

# Message from the Management To Our Stockholders

With “strong sales,” “strong manufacturing” and “strong R&D,” the Shin-Etsu Group will strive for steady growth while overcoming the challenges presented by the dramatic changes in the world economies and the impact of Japan’s devastating earthquake.



Chihiro Kanagawa  
Chairman

Shunzo Mori  
President

We began to see a recovery in the global economy during FY 2011, which ended on March 31, 2011, centered on growth in the emerging economies. In the meantime, we have been cognizant of the sharp rise in crude oil prices, the European sovereign debt crises and other factors that are making the economic outlook uncertain. To add to the situation, the Great East Japan Earthquake that occurred on March 11 this year caused a major impact not only in Japan but also globally. Shin-Etsu Chemical’s Kashima Plant and Shin-Etsu Handotai’s Shirakawa Plant were damaged and their operations had to be temporarily suspended following the earthquake.

We would like to express our sincere appreciation for the messages of sympathy and warm support from our stockholders. With safety as an utmost priority, we made concerted efforts to speedily carry out restoration work at these two plants. As a result, in April 2011, about one month after the earthquake, we were able to restart partial operations at the Kashima and Shirakawa Plants. Since then, we have been accelerating restoration work and are doing our utmost to return operations to the level prior to the earthquake. In parallel, we have increased production at our other plants that were unaffected by the earthquake and at our production facilities in other countries. Consequently, we believe that we have been able to minimize the earthquake’s impact on our supply to our customers.

Concentrating production at a single location raises the efficiency of investments. On the other hand, this concentration comes with the risk of possibly being unable to meet demand in the event of an emergency. For this reason, Shin-Etsu has carried out a policy of placing the production bases of its main businesses at multiple locations. In addition, we

have taken such measures as securing reliable and long-term supplies of key raw materials. These policies proved their effectiveness after the Great East Japan Earthquake. We were able to minimize the effects of the earthquake on our ability to supply to our customers.

Going forward, the Shin-Etsu Group will continue to forge ahead with its mission of “strong sales,” “strong manufacturing” and “strong R&D.” We will pursue strong growth in the coming years.

## FY 2011 Results

We achieved growth in sales and earnings in FY 2011. Net sales increased 15.4%, compared with the FY 2010, to reach ¥1,058,257 million, and ordinary income increased 26.2% to ¥160,339 million. Net income increased 19.4% to ¥100,119 million. Despite an extraordinary loss resulting from the damage caused by the Great East Japan Earthquake, net income benefited from a refund of corporate taxes paid in prior years due to an agreement by Japanese and U.S. tax authorities regarding transfer pricing taxation.

Our overall objective is to increase earnings, strengthening all business operations and then properly share the results of these activities with our stockholders. As such, the dividend for this fiscal year was set at ¥100 per share, the same as in the previous fiscal year.

## Overview of Business Segments

In the Polyvinyl Chloride (PVC)/Chlor-Alkali Business, Shintech Inc., our Group company in the U.S. and the core of our PVC business, maintained a high level of shipments to customers worldwide. As a result, Shintech’s sales and profits increased.

In the fall of 2010, Shintech completed the second-phase construction of its No. 1 integrated PVC manufacturing plant at Plaquemine, Louisiana and began operations. This plant is fully integrated from salt electrolysis to PVC production.

In the Semiconductor Silicon Business, sales during the first half of the fiscal year remained strong, mainly in 300mm wafers for semiconductor devices for PCs as well as mobile phones. The second half of the year was affected by an inventory adjustment of semiconductor devices and the suspension of operations at the Shirakawa Plant due to the earthquake. Nevertheless, for the full fiscal year we were able to achieve a level of profit that greatly surpassed that of the previous year.

In the Silicones Business, we achieved strong sales in Japan for a wide range of applications. In our international silicones business, recovery of demand continued, primarily lead by the Asian region. We were, thereby, able to increase those sales and profits.

The cellulose business performed well in Japan owing mainly to solid sales in pharmaceutical-use products and automotive-related products. In addition, at SE Tylose in Germany, the construction of manufacturing facilities for pharmaceuticals-use products was completed. This makes possible the production and shipments of pharmaceutical-use cellulose derivatives from two locations.

In addition, photoresists, rare-earth magnets and organic materials for LEDs have contributed to the earnings.

## Creating Stronger Business Bases

The Shin-Etsu Group is making significant amounts of investments to achieve further growth. We also have been making every efforts possible to sell our products in global markets. Our overseas sales have increased to two-thirds of our total sales. We intend to further expand sales to our worldwide customers. We will also further refine our world-class technologies and product quality while enhancing cost competitiveness.

Let us explain a couple of examples. To strengthen its PVC business at Plaquemine, Louisiana, Shintech has been constructing a plant that will double its production capacity of vinyl chloride monomer, the main raw material of PVC. Construction of the plant will be completed during the first half of FY 2012.

In the Semiconductor Silicon Business, we will make use of our geographically diversified production sites and strive to assure a stable supply of high-quality silicon wafers.

We are taking the initiative to meet strong demand in China for silicone rubber products and optical fiber preform by completing the construction of plants now underway in Jiangsu Province of China for the manufacture of these products by the end of FY 2012.

Furthermore, Simcoa, our Group company in Australia, is going forward with an expansion project that will double its present production capacity of silicon metal, the primary raw material for its main businesses of semiconductor silicon, silicones and synthetic quartz.

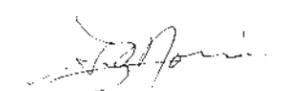
We have been working on the research and development of new products that will contribute to lower energy consumption. We also consider strategic mergers and acquisitions to be one of our options for enhancing our business.

## Dedicated to Placing the Utmost Priority on Assuring Safety and the Promotion of Fair Business Practices

The Shin-Etsu Group is dedicated to continuing to make safety its highest priority.

The Shin-Etsu Group is also dedicated to conducting its business activities worldwide with fairness and integrity. Our corporate mission is to maximize corporate value by always using fair business practices, complying with all laws and regulations as well as contributing to people’s daily lives and to the advancement of industry and society by providing our materials and using our technologies. Above all, we will continue to focus our all-out efforts on managing operations in a manner that accurately responds to changes in the world economic situation and global markets so as to meet all your expectations. We sincerely ask—more than ever—for your continued understanding and support.

  
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