

Message from the Chairman

Advancing Our Value with a Challenging Spirit



We wish to express our sincere appreciation to all our stockholders for your continued support and understanding. We are pleased to report on the performance of the Shin-Etsu Group in fiscal 2014, highlighting year over year growth in both sales and profits.

Chihiro Kanagawa
Chairman

Since fiscal 2010, we have been increasing earnings, both in the amount and per share, every year.

As it made a significant contribution to the Group's recent results, let me first point to our polyvinyl chloride (PVC) operation in North America, namely Shintech Inc. Toward the end of 2004, I made a pivotal decision for Shintech. That was a capital investment of about US\$2.5 billion to build major integrated PVC production facilities in the United States. I did so during a period in which U.S. chemical industries began to look elsewhere in the world while rationalizing the capacities in the U.S. We started up the facilities in June of 2008, three months before the worldwide financial crisis broke out. Despite the crisis, with strong footholds in each global market, we have been essentially selling out the capacities. In the meantime, a positive effect from U.S. shale gas development started to kick in. We have been seeing more of it since 2012. With major chemical facilities in the US Gulf Coast and long-standing business relationships with many customers around the world,

we are hopeful that we will benefit from improved energy and feedstock economics in the U.S. We are currently moving forward with the expansion of Shintech's production capacities, which will come in service in 2015. In addition, we are evaluating our own ethylene production capability at Shintech sites. We will make the final investment decision this year.

Of course, we also intend to invest in a wide variety of products in the Shin-Etsu Group.

In the silicones business, we are focusing on developing high value-added products by using silicone's inherent characteristics, which provide diverse functions for use in a wide array of industries. We are working to strengthen our overseas bases in Asia, including China and also in the U.S.

Currently, we are constructing a rare earth magnet plant in Vietnam for the sintering process for magnetization. This is one of the key processes currently

conducted only in Japan. Expanding that process to Vietnam diversifies our stable supply options and reduces the risk of supply interruptions.

In the cellulose business, we are constructing a manufacturing plant for hydroxyethyl cellulose (HEC) in Louisiana, U.S. HEC is used mainly for water-soluble coatings for paints. The demand for HEC is expected to grow strongly in the future. Having two production bases enables us to assure a stable supply to our customers as well as providing us with production in the Euro zone and U.S. dollar zone, which offers flexibility in dealing with the effects of foreign exchange fluctuations.

We continue to diligently pursue research and development seeking new materials and applications. Photoresists and photomask blanks are examples of products developed thanks to the indomitable spirit of our researchers. It took a long time and tremendous effort to develop these materials. Those products continue to contribute to our revenues. In this manner, we are carefully watching the cutting edge needs, and persisting in efforts to keep such products emerging from our R&D pipeline.

We place a priority on providing a suitable return of business profits to our stockholders. We believe a stable and appropriate dividend is in the best interest of our wide range of stockholders. I would like to note that we did not reduce our dividends in the year of the financial crisis, but rather increased the total annual dividend in fiscal 2009.

As mentioned earlier, we have expanded our businesses through large-scale investments, and for the success of these investments, we must be able to execute them with the right timing. Thanks to our strong financial position, we have been able to make major investments in a timely manner without outside financing. We also believe that the most important mission for management is to sustain and develop the Company, even in the fluctuating global economy. Considering these points, we are working to develop a financial base that can overcome severe economic crises or sharp declines in demand.

As the Shin-Etsu Group moves forward, we will remain steadfast in our efforts to enhance corporate value and to meet the expectations of its stockholders. We thank you for your continued support and confidence as we seek opportunities to expand.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'C. Kanagawa', written in a cursive style.

Chihiro Kanagawa
Chairman