

Interview with the President



For fiscal 2008, the year ended March 31, 2008, consolidated net sales increased 5.5 percent, or ¥71,669 million, compared with the previous fiscal year to ¥1,376,365 million. Operating income increased 19.1 percent, or ¥46,117 million, to ¥287,146 million, ordinary income increased 21.5 percent, or ¥53,022 million, to ¥300,040 million and net income increased 19.2 percent, or ¥29,570 million, to ¥183,580 million. It was the Shin-Etsu Group's 15th consecutive year of profit growth, and 13th consecutive year of record profits. In addition, cash dividends per share increased ¥68.85 to ¥426.63.

Chihiro Kanagawa

President and CEO

Q1. In fiscal 2008, the year ended March 31, 2008, Shin-Etsu attained year-on-year growth in profits for the 13th consecutive year, while its ordinary income increased by 21.5 percent. What are the factors that made this possible?

The semiconductor silicon wafer business results were a major factor in the substantial growth in profits. Without taking for granted the top market share, we worked hard each and every day to improve our sales results, conducted daily operations that ensured reliable deliveries and consistent quality, made timely investment decisions by accurately grasping the growth in demand and appropriately proceeded with manufacturing facility expansions.

In fiscal 2008, the U.S. PVC market was not particularly strong. However, even under these conditions, Shintech Inc. maintained full-capacity operations, and Shintech's profitability supported the Shin-Etsu Group's business results. This was another reason why the Shin-Etsu Group was able once again to make a record high profit. In addition, the silicones, rare earth magnets and photoresists businesses all contributed to the increase in Shin-Etsu's profit. Moreover, both the PVC and cellulose businesses in Europe achieved higher profits.

The Shin-Etsu Group's strength is based not only on a wide range of products, but also comes from persistent efforts to strengthen each of our operational businesses.

Q2. Please tell us about initiatives in the semiconductor silicon business, which contributed substantially to the Group's profits.

In the wafer business, Shin-Etsu's strength lies in having semiconductor customers worldwide. By attentively listening to our customers around the world, directly and in real time, and thereby being able to accurately anticipate future demand, we have made timely expansions in our production capacity. We have been highly evaluated by our customers, not only for our dependable supply, but also for providing the highest quality wafers slice-to-slice. In these ways, we have supported the business development of each of our customers.

One of our responsibilities as the supplier that holds the largest share in the semiconductor wafer market in the world is to assure our customers of a reliable supply of products at all times. To assure a steady supply of quality products, we have geographically dispersed our production facilities for crystals and 300mm wafers. There is an old saying, "one should not put all one's eggs in one basket." In other words, we have created a system whereby even if one plant should shut down as a result of events such as a natural disaster, we can continue to supply our customers from other plants.

While market conditions have been relatively favorable for the past four years, I have been cautioning that the semiconductor market will eventually change. To be prepared for such a change, two years ago I decided to cut the depreciation period for wafer-production facilities down to three years, which is unprecedented.

As for 300mm wafers, we will continue to strengthen our top global position by carefully tracking global market trends and promptly increasing production capacity after evaluating demand trends. I believe that the true strength of a business is tested under severe market conditions. We will continue to supply our customers with reliable, high-quality wafer products in all market conditions.

Q3. Due to sluggish PVC demand in the U.S., other companies in the same business are recording substantially lower profits and even losses. Why has only Shintech been able to continue operating at full capacity?

For more than 30 years, Shintech has been meeting the demands of its U.S. customers, and, at the same time, it has been steadily supplying PVC to customers in other countries. Over that period, Shintech has expanded its production capacity more than 10 times while always maintaining full production and sales after each expansion.

Although current market conditions in the U.S. are clearly unfavorable, Shintech is further solidifying its relationships with its domestic customers. Furthermore, Shintech is making effective use of its relationships with the overseas customers that it has nurtured over many years. Shintech is capable of promptly responding to market changes by increasing its export business by using its own extensive sales network and packaging facilities.

Through these management measures as well as its daily sales efforts, Shintech was able to maintain full-capacity operations and sales over the course of the year.

Q4. With Shintech's new plant in Louisiana now in operation, how would you describe the future of the PVC business in the U.S.?

The new plant in Louisiana is Shintech's first integrated PVC manufacturing facility starting from basic raw materials. This cutting-edge PVC plant incorporates the latest technologies in every manufacturing process, including for the extraction of salt from salt domes, purification, electrolysis and the production of vinyl chloride monomer (VCM) and PVC, as well as utilities for the plant.

Land for industrial use is an important asset for future corporate growth. Shintech has secured extensive land for industrial use in Louisiana for future major expansions. The property is contiguous to the Mississippi River, making it an excellent location both for receiving raw materials via water as well as for shipping our products. The United States has natural gas and salt – both raw materials for PVC – and is a huge market for PVC and caustic soda. Shin-Etsu will utilize Shintech's U.S. plants as supply bases to meet the steadily increasing global PVC demand.

Q5. What steps will you take in the future regarding the silicones business?

The silicones business has been a steady contributor to Shin-Etsu's results and has the potential for significant growth. We will continue to increase the revenue from high-value-added products by focusing on the development of unique products, particularly in such applications as electrical, electronic, auto and cosmetics.

Regionally, we are focusing on increasing our sales in Asian markets, where strong economic development is expected to significantly expand the markets for silicones in the near future. In Europe and the United States, we are taking steps to expand business centered on silicones for specialty applications. By capitalizing on the strengths that Shin-Etsu has with silicone plants in both Japan and Thailand, we will further expand the business.

Q6. What is the situation in businesses other than PVC, silicon wafers and silicones?

Photoresists are representative of a growing business that is contributing to the good results. We have innovated and tirelessly nurtured this line of products from the early stages of R&D and developed it into a business that has become an important income generator. The rare earth magnet business also contributed to our profit growth in fiscal 2008. We have accurately assessed customer needs for lighter-weight and more energy-efficient products. We are taking assured steps to enhance our performance in other businesses, including synthetic quartz and cellulose.

Q7. What are the points that you place importance on when deciding to make manufacturing facility investments?

The Shin-Etsu Group needs to continue to make capital investments in its manufacturing facilities to expand its businesses. All of our decisions on capital investments are made by giving careful consideration to every possible market condition and looking ahead to demand prospects.

In addition, the location of a plant facility is an important factor in making any facility capital investment. When constructing a plant, we select an optimal site after comparing possible locations based on many factors such as present market conditions and prospects, supply of raw materials, quality of workforce and various governmental regulations. Furthermore, speed and efficiency are very important factors. The Shin-Etsu Group has a large number of highly competent engineers who are versed in the technologies of the Company and who have a wealth of experience in designing and constructing plants. Accordingly, when executing large-scale projects, we move quickly under our own management – from planning to construction and start-up.

Intelligent Investment Drives a New Phase of Growth



Europe

In the cellulose business, Shin-Etsu is investing in SE Tylose GmbH & Co. KG in Germany as it works to create multiple production and supply bases for pharmaceuticals and other applications.



Japan

In the semiconductor silicon business, Shin-Etsu is expanding production capacity for 300mm wafers at five production bases in Japan and the U.S. to respond to rising global demand.



United States

In the PVC business, Shintech Inc. in the U.S. is constructing a large-scale plant that is integrated from electrolysis to PVC resin to respond to growing demand in the U.S. and elsewhere in the world.

Q8. Are you also considering mergers and acquisitions to expand your business?

Shin-Etsu has carried out several mergers and acquisitions in the past by carefully selecting only those M&A projects that would increase the company value of Shin-Etsu. To date, all businesses that we have acquired have been steadily contributing to our business results. We will continue to carefully select candidates for M&A. We will look to M&A as an important method for expanding our business when or if cases arise where we can improve performance through Shin-Etsu's management expertise and where we can attain a synergistic effect with existing businesses.

Q9. What are some of the new product development initiatives?

The development of photoresists was a project chosen by our R&D assessment committee ("Z Committee"). Because our worldwide clients demand cutting-edge technologies from us at each generational change in semiconductor technology, success in the photoresists business depends on our technological capabilities. We will continue to focus on product development to meet our customers' needs, and, at the same time, we will do our best to develop new products that can utilize our Company's technological strengths.

In the fiscal year ending March 31, 2009, we will work to speed up the introduction of new products.

Q10. What are your ideas on CSR (Corporate Social Responsibility)?

I believe that the most important contribution a company can make to society is to strictly adhere to a law-abiding spirit at all times, and based on this core principle, a company contributes to society by endeavoring to increase profits as much as possible while paying corporate taxes in a fair and correct manner.

The Shin-Etsu Group operates businesses worldwide and puts strong emphasis on CSR in all of its operations. One example is Shintech. It began operations in 1974, and by greatly expanding the scale of its business since then, it has contributed to local communities. Prior to the construction of the new Louisiana Plant, Shintech set up an occupational training school, providing local residents with a place to acquire technical skills and boosting local employment opportunities both for Shintech and other employers in the area. Shintech has also strengthened ties with the local community by arranging for management personnel to live near the plant and by readily providing information through local liaison meetings and frequent dialogue with the community. These are just some examples of our approach to CSR. By conducting business activities in a fair and ethical manner, the Company will continue to grow and contribute to the economic and social development of the communities where we operate.

Q11. What steps is Shin-Etsu taking to deal with environmental issues?

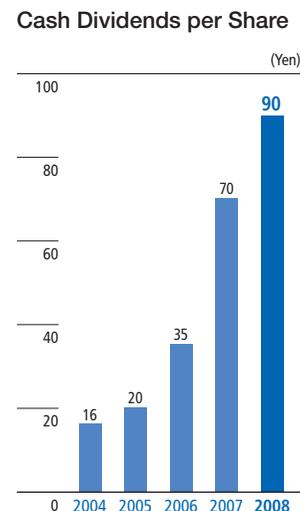
In addition to strictly complying with the environmental laws and regulations in countries and regions where our plants operate, Shin-Etsu has constantly worked to improve its energy-saving technologies.

Never content with the current situation and in order to utilize limited resources with maximum efficiency, we have also focused our management targets on improving unit-energy consumption, improving productivity and minimizing the environmental burden of our business activities. In short, we continue to work constantly, night and day to realize these goals. With regard to the reduction of greenhouse gases, one global environmental goal we have set is to reduce unit-energy consumption to 66 percent of the 1990 level by 2010. We are making good progress in our efforts toward achieving this goal.

Environmental problems also impact the continued existence of companies. We consider it to be the Company's obligation not only to achieve a quantitative target, but also to develop technologies and products that contribute to the reduction of greenhouse gases. We will work steadfastly toward the attainment of this goal.

Q12. What is your position on safety?

The Shin-Etsu Group's highest management priority is "safety first." We are in the manufacturing business and treat the safety of plants and products with the utmost importance. We consider safety to be linked to operational efficiency and quality improvement. For this purpose, we repeatedly instruct key personnel at our plants and engineering departments never to spare any expense in investments for equipment or anything else that is needed to assure the safety of our people and the communities in which we operate. We follow up to make sure these instructions are put into practice. We have also given specific concrete instructions that no matter what kind of problem occurs at a plant our employees must never try to make up for time-loss caused by a delay by speeding up their work. Safety is an issue that concerns everyone working in the Shin-Etsu Group. We will continue to constantly discuss concrete safety measures with labor unions so that everyone works together in total cooperation. We thereby dedicate ourselves to assuring safety.



Q13. What is your policy on profit distribution, including dividends?

Shin-Etsu's core businesses, such as semiconductors and PVC, are subject to substantial market changes, and it is by no means easy for our Company to consistently increase the profits and cash flow of its operations. Under these circumstances, through its management efforts Shin-Etsu has been able to achieve record high profits for 13 consecutive years. Accordingly, we have decided to increase the full-year dividend to ¥90.00 per share. This is more than 10 times the ¥8.50 per share for the fiscal year ended March 1998—10 years ago. Shin-Etsu will continue to increase the value of the Company by investing in those businesses that can demonstrate their strengths and by persistently making daily management efforts to improve those businesses. Moreover, it is our basic policy to appropriately return the fruits of these management efforts to shareholders by paying dividends.

Q14. Please tell us about your determination on how to approach management in the next fiscal year, which ends March 31, 2009.

We intend to continue increasing the value of our company regardless of the economic environment. I keep telling our employees: "Be ambitious!" I not only direct these words to them, I also personally continue to this day to faithfully follow through on the sentiment behind these words, and tackle each management task every day with high ambition. In order to ensure Shin-Etsu's standing as a perpetually growing company, we continue to work diligently every day, every month and every year to develop a consistent track record of strong results. By managing the company without ever being satisfied with the status quo, we hope to meet everyone's expectations.

I would like to sincerely ask for the continued understanding and support of all of our shareholders and investors, customers and suppliers, as well as that of the people in every region where Shin-Etsu does business and certainly that of the dedicated employees of the Shin-Etsu Group around the world.

Thank you.