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(Translation)

(Securities Code 4063)
June 7, 2016

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

Notice of Convocation of the 139th
Ordinary General Meeting of Shareholders

Dear Shareholder:

You are hereby notified that the 139th Ordinary General Meeting of Shareholders will be held as described below. Your attendance would be much appreciated.

If you are unable to attend the Meeting in person, you are entitled to exercise your voting rights in writing or via the Internet. We would appreciate it if you would take the time to review the Reference Documents for the General Meeting of Shareholders attached hereto and exercise your voting rights no later than 5:00 p.m. on Tuesday, June 28, 2016.

Description of Meeting

1. Date and Time : June 29, 2016 (Wednesday) at 10:00 a.m. (the reception is to start at 9:00 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 139th fiscal year (April 1, 2015 through March 31, 2016)
2. Report on the Financial Statements for the 139th fiscal year (April 1, 2015 through March 31, 2016)

- Matters to be resolved:
1st Agendum : Distribution of Retained Earnings to Shareholders
2nd Agendum : Election of Eleven (11) Directors
3rd Agendum : Issuance of Stock Acquisition Rights as Stock Options to Employees

Very truly yours,

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

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- ⊙ The Notes to Consolidated Financial Statements and the Notes to Non-Consolidated Financial Statements, which are to be attached to this notice of convocation, are published via the Internet on the website of the Company (<http://www.shinetsu.co.jp/>) pursuant to laws and the articles of incorporation of the Company. Therefore, the Consolidated Financial Statements and the Financial Statements attached to this notice of convocation are part of the Consolidated Financial Statements and the Financial Statements which the Audit & Supervisory Board Members and the Accounting Auditor audited in the course of preparing the audit report.
 - ⊙ Any modification that may be required in the Reference Documents for the General Meeting of Shareholders, or in the Business Report, the Financial Statements or the Consolidated Financial Statements, will be published via the Internet on the website of the Company (<http://www.shinetsu.co.jp/>).

Guidance on How to Exercise Voting Rights

If you are attending the Meeting of Shareholders in person

Date: Wednesday, June 29, 2016 at 10:00 a.m.

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

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

If you are not attending the Meeting of Shareholders in person

By Voting Card

To reach us by: Tuesday, June 28, 2016 5:00 p.m.

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

Via the Internet

To be exercised by: Tuesday, June 28, 2016 5:00 p.m.

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

Voting rights exercise site: <http://www.evotepj/>

If you exercise your voting rights multiple times

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

**Notice of Convocation of the 139th
Ordinary General Meeting of Shareholders**

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ANNEX

BUSINESS REPORT

(April 1, 2015 through March 31, 2016)

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, 2015 to March 31, 2016), although in the United States the recovery of the economy continued, the European economy turned out to be lacking in strength, and an economic slowdown tendency was seen in the emerging economies, such as those in the Asian region. In Japan, the economy moved along a gradual recovery track, such as the consumer spending continuing to be steady, supported by an improvement in the employment situation, and a recovery in capital investment being seen.

In these circumstances, the Shin-Etsu Group aggressively developed its sales activities to its wide range of customers around the world, and at the same time, we assiduously worked on developing products with special characteristics as well as enhancing our technologies and product quality. Furthermore, we focused on building a strong business foundation by such means as making full use at an early stage of our new global manufacturing plants, expanding our manufacturing bases both in Japan and globally and also focusing on stably securing raw materials.

As a result, the net sales for the Company's group for this consolidated fiscal year increased by 1.9% (24,264 million yen) compared with the previous fiscal year to 1,279,807 million yen. Compared to the performance of the previous fiscal year, operating income increased by 12.5% (23,196 million yen) to 208,525 million yen, ordinary income increased by 11.1% (21,980 million yen) to 220,005 million yen and, profit attributable to owners of parent increased by 15.7% (20,234 million yen) to 148,840 million yen.

The business operations of each division were as follows.

PVC/Chlor-Alkali

With regard to the PVC business, despite North American demand decreasing 2% year-on-year in the whole industry, Shintech in the U.S. expanded its domestic sales and at the same time aggressively carried out sales to its worldwide customers, and therefor its shipments continued to be firm. Shin-Etsu PVC in the Netherlands was affected by facility problems that occurred at a raw materials supplier during the latter half of the previous fiscal year. In Japan, although exports increased, domestic housing-related demand was slow.

As a result of the foregoing, this division's total sales decreased by 2.4% (10,955 million yen) from the previous fiscal year to 441,701 million yen, and operating income decreased by 11.1% (5,574 million yen) to 44,690 million yen.

Silicones

With regard to the silicones business, in Japan, although a demand slowdown was seen in some product applications in the electric and electronics fields, in a wide range of fields, including cosmetics and automobile applications, shipments were firm. Our silicones business outside of Japan continued to do well, particularly for highly functional silicone products for Europe, the United States and Southeast Asia.

As a result of the foregoing, this division's total sales increased by 5.8% (10,310 million yen) from the previous fiscal year to 187,748 million yen, and operating income increased by 24.2% (8,086 million yen) to 41,500 million yen.

Specialty Chemicals

With regard to cellulose derivatives, in Japan, shipments of pharmaceutical-use products and products for construction materials were firm. The business of SE Tylose in Germany continued to be steady, mainly for coatings products. Furthermore, in the silicon metal business of Simcoa Operations in Australia shipments continued to be firm.

As a result of the foregoing, this division's total sales increased by 4.0% (4,502 million yen) from the previous fiscal year to 116,849 million yen, and operating income increased by 19.1% (2,912 million yen) to 18,190 million yen.

Semiconductor Silicon

With regard to semiconductor silicon, the business was affected by inventory adjustments of logic devices caused by a slowdown in demand for electronics equipment, including for smartphones. However, applications for memory devices on the whole continued to be firm.

As a result of the foregoing, this division's total sales increased by 5.8% (13,310 million yen) from the previous fiscal year to 243,326 million yen, and operating income increased by 31.7% (11,302 million yen) to 46,911 million yen.

Electronics & Functional Materials

With regard to the rare earth magnets business, although products for applications in industrial equipment were slow, products for applications in automobiles continued to be firm, including those for hybrid cars. With regard to the photoresist products business, ArF resists and trilayer materials continued to be steady. Shipments of photomask blanks greatly increased. The business of materials for LED packaging continued to be firm, and optical fiber preform also continued good shipments.

As a result of the foregoing, this division's total sales increased by 1.8% (3,260 million yen) from the previous fiscal year to 186,765 million yen, and operating income increased by 11.4% (5,245 million yen) to 51,453 million yen.

Diversified Business

Shin-Etsu Polymer Co., Ltd.'s business of input devices for automobiles and semiconductor wafer-related containers continued to do well. In addition, the engineering business of Shin-Etsu Engineering Co., Ltd. also continued to be steady.

As a result of the foregoing, this division's total sales increased by 3.9% (3,836 million yen) from the previous fiscal year to 103,415 million yen and operating income increased by 16.7% (805 million yen) to 5,631 million yen.

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

The Company's group invested 134,753 million yen during this consolidated fiscal year mainly in the following:

Major facilities completed during this consolidated fiscal year:

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

Construction of a new research building (Silicone-Electronics Materials Research Center)

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

Enhancement of the integrated facilities for the manufacture of polyvinyl chloride (SHINTECH INC.)

Construction of an ethylene manufacturing plant (SHINTECH INC.)

Enhancement of the facility for manufacturing silicone (Asia Silicones Monomer Limited and Shin-Etsu Silicones (Thailand) Limited)

Construction of a photomask blanks manufacturing plant (in Fukui Prefecture)

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

Note: In addition to the above, the following plants are under construction at a non-consolidated subsidiary.

Rare earth magnets manufacturing plant (Shin-Etsu Magnetic Materials Vietnam Co., Ltd.)

Optical fiber preform manufacturing plant (Shin-Etsu YOFC (Hubei) Optical Preform Co., Ltd.)

Photoresist manufacturing plant (Shin-Etsu Electronics Materials Taiwan Co., Ltd.)

3. Problems Confronting the Company's Group

With regard to business prospects going forward, in the world economy, although an economic recovery is expected in the U.S., there are concerns about the effects of the economic slowdown in emerging economies, such as those in the Asian region, and there are uncertainties about the future direction of the world economy. In Japan as well, the situation is such that it does not allow for optimism because of such concerns of the effects of the world economy's downward movement.

Facing such a situation, the Shin-Etsu Group will carefully focus on developments in world markets and aggressively develop our sales activities while accurately capturing the growth in demand. At the same time, we will further accelerate the development of our global business by such means as constructing manufacturing bases at optimal locations and strengthening and expanding existing facilities. Furthermore, we will aim to build a strong business foundation by such means as further focusing on enhancing productivity and product quality and striving to assure the stable securing of raw materials.

In the PVC business, Shintech Inc. in the U.S. is constructing an ethylene plant, which will manufacture one of the main raw materials for PVC, and is going forward with the expansion of its integrated PVC manufacturing system, starting from the raw materials. By making good use of its advantageous raw materials situation in the U.S. and by continuing to carry out its sales strategies that accurately grasp global trends in demand, Shintech will further solidify its position as the world's largest PVC manufacturer.

In the semiconductor silicon business, we will precisely meet any and all demand for devices by assuring a stable supply of high-quality products to our worldwide customers from our multiple manufacturing bases, both in Japan and outside of Japan. At the same time, we will strengthen our competitive power by taking such measures as the strengthening of our research and development of silicon wafers for advanced electronics devices and making improvements in productivity.

In the silicones business, in order to steadily capture the demand for highly functional products, which is expected to expand, we are going forward with expansion of the production capacity of our manufacturing bases in Japan. We are also working on the expansion of our supply system for our worldwide customers through such means as carrying out a large expansion and strengthening of production capacity at our silicones plants in Thailand. Furthermore, we are strengthening our R&D system by making active use of our Silicone-Electronics Materials Research Center, which expanded with the completion of the construction of a new research building, as well as our newly opened Technical Center in the U.S. With these measures, we will strive for further business expansion both in Japan and globally.

In the rare earth magnets business, we will continue to strive to ensure stable procurement of raw materials by taking such measures as implementing our own in-house recycling of raw materials and diversifying supply sources. Furthermore, by making full use at an early stage of our new magnet manufacturing plant that is under construction in Vietnam, we will move ahead by establishing a stable supply system for rare earth magnets to meet the demand for these magnets, which is expanding both in Japan and outside of Japan, mainly for applications in automobiles.

In other businesses, in addition to the U.S. cellulose manufacturing plant for coating products and our optical fiber preform plant in China where enhancement of the plant is on-going, we will make good use of our global plants including a new plant for photoresists that is under construction in Taiwan and a photomask blanks plant that is under construction in Japan's Fukui prefecture, as we aim to achieve a further leap forward into the world market in these businesses.

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

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

4. Trend of Business Results and Financial Conditions

Item	Year	136th Fiscal Year	137th Fiscal Year	138th Fiscal Year	139th Fiscal Year
Net Sales	(Million Yen)	1,025,409	1,165,819	1,255,543	1,279,807
Profit attributable to owners of parent	(Million Yen)	105,714	113,617	128,606	148,840
Net Income per Share	(Yen)	248.94	267.20	302.05	349.46
Net Assets	(Million Yen)	1,623,176	1,822,135	2,012,711	2,080,465
Total Assets	(Million Yen)	1,920,903	2,198,912	2,452,306	2,510,085

5. Status of Major Subsidiary Companies, etc. (as of March 31, 2016)

(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
S.E.H. Malaysia Sdn. Bhd. (Malaysia)	RM181.50M	100.0 (100.0)	Processing 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 PVC B.V. (Netherlands)	EUR18,200	100.0 (100.0)	Manufacture and sales of polyvinyl chloride
Shin-Etsu Polymer Co., Ltd.	¥11,635M	52.6 (0.1)	Manufacture and sales of plastic products, etc.
SE Tylose GmbH & Co. KG (Germany)	EUR500,000	100.0 (100.0)	Manufacture and sales of cellulose derivative products
Shin-Etsu Astech Co., Ltd.	¥495M	99.6 (1.8)	Sales of chemical products, etc., and construction under contract
Shin-Etsu Engineering Co., Ltd.	¥200M	100.0	Design, engineering and construction of plants, etc.
Shin-Etsu Handotai Taiwan Co., Ltd. (Taiwan)	NT\$1,500M	70.0 (70.0)	Processing and sales of semiconductor silicon
SIMCOA OPERATIONS PTY. LTD. (Australia)	A\$32,005,100	100.0 (100.0)	Manufacture and sales of silicon metal
Shin-Etsu Silicones (Thailand) Limited (Thailand)	THB5,600M	100.0	Manufacture and sales of silicone products
Asia Silicones Monomer Limited (Thailand)	THB3,393M	100.0 (100.0)	Manufacture of silicone monomer
Nagano Electronics Industrial Co., Ltd.	¥80M	90.0	Processing of semiconductor silicon

Note: For the column regarding holding ratio, the upper number indicates the entire ratio of holdings held by both the Company and the Subsidiary Companies, while the lower number indicates the ratio held by the Subsidiary Companies. The holding ratios are computed net of any treasury shares held.

(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	43.9 (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: For the column regarding holding ratio, the upper number indicates the entire ratio of holdings held by both the Company and the Subsidiary Companies, while the lower number indicates the ratio held by the Subsidiary Companies. The holding ratios are computed net of any treasury shares held.

(3) Results of Consolidation

For this consolidated fiscal year, there are 91 consolidated subsidiaries etc. and 3 companies to which the equity method is applied, including the Major Subsidiary Companies and the Affiliated Companies mentioned above.

For this consolidated fiscal year, net sales amounted to 1,279,807 million yen (up by 1.9% from the previous fiscal year), and the profit attributable to owners of parent amounted to 148,840 million yen (up by 15.7% from the previous fiscal year).

6. Major Lines of Business of the Company's Group (as of March 31, 2016)

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, 2016)

(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 Astech Co., Ltd. (Tokyo); Shin-Etsu Engineering Co., Ltd. (Tokyo); and Nagano Electronics Industrial Co., Ltd. (Nagano 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 Taiwan Co., Ltd. (Taiwan); SIMCOA OPERATIONS PTY. LTD. (Australia); Shin-Etsu Silicones (Thailand) Limited (Thailand); and Asia Silicones Monomer Limited (Thailand)

8. Status of Employees of the Company's Group and the Company (as of March 31, 2016)

(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	+6
Silicones	2,232	+23
Specialty Chemicals	1,260	+54
Semiconductor Silicon	4,523	-28
Electronics & Functional Materials	3,275	+74
Diversified Business	5,867	+2
Total	18,407	+131

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
2,800	+43	42.0	20.2

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, 2016)

Name of Lender	Outstanding Borrowings (Million Yen)
Nippon Life Insurance Company	3,600
Meiji Yasuda Life Insurance Company	2,300
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,180
The Hachijuni Bank, Ltd.	2,060

II. Matters Concerning Stock in the Company (as of March 31, 2016)

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: 54,699

Note: The total number of issued shares includes 6,127,692 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)	41,394	9.7
Japan Trustee Services Bank, Ltd. (Trust Account)	32,268	7.6
Nippon Life Insurance Company	21,933	5.1
The Hachijuni Bank, Ltd.	11,790	2.8
Japan Trustee Services Bank, Ltd. (Trust Account 4)	11,512	2.7
Meiji Yasuda Life Insurance Company	10,687	2.5
GIC PRIVATE LIMITED	6,487	1.5
THE BANK OF NEW YORK MELLON SA/NV 10	6,467	1.5
STATE STREET BANK WEST CLIENT - TREATY 505234	6,315	1.5
Sompo Japan Nipponkoa Insurance Inc.	5,357	1.3

Note: The Company, which owns 6,127,692 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, 2016)

(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
10th Issue of Stock Acquisition Rights (07/27/2011)	90	9,000 shares of Common Stock in the Company	Distributed gratis	4,423	July 28, 2012 through March 31, 2016	Employees of Company
11th Issue of Stock Acquisition Rights (for Distribution to Directors) (09/24/2015)	4,600	460,000 shares of Common Stock in the Company	277	7,339	September 25, 2016 through March 31, 2020	Directors of Company (excluding Outside Directors)
11th Issue of Stock Acquisition Rights (for Distribution to Employees) (09/24/2015)	3,130	313,000 shares of Common Stock in the Company	Distributed gratis	7,339	September 25, 2016 through March 31, 2020	Employees of Company

Note: 1. The terms and conditions on which to exercise stock acquisition rights in each issue are outlined below:

- (1) 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).
- (2) In the event of the death of any person to whom the stock options are issued, heirs of such deceased person may exercise such stock options within two (2) years from the later of such death or the commencement of the exercisable period of rights (but only before the exercisable period of rights expires). Notwithstanding the foregoing, in the event of the death of any recipient of stock options that occurs after such recipient ceases to be a Director or an employee of the Company, heirs of such deceased person may exercise such stock options only within the period during which such deceased recipient would have been entitled to exercise such stock options in accordance with paragraph (1) above.
- (3) Other conditions are as prescribed in the Stock Option Allotment Agreement.

Note: 2. The 10th issue of stock acquisition rights was 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)	11th Issue of Stock Acquisition Rights (for Distribution to Directors)	4,600	18

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

Pursuant to a resolution adopted by the Board of Directors on September 8, 2015, the 11th Issue of Stock Acquisition Rights (for Distribution to Employees), intended as incentive stock options, was issued as of September 24, 2015 for distribution to 82 employees, as outlined below:

(1) Number of Stock Acquisition Rights Distributed

3,130

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

313,000 shares of common stock in the Company
(100 common shares of the Company per stock option)

(3) Issue Price

Issued without compensation.

(4) Payment Per Share upon Exercise of Stock Options

¥7,339

(5) Period within Which to Exercise Stock Options

From September 25, 2016, until March 31, 2020

(6) Conditions to Exercise Stock Options

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

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, 2016)

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, Technologies and Environmental Control & Safety Representative Director & President, Shin-Etsu Handotai Co., Ltd.
Representative Director - Executive Vice President	Yasuhiko Saitoh	In charge of 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.
Senior Managing Director	Toshinobu Ishihara	In charge of New Functional Materials and Patents General Manager, Research & Development Dept.
Managing Director	Kiichi Habata	
Managing Director	Koji Takasugi	In charge of Purchasing General Manager, Special Functional Products 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 Finance & Accounting and Public Relations General Manager, Office of the Secretariat General Manager, Office of the President
Managing Director	Fumio Arai	General Manager, Organic Chemicals Div. Director & President, Shin-Etsu PVC B.V. Director & President, SE Tylose GmbH & Co. KG
Managing Director	Yukihiro Matsui	General Manager and Magnet Dept. Manager of Electronics Materials Div.
Managing Director	Susumu Ueno	General Manager, Silicone Div.
Director ¹	Frank Peter Popoff	
Director ¹	Masashi Kaneko	
Director ¹	Tsuyoshi Miyazaki	Adviser, Mitsubishi Logistics Corporation
Director ¹	Toshihiko Fukui	President, the Canon Institute for Global Studies
Director ¹	Hiroshi Komiyama	Chairman, Mitsubishi Research Institute, Inc.
Director	Masaki Miyajima	General Manager, PVC Div.
Director	Toshiyuki Kasahara	General Manager, Finance & Accounting Dept.
Director	Hidenori Onezawa	In charge of Auditing General Manager, Business Development Dept.
Director	Kazumasa Maruyama	General Manager, New Functional Materials Dept.
Director	Kenji Ikegami	In charge of General Affairs General Manager, Personnel & Labor Relations Dept.
Director	Toshio Shiobara	Deputy General Manager and Organic Electronics Materials Dept. Manager of Electronics Materials Div.

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

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 Public 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
	Persons	Million Yen	
Directors	25	1,547	Portion payable to eight Outside Directors and Outside Audit & Supervisory Board Members: 170 million yen
Audit & Supervisory Board Members	6	78	
Total	31	1,626	

Notes: 1. The above figures include those relevant to two Directors and one Audit & Supervisory Board Member who retired from the office effective as of the conclusion of the 138th Ordinary General Meeting of Shareholders held on June 26, 2015.

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

3. In addition to the above, pursuant to a resolution adopted by the Board of Directors on September 8, 2015, 18 Directors (excluding Outside Directors) were granted stock acquisition rights intended as incentive stock options, which were valued at 115 million yen.

4. The amount of remuneration and others payable to the Directors is net of the amount of salaries (including bonuses) payable to the employee Directors in return for serving as employees.

5. In addition to the above, the amounts of remuneration and others paid or payable to 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 49 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. and FamilyMart Co., Ltd. However, there is no special relationship between the Company and either of these two companies that must be disclosed under this item.

Mr. Kiyoshi Nagano, Outside Audit & Supervisory Board Member, serves concurrently as Outside Director for SBI Holdings, Inc. and LEC, INC. However, there is no special relationship between the Company and either of these two companies that must be disclosed under this item.

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

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

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

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

In addition to the statutory Board of Directors, the Company has a second principal organ, called the Managing Directors’ Committee, for considering and deciding the execution of business processes, and each organ holds a meeting once a month (The Board of Directors meetings were held 14 times during the fiscal year under review.) as a general rule. The activities of the Company’s Outside Directors and Outside Audit & Supervisory Board Members via participation in these meetings and other arrangements are reviewed below:

a. Activities of Outside Directors

Name	Main Activities
Frank Peter Popoff	<p>The Director attended 13 out of 14 meetings of the Board of Directors held during the fiscal year (attendance rate 93%).</p> <p>For the Outside Directors or Outside Audit & Supervisory Board Members, we encourage them to participate in the review and decision-making process regarding business execution by explaining to them the agenda items of the meetings of the Board of Directors, asking them about their opinions in advance, and sending them copies of the minutes fully translated into English; thus, he supervised our management sufficiently from an independent standpoint.</p> <p>Furthermore, the Company has been aggressively promoting its business development overseas through the establishment of business locations all over the world, including in the U.S., Asia, and Europe. Mr. Popoff's opinions and practical advice, from a broad perspective based on his management experience as CEO of The Dow Chemical Company, a U.S. company that has a long history as a global company, have been of significant importance for the Company to expand its business overseas and enhance its corporate value.</p> <p>He also serves as the commissioner of the Officers' Remuneration Committee, and his work so far includes repealing the Officers' Retirement Benefits Program and making other significant revisions to the officers' remuneration system, thus striving to achieve an appropriate corporate governance structure with regard to the officers' remuneration system.</p>
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 meetings of the Board of Directors (attendance rate 93%), 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 86%), 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 meetings of the Board of Directors and of the Audit & Supervisory Board 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 meetings of the Board of Directors (attendance rate 93%) and of the Audit & Supervisory Board (attendance rate 100%), as well as Managing Directors' Committee meetings. At the Audit & Supervisory Board meetings he shared his comments from a 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 Jasdq 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

127 million yen

Note: 1. The Audit Agreement between the Company and the Accounting Auditor does not distinguish between the amounts of remuneration and others for the Accounting Auditor's audit service specified under the Corporations Law and for the audit service specified under the Financial Instruments and Exchange Law. In fact, these amounts are practically indivisible, so the amount shown above is given as a lump sum.

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

4. Details of Non-audit Services

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

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

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

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

The Company's policy states that, if the Accounting Auditor is found to meet the definition of one of the Items of Paragraph 1, Article 340 of the Corporations Law, subject to the consent of all Audit & Supervisory Board Members, the Audit & Supervisory Board shall dismiss the Accounting Auditor. In addition to the cases mentioned above, the Audit & Supervisory Board determines the content of the proposal to be submitted to the General Meeting of Shareholders concerning the dismissal or non-reappointment of the Accounting Auditor if the Company has a reason or need of its own to do so or if it is difficult for the Accounting Auditor to perform its duties appropriately.

7. Content of a Disposition for Suspending Operations Made to the Accounting Auditor for the Past Two Years

On December 22, 2015, the Financial Services Agency made a disposition to suspend the operations of the Accounting Auditor of the Company with regard to executing new contracts for three months (from January 1, 2016 to March 31, 2016).

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

1. System to Ensure the Properness of Operations

“The Group strictly complies with all laws and regulations, conducts fair business practices and contributes to people’s daily lives as well as to the advance of industry and society by 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 Company’s and Its Subsidiaries’ Directors and Employees Perform Their Work Duties in Accordance with Applicable Laws and the Company’s and Its Subsidiaries’ Articles of Incorporation

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

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

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

The Company will appoint independent Outside Directors and Outside Audit & Supervisory Board Members, who will endeavor to preserve the compliance system from an independent point of view, by attending meetings of the Board of Directors and Managing Directors’ meetings and/or by other actions.

(2) System to Preserve and Administer Information Concerning the Company’s Directors’ Performance of Their Work Duties

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

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

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

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

(4) System to Ensure That the Company’s and Its Subsidiaries’ Directors Perform Their Work Duties in an Effective Manner

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

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

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

The Group Companies have a corporate philosophy of taking appropriate corporate actions, based on a desire to act in a lawful manner.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) Progress of Compliance

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

When there have been any laws and regulations related to corporate activities to be established or revised, the Legal Department took the leadership in notifying and informing other departments of the Company of such matters. The Internal Audit Department made the annual audit plan in terms of the legality and reasonableness of business activities and audited each department, and reported the results thereof to the Directors and the Audit & Supervisory Board Members, etc.

With respect to compliance training, the Company held webinars for compliance with the Antimonopoly Act and the prevention of bribes, as well as seminars, reflecting the Company's ideas about compliance and the incidents of other companies in training for new employees and each class of managerial personnel, and thereby ensured compliance awareness.

(2) Progress of Preserving and Managing Information

The Company preserved and managed information assets including important documents in accordance with the Regulations of Information Management. The Company also regularly confirmed the status of education, training and compliance with regulations related to information security.

(3) Progress of Managing the Risk of Damage

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

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

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

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

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

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

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

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

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

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

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

The content of the specific efforts, which we will implement with a view to enhancing the corporate value of the Company’s group, are as set out in and after paragraph 3 of “3. Problems Confronting the Company’s Group” under “I. Matters Concerning the Current State of the Company’s Group” (page 3).

The Board of Directors considers that all of the specific efforts referred to 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 138th 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

The effective period of the Handling Policy will be up to the conclusion of the Company's 139th Ordinary General Shareholders' Meeting to be held in June 2016.

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.

(Reference)

The effective period of the Handling Policy will expire as of the conclusion of the 139th Ordinary General Meeting of Shareholders to be held on June 29, 2016. The Company has decided at the Board of Director's Meeting held on May 20, 2016 not to continue with the Handling Policy.

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

## CONSOLIDATED BALANCE SHEET

As of March 31, 2016 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

### ASSETS

#### Current Assets:

|                                            | (Millions of yen) |
|--------------------------------------------|-------------------|
| Cash and time deposits -----               | 597,048           |
| Notes and accounts receivable-trade-----   | 268,905           |
| Securities-----                            | 236,486           |
| Merchandise and finished goods -----       | 133,664           |
| Work in process-----                       | 13,367            |
| Raw materials and supplies -----           | 133,981           |
| Deferred taxes, current-----               | 36,330            |
| Other-----                                 | 47,689            |
| Less: Allowance for doubtful accounts----- | <u>(14,840)</u>   |
| Total current assets                       | <u>1,452,633</u>  |

#### Fixed Assets:

##### Property, Plant and Equipment:

|                                     |              |
|-------------------------------------|--------------|
| Buildings and structures, net-----  | 170,478      |
| Machinery and equipment, net -----  | 410,322      |
| Land -----                          | 83,108       |
| Construction in progress-----       | 133,551      |
| Other, net -----                    | <u>7,510</u> |
| Total property, plant and equipment | 804,972      |

Intangible Assets----- 13,152

##### Investments and Other Assets:

|                                            |                  |
|--------------------------------------------|------------------|
| Investments in securities -----            | 130,202          |
| Deferred taxes, non-current -----          | 16,458           |
| Other-----                                 | 94,474           |
| Less: Allowance for doubtful accounts----- | <u>(1,807)</u>   |
| Total investments and other assets         | <u>239,327</u>   |
| Total fixed assets                         | <u>1,057,451</u> |

TOTAL ASSETS 2,510,085

## LIABILITIES

### Current Liabilities:

|                                       | (Millions of yen) |
|---------------------------------------|-------------------|
| Notes and accounts payable-trade----- | 115,557           |
| Short-term borrowings-----            | 7,873             |
| Accounts payable-other-----           | 49,071            |
| Accrued expenses-----                 | 56,824            |
| Accrued income taxes-----             | 29,519            |
| Accrued bonuses for employees-----    | 2,627             |
| Accrued bonuses for directors-----    | 547               |
| Other-----                            | <u>19,933</u>     |
| Total current liabilities             | <u>281,954</u>    |

### Long-Term Liabilities:

|                                    |                |
|------------------------------------|----------------|
| Long-term debt-----                | 5,288          |
| Deferred taxes, non-current-----   | 96,183         |
| Net defined benefit liability----- | 33,319         |
| Other-----                         | <u>12,872</u>  |
| Total long-term liabilities        | <u>147,665</u> |
| TOTAL LIABILITIES                  | <u>429,619</u> |

## NET ASSETS

### Stockholders' Equity:

|                                    |                  |
|------------------------------------|------------------|
| Common stock-----                  | 119,419          |
| Additional paid-in capital-----    | 128,759          |
| Retained earnings-----             | 1,731,042        |
| Less: Treasury stock, at cost----- | <u>(33,407)</u>  |
| Total stockholders' equity         | <u>1,945,813</u> |

### Accumulated Other Comprehensive Income:

|                                                                 |                |
|-----------------------------------------------------------------|----------------|
| Unrealized gains (losses) on available-for-sale securities----- | 13,780         |
| Deferred gains (losses) on hedges-----                          | 1,611          |
| Foreign currency translation adjustments-----                   | 68,566         |
| Remeasurements of defined benefit plans-----                    | <u>(1,480)</u> |
| Total accumulated other comprehensive income                    | <u>82,478</u>  |

|                                                             |        |
|-------------------------------------------------------------|--------|
| Share Subscription Rights-----                              | 237    |
| Non-Controlling Interests in Consolidated Subsidiaries----- | 51,936 |

TOTAL NET ASSETS 2,080,465

TOTAL LIABILITIES AND NET ASSETS 2,510,085



## CONSOLIDATED STATEMENT OF INCOME

For the fiscal year ended March 31, 2016 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

|                                                                   | (Millions of yen)     |
|-------------------------------------------------------------------|-----------------------|
| Net Sales -----                                                   | 1,279,807             |
| Cost of Sales -----                                               | <u>930,019</u>        |
| Gross profit -----                                                | 349,787               |
| <br>                                                              |                       |
| Selling, General and Administrative Expenses -----                | <u>141,262</u>        |
| Operating income -----                                            | 208,525               |
| <br>                                                              |                       |
| Non-Operating Income:                                             |                       |
| Interest income -----                                             | 4,011                 |
| Dividend income -----                                             | 4,506                 |
| Equity in earnings of affiliates -----                            | 3,302                 |
| Other income -----                                                | <u>8,684</u>          |
| Total non-operating income -----                                  | 20,505                |
| Non-Operating Expenses:                                           |                       |
| Interest expenses -----                                           | 452                   |
| Foreign exchange loss -----                                       | 2,760                 |
| Loss on retirement of fixed assets -----                          | 1,329                 |
| Other expenses -----                                              | <u>4,483</u>          |
| Total non-operating expenses -----                                | <u>9,025</u>          |
| Ordinary income -----                                             | 220,005               |
| <br>                                                              |                       |
| Income before income taxes and<br>non-controlling interests ----- | 220,005               |
| <br>                                                              |                       |
| Income Taxes:                                                     |                       |
| Current -----                                                     | 65,342                |
| Deferred -----                                                    | <u>4,284</u>          |
| Total income taxes -----                                          | <u>69,627</u>         |
| Profit -----                                                      | 150,377               |
| <br>                                                              |                       |
| Profit Attributable to Non-Controlling Interests -----            | <u>1,537</u>          |
| Profit Attributable to Owners of Parent -----                     | <u><u>148,840</u></u> |

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the fiscal year ended March 31, 2016 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

|                                                      | Stockholders' Equity |                            |                   |                         | (Millions of yen) |
|------------------------------------------------------|----------------------|----------------------------|-------------------|-------------------------|-------------------|
|                                                      | Common stock         | Additional paid-in capital | Retained earnings | Treasury stock, at cost | [Total]           |
| Balance as of April 1, 2015                          | 119,419              | 128,572                    | 1,626,873         | (33,837)                | 1,841,029         |
| Changes during the year                              |                      |                            |                   |                         |                   |
| Cash dividends                                       | -                    | -                          | (44,720)          | -                       | (44,720)          |
| Profit attributable to owners of parent              | -                    | -                          | 148,840           | -                       | 148,840           |
| Purchase of treasury stock                           | -                    | -                          | -                 | (16)                    | (16)              |
| Disposal of treasury stock                           | -                    | (19)                       | -                 | 445                     | 425               |
| Other                                                | -                    | 206                        | 49                | -                       | 255               |
| Net changes of items other than stockholders' equity | -                    | -                          | -                 | -                       | -                 |
| Total changes during the year                        | -                    | 186                        | 104,168           | 429                     | 104,784           |
| Balance as of March 31, 2016                         | 119,419              | 128,759                    | 1,731,042         | (33,407)                | 1,945,813         |

|                                                      | Accumulated Other Comprehensive Income                     |                                   |                                          |                                         |          | Share subscription rights | Non-controlling interests in consolidated subsidiaries | Total net assets |
|------------------------------------------------------|------------------------------------------------------------|-----------------------------------|------------------------------------------|-----------------------------------------|----------|---------------------------|--------------------------------------------------------|------------------|
|                                                      | Unrealized gains (losses) on available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustments | Remeasurements of defined benefit plans | [Total]  |                           |                                                        |                  |
| Balance as of April 1, 2015                          | 22,349                                                     | (91)                              | 100,425                                  | (3,382)                                 | 119,300  | 139                       | 52,242                                                 | 2,012,711        |
| Changes during the year                              |                                                            |                                   |                                          |                                         |          |                           |                                                        |                  |
| Cash dividends                                       | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | (44,720)         |
| Profit attributable to owners of parent              | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | 148,840          |
| Purchase of treasury stock                           | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | (16)             |
| Disposal of treasury stock                           | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | 425              |
| Other                                                | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | 255              |
| Net changes of items other than stockholders' equity | (8,568)                                                    | 1,703                             | (31,858)                                 | 1,901                                   | (36,822) | 97                        | (306)                                                  | (37,030)         |
| Total changes during the year                        | (8,568)                                                    | 1,703                             | (31,858)                                 | 1,901                                   | (36,822) | 97                        | (306)                                                  | 67,753           |
| Balance as of March 31, 2016                         | 13,780                                                     | 1,611                             | 68,566                                   | (1,480)                                 | 82,478   | 237                       | 51,936                                                 | 2,080,465        |

## NON-CONSOLIDATED BALANCE SHEET

As of March 31, 2016 (Amounts are stated in millions of yen; amounts less than 1 million are omitted)

### ASSETS

#### Current Assets:

|                                             | (Millions of yen) |
|---------------------------------------------|-------------------|
| Cash and time deposits -----                | 191,571           |
| Notes receivable -----                      | 5,541             |
| Accounts receivable-trade -----             | 161,238           |
| Securities -----                            | 152,000           |
| Merchandise and finished goods -----        | 31,871            |
| Semi-finished products -----                | 18,894            |
| Raw materials and supplies -----            | 47,581            |
| Advance payments -----                      | 312               |
| Deferred taxes, current -----               | 18,341            |
| Short-term loans -----                      | 10,604            |
| Accounts receivable-other -----             | 27,420            |
| Other -----                                 | 5,313             |
| Less: Allowance for doubtful accounts ----- | (6,500)           |
| Total current assets                        | <u>664,190</u>    |

#### Fixed Assets:

##### Property, Plant and Equipment:

|                                          |                |
|------------------------------------------|----------------|
| Buildings, net -----                     | 41,524         |
| Structures, net -----                    | 4,409          |
| Machinery and equipment, net -----       | 39,055         |
| Vehicles, net -----                      | 114            |
| Tools, furniture and fixtures, net ----- | 2,808          |
| Land -----                               | 24,181         |
| Leased assets, net -----                 | 79             |
| Construction in progress -----           | 9,754          |
| Total property, plant and equipment      | <u>121,927</u> |

Intangible Assets ----- 1,880

##### Investments and Other Assets:

|                                                                  |                |
|------------------------------------------------------------------|----------------|
| Investments in securities -----                                  | 67,864         |
| Investments in capital of subsidiaries and affiliates -----      | 143,414        |
| Investments in partnerships -----                                | 11             |
| Investments in partnerships of subsidiaries and affiliates ----- | 14,054         |
| Long-term loans -----                                            | 5,468          |
| Long-term prepaid expenses -----                                 | 49             |
| Other -----                                                      | 3,461          |
| Less: Allowance for doubtful accounts -----                      | (10)           |
| Total investments and other assets                               | <u>234,314</u> |
| Total fixed assets                                               | <u>358,122</u> |

TOTAL ASSETS 1,022,313

## LIABILITIES

### Current Liabilities:

|                                    | (Millions of yen) |
|------------------------------------|-------------------|
| Accounts payable-trade-----        | 98,706            |
| Short-term borrowings-----         | 6,340             |
| Lease obligations-----             | 52                |
| Accounts payable-other-----        | 20,126            |
| Accrued income taxes-----          | 16,108            |
| Accrued expenses-----              | 13,441            |
| Advances received-----             | 101               |
| Deposits-----                      | 79,130            |
| Accrued bonuses for directors----- | 446               |
| Other-----                         | 128               |
| Total current liabilities          | <u>234,582</u>    |

### Long-Term Liabilities:

|                                       |                       |
|---------------------------------------|-----------------------|
| Long-term debt-----                   | 5,003                 |
| Lease obligations-----                | 74                    |
| Long-term accounts payable-other----- | 1,298                 |
| Deferred taxes, non-current-----      | 362                   |
| Accrued retirement benefits-----      | 6,242                 |
| Asset retirement obligations-----     | 67                    |
| Total long-term liabilities           | <u>13,049</u>         |
| <b>TOTAL LIABILITIES</b>              | <u><b>247,632</b></u> |

## NET ASSETS

### Stockholders' Equity:

|                                                  |                 |
|--------------------------------------------------|-----------------|
| Common stock-----                                | 119,419         |
| Additional paid-in capital:                      |                 |
| Capital reserve-----                             | 120,771         |
| Other capital reserve-----                       | 375             |
| Total additional paid-in capital-----            | <u>121,147</u>  |
| Retained earnings:                               |                 |
| Legal earned reserve-----                        | 6,778           |
| Other retained earnings:                         |                 |
| Reserve for special depreciation-----            | 228             |
| Reserve for disaster prevention-----             | 49              |
| Reserve for reduction entry of fixed assets----- | 2,026           |
| Reserve for research-----                        | 88              |
| Reserve for dividend equalization-----           | 15              |
| Reserve for reduction entry of land-----         | 20              |
| General reserve-----                             | 351,137         |
| Retained earnings brought forward-----           | 192,056         |
| Total other retained earnings-----               | <u>545,623</u>  |
| Total retained earnings                          | <u>552,401</u>  |
| Less: Treasury stock, at cost-----               | <u>(33,407)</u> |
| Total stockholders' equity-----                  | <u>759,560</u>  |

### Valuation and Translation Adjustments:

|                                                                 |        |
|-----------------------------------------------------------------|--------|
| Unrealized gains (losses) on available-for-sale securities----- | 14,899 |
|-----------------------------------------------------------------|--------|

|                                         |                         |
|-----------------------------------------|-------------------------|
| Share Subscription Rights-----          | 221                     |
| <b>TOTAL NET ASSETS</b>                 | <u><b>774,680</b></u>   |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <u><b>1,022,313</b></u> |

## NON-CONSOLIDATED STATEMENT OF INCOME

For the fiscal year ended March 31, 2016 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

|                                                    | (Millions of yen)    |
|----------------------------------------------------|----------------------|
| Net Sales -----                                    | 630,239              |
| Cost of Sales -----                                | <u>481,124</u>       |
| Gross profit -----                                 | 149,114              |
| <br>                                               |                      |
| Selling, General and Administrative Expenses ----- | <u>45,573</u>        |
| Operating income -----                             | 103,541              |
| <br>                                               |                      |
| Non-Operating Income:                              |                      |
| Interest income -----                              | 225                  |
| Dividend income -----                              | 6,629                |
| Other income -----                                 | <u>3,740</u>         |
| Total non-operating income -----                   | 10,594               |
| <br>                                               |                      |
| Non-Operating Expenses:                            |                      |
| Interest expenses -----                            | 170                  |
| Other expenses -----                               | <u>3,948</u>         |
| Total non-operating expenses -----                 | <u>4,118</u>         |
| Ordinary income -----                              | 110,017              |
| <br>                                               |                      |
| Income before income taxes -----                   | 110,017              |
| <br>                                               |                      |
| Income Taxes:                                      |                      |
| Current -----                                      | 34,040               |
| Deferred -----                                     | <u>650</u>           |
| Total income taxes -----                           | <u>34,690</u>        |
| Net Income -----                                   | <u><u>75,327</u></u> |



\* Breakdown of other retained earnings

(Millions of yen)

|                                                          | Reserve for special depreciation | Reserve for disaster prevention | Reserve for reduction entry of fixed assets | Reserve for research | Reserve for dividend equalization |
|----------------------------------------------------------|----------------------------------|---------------------------------|---------------------------------------------|----------------------|-----------------------------------|
| Balance as of April 1, 2015                              | 214                              | 43                              | 2,015                                       | 88                   | 15                                |
| Changes during the year                                  |                                  |                                 |                                             |                      |                                   |
| Cash dividends                                           | -                                | -                               | -                                           | -                    | -                                 |
| Provision of reserve for special depreciation            | 103                              | -                               | -                                           | -                    | -                                 |
| Reversal of reserve for special depreciation             | (88)                             | -                               | -                                           | -                    | -                                 |
| Provision of reserve for disaster prevention             | -                                | 6                               | -                                           | -                    | -                                 |
| Provision of reserve for reduction entry of fixed assets | -                                | -                               | 46                                          | -                    | -                                 |
| Reversal of reserve for reduction entry of fixed assets  | -                                | -                               | (35)                                        | -                    | -                                 |
| Provision of reserve for reduction entry of land         | -                                | -                               | -                                           | -                    | -                                 |
| Net income                                               | -                                | -                               | -                                           | -                    | -                                 |
| Total changes during the year                            | 14                               | 6                               | 11                                          | -                    | -                                 |
| Balance as of March 31, 2016                             | 228                              | 49                              | 2,026                                       | 88                   | 15                                |

|                                                          | Reserve for reduction entry of land | General reserve | Retained earnings brought forward | Total other retained earnings |
|----------------------------------------------------------|-------------------------------------|-----------------|-----------------------------------|-------------------------------|
| Balance as of April 1, 2015                              | 20                                  | 351,137         | 161,481                           | 515,016                       |
| Changes during the year                                  |                                     |                 |                                   |                               |
| Cash dividends                                           | -                                   | -               | (44,720)                          | (44,720)                      |
| Provision of reserve for special depreciation            | -                                   | -               | (103)                             | -                             |
| Reversal of reserve for special depreciation             | -                                   | -               | 88                                | -                             |
| Provision of reserve for disaster prevention             | -                                   | -               | (6)                               | -                             |
| Provision of reserve for reduction entry of fixed assets | -                                   | -               | (46)                              | -                             |
| Reversal of reserve for reduction entry of fixed assets  | -                                   | -               | 35                                | -                             |
| Provision of reserve for reduction entry of land         | 0                                   | -               | (0)                               | -                             |
| Net income                                               | -                                   | -               | 75,327                            | 75,327                        |
| Total changes during the year                            | 0                                   | -               | 30,574                            | 30,607                        |
| Balance as of March 31, 2016                             | 20                                  | 351,137         | 192,056                           | 545,623                       |

## Audit Report of Accounting Auditor on the Consolidated Financial Statements

(English Translation)

### Independent Auditor's Report

May 16, 2016

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

Ernst & Young ShinNihon LLC  
Noritada Aizawa, CPA  
Designated and Engagement Partner

Ryogo Ichikawa, 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 139th fiscal year from April 1, 2015 through March 31, 2016.

#### *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 139th fiscal year ended March 31, 2016 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 16, 2016

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

Ernst & Young ShinNihon LLC  
Noritada Aizawa , CPA  
Designated and Engagement Partner

Ryogo Ichikawa, 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 139th fiscal year from April 1, 2015 through March 31, 2016.

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

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of Shin-Etsu Chemical Co., Ltd. applicable to the 139th fiscal year ended March 31, 2016 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 139th fiscal year from April 1, 2015 to March 31, 2016, based upon, and after having considered, the audit reports prepared by the individual Audit & Supervisory Board Members. The Report follows:

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

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

(2) In accordance with the standards established by the Audit & Supervisory Board for auditing by the Audit & Supervisory Board Members, pursuant to the audit policy and assigned duties and others, the individual Audit & Supervisory Board Members promoted communication with the Directors, the internal audit function, and other employees and others, in order to enhance information collection and the overall audit environment, and conducted audits by the following methods.

① They also attended the Board of Directors' meetings and other important meetings, and received reports from the Directors and employees and others on their progress in executing duties and requested explanations from them as needed. They perused important documented decisions, approvals and others, and conducted on-site investigations to determine the operation of business practices and the status of assets at the Head Office and other principal places of business. With regard to the subsidiaries, the Audit & Supervisory Board Members promoted communication and information sharing with the Directors, Audit & Supervisory Board Members and others of the subsidiaries, and received business reports from subsidiaries as needed.

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

③ 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.

④ The Audit & Supervisory Board monitored the Accounting Auditor to determine whether it maintained its independence and conducted appropriate audits, and received reports from the Accounting Auditor on its progress in executing duties and asked for explanations as needed. The Board was also advised by the Accounting Auditor of its appropriate development of systems enumerated in the Items of Article 131 of the Corporate Calculation Regulations as constituting a "system to ensure the proper execution of duties," and asked for explanations as needed.

Based on the methods above, the Audit & Supervisory Board examined the Business Report and its Annexed Schedules, Financial Documents (Balance Sheet, Income Statement, Statement of Changes in Shareholders' Equity and Other Net Assets, and Non-consolidated Notes thereto) along with their Annexed Schedules, as well as the Consolidated Financial Documents (Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Changes in Shareholders' Equity and Other Net Assets, and Consolidated Notes thereto), all covering the fiscal year under review.

## 2. Results of Audits

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

- ① The Audit & Supervisory Board certifies that the Business Report and its Annexed Schedules fairly present the state of affairs of the Company in conformity with laws and regulations and the Articles of Incorporation.
- ② The Board finds no irregular acts that occurred or significant facts that violated laws and regulations or the Articles of Incorporation, in connection with the execution of duties by the Directors.
- ③ The Board certifies the adequacy of the Board of Directors' resolutions relevant to internal control systems. Also, the Board finds no items that require particular notice in connection with the substance of the Business Report or the execution of duties by the Directors relevant to such internal control systems.
- 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 18, 2016

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

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

## Reference Documents for Exercising Voting Rights

### Agenda and Reference Materials

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

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

The Company proposes a year-end cash dividend distribution for the 139th 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 ¥55 per share of Common Stock in the Company; ¥23,428,845,055 in total.
3. Effective Date of Distribution of Retained Earnings  
June 30, 2016

The Company has paid an interim cash dividend of ¥55 per share for the current fiscal year; thus, dividend payment for the full year will be ¥110 per share, ¥10 up from the ¥100 for the previous term.

#### 2nd Agendum: Election of Eleven (11) Directors

Upon the conclusion of this Ordinary General Meeting of Shareholders, the terms of office of eleven (11) Directors, namely, Messrs. Chihiro Kanagawa, Shunzo Mori, Fumio Akiya, Kiichi Habata, Masahiko Todoroki, Toshiya Akimoto, Fumio Arai, Masashi Kaneko, Hiroshi Komiyama, Kenji Ikegami and Toshio Shiobara will expire. Accordingly, the Board of Directors proposes that eleven (11) persons be elected as Directors.

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

|                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
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| <p>No. 1</p> <p><b>Chihiro Kanagawa</b><br/>(March 15, 1926)</p> <p>Number of Company Shares Held<br/>193,900 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u></p> | <p><b>▶ Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Feb., 1962    Joined the Company<br/> Dec., 1970    General Manager of Overseas Business Div.<br/> Jan., 1975    Director<br/> Aug., 1976    Managing Director<br/> Jan., 1979    Senior Managing Director<br/> Aug., 1983    Representative Director and Executive Vice President<br/> Aug., 1990    Representative Director and President<br/> June, 2010    Representative Director and Chairman (to date)</p> <p><b>-Important Positions in Other Entities-</b><br/> Director and Chairman of SHINTECH INC.</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p><b>▶ Reasons for Electing the Candidate for Director</b><br/> Mr. Chihiro Kanagawa has done his utmost to increase the Company's value such as leading the Company with his excellent management prowess, building up the world's largest PVC and semiconductor silicon operations, endeavoring to establish an even stronger operational foundation and serving as the chairman of the Meeting of Board of Directors. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p> |
| <p>No. 2</p> <p><b>Shunzo Mori</b><br/>(June 27, 1937)</p> <p>Number of Company Shares Held<br/>27,650 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u></p>        | <p><b>▶ Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Sept., 1963    Joined the Company<br/> May, 1985    Director of Shin-Etsu Engineering Co., Ltd.<br/> May, 1988    Managing Director of the above<br/> Jan., 1992    General Manager of Takefu Plant of the Company<br/> June, 1992    Director<br/> June, 1996    Managing Director<br/> June, 1998    Senior Managing Director<br/> July, 2007    Representative Director and Senior Managing Director<br/> June, 2009    Representative Director and Executive Vice President<br/> June, 2010    Representative Director and President (to date)</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p><b>▶ Reasons for Electing the Candidate for Director</b><br/> Mr. Shunzo Mori has a broad range of experience both in Japan and abroad and is highly capable of exercising good judgment as an engineer, and since taking office as the President in June 2010, he has endeavored to proactively expand business operations and done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>    |

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| <p>No. 3</p> <p style="text-align: center;"><b>Fumio Akiya</b><br/>(October 20, 1940)</p> <p>Number of Company Shares Held<br/>11,600 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u></p>  | <p><b>▶ Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1964    Joined the Company<br/> Oct., 1997    General Manager of Technology Dept.<br/> June, 1998    Director<br/> June, 2000    Managing Director<br/> June, 2002    Senior Managing Director<br/> June, 2004    In charge of Advanced Materials and Technology (to date)<br/> July, 2007    Representative Director and Senior Managing Director<br/> Nov., 2008    In charge of Semiconductor Materials (to date)<br/> June, 2009    Representative Director and Executive Vice President (to date)<br/> June, 2015    In charge of Environmental Control &amp; Safety (to date)</p> <p><b>-Important Positions in Other Entities-</b><br/> Representative Director and President of Shin-Etsu Handotai Co., Ltd.</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p><b>▶ Reasons for Electing the Candidate for Director</b><br/> Mr. Fumio Akiya has extensive knowledge on production technologies and has endeavored to construct a strong foundation in the semiconductor silicon operation, and has done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p> |
| <p>No. 4</p> <p style="text-align: center;"><b>Masahiko Todoroki</b><br/>(May 16, 1953)</p> <p>Number of Company Shares Held<br/>8,755 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u></p> | <p><b>▶ Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1976    Joined the Company<br/> Jan., 2001    General Manager of Planning &amp; Administration Dept. of Semiconductor Materials Division (to date)<br/> Apr., 2004    Director of Shin-Etsu Handotai Co., Ltd.<br/> June, 2006    Director<br/> June, 2009    Managing Director of Shin-Etsu Handotai Co., Ltd. (to date)<br/> June, 2010    Managing Director (to date)</p> <p><b>-Important Positions in Other Entities-</b><br/> Managing Director of Shin-Etsu Handotai Co., Ltd.</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p><b>▶ Reasons for Electing the Candidate for Director</b><br/> Mr. Masahiko Todoroki has endeavored to expand the semiconductor silicon operation for many years and has done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                                                                                                                                                                                                                                                             |

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| <p>No. 5</p> <p style="text-align: center;"><b>Toshiya Akimoto</b><br/>(June 5, 1959)</p> <p>Number of Company Shares Held<br/>5,400 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u></p>  | <p><b>▶ Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1982    Joined the Company<br/> Sept., 2007    General manager of Office of the Secretariat (to date)<br/> June, 2008    Director<br/> June, 2010    Managing Director (to date)<br/>                     In charge of Finance &amp; Accounting (to date)<br/> June, 2015    In charge of Public Relations (to date)<br/>                     General Manager, Office of the President (to date)</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p><b>▶ Reasons for Electing the Candidate for Director</b></p> <p>Mr. Toshiya Akimoto has extensive knowledge on management planning and financial accounting and has done his utmost to increase the Company's value such as taking charge of public relations and CSR. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                                                              |
| <p>No. 6</p> <p style="text-align: center;"><b>Fumio Arai</b><br/>(September 15, 1958)</p> <p>Number of Company Shares Held<br/>5,000 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u></p> | <p><b>▶ Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1981    Joined the Company<br/> Mar., 2003    Director and President of Shin-Etsu PVC B.V. (to date)<br/> Jan., 2004    Director and President of SE Tylose GmbH &amp; Co. KG (to date)<br/> June, 2004    Director<br/> June, 2010    General Manager of Organic Chemicals Division (to date)<br/> June, 2013    Managing Director (to date)</p> <p><b>-Important Positions in Other Entities-</b></p> <p>Director and President of Shin-Etsu PVC B.V.<br/> Director and President of SE Tylose GmbH &amp; Co. KG</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p><b>▶ Reasons for Electing the Candidate for Director</b></p> <p>Mr. Fumio Arai has endeavored to expand the PVC operation in Europe and organic chemicals operation throughout the world and has done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p> |

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| <p>No. 7</p> <p><b>Hiroshi Komiyama</b><br/>(December 15, 1944)</p> <p>Number of Company Shares Held<br/>1,900 shares</p> <p><u>Reappointment Candidate</u></p> <p><u>Candidate for Outside Director</u></p> | <p><b>▶Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>July, 1988 Professor, School of Engineering, The University of Tokyo</p> <p>Apr., 2000 Dean of the Graduate School of Engineering, Dean of the School of Engineering, The University of Tokyo</p> <p>Apr., 2005 President of National University Corporation, The University of Tokyo</p> <p>June, 2010 Director (to date)</p> <p><b>-Important Positions in Other Entities-</b></p> <p>Chairman, Mitsubishi Research Institute, Inc.<br/>Outside Director, JX Holdings, Inc.</p> <p>▶There is no special interest between the candidate and the Company.</p> <p><b>▶Reasons for Electing the Candidate for Outside Director</b></p> <p>Mr. Hiroshi Komiyama is a candidate for Outside Director of the Company as defined in Item 7, Paragraph 3, Article 2 of the Corporations Law Enforcement Regulations and a candidate for Independent Director of the Company provided for in the related rules and regulations of the Tokyo Stock Exchange, Inc. etc. Mr. Komiyama assumed the position of Outside Director of the Company in June 2010; his term of office as Outside Director of the Company will have reached six years as of the close of this General Meeting of Shareholders. Mr. Komiyama, who has held, in succession, various important posts, including President of the University of Tokyo, has prominent knowledge of and abundant experience in a wide variety of fields including chemical technology, the global environment, resources, and energy. During his term with the Company, Mr. Komiyama has provided the Company with useful advice from broad perspectives based on his knowledge and experience, as well as adequate supervision from an independent standpoint. Consequently, in expectation of continued advice and supervision, Mr. Komiyama has been nominated as a candidate for the position.</p> |
| <p>No. 8</p> <p><b>Kenji Ikegami</b><br/>(November 24, 1945)</p> <p>Number of Company Shares Held<br/>3,000 shares</p> <p><u>Reappointment Candidate</u></p>                                                 | <p><b>▶Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1968 Joined the Company</p> <p>Dec., 2004 General Manager of Personnel &amp; Labor Relations Dept. (to date)</p> <p>June, 2014 Director (to date)</p> <p>June, 2015 In charge of General Affairs (to date)</p> <p>▶The candidate is the Representative Director and President of Human Create Co., Ltd., and Human Create Co., Ltd. handles a trade of training services consignment etc. with the Company.</p> <p><b>▶Reasons for Electing the Candidate for Director</b></p> <p>Mr. Kenji Ikegami has extensive knowledge on human resources and labor management, and has done his utmost to increase the Company's value such as taking charge of general affairs. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |



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| <p>No. 9</p> <p style="text-align: center;"><b>Toshio Shiobara</b><br/>(January 16, 1948)</p> <p>Number of Company Shares Held<br/>3,152 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u></p>         | <p><b>▶ Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1972    Joined the Company<br/> July, 2005    General Manager of Organic Electronics Materials Dept. of Electronics Materials Division (to date)<br/> Aug., 2010    Deputy General Manager of Electronics Materials Division (to date)<br/> June, 2014    Director (to date)</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p><b>▶ Reasons for Electing the Candidate for Director</b></p> <p>Mr. Toshio Shiobara has endeavored to expand the organic electronics materials operation for many years and done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                  |
| <p>No. 10</p> <p style="text-align: center;"><b>Yoshimitsu Takahashi</b><br/>(October 20, 1953)</p> <p>Number of Company Shares Held<br/>3,000 shares</p> <p style="text-align: center;"><u>Newly Nominated Candidate</u></p> | <p><b>▶ Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Mar., 1974    Joined the Company<br/> Nov., 2012    Chairman of Shin-Etsu Silicone Taiwan Co., Ltd. (to date)</p> <p>▶ The candidate is Chairman of Shin-Etsu Silicone Taiwan Co., Ltd., and Shine-Etsu Silicone Taiwan Co., Ltd. handles trade of purchasing silicone products, etc. from the Company.</p> <p><b>▶ Reasons for Electing the Candidate for Director</b></p> <p>Mr. Yoshimitsu Takahashi has endeavored to expand the silicone business in Taiwan and China, and has done his utmost to increase the Company's value. Considering these reasons, in anticipation of his further contribution to the Company's management, he has been newly nominated as a candidate for the position of Director.</p>                                                                                                                |
| <p>No. 11</p> <p style="text-align: center;"><b>Kai Yasuoka</b><br/>(May 3, 1961)</p> <p>Number of Company Shares Held<br/>3,000 shares</p> <p style="text-align: center;"><u>Newly Nominated Candidate</u></p>               | <p><b>▶ Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1985    Joined the Company<br/> Nov., 1991    Seconded to Shintech Inc.<br/> Nov., 2013    General Manager of the Business Enhancement Group, Office of the President (to date)</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p><b>▶ Reasons for Electing the Candidate for Director</b></p> <p>Mr. Kai Yasuoka has a broad range of experience in handling the PVC operation in the U.S.A. and has endeavored to expand the business of the Company and the Group as General Manager of the Business Enhancement Group, Office of the President and has done his utmost to increase the Company's value. Considering these reasons, in anticipation of his further contribution to the Company's management, he has been newly nominated as a candidate for the position of Director.</p> |

3rd Agendum: Issuance of Stock Acquisition Rights as Stock Options to Employees

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

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

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

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

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

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

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

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

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

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

The number of stock acquisition rights shall be limited to 4,300 rights.

(Up to 430,000 common shares of the Company shall be issued at the exercise of stock acquisition rights. If the Number of Granted Shares is adjusted as prescribed in (1) above, however, the Company shall adjust the upper limit by multiplying the adjusted Number of Granted Shares by the upper limit of the number of stock acquisition rights.)

- (3) Payment for the stock acquisition rights

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

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

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

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

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

Exercise Price after adjustment = Exercise Price before adjustment

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

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

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

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

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

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

From the day following the day that is one year after the Allocation Day, to March 31, 2021.

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

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

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

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

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

(8) Conditions for acquisition of the stock acquisition rights

- (i) If an agendum to approve a merger agreement that will make the Company a disappearing company is approved at a General Meeting of Shareholders of the Company, or if an agendum to approve a corporate split agreement or a corporate split plan that will make the Company a split company, or if an agendum for a share exchange agreement or a share transfer plan that will make the Company become a wholly-owned subsidiary of another company is approved at a General Meeting of Shareholders of the Company (in either case, if no resolution at a General Meeting of Shareholders is needed, resolved by the Board of Directors of the Company), the Company may acquire back the stock acquisition rights without compensation on the day specified by the Board of Directors of the Company.
- (ii) If those persons to whom the stock acquisition rights are issued or the heirs of such persons no longer satisfy the conditions to exercise the stock acquisition rights prescribed in the “Stock Acquisition Right Agreement” concluded between the Company and employees concerned based on the resolution at a General Meeting of Shareholders and at a meeting of the Board of Directors, the Company may acquire back the stock acquisition rights concerned without compensation on the day specified by the Board of Directors of the Company.

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

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

- (i) Number of the stock acquisition rights to be issued by the Reorganized Corporation  
The same number of stock acquisition rights shall be issued as the number of the Remaining Stock Acquisition Rights.
- (ii) Type of share of the Reorganized Corporation subject to the stock acquisition rights  
Common shares of the Reorganized Corporation.
- (iii) Number of shares of the Reorganized Corporation subject to the stock acquisition rights  
This number shall be decided in the same manner as (1) above taking into consideration the conditions for the Reorganization Action.

- (iv) Value of assets to be contributed at exercise of each stock acquisition right  
The value of assets to be contributed at exercise of each stock acquisition right shall be the amount of contribution calculated through adjustments, taking into consideration the conditions for the Reorganization Action, multiplied by the number of shares subject to the stock acquisition right as decided in (iii) above.
- (v) Period during which a stock acquisition right may be exercised  
This period shall commence on the starting day of the period for exercising the stock acquisition right specified in (5) above, or the day when the Reorganization Action comes into effect, whichever is later, and end on the day of expiration of the period during which a stock acquisition right may be exercised as specified in (5) above.
- (vi) Matters related to capital stock and capital reserve to be increased by issuance of shares at the exercise of the stock acquisition rights  
They shall be decided in the same manner as (6) above.
- (vii) Restriction on acquisition of a stock acquisition right through transfer  
Acquisition of a stock acquisition right through transfer requires approval by the Reorganized Corporation.
- (viii) Conditions for acquisition of the stock acquisition rights  
They shall be decided in the same manner as (8) above.
- (10) Omission of fractions resulting from the exercise of stock acquisition rights  
Fractions less than one (1) share shall be omitted from the shares issued to holders of stock acquisition rights at the exercise of the rights.
- (11) Authorization to decide the conditions for invitation of the stock acquisition rights, and the like  
Conditions for invitation of the stock acquisition rights, and related details, other than the aforementioned, shall be decided by resolutions at meetings of the Board of Directors to be held separately.