



A LETTER FROM THE MANAGEMENT

To Our Stockholders,

We overcame **challenges** and
are pursuing **consistent performance.**



Chihiro Kanagawa
Chairman



Shunzo Mori
President

the reason for which the award was given to Shin-Etsu was “the exemplary tenacity in getting back to normal” after the earthquake. We recognize that the award is a medal for all who worked day and night for the restoration of the damaged plants.

Overcoming those challenges one by one, we were able to increase ordinary income 3.1% to ¥165,237 million from the previous fiscal year. We are pleased to be able to make a dividend of ¥100 per share applicable to FY 2012. We are tirelessly working to enhance performance and appreciate our shareholders by appropriately sharing the results.

Challenges and Accomplishments

Fiscal 2012 was a year of challenges for the Shin-Etsu Group. We faced unprecedented adversities, including the Great East Japan Earthquake, flooding in Thailand, rapid appreciation of the yen, and slowdown due to financial concerns in Europe.

The earthquake which occurred on March 11, 2011, damaged a silicon wafer plant in Shirakawa as well as a PVC plant in Kashima in Japan. Both plants were forced to suspend their operations. However, our indomitable spirit and technical expertise made it possible to restore the damaged plants, machinery and equipment swiftly. We were able to partially restart the plants just a month after the huge earthquake and restore them to nearly full capacity operations by the end of June 2011.

One of our most important missions is to continue a stable supply of our products. In order to minimize the impact from natural disasters, we have already diversified production bases in our major businesses around the world. Our foresight in this diversification contributed toward mitigating the impact of the earthquake. At the end of 2011, good news arrived at our office. The Shin-Etsu Group was honorably named “Company of the year 2011” by *Chemical & Engineering News*. According to one of the most prestigious media publications in the chemical industry,

Our Mission

The mission of the Shin-Etsu Group is to strictly comply with all laws and regulations, conduct fair business practices and contribute to people’s daily lives as well as to the advance of industry and society by providing key materials and technologies. We constantly seek the best possible technologies and product quality.

Global competition is becoming more difficult day by day. To be an aggressive challenger, we have been pursuing “strong sales,” “strong manufacturing,” and “strong R&D.” At the beginning of the new fiscal year, we renewed emphasis on the importance of these three points: “stretching sales,” “expansionary investments,” and “swiftness in work.”

First, we know nothing is more important than sales in business. Sales are the driver of our growth. Our sales force is endeavoring to meet customers’ existing needs, examining customers’ potential needs, and providing solutions with new materials. By accomplishing these activities, operating rates of existing plants will be nearly full and exceed their capacity. Therefore, investments in capacity expansions will become essential. Carefully analyzing the future demands, we execute capital investment that is ahead of the demand. As the world changes quickly and business conditions also change faster than they once did, we must act swiftly to overcome tougher competition in each of our businesses.

Strategies for Core Businesses

We would like to introduce several examples of our strategies for our core businesses herein. Shintech completed its huge expansion of PVC integrated production facilities in Louisiana in the summer of 2011. This facility, which makes PVC by starting with raw materials, further strengthens its robust position in the highly competitive global PVC market. Now, Shintech is not merely a leading company. Shintech leaves others in the global PVC industry far behind in every respect. To fully utilize the most advanced facilities, Shintech is working to continue full capacity operation by fully participating in the steady global growth of PVC demand.

In the Semiconductor Silicon Business, we made investments at the right time by carefully analyzing the markets. We are also pursuing the high-quality silicon wafers required to fabricate miniaturized semiconductor devices. Our technical expertise makes it possible to meet the customer's advanced requirements for the next generation.

In addition to silicon wafers, we have diversified electronics materials, such as photoresists, photomask blanks, and other semiconductor-related products. Our rich assortment of electronics materials gives us a unique advantage in this business.

Our policy is to make our plant investments in the areas where demand exists. In China, we will start the operation of two new plants in 2012. One is an optical fiber preform plant and the other is a silicone rubber plant. These plants were built to capture the rapidly increasing demand of both products in China. In Vietnam, we are building a plant for LED packaging materials. With these investments, we are ambitiously pursuing the rapidly rising demand in Asia. In the United States, we decided to build a plant in Louisiana that will manufacture hydroxyethyl cellulose which is used mainly for water-soluble paint with steady growth.

We are also working to secure key raw materials. In the rare-earth magnets business, we are expanding our

sales while ensuring a reliable supply of raw materials. In China and Vietnam, we are now constructing raw materials plants for the rare-earth magnets. The powerful but small magnet significantly contributes to saving energy and the preservation of the environment.

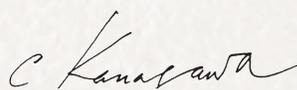
We continue to strengthen the existing core businesses that are the basis of our steady growth. At the same time, we are investing in new products that will transform our future. Research and development people are the driving forces of our company. We are constantly channeling resources to R&D activities to develop new products with unique features.

Fair Business Practices

All our Group companies have strict internal control systems to ensure that business activities are fair and in compliance with all laws and regulations. Furthermore, five external directors and three external statutory auditors are monitoring execution of management from an independent standpoint. Collectively, these measures give us an effective framework for preserving the soundness and transparency of management.

As our mission is of the utmost importance, the Shin-Etsu Group pursues consistent performance and returns to fulfill your expectations. We sincerely ask for your understanding and support as we continue to work toward achieving our objectives.

Sincerely yours,



Chihiro Kanagawa
Chairman



Shunzo Mori
President