



## To Our Stockholders

In fiscal 2010, we were able to keep the effects of the global recession to a minimum and at the same time continued research activities that will assure the future growth of the Shin-Etsu Group.

**Chihiro Kanagawa**  
Chairman

### FY 2010 Results

The Shin-Etsu Group had to operate in the difficult business environment caused by the global economic recession throughout fiscal 2010, the year ended March 31, 2010. The business environment was particularly severe during the first half of the year. Tough times, when every company faces strong headwinds, test the real strength of the Company. Bearing that in mind, I have been carrying out the management of Shin-Etsu, which was facing adverse winds. Through my years of practical management experience, I know that fluctuations in the global economy are certain to occur. Accordingly, I took many measures in advance so that Shin-Etsu would be ready to effectively cope with a major downturn in the economy and to strengthen our existing businesses regardless of the condition of the economy. As a result, we attained much better earnings in Shin-Etsu's core businesses, such as our U.S. PVC business and the semiconductor silicon business, while our competition in those businesses were struggling. I believe the Shin-Etsu Group did a much better job fending off the effects of this global recession. In the meantime, we maintained our commitment to R&D without reducing R&D spending for future growth, at a time many companies were reducing their R&D spending.

As a result of these efforts, the Shin-Etsu Group achieved consolidated net sales of ¥916,838 million, consolidated ordinary income of ¥127,019 million and

consolidated net income of ¥83,853 million. In addition, we maintained the annual dividend at ¥100 per share, the same level as in the previous fiscal year.

### Trends in Core Businesses

With regard to our PVC business, Shintech Inc. in the United States, which is at the core of our PVC business, was affected by the sluggish demand resulting from the prolonged stagnation in the U.S. housing market. However, Shintech contributed significantly to our consolidated earnings by expanding its sales to customers worldwide and maintaining high plant operating levels.

To further develop its business, Shintech in Plaquemine, Louisiana is moving forward with the expansion of its fully integrated manufacturing plant, which starts with PVC raw materials.

In the semiconductor silicon business, demand declined sharply from the second half of 2008. It bottomed out in the January to March 2009 period, then began a recovery that was led mainly by increased demand for 300mm wafers. The Shin-Etsu Group has been implementing various measures to establish a business structure that can quickly respond to the semiconductor device industry's technological innovation and market changes. As a result, during the sluggish demand period in the semiconductor industry, we managed to minimize the negative effects from the situation. The Shin-Etsu Group will further strengthen its competitiveness by providing its customers with a

stable supply of differentiated high-quality products that meet their important needs. One example is Shin-Etsu's success in providing products that meet the new requirements for miniaturization in the electronics industry.

With regard to the silicone business, a recovery in demand during the second half of the fiscal year was seen in Japan and other Asian markets. Sales increased in such applications as LEDs, automotive, electronics and cosmetics.

We will accelerate development of new products and new applications for products that are in demand in a wide range of new fields of application. In addition, we will focus on expanding sales in emerging markets such as China.

### **Comprehensive Initiatives for the Global Environment**

Having set "Contributing to the global environment" as an important management objective, the Shin-Etsu Group is working aggressively on initiatives related to environmental issues. Our rare-earth magnets are used in such environment-friendly applications as motors for hybrid vehicles and energy-saving air-conditioners. We are also working diligently to reduce the environmental burden of our production, shipping and other business activities by utilizing our unique production technologies and know-how that we have developed.

### **Strengthening Our Business Foundation**

The Shin-Etsu Group is also working aggressively to secure raw materials and resources for our core products. In addition to Shintech's progress in bolstering its integrated PVC production system from raw materials, the Group is further strengthening its business foundation by increasing its production capacity of silicon metal, a raw material used in such key products as semiconductor silicon, silicones and synthetic quartz.

In research and development, we continue to focus on developing technologies and products that have originality and that no other companies can match. We

are also concentrating our efforts on preserving intellectual property rights through such means as patents.

### **Promoting Fair Management Practices and CSR**

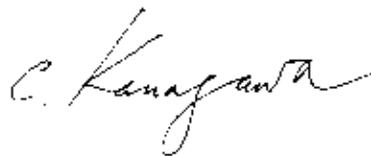
The Shin-Etsu Group's mission is "to conduct fair business practices, complying with all laws and regulations, and to contribute to people's daily lives as well as to the advance of industry and society by providing key materials and technologies." We employ a strict internal-control system, and work to ensure management soundness and transparency through the participation of external directors and external statutory auditors.

With regard to Shin-Etsu's Corporate Social Responsibility (CSR) policies, Group companies are carrying out a variety of corporate activities worldwide and appropriately disclosing information about these activities.

At the meeting of the Board of Directors following the annual stockholders' meeting on June 29, 2010, I was appointed Representative Director/Chairman. I would like to express my sincerest gratitude for your kind support during my time as President.

In addition, I would like to express my heartfelt appreciation to all of the Shin-Etsu Group's employees, who have devotedly carried out their work.

I will continue working to develop Shin-Etsu so that it meets the expectations of all of our stockholders and investors. I sincerely ask more than ever for your continued understanding and support.



**Chihiro Kanagawa**  
Chairman