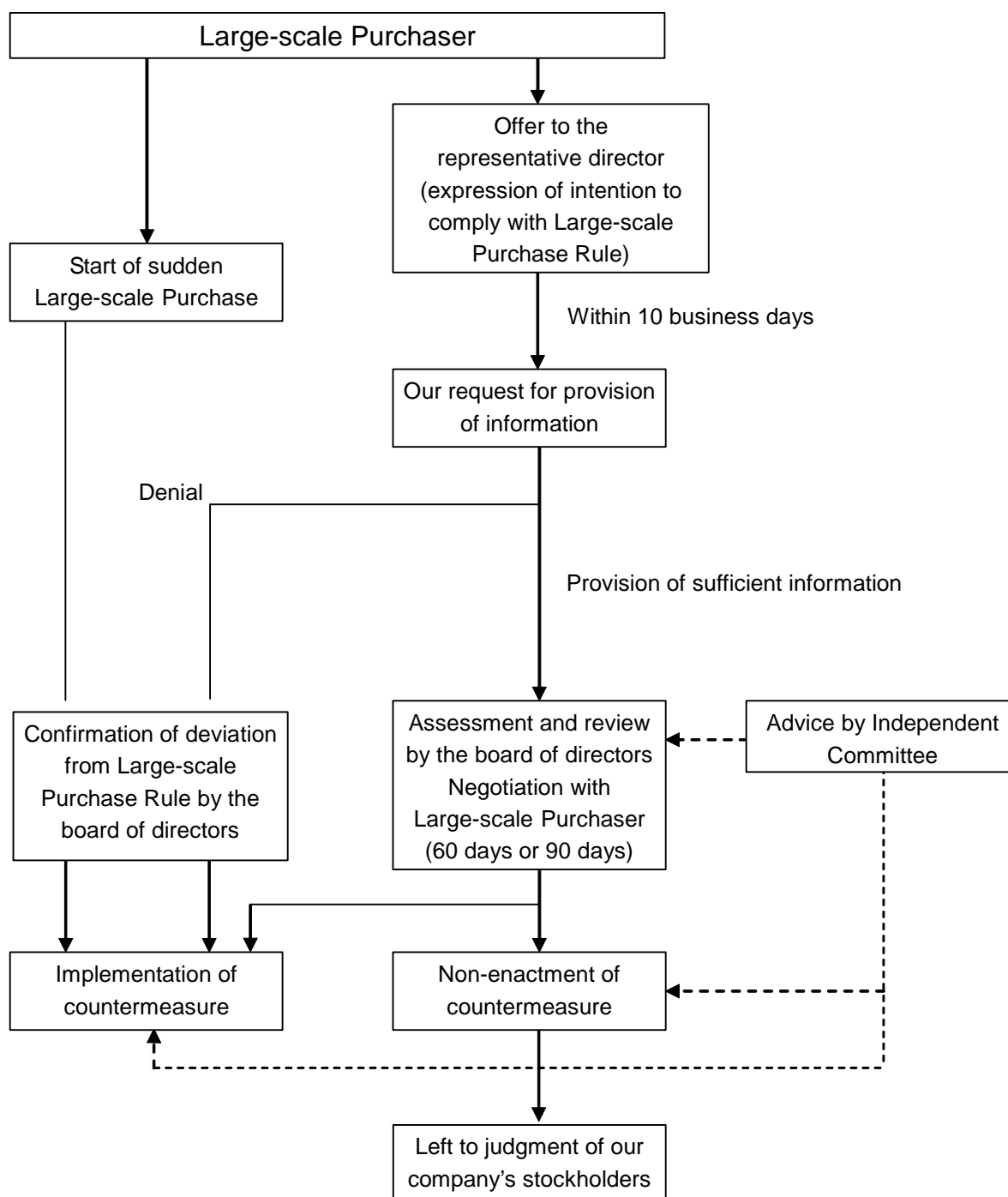
Tsuyoshi Miyazaki

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 | Outside Director of the Company (to date)                                 |

Notes: Four Outside 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.