

The logo for Shin-Etsu, featuring the word "Shin" in a dark blue font and "Etsu" in a lighter blue font, with a stylized white and blue graphic element between them. The background of the entire page is a low-angle photograph of a dense forest of tall, thin trees with vibrant green foliage, with sunlight filtering through the canopy.

Shin-Etsu

Two decorative wavy bands, one dark blue and one light green, curve across the middle of the page, framing the main title.

The Key to Delivering Value

ANNUAL REPORT 2011

For the year ended March 31, 2011

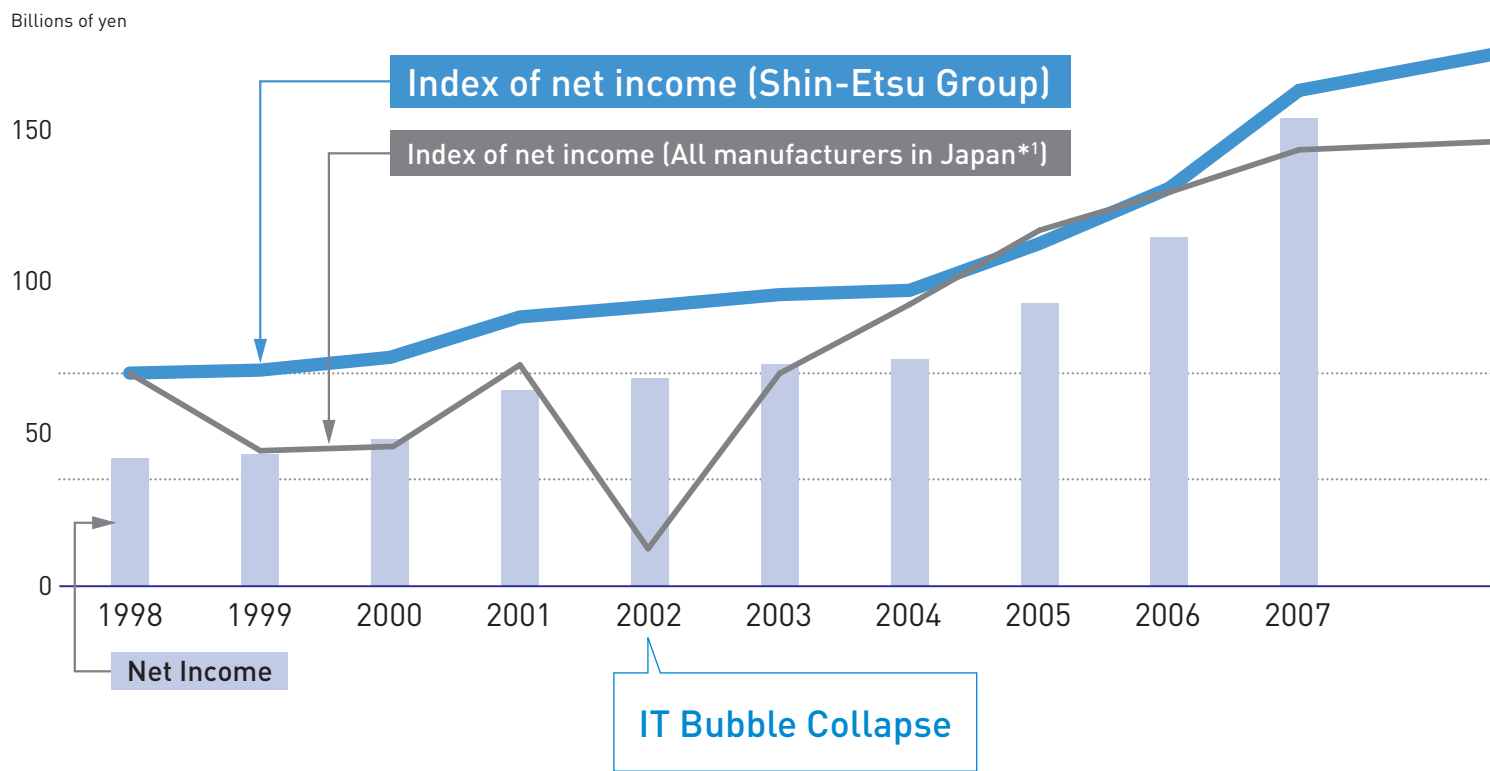
Shin-Etsu Chemical Co., Ltd.

Maintaining High Profitability with Shin-Etsu's Three Core Strengths.

The Shin-Etsu Group is a manufacturer that holds the world's top market share for polyvinyl chloride (PVC) and silicone wafers. We have strategically established a global production and sales network that quickly responds to customers' needs.

Comparison of Net Income of the Shin-Etsu Group and All Manufacturers in Japan

The Shin-Etsu Group's core strengths have allowed us to continue generating high profitability despite the IT bubble collapse and the 2009 financial crisis.



*1 Figures are calculated using average net income for all manufacturers that are listed on the Tokyo Stock Exchange except Shin-Etsu Chemical.

*2 The index is calculated by dividing net income in each fiscal year by the net income in the fiscal year ended March 31, 1998. Consequently, years when earnings were higher have an index of more than one and the index is negative for years when there was profit decline or net loss.

Our Three Core Strengths

02 Financial Strength

04 Worldwide Competitive Strength

06 Strong Manufacturing for Stable Supplies



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Forward-Looking Statements

This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication.

Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's businesses, competitive pressures, changes in related laws and regulations, status of product development programs, and changes in exchange rates.

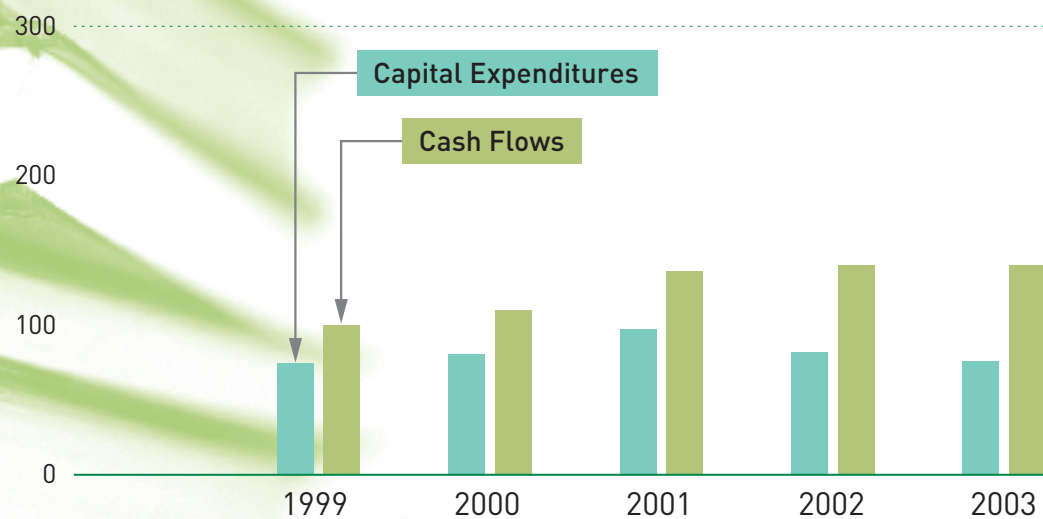
Maintaining High Profitability

with Financial Strength

Economic downturns often cause companies to cut back on capital expenditures and other investments. However, the Shin-Etsu Group has the financial strength to use its own funds to make investments whenever there is a need or opportunity. We will continue to target growing business fields and regions around the world.

Trends in Capital Expenditures and Cash Flows

Billions of yen



80.0%

Stockholder's Equity Ratio

Through our earnings growth over many years, we have achieved a stockholders' equity ratio of 80.0%. This high level ratio increases our stability, which is part of strength that overcomes economic downturns.

Aa3

Credit Rating from Moody's

Shin-Etsu has been assigned an Aa3 rating from Moody's Investors Service for our stable financial position and growth potential. This is the highest credit rating among all chemical companies in the world.

| Ranking/Company | Long-term rating | Outlook | Country |
|---|------------------|--------------|-------------|
| 1. Shin-Etsu Chemical Co., Ltd. | Aa3 | STA | Japan |
| 2. Kuraray Co., Ltd. | A1 | STA | Japan |
| 2. BASF (SE) | A1 | NEG | Germany |
| 4. Kaneka Corporation | A2 | STA | Japan |
| 4. Monsanto Company | A2 | STA | U.S.A. |
| 4. Praxair, Inc. | A2 | STA | U.S.A. |
| 4. Sigma-Aldrich Corporation | A2 | STA | U.S.A. |
| 4. Syngenta AG | A2 | STA | Switzerland |
| 4. Air Products and Chemicals, Inc. | A2 | STA | U.S.A. |
| 4. E. I. du Pont de Nemours and Company | A2 | Under Review | U.S.A. |

As of April 20, 2011

120 billion yen

Capital Expenditures

Capital expenditures totaled 120 billion yen in the fiscal year ended March 31, 2011. We make investments that reflect changes in our markets with our own funds. Over the past two decades, we have repeatedly expanded operations at Shin-tech Inc., including the construction of the Addis and Plaquemine Plants. Also, we have constructed production facilities for 300mm wafers, and then increased their output.

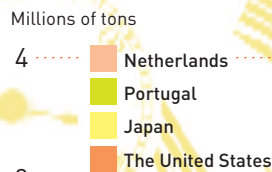


Maintaining High Profitability

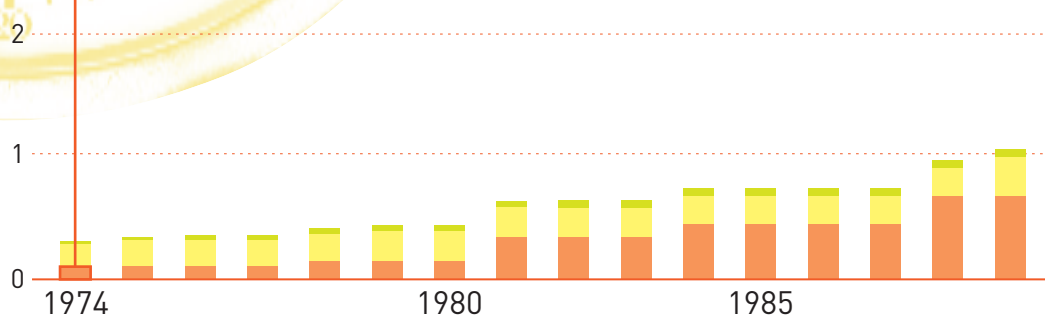
with Worldwide Competitive Strength

The Shin-Etsu Group has advanced technologies that enable us to develop a diverse array of products that are manufactured and sold around the world. With increased production capacity that meets growing demand, more than two-thirds of our sales are generated outside of Japan.

Total World PVC Production Capacity of the Shin-Etsu Group



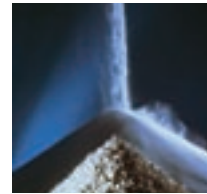
Shintech total production capacity **0.1 million tons** → **2.6 million tons**



TOP shares

The Shin-Etsu Group's products possess the top share in several intensely competitive global markets. These include PVC, semiconductor silicon, synthetic quartz photomask substrates for LCD, and rare-earth magnets. Through meeting customers' high-level needs, we build trust and obtain valuable information, including market and technology trends. This represents a key component to the Group's competitive strength.

Globally Competitive Products



Polyvinyl chloride



Semiconductor silicon

Lineup

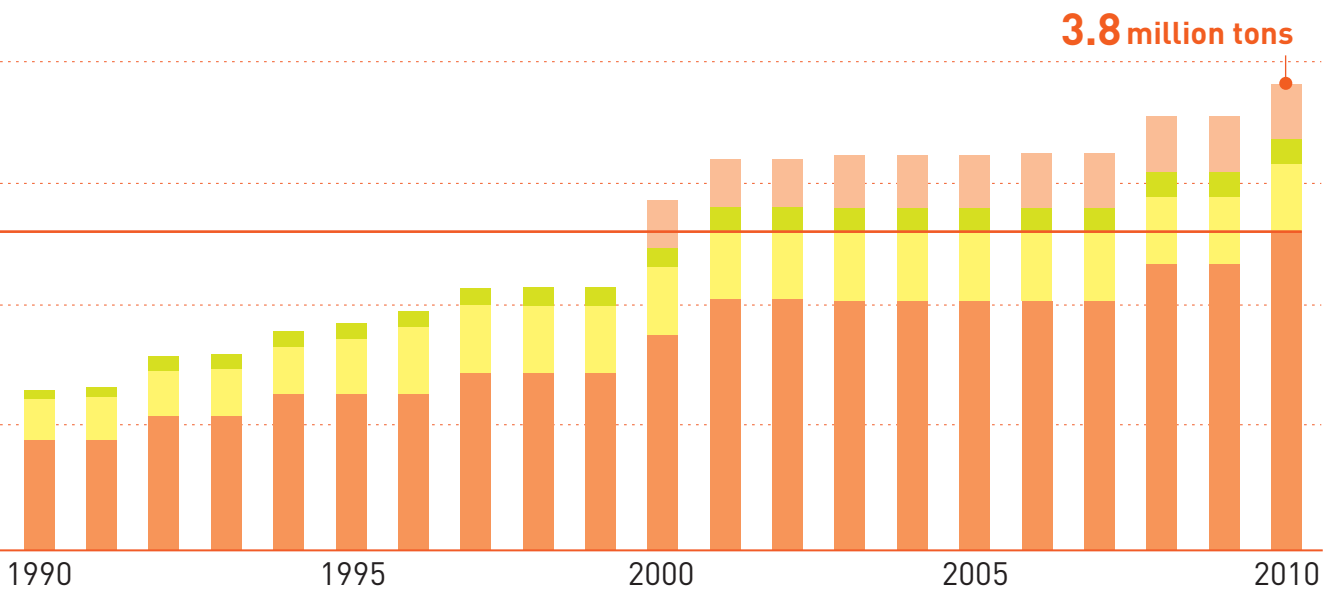
Developing Materials for the Semiconductor Industry with Our Advanced Technologies

Over the years, the Shin-Etsu Group has used its own technologies to develop a multitude of new products for the semiconductor industry. We supply a broad range of materials used to make semiconductor devices. With our diverse product lineup, we have developed relationships with various customers. These relationships allow us to quickly identify and respond to changes in demand in this industry.

3.8 million tons

Worldwide PVC Production Capacity

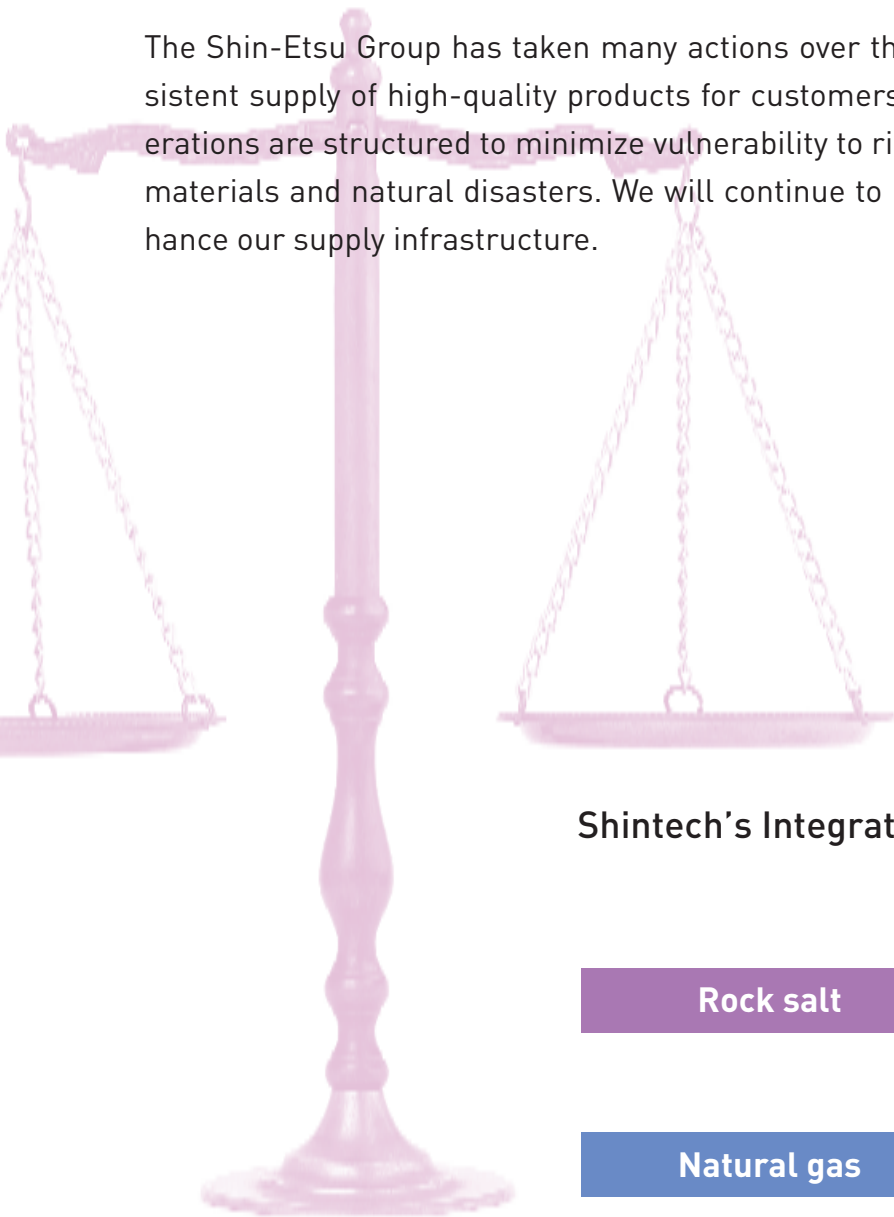
Located in the United States, Shintech Inc. is the world's No. 1 PVC producer and the core of our Group's PVC business. Since the beginning, Shintech has steadily captured the growth of PVC demand. Shintech's PVC production capacity has increased by more than 26 times from the initial 0.1 million tons in 1974, bringing the Group's total annual PVC production capacity to 3.8 million tons.



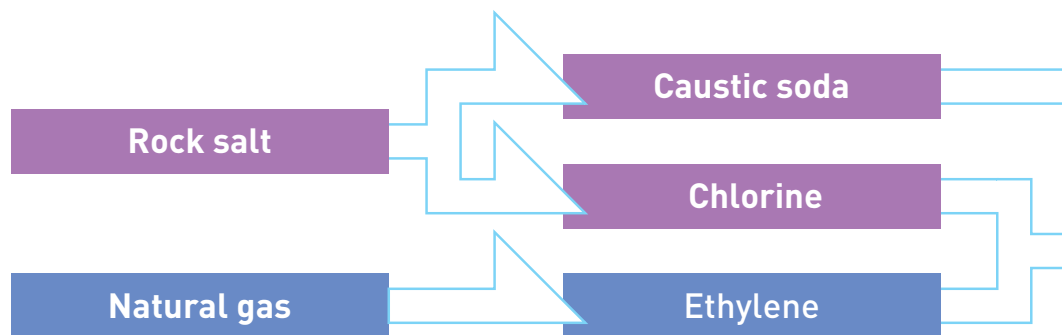
Maintaining High Profitability

with Strong Manufacturing for Stable Supplies

The Shin-Etsu Group has taken many actions over the years to ensure a consistent supply of high-quality products for customers. Our manufacturing operations are structured to minimize vulnerability to risks like shortages of raw materials and natural disasters. We will continue to make investments to enhance our supply infrastructure.



Shintech's Integrated Production Facilities

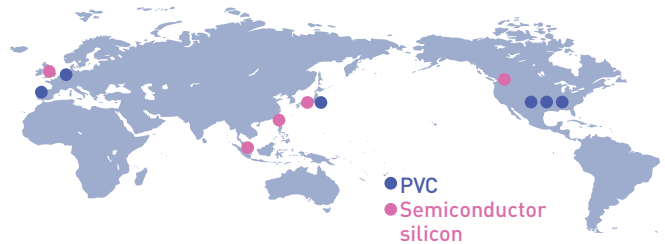


■ In-house production ■ Supplied by outside sources

Diversity

The Shin-Estu Group has a geographically diverse production network. We design this network by considering many factors when constructing a new plant, from cost-competitiveness to the growth potential of regional markets and potential risks. Our major products, such as PVC and semiconductor silicon, are manufactured at multiple bases. Therefore, we can meet customers' needs almost anywhere in the world.

A Worldwide Production Network (PVC, Semiconductor silicon)



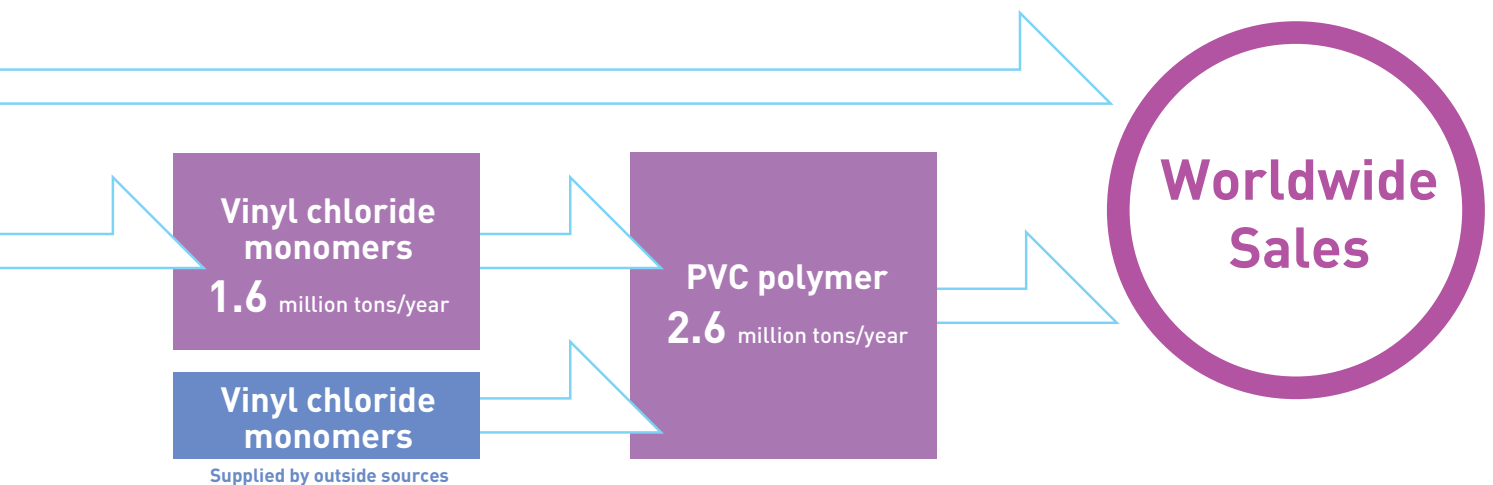
Raw Material

An Integrated PVC Production Facilities



Plaquimine Plant in Louisiana

In order to ensure a stable flow of raw materials, Shintech has established fully integrated PVC production facilities. In 2008, in-house production of raw materials began when the first-phase construction of the Plaquimine Plant was completed. Furthermore, Shintech is expanding these production facilities. We can procure the raw materials needed to respond to growing worldwide PVC demand.



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.

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



Chihiro Kanagawa
Chairman



Shunzo Mori
President

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 led 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.

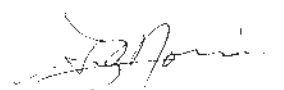
We have been working on the research and development of new products that will contribute to lower energy consumption. We also consider strategic mergers and acquisitions to be one of our options for enhancing our business.

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.


Chihiro Kanagawa
Chairman


Shunzo Mori
President

Future Opportunities

The Shin-Etsu Group is steadily implementing strategic policies to set the stage for more growth in corporate value in the future.

Growth in China

In China, where market demand is increasing rapidly, the Shin-Etsu Group plans to build local facilities to manufacture silicone products and optical fiber preforms. By constructing plants near users, the Group will quickly and accurately respond to customer need, aiming to further increase sales of these products in the Chinese market.

Construction of the new plant for silicone products in China is scheduled for completion in the fiscal year ending March 31, 2012. Representing a total investment of about ¥8.5 billion, this facility is the Shin-Etsu Group's first large-scale investment in China.

With regard to the optical fiber preform plant, Shin-Etsu established a joint-venture with Jiangsu Fasten Hongsheng Group Co., Ltd., of China and TKH Group NV of the Netherlands, and the facility is slated to begin operation in fiscal 2012 with an annual production capacity equivalent to 8 million km of optical fiber.



Optical fiber preform



Silicone rubber

Shin-Etsu (Jiangsu) Optical Preform Co., Ltd.

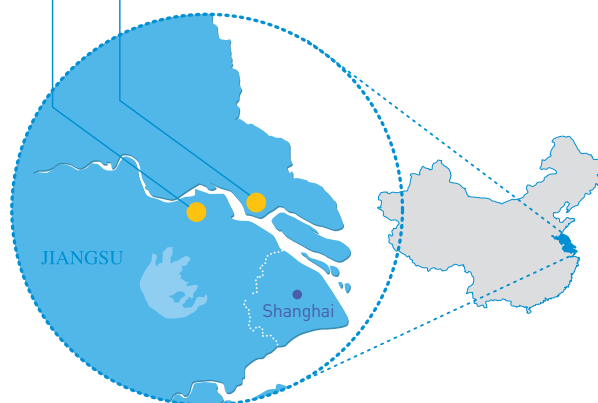
Completion of factory: within FY2011 (planned)

Main business: Manufacturing of optical fiber preform

Shin-Etsu Silicone (Nantong) Co., Ltd.

Completion of factory: within FY2011 (planned)

Main business: Manufacturing of silicone rubber for injection molding, RTV and other elastomers



Initiatives to Produce from Raw Materials

The Shin-Etsu Group is moving upstream to increase the production of raw materials needed for the integrated manufacturing of its major products. This will allow us to respond to future shifts in the demand and supply as well as changes in the prices of these raw materials. Shintech's Plaquemine Plant, an integrated PVC manufacturing facility, is representative of these initiatives. Silicon metal is a key raw material used to manufacture semiconductor silicon, silicones and synthetic quartz. Simcoa Operations in Australia, one of our Group companies, is going forward with a major expansion of the production capacity of its

silicon metal plant. By the end of 2011, this project will boost annual output capacity by 50% to 48,000 tons.



Simcoa Operations in Australia

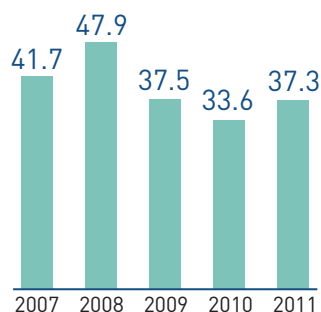
Research & Development

At the Shin-Etsu Group, developing innovative technologies that distinguish our products from those of competitors is a priority. The objective is to supply products with greater added value to avoid competition based solely on prices.

In response to today's challenging operating environment, the Research & Development Department is moving faster to commercialize products from new research projects.

Identifying new themes is the first step in new research initiatives. Ideas for these themes are constantly submitted from throughout the Shin-Etsu Group. The New Z Committee, which is chaired by the top management,

R&D Costs (Billions of yen)



examines these ideas based on market size, growth potential, profitability, technological innovation, social contributions such as reducing carbon emissions, and other criteria. Progress toward commercializing selected

themes is checked periodically. Work is now under way on several research themes with the aim of introducing products as soon as possible.

The Shin-Etsu Group is well aware of the importance in its business operations of intellectual property such as patents and technological expertise. As of March 31, 2011, the Group had 5,224 patents in Japan and 6,167 overseas patents. This includes 210 patents obtained in the United States in 2010, which positions the Group in the top class among all Japanese chemical companies.

Number of Patents by Region

| | Number of patents acquired during the year ended December 31, 2010 | Cumulative number of patents acquired as of the end of FY2011 |
|---------------|--|---|
| Japan | 727 | 5,224 |
| North America | 212 | 2,272 |
| Asia/Oceania | 245 | 1,873 |
| Europe | 274 | 2,010 |
| Other Areas | 0 | 12 |
| Total | 1,458 | 11,391 |



Dr. Hiroshi Komiyama
External director,
Former President of
The University of Tokyo

Dr. Hiroshi Komiyama's Message

My First Year as a Shin-Etsu Director

I have had the opportunity of serving as an external director of Shin-Etsu Chemical for one year. During this one year, I visited several Shin-Etsu Group plants. I went to the rare-earth magnet plant in Fukui Prefecture, the PVC plant in Ibaraki Prefecture and the silicon wafer plant in Fukushima Prefecture. If I include a tour of the silicone plant in Gunma Prefecture that I had previously visited when I was at the University of Tokyo, then, I have visited almost all of the Shin-Etsu Group's major manufacturing bases in Japan.

Shin-Etsu Chemical is a most excellent company, and I had heard for some time it is because of its superior management. The company definitely has superb management. I am particularly impressed with its management expertise that results in very strong earnings from products like PVC and silicon wafers that are produced in large volumes. I have found that its reputation

for strong management is very accurate. Japan has considerable creative manufacturing expertise. However, I have seen some Japanese companies start from nothing to become successful manufacturers and then lose their competitive edge when their products become commodities. The Shin-Etsu Group's ability to avoid this problem further underscores the excellence of its management. When I toured its plants, I was really impressed with how the strength of its creative manufacturing underpins the competitive power of Shin-Etsu's commodity products. I eagerly anticipate that Shin-Etsu's management methods will lead to the development of new products in the future. In closing, I would like to mention that during my first year as a director I learned much from and was greatly influenced by many people, including the other external directors.

Technical Strengths for the Semiconductor Industry

The Shin-Etsu Group is a global leader in developing sophisticated technologies for the semiconductor industry. Throughout the semiconductor production process, Shin-Etsu technologies support greater integration and production efficiency.



300mm Silicon Wafers

Shin-Etsu was first in the world to mass produce 300mm silicon wafers in 2001. Shin-Etsu Handotai Co., Ltd., established defect-free technology for single crystals and high-flatness processing technology for silicon wafers, gaining strong customer trust for its commercial production capabilities and quality technologies.



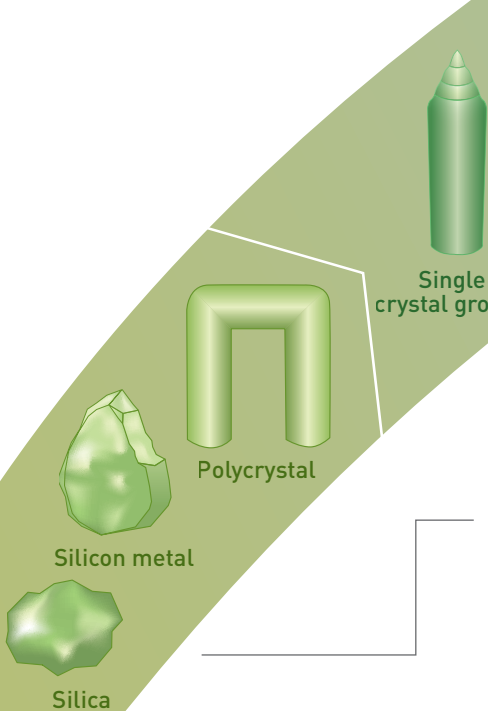
Wafer Containers

Group company Shin-Etsu Polymer Co., Ltd., has an excellent track record in front opening shipping boxes (FOSB) and front opening unified boxes (FOUP).



Pellicles

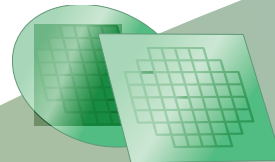
Shin-Etsu supplies high-quality pellicles for ArF and KrF excimer laser lithography. These products have high light-resistance and good transmission uniformity. In addition, Shin-Etsu has succeeded in the development of super large-size pellicles for the production of liquid crystal display (LCD) panels.



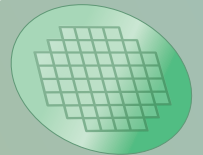
Wafer containers



Silicon wafer, Epitaxial wafer



Oxidation, diffusion, thin film formation



Pattern formation

Silicon Carbide Products

The silicon carbide products, of Shinano Electric Refining Co., Ltd., greatly contribute to improving precise processing of silicon wafers through their use as sawing materials and abrasives.



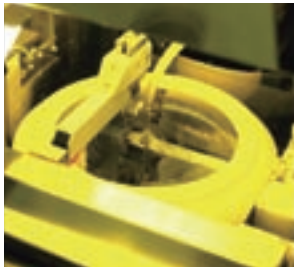
Silica and Silicon Metal

Simcoa Operations Pty. Ltd. of Australia has a long-standing silica mining concession and produces silicon metal, a main raw material for semiconductor silicon, silicone and synthetic quartz. It provides key support to Shin-Etsu by ensuring a stable, long-term supply of high-quality silicon metal.



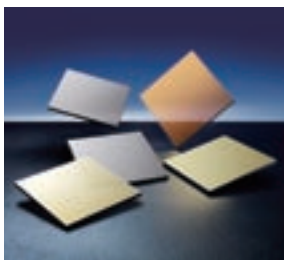
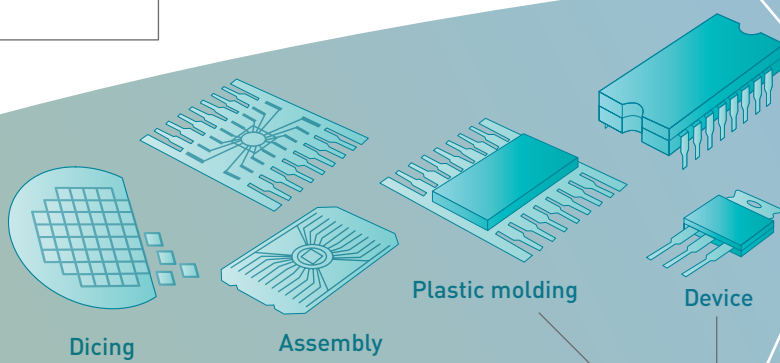
Silica

Silicon Metal



Photoresists

Shin-Etsu developed the first photoresist for use with the short wavelength excimer laser in 1996, and has become the leading manufacturer in this field. Sales have also begun for trilayer materials used in post-45nm generation refined processes.



Photomask Blanks

Photomask blanks are photomask materials used for etching circuit patterns on silicon wafers. In fiscal 2009, Shin-Etsu began commercial production of cutting-edge photomask blanks, which are indispensable to the refining of semiconductors.



Synthetic Quartz Photomask Substrates for LSIs

Used to transfer circuit patterns to semiconductor wafers, these photomask substrates have earned a reputation among customers for outstanding quality and consistency of supply. In recent years, these substrates are also being used as raw materials for photomask blanks.



Quartz Glass for Semiconductor Production Processes

Wafers are fixed in a boat (right) and placed in a furnace tube made of quartz glass (left) for oxidation, diffusion and CVO processes. The quartz glass products of Shin-Etsu Quartz Products Co., Ltd., meet customers' needs for high-temperature processes.

Various products developed by Shin-Etsu are indispensable to semiconductor materials and their production processes.



Silicone-based Thermal Interface Materials

Shin-Etsu offers various silicone-based thermal interface materials. These thermally conductive materials fill gaps between heat-generating units like CPUs and heat sinks.



Epoxy Molding Compounds

Shin-Etsu's epoxy molding compounds provide excellent reliability and moldability due to the utilization of Shin-Etsu's own silicone low-stress technology, special filler technology and unique flame retardation technology, or "green compound technique."

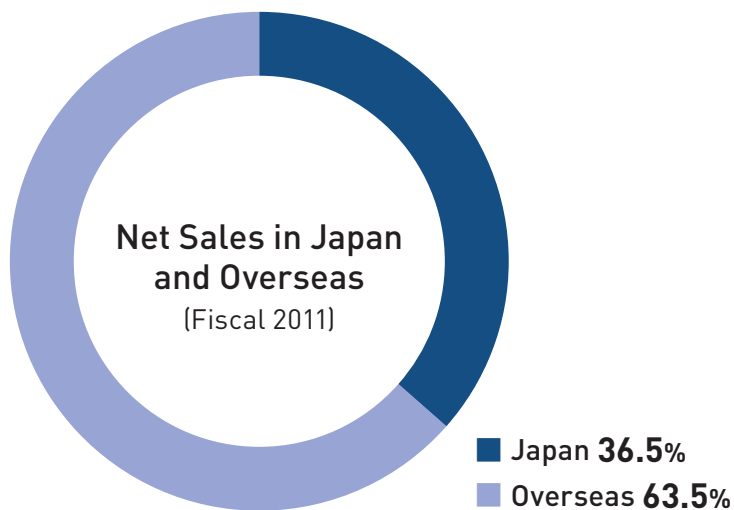
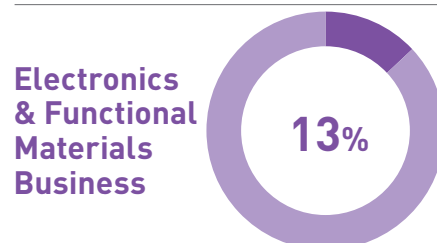
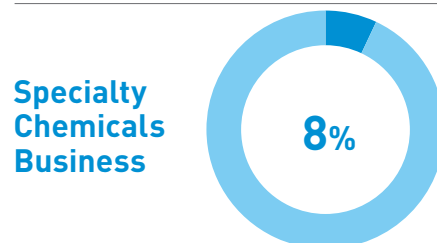
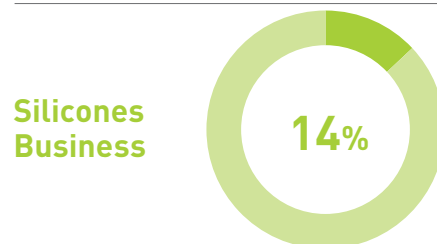
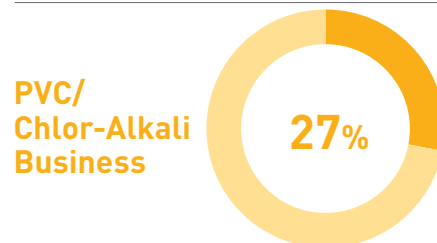
The Shin-Etsu Group at a Glance

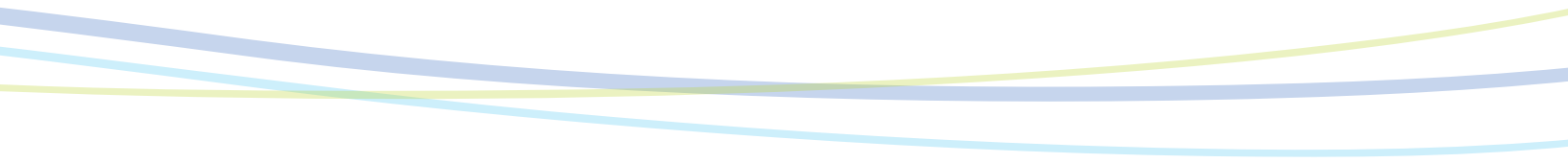
Previous Segments (Fiscal 2010)

| Segment | Sub-segment | |
|--|--|--|
| Organic & Inorganic Chemicals Business | <ul style="list-style-type: none"> ■ PVC ■ Silicones ■ Other | |
| | *The sales of Shin-Etsu Polymer Co., Ltd. are included in Diversified Business in the new segment | |
| | | |
| Electronics Materials Business | <ul style="list-style-type: none"> ■ Semiconductor silicon ■ Other | |
| Functional Materials & Others Business | <ul style="list-style-type: none"> ■ Synthetic quartz products ■ Rare-earth magnets for general applications and other functional materials ■ Other | |

New Segments (Fiscal 2011)

Segment and Sales Composition





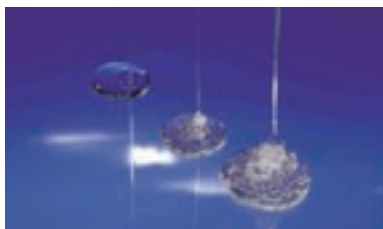
Main Products

Application Examples



Polyvinyl chloride / Methanol / Caustic soda / Chloromethane

- Infrastructure components
- Window frames
- PVC pipes
- Plastic greenhouse for agricultural use



Silicones

- Cosmetics and Toiletries
- Automobiles
- Construction
- LEDs
- PCs
- Mobile phones



Cellulose derivatives / Silicon metal / Poval / Synthetic pheromones

- Medicinal products: pharmaceutical coatings, binders for tablets and granules (Cellulose derivatives)
- Toiletries products (Cellulose derivatives)
- Concrete admixture (Cellulose derivatives)
- Mating disruption (Synthetic pheromones)
- Various semiconductors and solar cells (Silicon metal)



Semiconductor silicon

- PCs
- Mobile phones
- Home appliances
- Automobiles



Rare-earth magnets / Semiconductor encapsulating materials / Coating materials for LEDs / Photoresists / Photomask blanks / Synthetic quartz products / Oxide single crystals / Rare earths / Liquid fluoroelastomers / Pellicles

- Hybrid vehicles (Rare-earth magnets)
- Energy-saving air-conditioners (Rare-earth magnets)
- PCs (Rare-earth magnets, photoresists, photomask blanks, pellicles)
- Optical fiber (Synthetic quartz products)



Processed plastics / Export of plant equipment and technology licensing / International trading / Engineering / Information processing

- Mobile phones (Input/output parts for electronic devices)
- Chemical plants

Review of Operations

PVC/Chlor-Alkali

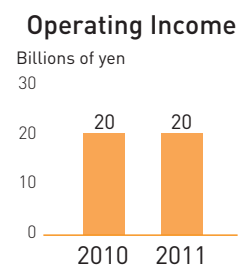
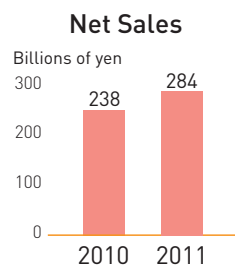


Business Profile

The primary product in this business is polyvinyl chloride (PVC), which is a commodity plastic resin with outstanding physical properties, ease of processing and advantages in terms of cost. PVC is used to make water and sewage pipes, electrical wires and many other vital infrastructure components. This material is also widely used in construction materials, household products, medical appliances and many other applications. In Japan, demand is growing for window frames made of PVC. Most growth in PVC demand is taking place outside Japan. In the United States, Shintech Inc. is expanding PVC production capacity and making substantial investments to strengthen its integrated manufacturing operations. With PVC manufacturing bases in the United States, Europe and Japan, the Shin-Etsu Group can supply this material to customers around the world.

Results for Fiscal 2011

Shintech Inc. expanded its operations by maintaining a high volume of shipments. The company increased sales to overseas customers as U.S. PVC demand remained weak due to the prolonged slump in the housing market. Shipments were encouraging as well as at Shin-Etsu PVC B.V. in the Netherlands. In Japan, the operating environment remained difficult as prices of raw materials rose and PVC demand was not strong. In addition, operations at the Kashima Plant were suspended following the Great East Japan Earthquake of March 11.

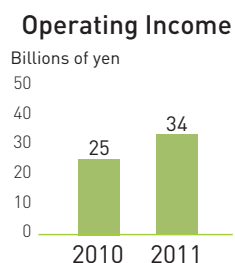
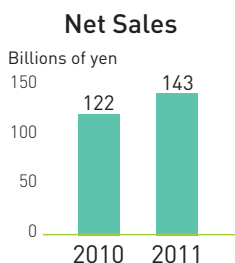


Silicones



Business Profile

Silicones combine organic and inorganic properties and can be produced in various physical forms, such as fluid, resin or rubber. This versatile material has properties that include electrical insulation as well as resistance to heat, cold and weather. The Shin-Etsu Group currently supplies more than 5,000 types of silicone products to the electric equipment, electronics, automobile, construction, cosmetics, toiletries, chemical and many other industries. To meet a wide array of specialized customer needs, we are continuing to aggressively expand production and sales activities in China and other areas of the world where there is demand for silicones.



Results for Fiscal 2011

Sales of silicones were strong in Japan across a broad range of fields such as electronic devices, automobiles, cosmetics and many other sectors. Overseas as well, the silicones business performed well overall because of an ongoing recovery in demand that is taking place mainly in Asia.

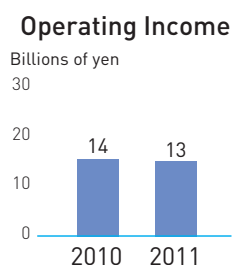
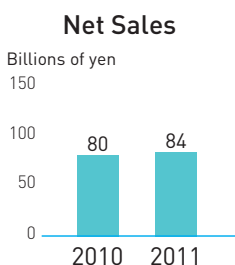
Specialty Chemicals



Business Profile

Cellulose derivatives are an environmentally friendly material made from a natural polymer. One application is pharmaceutical coatings and binders for tablets and granules, a field where safety is paramount. These derivatives are also used for construction and civil engineering materials and in many other applications. Synthetic pheromones are getting attentions as environmentally friendly products; our own pheromone formulation product uses a newly developed concept and is an alternative to the traditional chemical insecticides that are sprayed.

In Australia, we manufacture silicon metal, the primary raw material to make semiconductor silicon, silicones and synthetic quartz.



Results for Fiscal 2011

Sales of cellulose derivatives were weak despite strong sales in Japan to manufacturers of pharmaceuticals and automotive products because of low prices of products made by SE Tylose in Germany for construction materials.

Semiconductor Silicon



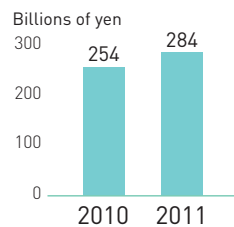
Business Profile

Silicon wafers are vital to the production of semiconductors used in PCs, mobile phones, digital home appliances and many other electronic devices. The Shin-Etsu Group manufactures these wafers in Japan, Malaysia, Taiwan, the United States and the United Kingdom. The five Japanese and U.S. production bases manufacture 300mm wafers, the core product in this category. These factories play a key role in enabling the Shin-Etsu Group, as the world's top silicon wafer supplier, to meet a broad array of customer needs by offering the latest advances in technology along with a reliable supply of wafers.

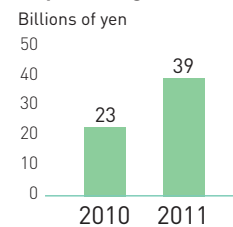
Results for Fiscal 2011

Semiconductor silicon sales were strong in the fiscal year's first half because of a rebound in demand for PCs, mobile phones and many other types of electronic products. In the second half, sales were impacted as manufacturers cut inventories of electronic products. In addition, production at the Shirakawa Plant of Shin-Etsu Handotai Co., Ltd., was suspended because of the Great East Japan Earthquake.

Net Sales



Operating Income



Electronics & Functional Materials



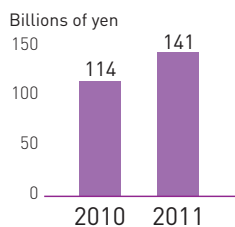
Business Profile

This business includes many types of products. One example is rare-earth magnets that are used in motors for home appliances, automobiles, PC hard disk drives and other products. Products also include synthetic quartz products such as preforms for optical fiber and large-sized photomask substrates for manufacturing LCD panels.

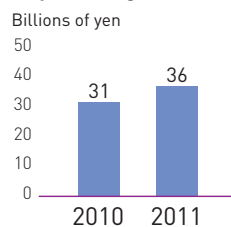
In addition, in recent years, we have started to sell photoresists for printing integrated circuits, photomask blanks, pellicles and other products that are essential to the semiconductor lithography process.

Furthermore, we were first in the world to develop a liquid fluoroelastomer named as SHIN-ETSU SIFEL[®], which performs well even in cold temperatures and is resistant to oils and solvents. This product is used for molding material, adhesives or coatings.

Net Sales



Operating Income



Results for Fiscal 2011

Sales of rare-earth magnets increased for magnets used in hybrid cars and energy-efficient air-conditioners. Sales of photoresists were strong because of continuing technological progress involving semiconductor devices. There was also a big increase in sales of coating materials for LEDs. Sales of synthetic quartz products were steady for large photomask substrates for LCDs. However, the optical fiber preform business was affected by the suspension of operations at the Kashima Plant following the Great East Japan Earthquake.

Diversified Business



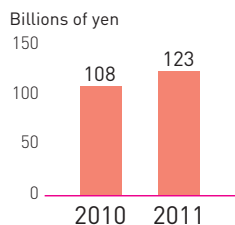
Business Profile

Shin-Etsu Polymer Co., Ltd., manufactures containers for semiconductor wafers, input/output parts for electronic devices, construction materials, and other processed plastic products. Shin-Etsu Engineering Co., Ltd., plays a key role in expanding and automating capital investment projects of the Shin-Etsu Group and receives a large volume of orders from outside the Group.

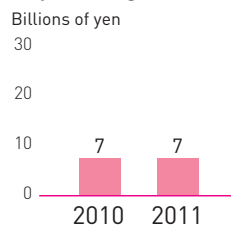
Results for Fiscal 2011

At Shin-Etsu Polymer, sales of keypads for mobile phones were lower due in part to price-based competition but sales of semiconductor wafer containers recovered. The engineering business performed well.

Net Sales



Operating Income



Board of Directors and Auditors

(As of June 29, 2011)



CHAIRMAN

Chihiro Kanagawa

PRESIDENT

Shunzo Mori

EXECUTIVE VICE PRESIDENTS

Fumio Akiya

In charge of Semiconductor Materials, Advanced Materials and Technologies

Yasuhiko Saitoh

In charge of the Office of the President, Public Relations, Finance & Accounting and Legal Affairs General Manager, International Division

EXECUTIVE SENIOR MANAGING DIRECTOR

Yoshiaki Ono

General Manager, Silicone Division

MANAGING DIRECTORS

Kiichi Habata

In charge of General Affairs, Personnel & Labor Relations, Environmental Control & Safety and Auditing

Koji Takasugi

In charge of Purchasing, General Manager, Special Functional Products Department

Toshinobu Ishihara

In charge of New Functional Materials General Manager, Research & Development Department and New Functional Materials Research Center

Masahiko Todoroki

General Manager, Planning & Administration Department, Semiconductor Materials Division

Toshiya Akimoto

In charge of the Office of the President and Finance & Accounting General Manager, Office of the Secretariat

DIRECTORS

Frank P. Popoff*

Former Chairman of US The Dow Chemical Company

Masashi Kaneko*

Former Director & Chairman, Nikko Cordial Corporation (currently Citigroup Japan Holdings Corp.)

Tsuyoshi Miyazaki*

Advisor, Mitsubishi Logistics Corporation

Toshihiko Fukui*

Former Governor of the Bank of Japan

Hiroshi Komiyama*

Former President of The University of Tokyo

Masaki Miyajima

General Manager, PVC Division

Fumio Arai

General Manager, Organic Chemicals Division

Toshiyuki Kasahara

General Manager, Finance & Accounting Department

Hidenori Onezawa

General Manager, Business Development Department

Ken Nakamura

General Manager, Office of the President and Public Relations Department

Yukihiro Matsui

General Manager, Electronics Materials Division

Hiroaki Okamoto

In charge of Patents General Manager, Development & Investigation Department

FULL-TIME STATUTORY AUDITOR

Osamu Okada

STATUTORY AUDITORS

Masahiko Watase

Taku Fukui**

Yoshihito Kosaka**

Kiyoshi Nagano**

* External director

** External auditor

Corporate Governance and Compliance

Basic Policies Concerning Corporate Governance

The basic management policy of the Shin-Etsu Group is to recognize the importance of shareholders by making constant growth in corporate value the highest priority. To accomplish this goal, the Group has assembled an efficient organizational structure and numerous systems that can respond swiftly to changes in the operating environment. In addition, from the standpoint of improving transparency and supervisory functions, the Group's basic concept for corporate governance is to position the disclosure of timely and accurate information to shareholders and other investors as one of the most important responsibilities of management.

Corporate Governance System

The Shin-Etsu Board of Directors has 22 members, including five external directors. This composition allows reaching decisions quickly and supervising the Group's management with speed and flexibility. Dr. Hiroshi Komiyama, former president of The University of Tokyo, joined the Board of Directors in June 2010.

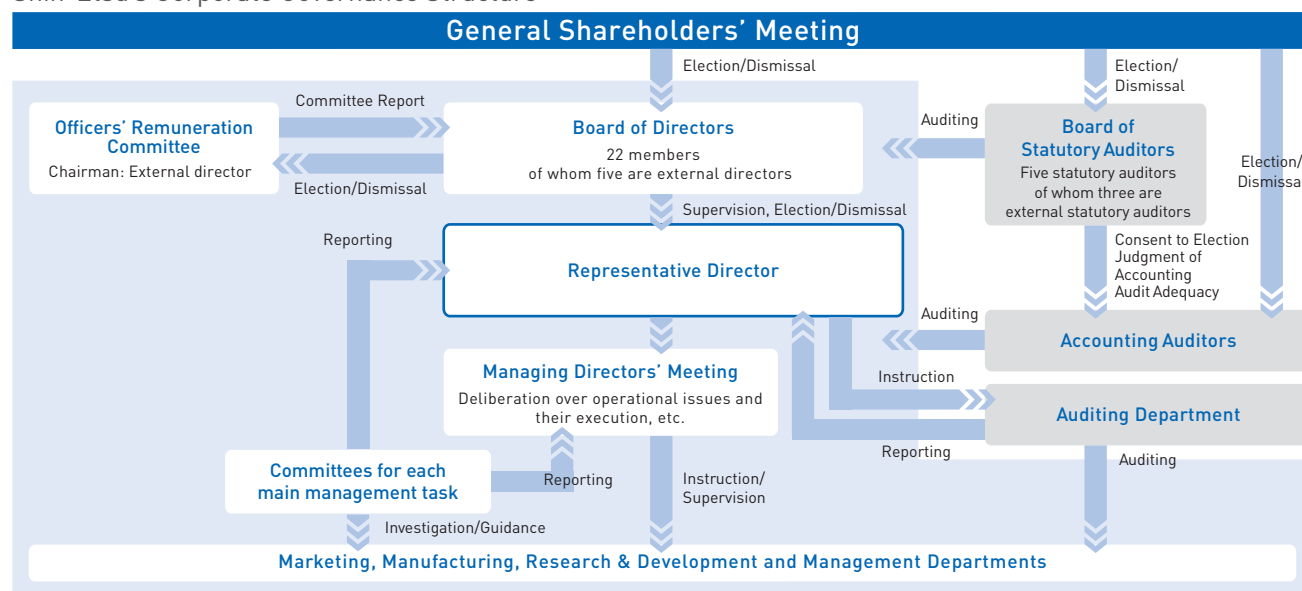
The Officers' Remuneration Committee reviews and assesses remuneration for officers and submits its reports to the Board of Directors.

Shin-Etsu uses the statutory auditor system. There are five statutory auditors including three external statutory auditors, a framework that provides for upgrading and reinforcing the auditing function.

Internal audits are performed by the Auditing Department, which is responsible solely for these audits. This department audits business activities across the entire organization in order to ensure that the Company is operating properly and in compliance with laws and regulations.

Shin-Etsu is dedicated to ensuring the reliability of financial reporting and improving the transparency of its management. The Company established the basic internal control policy for financial reporting in December 2007 and implements strict internal controls in line with this policy. These controls comply with the system of internal control over financial reporting based on the Financial Instruments and Exchange Law, which became effective in the fiscal year ended March 31, 2009. Information about specific activities involving corporate governance and compliance can be viewed on the Company's website and is disclosed in other ways as well.

Shin-Etsu's Corporate Governance Structure



Selection and Roles of External Directors and Auditors

Shin-Etsu's Board of Directors includes a number of prominent individuals from outside the Shin-Etsu Group. These external directors include corporate executives and others who can use their wealth of experience and knowledge to assist in the Group's management.

External directors attend board meetings and other important meetings. These individuals draw on their experience in corporate management and other fields to provide insights from a broad perspective and to perform a supervisory role from an independent standpoint.

Shin-Etsu also has external statutory auditors. These individuals perform audits by utilizing their specialized knowledge and experience and their insight as corporate managers. External statutory auditors safeguard the compliance system by attending meetings of the Board of Statutory Auditors and other important meetings. At these meetings, the external statutory auditors provide input that reflects know-how in their respective areas of expertise and a broad perspective.

Officers' Remuneration

The Officers' Remuneration Committee is chaired by an external director and includes three other directors. The committee reviews and assesses officers' remuneration based on the regulations for the activities of this committee. Two regular meetings are held each year. Other meetings are held as required, including audio conferencing, and reports are submitted to the Board of Directors.

In fiscal 2011, total remuneration paid to officers was ¥1,345 million. Of this amount, ¥185 million was paid to external directors and external statutory auditors. This remuneration does not include salaries (including bonuses) paid to employees concurrently serving as directors.

Basic Policy Concerning Compliance

The Shin-Etsu Group's corporate philosophy is to conduct fair business activities in a thoroughly law abiding spirit. A broad range of regulations regarding compliance have been

established and all officers and employees observe these regulations as they perform their duties. Internal audits of the enforcement of these regulations are conducted by the Auditing Department along with other associated departments depending on the contents of the audit.

Commitment to Strict Compliance

The Shin-Etsu Group uses a practical approach to execute compliance programs. All officers and employees sign a Compliance Pledge in which they promise to perform their jobs every day in accordance with the principles of compliance. Moreover, to identify and rectify legal or regulatory violations quickly, we have established a Compliance Consultation Office that serves as a consultation and reporting channel.

Risk Management

The Shin-Etsu Group has established regulations associated with risk management. There is also a Risk Management Committee that oversees all risk management activities for the purpose of identifying risks associated with business operations and preventing problems from occurring.

In the event of an emergency that requires a companywide response, a crisis response headquarters is established and the situation is handled in accordance with the Shin-Etsu emergency response manual. Following the Great East Japan Earthquake of March 11, 2011, a crisis response headquarters headed by the Company President was created the same day. This headquarters has been supervising assessments of damage to Shin-Etsu Group facilities and activities to make repairs and resume operations.

To comply with the Act on the Protection of Personal Information, the Shin-Etsu Group established a personal information protection policy that is posted on the Company's website. Furthermore, we hold meetings to explain this law to employees and take other steps to ensure that personal information is handled properly and thoroughly protected.

Corporate Social Responsibility (CSR)

The Shin-Etsu Group believes that its primary responsibilities as a corporate group are to conduct business activities in compliance with laws and regulations, earn a profit and pay taxes. Based on the corporate mission statement "To contribute to people's daily lives as well as to the advance of industry and society by providing key materials and technologies," the entire Group focuses on developing environmentally responsible products and placing priority on safety, environmental protection and social activities.

Shin-Etsu Group's Mission Statement

The Group strictly complies with all laws and regulations, conducts fair business practices and contributes to people's daily lives as well as to the advance of industry and society by providing key materials and technologies.

Basic CSR Policy

As a good corporate citizen, the Shin-Etsu Group has always endeavored to contribute to society through positive activities. In April 2005, we established the CSR Promotion Committee, and are totally devoting our efforts to fulfilling our corporate social responsibilities. CSR activities throughout the Shin-Etsu Group are guided by the following basic policy.

Basic CSR Policy

The Shin-Etsu Group:

1. Will do our best to increase the Group's corporate value through sustained growth and make multi-faceted contributions to society.
2. Will carry out all of our company activities by making safety always our utmost priority.
3. Will constantly pursue energy-saving, resources-saving and the reduction of the environmental burden, and seek to help create a sustainable future world in which we all live in harmony with the Earth.
4. Will endeavor to contribute to the prevention of global warming and the conservation of biodiversity by means of our cutting-edge technologies and products.
5. Will strive to respect human dignity, assure equality in employment opportunities and support the self-fulfillment of our employees.
6. Will appropriately disclose information in a timely manner.
7. Will carry out trustworthy corporate activities that are based on the integrity of the Group's ethical values.

Participation in U.N. Global Compact

Shin-Etsu Chemical became a participant in the U.N. Global Compact in November 2010. This international initiative was started in 2000 based on a proposal by then U.N. Secretary General Kofi Annan at a global economic forum.



The compact encourages companies worldwide to become even better global citizens by supporting and following 10 principles in the areas of human rights, labor, the environment and the prevention of corruption. About 8,000 companies and organizations located around the world, including more than 130 in Japan, are participants in the U.N. Global Compact.

As a member of the global chemical industry, the Shin-Etsu Group signed the Responsible Care Global Charter of the International Council of Chemical Associations in 2006. Responsible Care covers worldwide activities involving environmental protection, safety and health. Now that we are also participating in the U.N. Global Compact, we will further reinforce our commitment to CSR programs by using the compact's 10 principles as our guideline for these activities.



Safety and Environmental Initiatives

Putting safety and the environment first is a central element of the Shin-Etsu Group's management policy. Group companies are constantly working on establishing a framework that can eliminate accidents and disasters.

Shin-Etsu established an Environmental Charter in 1998 to create a framework for helping achieve a sustainable society while building a favorable cycle of environmental and corporate activities. In 2005, the charter was extended to encompass the entire Group. Furthermore, all major plants and subsidiaries have received ISO 14001 certification for their environmental management systems.

Every year, each plant at Shin-Etsu and its Group companies establishes targets for improvements in several aspects of operations: environmental protection, safety and disaster prevention, occupational health and safety, logistics safety, safety of chemical products and other products, and communication with society. Actions are then taken to achieve these targets. Results of actions are confirmed by using self-monitoring and an auditing system in order to lay the groundwork for activities to reach the next set of targets.

We used the results of a survey to identify hazardous operations to make improvements to our processes, facilities and manuals. Furthermore, there is a "Hiyari-Hatto (close call) Incidents" section on the Company's intranet so that employees throughout the Shin-Etsu Group can share information about potential dangers and ideas for making improvements.

In fiscal 2009, which ended March 31, 2010, both Shin-Etsu Chemical and the Shin-Etsu Group achieved the medium-term goal of reducing the level of greenhouse gas emissions to 66 percent compared with the 1991 level in terms of the consumption rate in 2010. Having reached this goal, we are now focusing on the medium-term goal of cutting greenhouse gas emissions by 50 percent compared with the 1990 level in terms of the consumption rate by 2015.



Environmental and Social Report 2010
<http://www.shinetsu.co.jp/e/catalog/kankyou2010e.pdf>

One more environmental goal was to achieve zero emissions (less than 1% of all waste materials sent to landfills) in 2010. Since 1.08% of waste materials went to landfills in that year, we will continue taking steps aimed at reducing this percentage.

Interaction with Communities

Shin-Etsu Group companies participate in many community and social activities in Japan and around the world. Activities reflect the requirements of each locality hosting a Group business site. Examples include picking up trash in areas near factories and holding special events in order to interact with local residents and governments. Scholarship programs in the United States and Malaysia are other illustrations of social activities.

Major Fiscal 2011 Shin-Etsu Group CSR Activities

1) Collection of donations for World Refugee Day

To support the activities of the United Nations High Commissioner for Refugees, the Shin-Etsu Group holds a donation campaign at all locations worldwide during the two weeks leading up to World Refugee Day, which is June 20. This campaign has taken place every year since 2006. Money is collected in boxes made of recycled PVC that are donated by the Vinyl Environmental Council of Japan. Proceeds are used to purchase supplies for refugees in all areas of the world.

2) Planting Mangrove Trees to Restore an Ecosystem

Employees of Shin-Etsu Silicones Thailand Ltd. are often involved in social and community activities. In 2010, employees of this company participated in a tree-planting program to contribute to the growth of a mangrove forest in Rayong Province. About 40 employees took part in this activity to help restore a coastal ecosystem while giving everyone a strong sense of satisfaction from participating in a worthwhile project.



Products for a Low Carbon Society

Polyvinyl Chloride (PVC)/PVC Window Frames

Compared with other plastics, PVC is far less dependent on petroleum resources, and coupled with progress in recycling technologies, it makes major contributions to the environment as well.

PVC window frames significantly reduce energy consumption for heating and cooling due to their superior thermal insulation. Based on a statistical study, conversion of all houses in Japan from aluminum frames to PVC window frames will reduce greenhouse gas emissions by 35 million tons annually.

The Ministry of the Environment and the University of Tokyo are conducting trial installation of PVC window frames because of the high evaluation they have received for reducing greenhouse gas emissions.



PVC Window Frames;
The office of the Japanese Minister of the Environment has windows that use PVC window frames.

Rare-Earth Magnets

Rare-earth magnets contribute to saving energy and reducing greenhouse gas emissions. With the use of rare-earth magnets for air-conditioner compressor motors, the coefficient of performance (COP) has improved between approximately 5 percent and 10 percent.

Moreover, automobile applications include use for driving the various motors in powertrains for hybrid and electric vehicles, as well as in generators and sensors. Rare-earth magnets reduce greenhouse gas emissions by up to about 50 percent compared with those of gasoline-powered vehicles.



Reducing greenhouse gas emissions by up to about 50%



The coefficient of performance has improved between approximately 5% and 10%

Silicones for LEDs

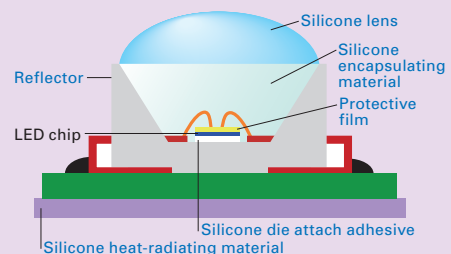
LEDs have rapidly gained share in the market for illuminants because they reduce environmental burden. If used for room lights, it is estimated that LEDs would reduce CO₂ emissions by 50 percent or more compared with conventional lighting.



Enable to reduce greenhouse gas emissions by 50% or more

Shin-Etsu makes a substantial contribution to the creation of an environmentally conscious society by manufacturing a variety of highly reliable silicone products. These include encapsulating materials to protect LED chips, die-bonding materials to fix LED chips and reflectors to prevent degradation of LED brightness.

LED Structure



Eleven-Year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2001 through 2011

| | Millions of yen | | | | |
|--|-----------------|------------|------------|------------|------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 |
| For the year: | | | | | |
| Net sales | ¥ 807,485 | ¥ 775,097 | ¥ 797,523 | ¥ 832,805 | ¥ 967,486 |
| Cost of sales | 603,561 | 572,366 | 585,220 | 619,085 | 715,143 |
| Selling, general and administrative expenses | 91,247 | 88,007 | 90,153 | 88,094 | 100,609 |
| Operating income | 112,677 | 114,724 | 122,150 | 125,626 | 151,734 |
| Ordinary income | 115,798 | 117,031 | 122,119 | 125,612 | 151,503 |
| Net income | 64,505 | 68,519 | 73,016 | 74,806 | 93,161 |
| Capital expenditures | 96,770 | 81,543 | 75,211 | 113,591 | 110,278 |
| R&D costs | 25,939 | 28,207 | 27,280 | 26,329 | 27,925 |
| Depreciation and amortization | 70,767 | 70,878 | 66,566 | 73,582 | 90,875 |
| At year-end: | | | | | |
| Total assets | ¥1,265,799 | ¥1,288,432 | ¥1,310,875 | ¥1,386,216 | ¥1,476,249 |
| Working capital | 350,273 | 363,677 | 409,262 | 401,879 | 444,935 |
| Common stock | 110,247 | 110,260 | 110,272 | 110,493 | 117,513 |
| Net assets | — | — | — | — | — |
| Stockholders' equity | 714,996 | 812,068 | 846,962 | 900,724 | 996,307 |
| Interest-bearing debt | 197,085 | 182,729 | 167,362 | 163,167 | 120,422 |
| Per share (Yen and U.S. dollars): | | | | | |
| Net income—primary | ¥ 153.58 | ¥ 162.93 | ¥ 173.13 | ¥ 177.25 | ¥ 219.10 |
| Net income—fully diluted | 150.24 | 159.38 | 169.36 | 173.52 | 216.11 |
| Cash dividends | 12.00 | 12.00 | 14.00 | 16.00 | 20.00 |
| Payout ratio (%) | 7.8 | 7.4 | 8.1 | 9.0 | 9.1 |
| Net assets | 1,699.74 | 1,930.30 | 2,014.11 | 2,140.23 | 2,329.47 |
| General: | | | | | |
| Operating income to net sales ratio (%) | 14.0 | 14.8 | 15.3 | 15.1 | 15.7 |
| Net income to net sales ratio (%) | 8.0 | 8.8 | 9.2 | 9.0 | 9.6 |
| ROE (%) ² | 9.4 | 9.0 | 8.8 | 8.6 | 9.8 |
| ROA (%) | 9.5 | 9.2 | 9.4 | 9.3 | 10.6 |
| Equity ratio (%) | 56.5 | 63.0 | 64.6 | 65.0 | 67.5 |
| Number of employees | 19,398 | 16,456 | 16,573 | 17,384 | 18,151 |
| Number of shares issued (Thousands) | 422,542 | 422,555 | 422,568 | 422,798 | 430,119 |

Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥83=US\$1, the approximate rate of exchange on March 31, 2011.

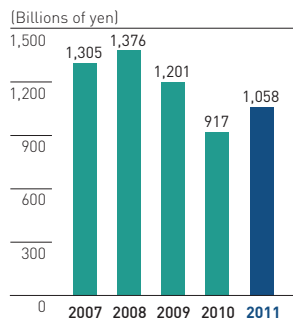
2. Stockholders' equity used for calculation of indices from the fiscal year ended March 31, 2007 consists of "stockholders' equity" and "valuation and translation adjustments."

| Millions of yen | | | | | | Thousands of U.S. dollars (Note 3) |
|-----------------|------------|------------|------------|------------|-------------------|---------------------------------------|
| 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2011 |
| ¥1,127,916 | ¥1,304,696 | ¥1,376,365 | ¥1,200,814 | ¥ 916,838 | ¥1,058,257 | \$12,750,084 |
| 831,334 | 933,199 | 946,941 | 853,434 | 700,903 | 803,575 | 9,681,626 |
| 111,262 | 130,468 | 142,278 | 114,453 | 98,719 | 105,460 | 1,270,603 |
| 185,320 | 241,029 | 287,146 | 232,927 | 117,216 | 149,222 | 1,797,855 |
| 185,040 | 247,018 | 300,040 | 250,533 | 127,019 | 160,339 | 1,931,795 |
| 115,045 | 154,010 | 183,580 | 154,732 | 83,853 | 100,119 | 1,206,253 |
| 145,330 | 210,613 | 268,479 | 159,407 | 123,794 | 119,885 | 1,444,398 |
| 32,003 | 41,737 | 47,945 | 37,470 | 33,575 | 37,322 | 449,663 |
| 111,637 | 138,462 | 141,270 | 119,457 | 87,723 | 93,732 | 1,129,301 |
| ¥1,671,281 | ¥1,859,996 | ¥1,918,545 | ¥1,684,945 | ¥1,769,140 | ¥1,784,166 | \$21,495,976 |
| 572,206 | 628,986 | 638,807 | 606,632 | 612,447 | 638,494 | 7,692,699 |
| 119,420 | 119,420 | 119,420 | 119,420 | 119,420 | 119,420 | 1,438,795 |
| — | 1,360,315 | 1,483,669 | 1,407,354 | 1,474,213 | 1,469,429 | 17,703,964 |
| 1,173,680 | — | — | — | — | — | — |
| 83,838 | 45,143 | 34,045 | 23,828 | 20,052 | 14,574 | 175,590 |
| ¥ 266.63 | ¥ 357.78 | ¥ 426.63 | ¥ 362.39 | ¥ 197.53 | ¥ 235.80 | \$ 2.841 |
| 266.07 | 357.32 | 426.35 | 362.35 | 197.50 | 235.80 | 2.841 |
| 35.00 | 70.00 | 90.00 | 100.00 | 100.00 | 100.00 | 1.205 |
| 13.1 | 19.6 | 21.1 | 27.6 | 50.6 | 42.4 | 42.4 |
| 2,730.94 | 3,065.80 | 3,344.17 | 3,218.28 | 3,370.56 | 3,360.39 | 40.487 |
| 16.4 | 18.5 | 20.9 | 19.4 | 12.8 | 14.1 | 14.1 |
| 10.2 | 11.8 | 13.3 | 12.9 | 9.1 | 9.5 | 9.5 |
| 10.6 | 12.4 | 13.3 | 11.0 | 6.0 | 7.0 | 7.0 |
| 11.8 | 14.0 | 15.9 | 13.9 | 7.4 | 9.0 | 9.0 |
| 70.2 | 71.0 | 75.0 | 81.1 | 80.9 | 80.0 | 80.0 |
| 18,888 | 19,177 | 20,241 | 19,170 | 16,955 | 16,302 | 16,302 |
| 432,107 | 432,107 | 432,107 | 432,107 | 432,107 | 432,107 | 432,107 |

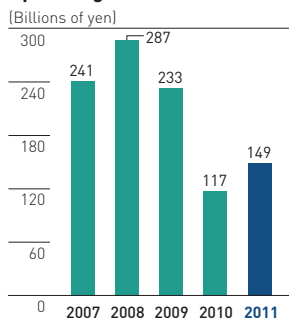
Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

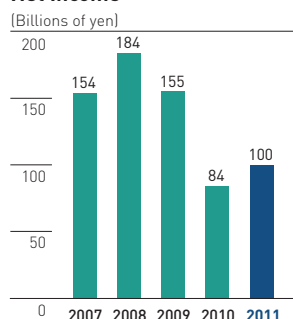
Net Sales



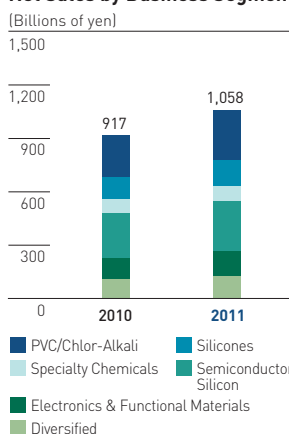
Operating Income



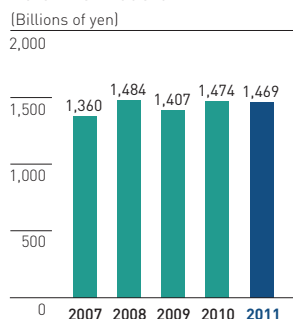
Net Income



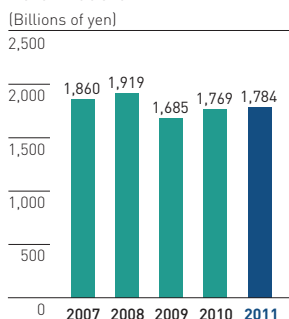
Net Sales by Business Segment



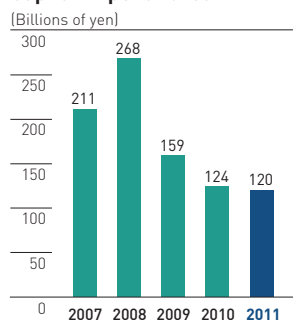
Total Net Assets



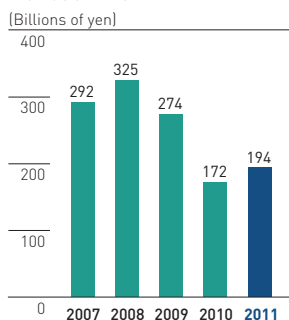
Total Assets



Capital Expenditures



Net Cash Flow*



* Net cash flow = Net income + Depreciation and amortization

Overview of the Shin-Etsu Group

The Shin-Etsu Group (the "Group") is composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 102 subsidiaries and 17 affiliates as of March 31, 2011. There are six business segments: PVC/Chlor-Alkali Business, Silicones Business, Specialty Chemicals Business, Semiconductor Silicon Business, Electronics & Functional Materials Business and Diversified Business. The Group conducts business activities by dividing manufacturing and sales activities among Group companies and mutually cooperating with them to develop our business.

Consolidated Operating Performance

With regard to the world economy, during FY 2011, which ended on March 31, 2011, in the Asian region, centering on China, economic recovery continued. On the other hand, in Europe and the U.S., although there were signs of gradual recovery, on the whole the serious economic situation continued as seen in the fact that unemployment rates remained at a high level. In addition, the Great East Japan Earthquake that occurred on March 11 significantly affected the Japanese economy.

Under these circumstances, the Shin-Etsu Group worked to strengthen its relationships with its customers worldwide and focused on expanding its sales. At the same time, we strove to carry out further business rationalization and streamlining measures and we made strong efforts to focus on the development and commercialization of new products.

In addition, as a consequence of the Great East Japan Earthquake, we had to stop operations at Shin-Etsu Chemical's Kashima Plant and Shin-Etsu Handotai's Shirakawa Plant, and accordingly, we initiated companywide efforts to carry out the required restoration work. As a result, we have already restarted operations at the affected plants.

Net Sales

Net sales increased 15.4% (¥141.4 billion) to ¥1,058.3 billion, compared with the previous fiscal year.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales increased 14.6% (¥102.7 billion) to ¥803.6 billion but the ratio of cost of sales to net sales decreased 0.5 of a percentage point to 75.9%. Selling, general and administrative expenses (SG&A) increased 6.8% (¥6.7 billion) to ¥105.5 billion but the ratio of these expenses to sales decreased 0.8 of a percentage point to 10.0%.

Research and development costs, which are included in manufacturing costs and SG&A expenses, increased 11.2% (¥3.7 billion) to ¥37.3 billion and the ratio of these costs to net sales was 3.5%.

Operating Income

Operating income increased 27.3% (¥32.0 billion) to ¥149.2 billion and the operating margin increased 1.3 percentage point to 14.1%.

Business Segment Overview

PVC/Chlor-Alkali Business

With regard to PVC, while sluggish demand continued due to the long-term slump in the U.S. housing market, Shin-tech Inc. in the U.S. maintained a high level of shipments with sales to its worldwide customers, and the company expanded its business. In addition, Shin-Etsu PVC in The Netherlands maintained decent shipments. On the other hand, in Japan, a tough situation continued as a result of a rise in raw materials prices and sluggish demand in addition to the effects of the stoppage of operations at the Kashima Plant as a consequence of the Great East Japan Earthquake.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 19.3% (¥45,794 million) to ¥283,525 million and operating income increased by 0.5% (¥98 million) to ¥19,675 million.

Silicones Business

With regard to the Silicones Business, sales in Japan continued to do well in a wide range of product application areas such as electronics, automobile and cosmetic fields. Moreover, in our overseas silicones business, demand recovery continued, mainly in the Asian region, and on the whole the Silicones Business continued to be strong.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 16.9% (¥20,716 million) to ¥143,065 million and operating income increased by 36.7% (¥9,140 million) to ¥34,057 million.

Specialty Chemicals Business

With regard to sales of cellulose derivatives, although in Japan the business continued to be strong, mainly in pharmaceutical products and automotive-related products, the business of SE Tylose in Germany was affected by the low level of prices for building and construction application products, and its business continued to be weak.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 3.8% (¥3,031 million) to ¥83,513 million and operating income decreased by 7.1% (¥987 million) to ¥12,915 million.

Semiconductor Silicon Business

With regard to semiconductor silicon, during the first half of FY 2011 the business remained firm due to a recovery in demand for semiconductor devices in wide product application areas such as for PCs and mobile phones. However, in the second half of the fiscal year, the business was affected

by inventory adjustments in devices and the stoppage of the operations of the Shirakawa Plant due to the Great East Japan Earthquake.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 11.7% (¥29,761 million) to ¥283,789 million and operating income increased by 71.7% (¥16,234 million) to ¥38,865 million.

Electronics & Functional Materials Business

With regard to rare earth magnets, the business continued to do well in applications for hybrid cars and for energy-efficient air conditioners. The photoresists products business remained strong, aided by progress in the miniaturization of semiconductor devices, and the business of coating material for LEDs also expanded greatly. With regard to synthetic quartz products, large-size photomask substrates used for LCDs and optical fiber preform remained strong in general; however, the optical fiber preform business was affected by the stoppage of operations of the Kashima Plant due to the Great East Japan Earthquake.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 24.3% (¥27,606 million) to ¥141,384 million and operating income increased by 17.5% (¥5,372 million) to ¥36,118 million.

Diversified Business

Although the business of keypads for mobile phones remained weak due to such factors as intensifying price competition, Shin-Etsu Polymer Co., Ltd.'s sales of semiconductor wafer-related containers turned out to be on a recovery track. The engineering business was firm.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 13.4% (¥14,511 million) to ¥122,981 million and operating income increased by 8.2% (¥558 million) to ¥7,341 million.

Other Income and Extraordinary Loss

Net non-operating income was ¥11.1 billion, which included equity in earnings of affiliates of ¥12.6 billion. There was a total extraordinary loss of ¥21.0 billion due to the Great East Japan Earthquake. After these items are accounted for, income before income taxes increased 9.7% (¥12.3 billion) to ¥139.3 billion.

Net Income

Income taxes totaled ¥38.0 billion, a decrease compared with the previous year which was ¥42.4 billion. This decrease was mainly because of a refund of income taxes paid in prior years based on an agreement by Japanese and U.S. tax authorities concerning transfer pricing taxation. As a result, net income increased 19.4% (¥16.3 billion) to ¥100.1 billion and net income per share increased ¥38.27 to ¥235.80.

Analysis of Financial Position

Information on Assets, Liabilities and Net Assets

At the end of FY 2011, total assets increased by ¥15,026 million, compared with that at the end of the previous fiscal year to ¥1,784,166 million. This was mainly due to an increase in cash on hand (described as “cash and time deposits” on the balance sheets) and securities.

Total liabilities stood at ¥314,737 million, a rise of ¥19,810 million from that at the end of the previous fiscal year. This was mainly due to an increase in accounts payable-trade.

Total net assets decreased by ¥4,784 million to ¥1,469,429 million, compared to that at the end of previous fiscal year. This was mainly due to the impact of foreign currency translation adjustments affected by the appreciation of the yen, despite an increase in retained earnings resulting from net income of ¥100,119 million for FY 2011.

The stockholders' equity ratio was 80.0%, down 0.9 of a percentage point from 80.9% at the end of the previous fiscal year.

Status of Cash Flows

The balance of cash and cash equivalents at the end of FY 2011 increased by 11.8% (¥31,842 million) compared with that at the end of the previous fiscal year to reach ¥302,286 million.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥217,491 million, up ¥45,952 million from the previous fiscal year. This consisted mainly of ¥139,306 million in income before income taxes, ¥93,732 million in depreciation and amortization, a ¥11,293 million increase in inventories and a ¥20,823 million increase in notes and accounts payable.

Cash Flows from Investing Activities

Net cash used for investing activities was ¥132,005 million, an increase of ¥29,170 million over the previous fiscal year, arising mainly from ¥117,518 million in expenditures for purchases of property, plant and equipment.

Cash Flows from Financing Activities

Net cash used for financing activities decreased by ¥2,338 million from the previous fiscal year to ¥48,622 million. This mainly included a ¥42,460 million cash dividend payment.

Capital Expenditures

Capital expenditures totaled ¥119.9 billion. The PVC/Chlor-Alkali Business segment accounted for the largest share of these expenditures at ¥55.7 billion. The largest project in this business is the expansion of integrated PVC production facilities at Shintech Inc. Expenditures of ¥24.4 billion in the Semiconductor Silicon Business were used primarily for the rationalization measures that included automation of

semiconductor silicon wafer production processes at Shin-Etsu Handotai Co., Ltd. Capital expenditures were ¥14.7 billion for Specialty Chemicals, ¥12.5 billion for Electronics & Functional Materials, ¥9.6 billion for Silicones and ¥3.3 billion in the Diversified Business segment.

Basic Policy for Profit-Sharing

Taking a long-term perspective, Shin-Etsu will focus on expanding company earnings and strengthening the make-up of the Group's structure as well as on sharing the results of such successful management efforts. It is our basic policy to distribute dividends so as to appropriately reward all of our shareholders. With regard to our financial reserves, we are making efforts to heighten the value of the Company by reinvesting them in such core business activities as facility investment, and research and development, and we will proactively utilize them for strengthening Shin-Etsu's global competitive power and future business development.

In line with our basic profit-sharing policy, the year-end dividend is ¥50 per share, the same amount as the interim dividend of ¥50 per share. The total annual dividend per share for FY 2011 is ¥100, the same amount as in the previous fiscal year.

Outlook for Fiscal 2012 (ending March 2012)

With regard to business prospects going forward, although there is an expectation that the trend towards a gradual recovery in the world economy will continue, the business situation continues to not allow for optimism. In Japan as well, the severe situation is forecasted to continue because of such factors as strong concerns about the effects of the Great East Japan Earthquake.

Under these circumstances, to navigate through the severe business environment we are facing, the Shin-Etsu Group will expand its aggressive sales activities to its wide range of customers around the world, and at the same time, we will cultivate new demand through the development of products that have special characteristics. Furthermore, we aim to build an even stronger business foundation by strengthening our technologies, enhancing product quality and striving to stably secure raw materials.

Business Risk

This section discusses risk factors that could potentially influence such key business matters as the results of the Shin-Etsu Group's business operations, financial condition and cash flows. The Group reduces its vulnerability to business risks by taking measures to prevent, disperse or hedge these risks. However, if an unforeseeable situation should occur, it could have a significant impact on the Group's business results.

This section contains a list of significant items that the Group considers are current risk factors, but it is not in-

tended to be a comprehensive list of all risks that could seriously impact the Group's business performance.

1) Influence of Economic Trends and Product Markets

Changes in the economic situation of countries or regions where the Group's key products are marketed can have a great impact on the results of the Group's business operations. In addition, among the Group's key products, some products could be affected by large price fluctuations due to the global supply and demand environment. The Group is hedging its risks by taking such strategies as diversifying and globalizing its businesses. However, a downturn in demand for certain of its products or escalating price competition could have a significant effect on the Group's business operations results.

2) Influence of Fluctuations in Foreign Exchange Rates

Overseas sales accounted for 63.5% of the consolidated net sales of the Group in fiscal 2011, and it is expected that this ratio will remain at a high level. The Japanese yen equivalent amounts of items in the financial statement items of overseas consolidated subsidiaries, which are included in the Group's consolidated financial statements, are influenced by fluctuations in foreign exchange rates. A large movement in these rates could have a great impact on the business results of the entire Group. In addition, although we use forward-exchange contracts and other measures to reduce risk exposure associated with transactions in foreign currencies, a large movement in foreign exchange rates could have a similar serious effect on the Group's business operations results.

3) Influence of Natural Disasters and Disastrous Accidents

To minimize the damage that could result from an interruption of production activities, the Group performs regular disaster-prevention inspections and carries out a constant program of facility maintenance activities at its production facilities and makes facility investments to enhance safety. However, if a natural disaster or disastrous accident or other unforeseen event damages production facilities or other areas, such circumstances could have a major impact on the Group's business operations results.

4) Influence of Public Regulations and Laws

In countries and regions where the Group is carrying out its business activities, we are bound by the approval processes and licensing requirements involving investment and import/export regulations as well as by various related laws concerning commercial transactions, labor, patents, taxes, foreign exchange and other items. Any changes in these regulations and laws could have a significant effect on the Group's business operations results.

5) Influence of Supply Factors on Procurement of Materials

The Group uses various raw materials in its production activities, and we strive to assure a stable supply of these materials by diversifying our supply sources. However, if supplies become tight or there are delays in procuring these materials, or if prices increase because of these events, there could be a great effect on the Group's business operations results.

6) Influence of the Development of New Products and Technologies

The pace of technological progress is rapid in the electronics industry, which is an important market for some of the Group's products. The Company is constantly working on developing the most advanced cutting-edge materials to meet needs associated with this technological innovation. However, if the Group is unable to take appropriate measures in response to changes in industries and/or markets despite its constant efforts, there could be a significant effect on the Group's business operations results.

7) Influence of Environmental Issues

The Group handles various types of chemical substances and complies strictly with various laws and regulations concerning the environment. In addition, the Group has been making efforts for energy-saving in order to help combat global warming and for eliminating or significantly reducing emissions of substances that are harmful to the environment. However, if regulations concerning the environment become more strict than presently anticipated and require substantial capital expenditures and other investments as a result, there could be a significant effect on the Group's business operations results.

8) Influence of Product Liability

The Group uses a large number of measures to maintain the optimum quality of its products in accordance with the characteristics of each product. However, a problem involving product quality that occurs due to unforeseen circumstances could have a significant effect on the Group's business operations results.

Consolidated Balance Sheets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|-------------|---------------------------------------|
| | 2011 | 2010 | 2011 |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and time deposits (Note 21)..... | ¥ 244,003 | ¥ 209,046 | \$ 2,939,795 |
| Securities (Notes 5 and 21)..... | 116,715 | 109,762 | 1,406,205 |
| Notes and accounts receivable: | | | |
| Trade | 250,942 | 265,396 | 3,023,398 |
| Unconsolidated subsidiaries and affiliates..... | 27,939 | 17,641 | 336,614 |
| Other..... | 5,947 | 8,837 | 71,650 |
| Less: Allowance for doubtful accounts (Note 2 (5)) | (2,535) | (2,943) | (30,542) |
| | 282,293 | 288,931 | 3,401,120 |
| Merchandise and finished goods | 97,816 | 95,608 | 1,178,506 |
| Work in process..... | 9,784 | 11,232 | 117,880 |
| Raw materials and supplies..... | 80,684 | 76,714 | 972,096 |
| Deferred taxes, current (Note 20)..... | 21,115 | 25,962 | 254,398 |
| Other | 35,518 | 25,317 | 427,928 |
| Total current assets | 887,928 | 842,572 | 10,697,928 |
| Property, Plant and Equipment (Notes 2 (8) and 8): | | | |
| Buildings and structures, net | 155,720 | 167,207 | 1,876,145 |
| Machinery and equipment, net | 252,230 | 264,014 | 3,038,916 |
| Land | 64,577 | 65,863 | 778,036 |
| Construction in progress | 141,770 | 141,870 | 1,708,072 |
| Other, net | 6,037 | 7,180 | 72,734 |
| Total property, plant and equipment | 620,334 | 646,134 | 7,473,903 |
| Intangible Fixed Assets: | | | |
| Goodwill | 10,522 | 13,920 | 126,771 |
| Other | 3,499 | 3,136 | 42,157 |
| Total intangible fixed assets..... | 14,021 | 17,056 | 168,928 |
| Investments and Other Assets: | | | |
| Investments in and advances to unconsolidated subsidiaries and affiliates (Note 7) | 79,445 | 75,130 | 957,169 |
| Investments in securities (Note 5) | 84,006 | 88,840 | 1,012,120 |
| Long-term loans..... | 3,628 | 3,957 | 43,711 |
| Deferred taxes, non-current (Note 20)..... | 22,185 | 22,057 | 267,289 |
| Other | 72,657 | 73,407 | 875,386 |
| Less: Allowance for doubtful accounts (Note 2 (5)) | (38) | (13) | (458) |
| Total investments and other assets..... | 261,883 | 263,378 | 3,155,217 |
| Total Assets | ¥1,784,166 | ¥ 1,769,140 | \$21,495,976 |

The accompanying notes are an integral part of the statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|-------------------|------------|---------------------------------------|
| | 2011 | 2010 | 2011 |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities: | | | |
| Short-term borrowings (Note 9) | ¥ 6,570 | ¥ 6,697 | \$ 79,157 |
| Current portion of long-term debt (Note 9)..... | 2,143 | 5,169 | 25,819 |
| Notes and accounts payable: | | | |
| Trade | 89,122 | 71,640 | 1,073,759 |
| Unconsolidated subsidiaries and affiliates..... | 23,232 | 23,357 | 279,904 |
| Other..... | 39,455 | 59,050 | 475,361 |
| | 151,809 | 154,047 | 1,829,024 |
| Accrued income taxes | 21,072 | 18,214 | 253,880 |
| Accrued expenses | 37,753 | 39,485 | 454,856 |
| Accrued bonuses for employees..... | 2,037 | 1,880 | 24,542 |
| Accrued bonuses for directors | 396 | 561 | 4,771 |
| Advances received | 881 | 1,645 | 10,614 |
| Provision for loss on disaster | 24,402 | — | 294,000 |
| Other (Note 20) | 2,371 | 2,427 | 28,566 |
| Total current liabilities | 249,434 | 230,125 | 3,005,229 |
| Long-Term Liabilities: | | | |
| Long-term debt (Note 9) | 5,548 | 7,885 | 66,843 |
| Accrued retirement benefits (Note 10)..... | 14,119 | 12,678 | 170,108 |
| Accrued retirement bonuses for directors..... | 379 | 369 | 4,566 |
| Deferred taxes, non-current (Note 20)..... | 39,498 | 38,108 | 475,880 |
| Other | 5,759 | 5,762 | 69,386 |
| Total long-term liabilities..... | 65,303 | 64,802 | 786,783 |
| Total Liabilities | 314,737 | 294,927 | 3,792,012 |
| Commitment and Contingent Liabilities (Note 11) | | | |
| Net Assets | | | |
| Stockholders' Equity: | | | |
| Common stock:..... | 119,420 | 119,420 | 1,438,795 |
| Authorized: 1,720,000,000 shares | | | |
| Issued: 432,106,693 shares as of March 31, 2011 and 2010, respectively | | | |
| Additional paid-in capital | 128,178 | 128,178 | 1,544,313 |
| Retained earnings (Note 12) | 1,376,044 | 1,318,414 | 16,578,843 |
| Less: Treasury stock, at cost (Note 12)..... | (40,918) | (40,893) | (492,987) |
| Total stockholders' equity | 1,582,724 | 1,525,119 | 19,068,964 |
| Accumulated Other Comprehensive Income: | | | |
| Unrealized gains (losses) on available-for-sale securities (Note 2 (7)) | 3,275 | 6,718 | 39,458 |
| Deferred gains (losses) on hedges | 895 | 518 | 10,783 |
| Foreign currency translation adjustments..... | (160,086) | (101,208) | (1,928,747) |
| Total accumulated other comprehensive income..... | (155,916) | (93,972) | (1,878,506) |
| Share Subscription Rights | 3,823 | 3,649 | 46,060 |
| Minority Interests in Consolidated Subsidiaries | 38,798 | 39,417 | 467,446 |
| Total net assets..... | 1,469,429 | 1,474,213 | 17,703,964 |
| Total Liabilities and Net Assets | ¥1,784,166 | ¥1,769,140 | \$21,495,976 |

Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2011, 2010 and 2009

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|---|-------------------|----------|------------|---------------------------------------|
| | 2011 | 2010 | 2009 | 2011 |
| Net Sales (Notes 17 and 22) | ¥1,058,257 | ¥916,838 | ¥1,200,814 | \$12,750,084 |
| Cost of Sales (Notes 10, 15 and 17) | 803,575 | 700,903 | 853,434 | 9,681,626 |
| Gross profit | 254,682 | 215,935 | 347,380 | 3,068,458 |
| Selling, General and Administrative Expenses (Notes 10, 14 and 15) | 105,460 | 98,719 | 114,453 | 1,270,603 |
| Operating income (Note 22) | 149,222 | 117,216 | 232,927 | 1,797,855 |
| Other Income (Expenses): | | | | |
| Interest and dividend income | 4,151 | 5,033 | 8,642 | 50,012 |
| Equity in earnings of affiliates | 12,627 | 9,994 | 12,442 | 152,133 |
| Interest expenses | (530) | (767) | (1,706) | (6,386) |
| Loss on disposal of property, plant and equipment | (898) | (1,405) | (726) | (10,819) |
| Loss on disposal of inventories | — | — | (1,851) | — |
| Foreign exchange gain (loss) | (9,123) | (846) | (686) | (109,916) |
| Cost of inactive facilities | — | (2,360) | — | — |
| Other, net | 4,890 | 154 | 1,491 | 58,916 |
| Ordinary income | 160,339 | 127,019 | 250,533 | 1,931,795 |
| Extraordinary Income (Losses): | | | | |
| Loss on impairment of fixed assets (Note 18) | — | — | (4,364) | — |
| Loss on disaster (Note 19) | (21,033) | — | — | (253,409) |
| Loss on write-down of investment securities | — | — | (1,684) | — |
| Income before income taxes | 139,306 | 127,019 | 244,485 | 1,678,386 |
| Income Taxes (Note 20): | | | | |
| Current | 35,998 | 23,679 | 60,130 | 433,711 |
| Prior years | (10,654) | — | — | (128,361) |
| Deferred | 12,643 | 18,711 | 28,478 | 152,325 |
| | 37,987 | 42,390 | 88,608 | 457,675 |
| Income before minority interests | 101,319 | 84,629 | 155,877 | 1,220,711 |
| Minority Interests in Earnings of Consolidated Subsidiaries | (1,200) | (776) | (1,145) | (14,458) |
| Net Income | ¥ 100,119 | ¥ 83,853 | ¥ 154,732 | \$ 1,206,253 |
| | | Yen | | U.S. dollars (Note 3) |
| Per Share (Note 2 (15)): | | | | |
| Net income—primary | ¥235.80 | ¥197.53 | ¥362.39 | \$2.841 |
| Net income—fully diluted | 235.80 | 197.50 | 362.35 | 2.841 |
| Cash dividends | 100.00 | 100.00 | 100.00 | 1.205 |
| Weighted-Average Number of Shares Outstanding (Thousands) | 424,599 | 424,514 | 426,973 | 424,599 |

The accompanying notes are an integral part of the statements.

Consolidated Statements of Comprehensive Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|----------|---------------------------------------|
| | 2011 | 2010 | 2011 |
| Income before Minority Interests | ¥101,319 | ¥ 84,629 | \$1,220,711 |
| Other Comprehensive Income: | | | |
| Unrealized gains (losses) on available-for-sale securities | (3,467) | 7,401 | (41,771) |
| Deferred gains (losses) on hedges | 137 | 147 | 1,650 |
| Foreign currency translation adjustments..... | (56,952) | 14,038 | (686,168) |
| Share of other comprehensive income of associates accounted for by using equity method..... | (3,118) | 2,228 | (37,566) |
| Total other comprehensive income | (63,400) | 23,814 | (763,855) |
| Comprehensive Income | ¥ 37,919 | ¥108,443 | \$ 456,855 |
| (Breakdown) | | | |
| Comprehensive income attributable to owners of the parent..... | ¥38,175 | ¥106,859 | \$459,939 |
| Comprehensive income attributable to minority interests | (256) | 1,584 | (3,084) |

The accompanying notes are an integral part of the statements.

Consolidated Statements of Changes in Net Assets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

| | Thousands | | Millions of yen | | | | | | | | | | | |
|---|----------------------------------|----------------------|----------------------------|-------------------|-------------------------|-------------------|--|-----------------------------------|--|-------------------|---------------|---------------------------|---|------------------|
| | Number of shares of common stock | Stockholders' Equity | | | | | Accumulated Other Comprehensive Income | | | | | Share subscription rights | Minority interests in consolidated subsidiaries | Total net assets |
| | | Common stock | Additional paid-in capital | Retained earnings | Treasury stock, at cost | Total | Unrealized gains (losses) on available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustments | Total | | | | |
| Balance at March 31, 2008 | 432,107 | ¥119,420 | ¥128,178 | ¥1,163,680 | ¥(12,218) | ¥1,399,060 | ¥ 10,696 | ¥ 3,231 | ¥ 25,810 | ¥ 39,737 | ¥1,614 | ¥43,258 | ¥1,483,669 | |
| Effect of changes in accounting policies applied to foreign subsidiaries..... | | | | 1,689 | | 1,689 | | | | | | | 1,689 | |
| Net income..... | | | | 154,732 | | 154,732 | | | | | | | 154,732 | |
| Cash dividends (Note 12)..... | | | | (42,884) | | (42,884) | | | | | | | (42,884) | |
| Purchases of treasury stock.. | | | | | (29,938) | (29,938) | | | | | | | (29,938) | |
| Disposal of treasury stock..... | | | | (161) | 542 | 381 | | | | | | | 381 | |
| Net change during the year.... | | | | | | | (12,473) | (3,273) | (140,970) | (156,716) | 832 | (4,411) | (160,295) | |
| Balance at March 31, 2009 | 432,107 | 119,420 | 128,178 | 1,277,056 | (41,614) | 1,483,040 | (1,777) | (42) | (115,160) | (116,979) | 2,446 | 38,847 | 1,407,354 | |
| Net income..... | | | | 83,853 | | 83,853 | | | | | | | 83,853 | |
| Cash dividends (Note 12)..... | | | | (42,449) | | (42,449) | | | | | | | (42,449) | |
| Purchases of treasury stock.. | | | | | (31) | (31) | | | | | | | (31) | |
| Disposal of treasury stock..... | | | | (166) | 752 | 586 | | | | | | | 586 | |
| Change of scope of consolidation..... | | | | 120 | | 120 | | | | | | | 120 | |
| Net change during the year.... | | | | | | | 8,495 | 560 | 13,952 | 23,007 | 1,203 | 570 | 24,780 | |
| Balance at March 31, 2010 | 432,107 | 119,420 | 128,178 | 1,318,414 | (40,893) | 1,525,119 | 6,718 | 518 | (101,208) | (93,972) | 3,649 | 39,417 | 1,474,213 | |
| Net income..... | | | | 100,119 | | 100,119 | | | | | | | 100,119 | |
| Cash dividends (Note 12)..... | | | | (42,460) | | (42,460) | | | | | | | (42,460) | |
| Purchases of treasury stock.. | | | | | (26) | (26) | | | | | | | (26) | |
| Disposal of treasury stock..... | | | | (0) | 1 | 1 | | | | | | | 1 | |
| Change of scope of consolidation..... | | | | (29) | | (29) | | | | | | | (29) | |
| Net change during the year.... | | | | | | | (3,443) | 377 | (58,878) | (61,944) | 174 | (619) | (62,389) | |
| Balance at March 31, 2011 | 432,107 | ¥119,420 | ¥128,178 | ¥1,376,044 | ¥(40,918) | ¥1,582,724 | ¥ 3,275 | ¥ 895 | ¥(160,086) | ¥(155,916) | ¥3,823 | ¥38,798 | ¥1,469,429 | |

| | Thousands | | Thousands of U.S. dollars (Note 3) | | | | | | | | | | | |
|--|----------------------------------|----------------------|------------------------------------|---------------------|-------------------------|---------------------|--|-----------------------------------|--|----------------------|-----------------|---------------------------|---|------------------|
| | Number of shares of common stock | Stockholders' Equity | | | | | Accumulated Other Comprehensive Income | | | | | Share subscription rights | Minority interests in consolidated subsidiaries | Total net assets |
| | | Common stock | Additional paid-in capital | Retained earnings | Treasury stock, at cost | Total | Unrealized gains (losses) on available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustments | Total | | | | |
| Balance at March 31, 2010 | 432,107 | \$1,438,795 | \$1,544,313 | \$15,884,506 | \$(492,687) | \$18,374,927 | \$ 80,940 | \$ 6,241 | \$(1,219,374) | \$(1,132,193) | \$43,964 | \$474,904 | \$17,761,602 | |
| Net income..... | | | | 1,206,253 | | 1,206,253 | | | | | | | 1,206,253 | |
| Cash dividends (Note 12)..... | | | | (511,566) | | (511,566) | | | | | | | (511,566) | |
| Purchases of treasury stock.. | | | | | (312) | (312) | | | | | | | (312) | |
| Disposal of treasury stock..... | | | | | 12 | 12 | | | | | | | 12 | |
| Change of scope of consolidation..... | | | | (350) | | (350) | | | | | | | (350) | |
| Net change during the year.... | | | | | | | (41,482) | 4,542 | (709,373) | (746,313) | 2,096 | (7,458) | (751,675) | |
| Balance at March 31, 2011 | 432,107 | \$1,438,795 | \$1,544,313 | \$16,578,843 | \$(492,987) | \$19,068,964 | \$ 39,458 | \$10,783 | \$(1,928,747) | \$(1,878,506) | \$46,060 | \$467,446 | \$17,703,964 | |

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2011, 2010 and 2009

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|---|------------------|------------------|------------------|---------------------------------------|
| | 2011 | 2010 | 2009 | 2011 |
| Cash Flows from Operating Activities: | | | | |
| Income before income taxes..... | ¥ 139,306 | ¥ 127,019 | ¥ 244,485 | \$ 1,678,386 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | | | |
| Depreciation and amortization..... | 93,732 | 87,723 | 119,457 | 1,129,301 |
| Loss on impairment of fixed assets..... | — | — | 4,364 | — |
| Increase in accrued retirement benefits..... | 1,728 | 1,165 | 794 | 20,819 |
| (Gain) loss on sales of investment securities..... | (1,203) | (165) | (377) | (14,494) |
| Loss on write-down of investment securities..... | 52 | 404 | 1,684 | 627 |
| Interest and dividend income..... | (4,151) | (5,033) | (8,642) | (50,012) |
| Interest expenses..... | 530 | 767 | 1,706 | 6,386 |
| Exchange (gain) loss..... | 3,918 | (1,492) | 10,257 | 47,205 |
| Equity in earnings of affiliates..... | (12,627) | (9,994) | (12,442) | (152,133) |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in notes and accounts receivable..... | (7,275) | (52,339) | 69,103 | (87,651) |
| (Increase) decrease in inventories..... | (11,293) | 27,710 | (20,783) | (136,060) |
| Increase in long-term advance payment..... | (5,286) | (16,595) | (21,221) | (63,687) |
| Increase (decrease) in notes and accounts payable..... | 20,823 | 15,855 | (61,390) | 250,880 |
| Increase (decrease) in provision for loss on disaster..... | 24,402 | — | — | 294,000 |
| Other, net..... | (15,323) | 2,159 | 6,743 | (184,615) |
| Subtotal..... | 227,333 | 177,184 | 333,738 | 2,738,952 |
| Proceeds from interest and dividends..... | 14,336 | 13,330 | 16,229 | 172,723 |
| Payment of interest..... | (539) | (793) | (1,731) | (6,494) |
| Payment of income taxes..... | (33,277) | (18,182) | (91,657) | (400,928) |
| Income taxes refund..... | 9,638 | — | — | 116,120 |
| Net cash provided by operating activities..... | 217,491 | 171,539 | 256,579 | 2,620,373 |
| Cash Flows from Investing Activities: | | | | |
| Purchases of securities..... | (26,045) | (21,970) | (47,538) | (313,795) |
| Proceeds from redemption of securities..... | 16,900 | 52,612 | 30,655 | 203,614 |
| Proceeds from sales of securities..... | 5,577 | — | — | 67,193 |
| Purchases of property, plant and equipment..... | (117,518) | (131,626) | (189,697) | (1,415,880) |
| Proceeds from sales of property, plant and equipment..... | 410 | 9,227 | 857 | 4,940 |
| Purchases of intangible fixed assets..... | (1,539) | (1,007) | (1,392) | (18,542) |
| Purchases of investments in securities..... | (3,104) | (6,170) | (34,514) | (37,398) |
| Proceeds from sales of investments in securities..... | 2,203 | 1,142 | 6,838 | 26,542 |
| Proceeds from redemption of investments in securities..... | 3,182 | 2,018 | 36,666 | 38,337 |
| Purchase of investments in subsidiaries resulting in changes in scope of consolidation..... | — | (2,044) | — | — |
| Payments of loans..... | (207) | (242) | (5,636) | (2,494) |
| Proceeds from collection of loans..... | 35 | 79 | 915 | 422 |
| Other, net..... | (11,899) | (4,854) | 2,056 | (143,361) |
| Net cash used for investing activities..... | (132,005) | (102,835) | (200,790) | (1,590,422) |
| Cash Flows from Financing Activities: | | | | |
| Net increase (decrease) in short-term borrowings..... | (212) | 91 | (3,460) | (2,554) |
| Repayment of long-term debt..... | (5,387) | (8,084) | (3,318) | (64,904) |
| Purchase of treasury stock..... | (26) | (31) | (29,938) | (313) |
| Proceeds from sales of treasury stock..... | 1 | 586 | 382 | 12 |
| Cash dividends paid..... | (42,460) | (42,449) | (42,884) | (511,566) |
| Cash dividends paid to minority interests..... | (466) | (1,007) | (827) | (5,614) |
| Other, net..... | (72) | (66) | (39) | (868) |
| Net cash used for financing activities..... | (48,622) | (50,960) | (80,084) | (585,807) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents ... | (5,511) | 1,762 | (26,279) | (66,398) |
| Net Increase (Decrease) in Cash and Cash Equivalents..... | 31,353 | 19,506 | (50,574) | 377,747 |
| Cash and Cash Equivalents at Beginning of Year..... | 270,444 | 251,045 | 301,619 | 3,258,361 |
| Increase (Decrease) in Cash and Cash Equivalents Resulting from Changes in Scope of Consolidation..... | 489 | (107) | — | 5,892 |
| Cash and Cash Equivalents at End of Year (Note 21)..... | ¥ 302,286 | ¥ 270,444 | ¥ 251,045 | \$ 3,642,000 |

The accompanying notes are an integral part of the statements.

Notes to Consolidated Financial Statements

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2011, 2010 and 2009

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from accounts and records maintained by Shin-Etsu Chemical Co., Ltd. (the "Company") and its subsidiaries. The Company and its domestic consolidated subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Corporation Law of Japan and the Financial Instruments and Exchange Law and in conformity with generally accepted accounting principles prevailing in Japan. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries. Before the fiscal year ended March 31, 2008, in general, no adjustments to the accounts of overseas consolidated subsidiaries were reflected in the accompanying consolidated financial statements to present them in compliance with Japanese accounting principles followed by the Company.

Effective from the fiscal year ended March 31, 2009, the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force No. 18, issued on May 17, 2006) has been applied, and accordingly some revisions have been made to the consolidated accounts as necessary.

The accompanying consolidated financial statements of the Company and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company, as required by the Financial Instruments and Exchange Law of Japan.

The presentation of the accompanying consolidated financial statements is made in conformity with the Consolidated Financial Statements Regulation (ordinance promulgated by the Ministry of Finance) and meets the requirements for disclosure of financial information of the Company on a consolidated basis. However, certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of consolidation

The Company had 102 majority-owned subsidiaries as of March 31, 2011 (101 and 97 as of March 31, 2010 and 2009, respectively). The consolidated financial statements include the accounts of the Company and 72 (70 and 68 for 2010 and 2009, respectively) majority-owned subsidiaries (the "Companies"), of which the principal firms are listed on page 55 with their respective fiscal year-ends.

The remaining 30 (31 and 29 for 2010 and 2009, respectively) unconsolidated subsidiaries, including Shin-Etsu Electronics (Malaysia) Sdn. Bhd., whose total assets, net sales, net income and retained earnings in the aggregate are not significant compared with those of the consolidated financial statements of the Companies, therefore, have not been consolidated with the Company. For consolidation of subsidiaries whose fiscal year-ends are not in agreement with that of the Company, necessary adjustments are made on significant inter-company transactions which took place during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

Unrealized intercompany profits and losses among the Companies are entirely eliminated, and the portion thereof attributable to minority interests is charged to the minority interests.

Valuation of assets and liabilities of consolidated subsidiaries is based on full fair value accounting method.

Goodwill is amortized within 20 years on a straight-line basis.

Shin-Etsu Polymer India Pvt. Ltd., which had been an unconsolidated subsidiary during the fiscal year ended March 31, 2010, was newly included in the scope of consolidation due to increased importance. Shin-Etsu Pharma & Food Materials Distribution GmbH, which was established during the fiscal year ended March 31, 2011, was also newly included in the scope of consolidation.

(2) Accounting for investments in unconsolidated subsidiaries and affiliates

The Company had 30 (31 and 29 for 2010 and 2009, respectively) unconsolidated subsidiaries (majority-owned) and 17 (16 and 16 for 2010 and 2009, respectively) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 7 (7 and 8 for 2010 and 2009, respectively) major affiliates and the cost method is applied to investments in the remaining unconsolidated subsidiaries, including Shin-Etsu Electronics (Malaysia) Sdn. Bhd., and affiliates, including TATSUNO CHEMICAL INDUSTRIES INC., since they are not material for the consolidated financial statements.

The major unconsolidated subsidiaries and affiliates accounted for by the equity method are listed below:

Mimasu Semiconductor Industry Co., Ltd.

Shin-Etsu Quartz Products Co., Ltd.

Kashima Vinyl Chloride Monomer Co., Ltd.

Hemlock Semiconductor Corp.

(3) Translation of foreign currency transactions

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates effective at the respective transaction dates.

Foreign currency deposits, receivables and payables denominated in foreign currencies are translated into yen at the exchange rate prevailing at the respective balance sheet dates and the resulting translation gain or loss is included in the determination of net income for the year.

However, all of the overseas consolidated subsidiaries apply the current rate method to translate transactions and account balances in foreign currencies into their respective home currencies.

(4) Translation of foreign currency financial statements (accounts of overseas subsidiaries)

The translation of foreign currency financial statements of overseas subsidiaries into yen for consolidation purposes is made by the method of translation prescribed by the statements issued by the Business Accounting Council (BAC) of Japan.

Under the BAC method, all assets and liabilities are translated into yen at current exchange rates while capital accounts and retained earnings are translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year. The resulting translation adjustments are, as before, shown as "Foreign currency translation adjustments" in the accompanying balance sheets as of March 31, 2011 and 2010.

(5) Allowance for doubtful accounts

The Company and consolidated subsidiaries provide an allowance for doubtful accounts using the historic percentage of bad debt loss against the balance of general receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.

(6) Inventories

The Company mainly applies the cost method based on the weighted-average method, which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability.

(7) Financial instruments

Securities:

Bonds held to maturity are stated at amortized cost using the straight-line method. Available-for-sale securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the stockholders' equity at net-of-tax amounts. Other securities for which market quotations are unavailable are stated at cost, which is determined by the moving-average cost method.

Derivatives:

Derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments."

The Company and consolidated subsidiaries engage in foreign exchange contracts, currency swaps, interest rate swaps and earthquake derivatives.

Hedge accounting:

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are interest swaps and foreign exchange contracts. The related hedged items are interest rate transactions tied to funding activities, marketable securities and forecasted foreign currency transactions.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of interest rate fluctuation and foreign currency fluctuation. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items and not for speculation or dealing purposes.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(8) Property, plant and equipment

Depreciation of the Company and its domestic subsidiaries is principally computed by the declining-balance method, based on the estimated useful lives of assets. Depreciation of foreign subsidiaries is principally computed by the straight-line method over the estimated useful lives of the assets. The cost of property, plant and equipment retired or otherwise disposed of and accumulated depreciation are eliminated from the related accounts, and the resulting profit or loss is reflected in income.

(9) Repairs and maintenance

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(10) Accrued bonuses for employees

Certain consolidated subsidiaries accrued the current fiscal year portion of the estimated amount of employees' bonuses to be paid in the subsequent period.

(11) Accrued bonuses for directors

The Company and its domestic consolidated subsidiaries accrued the current fiscal year portion of the estimated amount of directors' bonuses to be paid in the subsequent period.

(12) Provision for loss on disaster

The Company and certain domestic consolidated subsidiaries accrued expenses estimated to be incurred during or after the next fiscal year in order to undertake the restoration of assets damaged due to the disaster.

(13) Accrued retirement benefits

Pension and severance costs for employees are accrued based on the estimates of the pension obligations and the plan assets at the end of the fiscal year. The actuarial difference is amortized primarily over a five-year period, which is within the average remaining service period, using the straight-line method from the fiscal year when the difference was generated. The prior service cost is amortized primarily over a ten-year period, which is within the average remaining service period, using the straight-line method from the time when the difference was generated (see Note 10).

Effective from the fiscal year ended March 31, 2010, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19 issued on July 31, 2008) has been applied. This change has no impact on operating income, ordinary income and income before income taxes for the fiscal year ended March 31, 2010.

(14) Research and development costs

Research and development costs are charged to income as incurred.

(15) Income and dividends per share

Net income per share is based upon the weighted-average number of shares of common stock outstanding during each fiscal year. Net income per share adjusted for dilution represents net income per share assuming full conversion of all convertible debentures of the Company outstanding with related reduction in interest expenses.

(16) Dividends

Dividends are proposed by the Board of Directors and approved by the stockholders at meetings held subsequent to the fiscal year to which the dividends are applicable, and registered stockholders as of the end of such fiscal year are entitled to the subsequently declared dividends. Interim cash dividends are also paid (see Note 12).

Dividends charged to retained earnings in the accompanying consolidated statements of stockholders' equity represent dividends approved and paid during the year.

(17) Accrued retirement bonuses for directors

Certain domestic subsidiaries recognize the required amount of directors' retirement bonuses in accordance with an internal standard.

(18) Asset Retirement Obligations

Effective from the fiscal year ended March 31, 2011, "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18 issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21 issued on March 31, 2008) have been applied. The impact of this change on operating income, ordinary income and income before income taxes is immaterial.

(19) Presentation of Comprehensive Income

Effective from FY 2011, "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25 issued on June 30, 2010) has been applied. The items "accumulated other comprehensive income" and "total accumulated other comprehensive income" for the previous fiscal year are exactly the same as "valuation and translation adjustments" and "total valuation and translation adjustments" of the previous fiscal year, respectively.

(20) Consumption tax

The consumption tax withheld by the Company on sales of products is not included in the amount of net sales in the accompanying consolidated statements of income. The consumption tax borne by the Company on purchases of goods and services and on expenses is also not included in the related amounts in the accompanying consolidated statements of income.

(21) Reclassifications

Certain reclassifications have been made in the 2010 and 2009 financial statements to conform to the presentation for 2011.

3. UNITED STATES DOLLAR AMOUNTS

The Company prepares its consolidated financial statements in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥83 to US\$1, the approximate effective rate of exchange on March 31, 2011. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥83 to US\$1 or at any other rate.

4. FINANCIAL INSTRUMENTS

(1) Overview of financial instruments

Management policy

In principle, our fund management methods are limited to deposits with financial institutions with high credit ratings and risk-free bonds, and our financing is implemented primarily through borrowings from banks.

Financial instruments, risks and risk management

Notes and accounts receivable-trade are exposed to credit risk of customers. With regard to credit risk generated by notes and accounts receivable-trade, each of our business departments not only controls and manages account due dates and balances, but also confirms credit standing of major customers periodically, making efforts to identify doubtful accounts as soon as possible.

Securities and investment securities are stocks in companies with business relationships, bonds held to maturity and also a certificate of deposit. Regarding securities and investment securities, we update regularly their fair value and the financial situation of the issuing companies. For stocks, we are also continually reviewing our stock holding status, considering the relationship with the issuing companies.

In order to hedge the foreign currency exchange risk associated with assets and liabilities denominated in foreign currencies and interest rate risk associated with financial assets and liabilities, derivative transactions such as interest rate swap transactions, currency swap transactions and foreign exchange forward contracts are utilized. All of our derivative transactions are implemented for the purpose of hedging risks generated in the ordinary course of business, and there are no derivative transactions entered into for trading or speculative purposes.

Supplementary explanation on the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair values.

[2] Fair value of financial instruments

As of March 31, 2011 and 2010, book value, fair value and the difference between the two are as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|--|--------------------|--------------------|--------------------|---------------------------|--------------------|--------------------|
| | 2011 Book value | 2011 Fair value | 2011 Difference | 2011 Book value | 2011 Fair value | 2011 Difference |
| Assets: | | | | | | |
| (1) Cash and time deposits..... | ¥244,003 | ¥244,003 | ¥ — | \$2,939,795 | \$2,939,795 | \$ — |
| (2) Notes and accounts receivable | 282,293 | 282,293 | — | 3,401,120 | 3,401,120 | — |
| (3) Securities and investments in securities | | | | | | |
| i) Bonds held to maturity..... | 16,901 | 17,021 | 120 | 203,627 | 205,072 | 1,445 |
| ii) Investments in and advances to unconsolidated subsidiaries and affiliates.. | 22,088 | 12,585 | (9,503) | 266,120 | 151,627 | (114,493) |
| iii) Investments in securities | 157,796 | 157,796 | — | 1,901,157 | 1,901,157 | — |
| (4) Long-term loans | 3,628 | 3,941 | 313 | 43,711 | 47,482 | 3,771 |
| Total | ¥726,709 | ¥717,639 | ¥(9,070) | \$8,755,530 | \$8,646,253 | \$(109,277) |
| Liabilities: | | | | | | |
| (1) Short-term borrowings and current portion of long-term debt | ¥ 8,713 | ¥ 8,713 | ¥ — | \$ 104,976 | \$ 104,976 | \$ — |
| (2) Notes and accounts payable..... | 151,809 | 151,809 | — | 1,829,024 | 1,829,024 | — |
| (3) Accrued income taxes..... | 21,072 | 21,072 | — | 253,880 | 253,880 | — |
| (4) Accrued expenses | 37,753 | 37,753 | — | 454,856 | 454,856 | — |
| (5) Long-term debt | 5,548 | 5,610 | 62 | 66,843 | 67,590 | 747 |
| Total | ¥224,895 | ¥224,957 | ¥ 62 | \$2,709,579 | \$2,710,326 | \$ 747 |
| Derivative transactions: | | | | | | |
| Hedge accounting not applied | ¥ 1,723 | ¥ 1,723 | ¥ — | \$ 20,759 | \$ 20,759 | \$ — |
| Hedge accounting applied..... | (147) | (147) | — | (1,771) | (1,771) | — |
| Total | ¥ 1,576 | ¥ 1,576 | ¥ — | \$ 18,988 | \$ 18,988 | \$ — |

| | Millions of yen | | |
|---|--------------------|--------------------|--------------------|
| | 2010 Book value | 2010 Fair value | 2010 Difference |
| Assets: | | | |
| (1) Cash and time deposits..... | ¥209,046 | ¥209,046 | ¥ — |
| (2) Notes and accounts receivable | 288,931 | 288,931 | — |
| (3) Securities and investments in securities | | | |
| i) Bonds held to maturity..... | 18,651 | 18,788 | 137 |
| ii) Investments in and advances to unconsolidated subsidiaries and affiliates..... | 22,975 | 19,853 | (3,122) |
| iii) Investments in securities | 152,878 | 152,878 | — |
| (4) Long-term loans | 3,957 | 4,420 | 463 |
| Total | ¥696,438 | ¥693,916 | ¥(2,522) |
| Liabilities: | | | |
| (1) Short-term borrowings and current portion of long-term debt | ¥ 11,866 | ¥ 11,866 | ¥ — |
| (2) Notes and accounts payable..... | 154,047 | 154,047 | — |
| (3) Accrued income taxes..... | 18,214 | 18,214 | — |
| (4) Accrued expenses | 39,485 | 39,485 | — |
| (5) Long-term debt | 7,885 | 7,983 | 98 |
| Total | ¥231,497 | ¥231,595 | ¥ 98 |
| Derivative transactions: | | | |
| Hedge accounting not applied | ¥ 2,238 | ¥ 2,238 | ¥ — |
| Hedge accounting applied..... | (476) | (476) | — |
| Total | ¥ 1,762 | ¥ 1,762 | ¥ — |

Notes: 1. Method for calculating fair value of financial instruments, and notes regarding securities and derivative transactions

Assets

(1) Cash and time deposits and (2) Notes and accounts receivable

All of these are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as fair value in the table above.

(3) Securities and investments in securities

These mainly consist of stocks and bonds. Fair value for stocks is based on a price settled on stock exchanges, while fair value for bonds is based on either a price settled on the exchanges or one offered from financial institutions that we have transactions with.

(4) Long-term loans

Fair value for long-term loans is calculated based on a future cash flow discounted at an appropriate rate such as mid-term and long-term interest rates with credit spreads, for all loans grouped by a certain period of time and credit rating under the credit exposure management.

Liabilities

(1) Short-term borrowings, (2) Notes and accounts payable, (3) Accrued income taxes and (4) Accrued expenses

All of these are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as fair value in the table above.

(5) Long-term debt

Fair value for long-term debt is calculated based on a present value of principal with interest added, discounted at an expected rate for new borrowings with the same terms.

Derivative transactions

Net receivables (payables) derived from derivative transactions are displayed in the table above. Total net payables are showed in parenthesis.

2. The following table summarizes financial instruments whose fair value is extremely difficult to estimate.

| Description | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------------|-----------------|----------------|---------------------------|
| | 2011 | 2010 | 2011 |
| Non-listed equity securities..... | ¥70,239 | ¥72,139 | \$846,253 |
| Investment securities, etc. | 5,589 | 5,697 | 67,337 |
| Total | ¥75,828 | ¥77,836 | \$913,590 |

These securities do not carry quoted market prices. Since it is extremely difficult to estimate the fair value of these securities, their fair value is not disclosed.

3. Repayment schedule of monetary claims, available-for-sale securities with maturities and bonds held to maturity.

| Description | Millions of yen | | | | Thousands of U.S. dollars | | | |
|---|-----------------|---------------------------------|----------------------------------|----------------|---------------------------|---------------------------------|----------------------------------|----------------|
| | 2011 | | | | 2011 | | | |
| | Within one year | Over one year within five years | Over five years within ten years | Over ten years | Within one year | Over one year within five years | Over five years within ten years | Over ten years |
| Time deposits | ¥243,959 | ¥ — | ¥ — | ¥ — | \$2,939,265 | \$ — | \$ — | \$ — |
| Notes and accounts receivable..... | 282,293 | — | — | — | 3,401,120 | — | — | — |
| Securities and investments in securities | 116,725 | 14,136 | 177 | — | 1,406,325 | 170,313 | 2,133 | — |
| Long-term loans..... | — | 1,583 | 1,538 | 507 | — | 19,072 | 18,530 | 6,109 |
| Total | ¥642,977 | ¥15,719 | ¥1,715 | ¥507 | \$7,746,710 | \$189,385 | \$20,663 | \$6,109 |

| Description | Millions of yen | | | |
|--|-----------------|---------------------------------|----------------------------------|----------------|
| | 2010 | | | |
| | Within one year | Over one year within five years | Over five years within ten years | Over ten years |
| Time deposits | ¥209,001 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable..... | 273,950 | — | — | — |
| Securities and investments in securities | 109,817 | 12,758 | 571 | — |
| Long-term loans..... | — | 1,890 | 1,947 | 300 |
| Total | ¥592,768 | ¥14,648 | ¥2,518 | ¥300 |

See Note 9 for repayment schedule of long-term debt.

5. SECURITIES

Securities as of March 31, 2011 and 2010 consisted of the following:

(1) Market value of bonds held to maturity

| Description | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|--|-----------------|----------------|-------------|----------------|----------------|-------------|---------------------------|------------------|----------------|
| | 2011 | | | 2010 | | | 2011 | | |
| | Book value | Fair value | Difference | Book value | Fair value | Difference | Book value | Fair value | Difference |
| Securities with fair value that exceeds book value..... | ¥ 5,571 | ¥ 5,735 | ¥164 | ¥ 8,097 | ¥ 8,287 | ¥190 | \$ 67,120 | \$ 69,096 | \$1,976 |
| Securities with fair value that does not exceed book value | 11,330 | 11,286 | (44) | 10,555 | 10,501 | (54) | 136,506 | 135,976 | (530) |
| Total | ¥16,901 | ¥17,021 | ¥120 | ¥18,652 | ¥18,788 | ¥136 | \$203,626 | \$205,072 | \$1,446 |

(2) Available-for-sale securities with defined fair values

| Description | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|-----------------|------------------|----------------|-----------------|------------------|----------------|---------------------------|--------------------|------------------|
| | 2011 | | | 2010 | | | 2011 | | |
| | Book value | Acquisition cost | Difference | Book value | Acquisition cost | Difference | Book value | Acquisition cost | Difference |
| Securities with book value that exceeds acquisition cost..... | ¥ 29,904 | ¥ 17,265 | ¥12,639 | ¥ 34,590 | ¥ 18,535 | ¥16,055 | \$ 360,289 | \$ 208,012 | \$152,277 |
| Securities with book value that does not exceed acquisition cost..... | 127,892 | 134,209 | (6,317) | 118,288 | 122,232 | (3,944) | 1,540,867 | 1,616,976 | (76,109) |
| Total | ¥157,796 | ¥151,474 | ¥ 6,322 | ¥152,878 | ¥140,767 | ¥12,111 | \$1,901,156 | \$1,824,988 | \$ 76,168 |

Note: Non-listed equity securities and other investment securities whose fair value is extremely difficult to estimate are excluded from the above. See Note 4 (2) note 2 for details.

6. DERIVATIVE TRANSACTIONS

(1) Derivative transactions to which hedge accounting is not applied:

Currency related:

As of March 31, 2011

| Description | Millions of yen | | | Thousands of U.S. dollars | | |
|---|------------------|---------------|------------------------|---------------------------|-----------------|------------------------|
| | Contract amounts | Fair value | Unrealized gain (loss) | Contract amounts | Fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts | | | | | | |
| Sales Contracts: | | | | | | |
| US\$..... | ¥ 5,923 | ¥ 175 | ¥ 175 | \$ 71,361 | \$ 2,108 | \$ 2,108 |
| EUR..... | 4,319 | 146 | 146 | 52,036 | 1,759 | 1,759 |
| Other..... | 435 | (2) | (2) | 5,241 | (24) | (24) |
| Purchase Contracts: | | | | | | |
| US\$..... | 1,018 | 21 | 21 | 12,265 | 253 | 253 |
| EUR..... | 16 | 1 | 1 | 193 | 12 | 12 |
| Other..... | 938 | 16 | 16 | 11,301 | 193 | 193 |
| Foreign currency swap contracts | | | | | | |
| Receive Japanese Yen, pay British Pounds... | 5,224 | 1,366 | 1,366 | 62,940 | 16,458 | 16,458 |
| Total | ¥17,873 | ¥1,723 | ¥1,723 | \$215,337 | \$20,759 | \$20,759 |

Note: The fair value is provided by financial institutions with which the Company made the above contracts.

Currency related:

As of March 31, 2010

| Description | Millions of yen | | |
|---|------------------|---------------|------------------------|
| | Contract amounts | Fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts | | | |
| Sales Contracts: | | | |
| US\$..... | ¥ 9,598 | ¥ 580 | ¥ 580 |
| EUR..... | 8,595 | 281 | 281 |
| Other..... | 204 | 8 | 8 |
| Purchase Contracts: | | | |
| US\$..... | 152 | 6 | 6 |
| EUR..... | 11 | 0 | 0 |
| Other..... | 766 | (23) | (23) |
| Foreign currency swap contracts | | | |
| Receive Japanese Yen, pay British Pounds..... | 6,287 | 1,387 | 1,387 |
| Total | ¥25,613 | ¥2,239 | ¥2,239 |

Note: The fair value is provided by financial institutions with which the Company made the above contracts.

[2] Derivative transactions to which hedge accounting is applied:

1) Currency related:

As of March 31, 2011

| Hedge accounting method | Nature of transaction | Hedged items | Millions of yen | | | Thousands of U.S. dollars | | | | | |
|---------------------------|---|----------------------------------|--------------------|--------------------------------|------------------------|---------------------------|--------------------------------|------------------|--------|---|-------|
| | | | Contract amounts | Contract amounts over one year | Fair value | Contract amounts | Contract amounts over one year | Fair value | | | |
| Deferral hedge accounting | Forward foreign exchange contracts: Sales contracts | EUR Accounts receivable-trade | ¥ 138 | ¥ — | ¥ (3) | \$ 1,663 | \$ — | \$ (36) | | | |
| | | | Purchase contracts | EUR | Accounts payable-trade | 4,185 | — | 388 | 50,422 | — | 4,675 |
| | | | | US\$ | Accounts payable-trade | 76 | — | (1) | 916 | — | (12) |
| Deferral hedge accounting | Foreign currency swap contracts: Receive US\$ Pay Thai Baht | Long-term debt | ¥2,778 | ¥884 | ¥(531) | \$33,470 | \$10,651 | \$(6,398) | | | |
| Total | | | ¥7,177 | ¥884 | ¥(147) | \$86,471 | \$10,651 | \$(1,771) | | | |

As of March 31, 2010

| Hedge accounting method | Nature of transaction | Hedged items | Millions of yen | | | | |
|---------------------------|---|-----------------------------|------------------|--------------------------------|---------------|---|-----|
| | | | Contract amounts | Contract amounts over one year | Fair value | | |
| Deferral hedge accounting | Forward foreign exchange contracts: Purchase contracts | EUR Other current assets | ¥ 499 | ¥ — | ¥ 15 | | |
| | | | US\$ | Accounts payable-trade | 2,973 | — | 163 |
| | | | | Accrued payable-other | | | |
| Deferral hedge accounting | Foreign currency swap contracts: Receive US\$ Pay Thai Baht | Long-term debt | ¥4,775 | ¥2,839 | ¥(654) | | |
| Total | | | ¥8,247 | ¥2,839 | ¥(476) | | |

Note: The fair value is provided by financial institutions with which the Company made the above contracts.

2) Interest related:

As of March 31, 2011

| Hedge accounting method | Nature of transaction | Hedged items | Millions of yen | | | Thousands of U.S. dollars | | |
|---|--|---------------------------------------|------------------|--------------------------------|---------------|---------------------------|--------------------------------|------------------|
| | | | Contract amounts | Contract amounts over one year | Fair value | Contract amounts | Contract amounts over one year | Fair value |
| Special hedge accounting treatment of interest rate swaps under JGAAP | Interest rate swap contracts: Receive floating, pay fixed | Interest of investments in securities | ¥ 5,000 | ¥ 5,000 | ¥(177) | \$ 60,241 | \$ 60,241 | \$(2,133) |
| Special hedge accounting treatment of interest rate swaps under JGAAP | Interest rate swap contracts: Receive fixed, pay floating | Interest of investments in securities | ¥ 5,000 | ¥ 5,000 | ¥ 71 | \$ 60,241 | \$ 60,241 | \$ 855 |
| Total | | | ¥10,000 | ¥10,000 | ¥(106) | \$120,482 | \$120,482 | \$(1,278) |

As of March 31, 2010

| Hedge accounting method | Nature of transaction | Hedged items | Millions of yen | | |
|---|--|---------------------------------------|------------------|--------------------------------|---------------|
| | | | Contract amounts | Contract amounts over one year | Fair value |
| Special hedge accounting treatment of interest rate swaps under JGAAP | Interest rate swap contracts: Receive fixed, pay floating | Interest of investments in securities | ¥ 5,000 | ¥ 5,000 | ¥ 103 |
| Special hedge accounting treatment of interest rate swaps under JGAAP | Interest rate swap contracts: Receive floating, pay fixed | Interest of investments in securities | ¥ 5,000 | ¥ 5,000 | ¥(220) |
| Total | | | ¥10,000 | ¥10,000 | ¥(117) |

Note: The fair value is provided by financial institutions with which the Company made the above contracts.

7. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in and advances to unconsolidated subsidiaries and affiliates as of March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|---------------------------|
| | 2011 | 2010 | 2011 |
| Held Directly by the Company: | | | |
| Affiliates: | | | |
| Four affiliates accounted for by the equity method (See Note 2 (2))* | ¥40,190 | ¥40,269 | \$484,217 |
| Other | 1,032 | 1,032 | 12,434 |
| | ¥41,222 | ¥41,301 | \$496,651 |
| Unconsolidated subsidiaries: | | | |
| Shin-Etsu Electronics Malaysia Sdn Bhd. | ¥ 1,400 | ¥ 1,400 | \$ 16,868 |
| Other | 7,684 | 1,856 | 92,578 |
| | ¥ 9,084 | ¥ 3,256 | \$109,446 |
| Held Indirectly through Subsidiaries: | | | |
| Unconsolidated subsidiaries and affiliates: | | | |
| Two affiliates accounted for by the equity method (See Note 2 (2))* | ¥26,582 | ¥27,409 | \$320,265 |
| Other | 2,557 | 2,984 | 30,807 |
| | ¥29,139 | ¥30,393 | \$351,072 |
| Advances: | — | 180 | — |
| | ¥79,445 | ¥75,130 | \$957,169 |

*Accounted for by the equity method. Others are carried at cost or less.

8. ACCUMULATED DEPRECIATION

Accumulated depreciation of property, plant and equipment as of March 31, 2011 and 2010 are ¥1,350,395 million (\$16,269,819 thousand) and ¥1,313,406 million, respectively.

9. SHORT-TERM BORROWINGS, LONG-TERM DEBT AND LEASE OBLIGATIONS

Short-term borrowings outstanding as of March 31, 2011 and 2010 are represented generally by overdrafts contracted between the Companies and banks.

Long-term debt as of March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2011 | 2010 | 2011 |
| Loans with Banks and Other Financial Institutions: | | | |
| Secured | ¥ 19 | ¥ 29 | \$ 229 |
| Unsecured..... | 7,672 | 13,025 | 92,433 |
| | 7,691 | 13,054 | 92,662 |
| Less Portion Due within One Year | (2,143) | (5,169) | (25,819) |
| | ¥ 5,548 | ¥ 7,885 | \$ 66,843 |

Lease obligations as of March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------|-----------------|------|---------------------------|
| | 2011 | 2010 | 2011 |
| Current..... | ¥ 83 | ¥ 80 | \$1,000 |
| Non-current..... | 230 | 221 | 2,771 |
| Total | ¥313 | ¥301 | \$3,771 |

The aggregate annual maturities of long-term debt are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|--------------------------|-----------------|---------------------------|
| Years ending March 31, | | |
| 2012..... | ¥5,474 | \$65,952 |
| 2013..... | 16 | 193 |
| 2014 and thereafter..... | 58 | 698 |
| | ¥5,548 | \$66,843 |

10. RETIREMENT AND PENSION PLANS

The Company and its domestic consolidated subsidiaries have defined contribution pension plans (DC pension plans), tax-qualified pension plans and lump-sum severance payment plans as their defined benefit pension plans.

Certain overseas consolidated subsidiaries have defined pension plans while others have defined contribution pension plans.

Additionally, the Company has a "Retirement Benefit Trust."

The reserves for retirement benefits as of March 31, 2011 and 2010 are analyzed as follows:

Benefit Obligations

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-----------|---------------------------|
| | 2011 | 2010 | 2011 |
| (a) Benefit obligations..... | ¥(28,984) | ¥(28,107) | \$(349,205) |
| (b) Pension assets..... | 14,340 | 14,477 | 172,771 |
| (c) Unfunded benefit obligations [(a)+(b)]..... | (14,644) | (13,630) | (176,434) |
| (d) Unrecognized actuarial differences..... | 2,044 | 2,737 | 24,627 |
| (e) Unrecognized prior service cost (negative) (Note 1)..... | (84) | (146) | (1,012) |
| (f) Net retirement benefit obligations [(c)+(d)+(e)]..... | (12,684) | (11,039) | (152,819) |
| (g) Prepaid pension expenses..... | 1,435 | 1,639 | 17,289 |
| (h) Accrued retirement benefits [(f)-(g)]..... | ¥(14,119) | ¥(12,678) | \$(170,108) |

Notes: 1. The Company and certain consolidated subsidiaries changed system from tax-qualified pension plans to defined contribution pension plans before prior fiscal year, so that prior service cost is generated.

2. Some subsidiaries adopt a simplified method for the calculation of benefit obligations.

Retirement Benefit Costs

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|--------|---------------------------|
| | 2011 | 2010 | 2011 |
| (a) Service costs (Note 1)..... | ¥2,472 | ¥2,562 | \$29,783 |
| (b) Interest costs..... | 905 | 874 | 10,904 |
| (c) Expected return on plan assets..... | (593) | (496) | (7,145) |
| (d) Recognized actuarial loss..... | 1,071 | 633 | 12,904 |
| (e) Amortization of prior service cost..... | (83) | (124) | (1,000) |
| (f) Other (Note 2)..... | 1,707 | 1,541 | 20,566 |
| (g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)]..... | ¥5,479 | ¥4,990 | \$66,012 |

Notes: 1. Retirement benefit costs for subsidiaries adopting a simplified method are reported in "Service costs."

2. "Other" is contributions for defined contribution pension plans.

Basic Assumptions for Calculating Benefit Obligations

| | |
|--|-----------------------------------|
| (a) Period allocation method for estimating retirement benefit | Benefit/years of service approach |
| (b) Discount rate | Principally 2.5% |
| (c) Expected rate of return on plan assets | Principally 2.5% |
| (d) Amortization of prior service cost | Principally 10 years |
| (e) Amortization of actuarial differences | Principally 5 years |

11. COMMITMENT AND CONTINGENT LIABILITIES

As of March 31, 2011, the Companies were contingently liable as a guarantor of housing loans for employees and loans to unconsolidated subsidiaries, affiliates and others in the aggregate amount of ¥31 million (\$373 thousand).

12. RETAINED EARNINGS

The Company's Board of Directors, with subsequent approval by stockholders, has made annual appropriations of retained earnings for various purposes. Any dispositions of such appropriations shall be at the discretion of the Board of Directors and stockholders. Such administrative appropriations have not been segregated from retained earnings in the accompanying consolidated financial statements.

The Company paid interim dividends during the years ended March 31, 2011, 2010 and 2009 in the amounts of ¥21,230 million (\$255,783 thousand) (¥50.0 per share), ¥21,225 million and ¥21,372 million, respectively, which were actually paid to stockholders on November 18, 2010, November 18, 2009 and November 18, 2008, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended March 31, 2011, 2010 and 2009, respectively.

There were 7,510,657 shares and 7,505,054 shares of treasury stock as at March 31, 2011 and 2010, respectively.

13. SHARE SUBSCRIPTION RIGHTS

Fiscal year ended March 31, 2011

| Issuer | Description | Type of shares subject to share subscription rights | Number of shares subject to share subscription rights | | | | Millions of yen | Thousands of U.S. dollars |
|-------------------------|----------------------|---|---|----------|----------|----------------|---------------------------|---------------------------|
| | | | Beginning Balance | Increase | Decrease | Ending Balance | Balance at March 31, 2011 | Balance at March 31, 2011 |
| The Company | Stock options (Note) | Common stock | 3,283,100 | 272,000 | 105,200 | 3,499,900 | ¥3,475 | \$41,867 |
| Consolidated subsidiary | — | — | — | — | — | — | 348 | 4,193 |
| Total | | | | | | | ¥3,823 | \$46,060 |

Fiscal year ended March 31, 2010

| Issuer | Description | Type of shares subject to share subscription rights | Number of shares subject to share subscription rights | | | | Millions of yen |
|-------------------------|----------------------|---|---|----------|----------|----------------|---------------------------|
| | | | Beginning Balance | Increase | Decrease | Ending Balance | Balance at March 31, 2010 |
| The Company | Stock options (Note) | Common stock | 2,499,100 | 937,000 | 153,000 | 3,283,100 | ¥3,330 |
| Consolidated subsidiary | — | — | — | — | — | — | 319 |
| Total | | | | | | | ¥3,649 |

Note: Share subscription rights not yet exercisable as of March 31, 2011 and 2010 are ¥224 million (\$2,699 thousand) and ¥1,157 million, respectively.

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2011, 2010 and 2009 mainly consisted of the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|---------|---------|---------------------------|
| | 2011 | 2010 | 2009 | 2011 |
| Shipment expenses | ¥27,020 | ¥24,840 | ¥29,089 | \$325,542 |
| Salaries and allowances | 18,407 | 18,474 | 19,706 | 221,771 |
| Provision for bonuses for employees | 1,344 | 1,301 | 1,244 | 16,193 |
| Provision for bonuses for directors | 401 | 558 | 770 | 4,831 |
| Provision for retirement benefits | 586 | 602 | 733 | 7,060 |
| Provision for retirement bonuses for directors | 64 | 21 | 104 | 771 |
| Depreciation and amortization | 1,546 | 1,720 | 1,883 | 18,627 |
| Technical research expenses | 13,223 | 10,331 | 10,033 | 159,313 |
| (Including provision for retirement benefits) | (197) | (184) | (177) | (2,373) |
| Provision of allowance for doubtful accounts | 312 | 412 | 273 | 3,759 |

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred and charged to income for the years ended March 31, 2011, 2010 and 2009 were ¥37,322 million (\$449,663 thousand), ¥33,575 million and ¥37,470 million, respectively.

16. LEASE TRANSACTIONS

Lease expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2011 and 2010 amounted to ¥147 million (\$1,771 thousand) and ¥237 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2011, which was computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value, amounted to ¥147 million (\$1,771 thousand).

Pro forma information regarding leased property such as acquisition cost and accumulated depreciation is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------|-----------------|--------------|---------------------------|
| | 2011 | 2010 | 2011 |
| Acquisition cost | ¥860 | ¥1,080 | \$10,361 |
| Accumulated depreciation | 762 | 813 | 9,180 |
| Net book value | ¥ 98 | ¥ 267 | \$ 1,181 |

the portion of interest thereon, are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------------------|-----------------|-------------|---------------------------|
| | 2011 | 2010 | 2011 |
| Future Lease Payments: | | | |
| Within one year | ¥61 | ¥170 | \$ 735 |
| Over one year | 37 | 97 | 446 |
| | ¥98 | ¥267 | \$1,181 |

The amounts of outstanding future lease payments due in respect of operating lease contracts at March 31, 2011 and 2010 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------------------|-----------------|---------------|---------------------------|
| | 2011 | 2010 | 2011 |
| Future Lease Payments: | | | |
| Within one year | ¥2,529 | ¥4,454 | \$30,470 |
| Over one year | 3,135 | 3,164 | 37,771 |
| | ¥5,664 | ¥7,618 | \$68,241 |

17. RELATED PARTY TRANSACTIONS

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2011, 2010 and 2009 are summarized as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|-----------------|-----------------|---------|---------|---------------------------|
| | 2011 | 2010 | 2009 | 2011 |
| Sales | ¥34,400 | ¥15,183 | ¥16,427 | \$414,458 |
| Purchases | 70,323 | 69,861 | 61,431 | 847,270 |

18. LOSS ON IMPAIRMENT OF FIXED ASSETS

During the fiscal year ended March 31, 2009, the Company and its consolidated subsidiaries recognized impairment losses for the following asset categories, recording a total of ¥4,364 million as Extraordinary expenses. The Company and its consolidated subsidiaries group fixed assets based on managerial accounting categories, which are regarded as the smallest units independently generating cash flows.

Consolidated Subsidiary (Shin-Etsu Handotai Co., Ltd.)

| Location | Use | Asset category | Millions of yen |
|---|--|-------------------------|-----------------|
| | | | 2009 |
| Saigata Plant (Joetsu-shi, Niigata-Prefecture) and others | Semiconductor silicon manufacturing facilities/equipment for small-diameter wafers | Machinery and equipment | ¥4,086 |
| | | Others | ¥ 278 |
| | | Total | ¥4,364 |

The Semiconductor silicon business for small-diameter wafers of Shin-Etsu Handotai has been suffering from a deteriorating market environment, which was primarily caused by sluggish demand due to the financial crisis, fierce competition with a supply-demand imbalance and progress in changing over to large-diameter wafers. As a result, the book value of the assets at each Shin-Etsu Handotai plant where this material is produced was marked down to its recoverable amount, which is calculated at value-in-use. The discount rate for calculation of the discounted cash flow is zero since the estimated future cash flows are negative.

19. LOSS ON DISASTER

Loss on disaster for the fiscal year ended March 31, 2011 relates to a loss due to the Great East Japan Earthquake, consisting largely of expenses for restoration work in the amount of ¥16,654 million (\$200,651 thousand) after deducting the estimated amount of insurance compensation.

20. INCOME TAXES

The Company and its domestic subsidiaries are subject to a number of Japanese income taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 40.4% for the years ended March 31, 2011, 2010 and 2009.

Tax effects of material temporary differences and loss carry forwards which resulted in deferred tax assets or liabilities at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2011 | 2010 | 2011 |
| Deferred Tax Assets: | | | |
| Depreciation..... | ¥16,758 | ¥19,661 | \$201,904 |
| Accrued retirement benefits..... | 5,324 | 4,780 | 64,145 |
| Accrued bonus allowance..... | 3,662 | 3,667 | 44,120 |
| Unrealized profit..... | 3,148 | 4,218 | 37,928 |
| Maintenance cost..... | 2,982 | 5,310 | 35,928 |
| Unsettled accounts receivable and payable..... | 2,061 | 1,333 | 24,831 |
| Accrued enterprise taxes..... | 1,557 | 2,085 | 18,759 |
| Tax loss carry forwards..... | 331 | 4,110 | 3,988 |
| Unrealized gains/losses on available-for-sale securities..... | 1 | 3 | 12 |
| Other..... | 14,533 | 14,501 | 175,096 |
| Valuation allowance..... | (3,464) | (4,631) | (41,735) |
| Total..... | ¥46,893 | ¥55,037 | \$564,976 |
| Deferred Tax Liabilities: | | | |
| Depreciation..... | ¥37,138 | ¥36,923 | \$447,446 |
| Unrealized gains/losses on available-for-sale securities..... | 2,520 | 4,844 | 30,361 |
| Reserve for special depreciation..... | 79 | 73 | 952 |
| Other..... | 3,801 | 3,781 | 45,795 |
| Total..... | ¥43,538 | ¥45,621 | \$524,554 |
| Net deferred tax assets..... | ¥ 3,355 | ¥ 9,416 | \$ 40,422 |

Net Deferred Tax Assets are included in the following accounts:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2011 | 2010 | 2011 |
| Current assets: Deferred taxes, current..... | ¥ 21,115 | ¥ 25,962 | \$ 254,398 |
| Non-current assets: Deferred taxes, non-current..... | 22,185 | 22,057 | 267,289 |
| Current liabilities: Other..... | (447) | (495) | (5,385) |
| Non-current liabilities: Deferred taxes, non-current..... | (39,498) | (38,108) | (475,880) |

Reconciliation of the difference between the statutory tax rate and effective rate on taxable income is as follows:

| | 2011 | 2010 |
|--|-------------|-------------|
| Statutory tax rate..... | 40.4% | 40.4% |
| Dividend income and other not taxable..... | (4.4) | (5.7) |
| Elimination of intercompany dividend income..... | 4.4 | 5.5 |
| Equity in earnings of affiliates..... | (3.7) | (3.2) |
| Rate difference from foreign subsidiaries..... | (1.7) | (1.7) |
| Tax deduction for research expenses..... | (1.0) | (1.2) |
| Entertainment and other non-deductible expenses..... | 0.3 | 0.4 |
| Income taxes - Prior years..... | (7.6) | — |
| Other, net..... | 0.6 | (1.1) |
| Effective tax rate..... | 27.3 | 33.4 |

Income taxes - Prior years

Income taxes - Prior years consist of the refunded amount of corporation taxes paid in past fiscal years, after the Japanese and U.S. tax authorities reached an agreement settling a dispute about transfer pricing taxation.

21. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents on the consolidated statements of cash flows consist of cash in hand, deposits that can be withdrawn without limitation and liquid investments which are easily convertible into cash, and that mature within approximately three months from the acquisition date and have insignificant risk exposure in terms of fluctuation on value of the investments.

Reconciliations between cash and equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2011, 2010 and 2009 are presented below:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|-----------------|----------|----------|---------------------------|
| | 2011 | 2010 | 2009 | 2011 |
| Cash and time deposits..... | ¥244,003 | ¥209,046 | ¥209,542 | \$2,939,795 |
| Securities..... | 116,715 | 109,762 | 111,878 | 1,406,205 |
| Time deposits for which maturities are approximately over three months..... | (46,882) | (37,434) | (31,829) | (564,843) |
| Securities (maturities approximately over three months)..... | (11,550) | (10,930) | (38,546) | (139,157) |
| Cash and cash equivalents..... | ¥302,286 | ¥270,444 | ¥251,045 | \$3,642,000 |

22. SEGMENT AND RELATED INFORMATION

1. Segment information

(1) Overview of reportable segment

The reportable segments in the Shin-Etsu Group are defined as individual units, where independent financial information is available and which are subject to regular review to evaluate their results and decide the allocation of management resources by the highest decision making body of the Company, such as Managing Directors' Meeting.

The Shin-Etsu Group conducts business through each business division and affiliated companies according to each kind of product and service, consisting of the following six segments: "PVC/Chlor-Alkali Business," "Silicones Business," "Specialty Chemicals Business," "Semiconductor Silicon Business," "Electronics & Functional Materials Business" and "Diversified Business." Consequently, these six businesses are specified as reportable segments.

Main products and services of each segment are as follows:

| Segment | Main products and services |
|---|--|
| PVC/Chlor-Alkali Business | Polyvinyl chloride, Caustic soda, Methanol, Chloromethane |
| Silicones Business | Silicones |
| Specialty Chemicals Business | Cellulose derivatives, Silicon metal, Polyvinyl alcohol, Synthetic pheromones |
| Semiconductor Silicon Business | Semiconductor silicon |
| Electronics & Functional Materials Business | Rare-earth magnets for electronics industry and general applications, Semiconductor encapsulating materials, Coating materials for LEDs, Photoresists, Photomask blanks, Synthetic quartz products, Liquid fluoroelastomers, Pellicles |
| Diversified Business | Processed plastics, Export of plant equipment, Technology licensing, International trading, Engineering |

(2) Measurement of income, assets and liabilities of reportable segments

Income for each reportable segment denotes operating income, and the accounting methods applied are identical with those stated in "Basis of presenting financial statements." Internal revenues and transfers arising from transactions among the segments are based on market prices in general.

The Shin-Etsu Group does not allocate assets and liabilities to business segments.

(3) Information regarding income (loss) and others of reportable segments

| | Millions of yen | | | | | | | Adjustment ⁽¹⁾ | Figures in consolidated financial statements |
|--|------------------|-----------------|---------------------|-----------------------|------------------------------------|-----------------|-------------------|---------------------------|--|
| | 2011 | | | | | | | | |
| | PVC/Chlor-Alkali | Silicones | Specialty Chemicals | Semiconductor Silicon | Electronics & Functional Materials | Diversified | Total | | |
| Sales to outside customers..... | ¥283,525 | ¥143,065 | ¥83,513 | ¥283,789 | ¥141,384 | ¥122,981 | ¥1,058,257 | ¥ — | ¥1,058,257 |
| Intersegment sales | 26,828 | 4,056 | 6,649 | 6 | 3,464 | 65,381 | 106,384 | (106,384) | — |
| Total | ¥310,353 | ¥147,121 | ¥90,162 | ¥283,795 | ¥144,848 | ¥188,362 | ¥1,164,641 | ¥(106,384) | ¥1,058,257 |
| Segment income (Operating income)..... | ¥ 19,675 | ¥ 34,057 | ¥12,915 | ¥ 38,865 | ¥ 36,118 | ¥ 7,341 | ¥ 148,971 | ¥ 251 | ¥ 149,222 |
| Depreciation and amortization..... | ¥ 12,807 | ¥ 7,992 | ¥ 7,253 | ¥ 45,964 | ¥ 14,706 | ¥ 4,366 | ¥ 93,088 | ¥ (281) | ¥ 92,807 |
| Amortization of goodwill ... | ¥ — | ¥ — | ¥ 925 | ¥ — | ¥ — | ¥ 0 | ¥ 925 | ¥ — | ¥ 925 |
| Increase in property, plant and equipment and intangible fixed assets ⁽²⁾ ... | ¥ 55,731 | ¥ 6,641 | ¥14,661 | ¥ 24,406 | ¥ 9,501 | ¥ 3,321 | ¥ 114,261 | ¥ (371) | ¥ 113,890 |

| | Millions of yen | | | | | | | | Figures in consolidated financial statements |
|--|------------------|-----------------|---------------------|-----------------------|------------------------------------|-----------------|-------------------|---------------------------|--|
| | 2010 | | | | | | | | |
| | PVC/Chlor-Alkali | Silicones | Specialty Chemicals | Semiconductor Silicon | Electronics & Functional Materials | Diversified | Total | Adjustment ⁽¹⁾ | |
| Sales to outside customers..... | ¥237,731 | ¥122,349 | ¥80,482 | ¥254,028 | ¥113,778 | ¥108,470 | ¥ 916,838 | ¥ — | ¥916,838 |
| Intersegment sales | 3,128 | 3,348 | 5,355 | 43 | 2,197 | 91,555 | 105,626 | (105,626) | — |
| Total | ¥240,859 | ¥125,697 | ¥85,837 | ¥254,071 | ¥115,975 | ¥200,025 | ¥1,022,464 | ¥(105,626) | ¥916,838 |
| Segment income (Operating income)..... | ¥ 19,577 | ¥ 24,917 | ¥13,902 | ¥ 22,631 | ¥ 30,746 | ¥ 6,783 | ¥ 118,556 | ¥ (1,340) | ¥117,216 |
| Depreciation and amortization..... | ¥ 12,065 | ¥ 8,282 | ¥ 7,937 | ¥ 41,721 | ¥ 12,086 | ¥ 4,224 | ¥ 86,315 | ¥ (207) | ¥ 86,108 |
| Amortization of goodwill ... | ¥ — | ¥ — | ¥ 1,622 | ¥ — | ¥ — | ¥ (8) | ¥ 1,614 | ¥ — | ¥ 1,614 |
| Increase in property, plant and equipment and intangible fixed assets ⁽³⁾ ... | ¥ 65,134 | ¥ 5,134 | ¥20,530 | ¥ 12,063 | ¥ 12,791 | ¥ 7,062 | ¥ 122,714 | ¥ (1,478) | ¥121,236 |

| | Thousands of U.S. dollars | | | | | | | | Figures in consolidated financial statements |
|--|---------------------------|--------------------|---------------------|-----------------------|------------------------------------|--------------------|---------------------|---------------------------|--|
| | 2011 | | | | | | | | |
| | PVC/Chlor-Alkali | Silicones | Specialty Chemicals | Semiconductor Silicon | Electronics & Functional Materials | Diversified | Total | Adjustment ⁽¹⁾ | |
| Sales to outside customers..... | \$3,415,964 | \$1,723,675 | \$1,006,181 | \$3,419,144 | \$1,703,421 | \$1,481,699 | \$12,750,084 | \$ — | \$12,750,084 |
| Intersegment sales | 323,229 | 48,868 | 80,108 | 72 | 41,735 | 787,723 | 1,281,735 | (1,281,735) | — |
| Total | \$3,739,193 | \$1,772,553 | \$1,086,289 | \$3,419,216 | \$1,745,156 | \$2,269,422 | \$14,031,819 | \$(1,281,735) | \$12,750,084 |
| Segment income (Operating income)..... | \$ 237,048 | \$ 410,325 | \$ 155,602 | \$ 468,253 | \$ 435,157 | \$ 88,446 | \$ 1,794,831 | \$ 3,024 | \$ 1,797,855 |
| Depreciation and amortization..... | \$ 154,301 | \$ 96,289 | \$ 87,386 | \$ 553,783 | \$ 177,181 | \$ 52,602 | \$ 1,121,542 | \$ (3,385) | \$ 1,118,157 |
| Amortization of goodwill ... | \$ — | \$ — | \$ 11,145 | \$ — | \$ — | \$ 0 | \$ 11,145 | \$ — | \$ 11,145 |
| Increase in property, plant and equipment and intangible fixed assets ⁽²⁾ ... | \$ 671,458 | \$ 80,012 | \$ 176,639 | \$ 294,048 | \$ 114,470 | \$ 40,012 | \$ 1,376,639 | \$ (4,458) | \$ 1,372,181 |

Notes: [1] Elimination of intersegment transactions.

[2] During the fiscal year ended March 31, 2011, the Company made investments of ¥2,993 million (\$36,060 thousand) and ¥3,001 million (\$36,157 thousand) respectively in new non-consolidated subsidiaries established in China: Shin-Etsu Silicone (Nantong) Co., Ltd. (Silicones Business) and Shin-Etsu (Jiangsu) Optical Preform Co., Ltd. (Electronics & Functional Materials Business). The expenditures related to the investments are not included in the table above. The total capital expenditures for the fiscal year ended March 31, 2011, including these investments, amounted to ¥119,885 million (\$1,444,398 thousand). [Capital expenditures for Silicones Business and Electronics & Functional Materials Business amounted to ¥9,634 million (\$116,072 thousand) and ¥12,502 million (\$150,627 thousand), respectively.]

[3] During the fiscal year ended March 31, 2010, the Company acquired additional shares of CIRES, S.A., which was an affiliate under the equity method belonging to PVC/Chlor-Alkali Business. As a result, CIRES and its 3 subsidiaries were integrated as consolidated subsidiaries. The expenditure of ¥2,558 million (\$27,505 thousand) for acquiring the additional shares is not included in the table above. When this expenditure is included, the amount of capital expenditure in the fiscal year ended March 31, 2010 amounted to ¥123,794 million. [Capital expenditures for PVC/Chlor-Alkali Business amounted to ¥67,692 million.]

2. Related information
Geographic information
(1) Net Sales

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------|-------------------|--|---------------------------|
| | 2011 | | 2011 |
| Net Sales | | | |
| Japan..... | ¥ 386,128 | | \$ 4,652,145 |
| U.S. | 153,060 | | 1,844,096 |
| China..... | 113,709 | | 1,369,988 |
| Other..... | 405,360 | | 4,883,855 |
| Total..... | ¥1,058,257 | | \$12,750,084 |

| | Millions of yen | |
|--------------------|-----------------|-----------------|
| | 2010 | |
| Net Sales | | |
| Japan..... | | ¥354,773 |
| North America..... | | 137,280 |
| Asia/Oceania..... | | 259,160 |
| Europe..... | | 98,473 |
| Other Areas..... | | 67,152 |
| Total..... | | ¥916,838 |

Note: Main countries or areas
North America.....U.S., Canada
Asia/Oceania.....China, Taiwan, South Korea, Singapore, Thailand, Malaysia
Europe.....Germany, France
Other Areas.....Latin America, Middle East

(2) Property, plant and equipment

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------------------|-----------------|--|---------------------------|
| | 2011 | | 2011 |
| Property, plant and equipment | | | |
| Japan..... | ¥260,694 | | \$3,140,892 |
| U.S. | 276,339 | | 3,329,386 |
| Other..... | 83,301 | | 1,003,626 |
| Total..... | ¥620,334 | | \$7,473,904 |

3. Amortization of goodwill and unamortized balance

| | Millions of yen | | | | | | | |
|-------------------------------|------------------|-----------|---------------------|-----------------------|------------------------------------|-------------|-----------------------------|--|
| | 2011 | | | | | | | |
| | PVC/Chlor-Alkali | Silicones | Specialty Chemicals | Semiconductor Silicon | Electronics & Functional Materials | Diversified | Elimination or common asset | Figures in consolidated financial statements |
| Amortization of goodwill..... | ¥— | ¥— | ¥ 925 | ¥— | ¥— | ¥ 0 | ¥— | ¥ 925 |
| Unamortized balance..... | ¥— | ¥— | ¥10,522 | ¥— | ¥— | ¥— | ¥— | ¥10,522 |

| | Thousands of U.S. dollars | | | | | | | |
|-------------------------------|---------------------------|-----------|---------------------|-----------------------|------------------------------------|-------------|-----------------------------|--|
| | 2011 | | | | | | | |
| | PVC/Chlor-Alkali | Silicones | Specialty Chemicals | Semiconductor Silicon | Electronics & Functional Materials | Diversified | Elimination or common asset | Figures in consolidated financial statements |
| Amortization of goodwill..... | \$— | \$— | \$ 11,145 | \$— | \$— | \$ 0 | \$— | \$ 11,145 |
| Unamortized balance..... | \$— | \$— | \$126,771 | \$— | \$— | \$— | \$— | \$126,771 |

Additional information

Effective from the fiscal year ended March 31, 2011, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17 issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20 issued on March 21, 2008) have been applied.

23. SUBSEQUENT EVENTS

Appropriation of retained earnings

Subsequent to March 31, 2011, the Company's Board of Directors, with the approval of stockholders on June 29, 2011 declared a cash dividend of ¥21,230 million (\$255,783 thousand) equal to ¥50.00 (\$0.60) per share, applicable to earnings for the year ended March 31, 2011 and payable to stockholders on the stockholders' register on March 31, 2011.

24. CHANGES IN THE METHOD OF PRESENTATION

Consolidated Statements of Income

Expense item "Cost of inactive facilities" in other expenses is included in "Other, net" for fiscal years ended March 31, 2011 and 2009. It is disclosed as an independent item for fiscal year ended March 31, 2010 as it is greater than ten percent of the total other expenses. The amounts of this expense for the fiscal years ended March 31, 2011 and 2009 are ¥75 million (\$904 thousand) and ¥216 million, respectively.

Effective from the fiscal year ended March 31, 2011, "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 issued on December 26, 2008) and "Cabinet Office Ordinance for Partial Amendment of the Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements" (Cabinet Office Ordinance No.5 issued on March 24, 2009) have been applied.

As a consequence, a new line item has been presented on the consolidated statements of income as "income before minority interests."

Consolidated Subsidiaries

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 2011

| Principal Consolidated Subsidiaries | Percentage of Voting Rights | Fiscal Year-End | Principal Consolidated Subsidiaries | Percentage of Voting Rights | Fiscal Year-End |
|--|-----------------------------|-----------------|--|-----------------------------|-----------------|
| Shintech Inc. ⁽¹⁾ | 100.0 | December 31 | Shin-Etsu Polymer Europe B.V. ⁽¹⁾ | 100.0 | December 31 |
| Shin-Etsu Handotai Co., Ltd. | 100.0 | March 31 | Shin-Etsu International Europe B.V. ⁽¹⁾ | 100.0 | December 31 |
| Shin-Etsu Handotai America, Inc. ⁽¹⁾ | 100.0 | December 31 | Nihon Resin Co., Ltd. | 100.0 | December 31 |
| Shin-Etsu Polymer Co., Ltd. | 53.1 | March 31 | Naoetsu Precision Co., Ltd. | 100.0 | February 28 |
| S.E.H. Malaysia Sdn. Bhd. ⁽¹⁾⁽²⁾ | 100.0 | December 31 | Skyward Information Systems Co., Ltd. | 100.0 | March 31 |
| Shin-Etsu PVC B.V. ⁽¹⁾ | 100.0 | December 31 | Shinano Electric Refining Co., Ltd. | 77.4 | March 31 |
| Shin-Etsu Engineering Co., Ltd. | 100.0 | March 31 | Fukui Environmental Analysis Center Co., Ltd. | 100.0 | February 28 |
| SE Tylose GmbH & Co. KG ⁽¹⁾ | 100.0 | December 31 | Shin-Etsu Film Co., Ltd. | 100.0 | March 31 |
| Shin-Etsu Handotai Europe, Ltd. ⁽¹⁾ | 100.0 | December 31 | Shin-Etsu Technology Service Co., Ltd. | 76.9 | February 28 |
| Nagano Electronics Industrial Co., Ltd. | 90.0 | February 28 | Urawa Polymer Co., Ltd. | 100.0 | March 31 |
| Shin-Etsu Handotai Taiwan Co., Ltd. ⁽¹⁾ | 70.0 | December 31 | Niigata Polymer Company Limited | 100.0 | March 31 |
| Naoetsu Electronics Co., Ltd. | 100.0 | February 28 | Shin-Etsu Polymer America, Inc. ⁽¹⁾ | 100.0 | December 31 |
| Shin-Etsu Astech Co., Ltd. | 99.6 | March 31 | Naoetsu Sangyo Limited | 100.0 | March 31 |
| S-E, Inc. ⁽¹⁾ | 100.0 | December 31 | San-Ace Co., Ltd. | 100.0 | March 31 |
| Shin-Etsu Electronics Materials Singapore Pte. Ltd. ⁽¹⁾ | 100.0 | December 31 | Shinken Total Plant Co., Ltd. | 100.0 | February 28 |
| Shin-Etsu Finetech Co., Ltd. | 100.0 | March 31 | Saitama Shinkoh Mold Co., Ltd. | 100.0 | March 31 |
| JAPAN VAM & POVAL Co., Ltd. | 100.0 | March 31 | Shinkoh Mold Co., Ltd. | 100.0 | March 31 |
| CIRES, S.A. ⁽¹⁾ | 100.0 | December 31 | Shin-Etsu Magnet Co., Ltd. | 100.0 | March 31 |
| Shin-Etsu Singapore Pte. Ltd. ⁽¹⁾ | 100.0 | December 31 | Shin-Etsu Polymer India Pvt. Ltd. ⁽¹⁾ | 89.7 | December 31 |
| Shin-Etsu Silicone Korea Co., Ltd. ⁽¹⁾ | 100.0 | December 31 | PT. Shin-Etsu Polymer Indonesia ⁽¹⁾ | 100.0 | December 31 |
| Shinano Polymer Co., Ltd. | 100.0 | March 31 | Shin-Etsu Polymer Singapore Pte. Ltd. ⁽¹⁾ | 100.0 | December 31 |
| Shin-Etsu Silicones (Thailand) Ltd. ⁽¹⁾ | 100.0 | December 31 | Shin-Etsu Polymer Shanghai Co., Ltd. ⁽¹⁾ | 100.0 | December 31 |
| Shin-Etsu (Malaysia) Sdn. Bhd. ⁽¹⁾ | 100.0 | December 31 | Shin-Etsu Polymer Hong Kong Co., Ltd. ⁽¹⁾ | 100.0 | December 31 |
| Nissin Chemical Industry Co., Ltd. | 100.0 | February 28 | Shin-Etsu Polymer Hungary Kft. ⁽¹⁾ | 100.0 | December 31 |
| Shin-Etsu MicroSi, Inc. ⁽¹⁾ | 100.0 | December 31 | Human Create Co., Ltd. | 100.0 | March 31 |
| Shin-Etsu Silicone Taiwan Co., Ltd. ⁽¹⁾ | 93.3 | December 31 | Suzhou Shin-Etsu Polymer Co., Ltd. ⁽¹⁾ | 71.4 | December 31 |
| Shin-Etsu Silicones of America, Inc. ⁽¹⁾ | 100.0 | December 31 | S.E.H. (Shah Alam) Sdn. Bhd. ⁽¹⁾ | 100.0 | December 31 |
| Shin-Etsu Silicones Europe B.V. ⁽¹⁾ | 100.0 | December 31 | Simcoa Operations Pty. Ltd. ⁽¹⁾ | 100.0 | December 31 |
| Shin-Etsu Unit Co., Ltd. | 100.0 | March 31 | Shincor Silicones, Inc. ⁽¹⁾ | 100.0 | December 31 |
| Shin-Etsu Opto Electronic Co., Ltd. ⁽¹⁾ | 80.0 | December 31 | K-Bin, Inc. ⁽¹⁾ | 100.0 | December 31 |
| Shin-Etsu Polymer (Malaysia) Sdn. Bhd. ⁽¹⁾ | 100.0 | December 31 | 11 other consolidated subsidiaries | | |

(1) Overseas subsidiary

(2) S.E.H. Malaysia Sdn. Bhd. issues non-voting shares

Report of Independent Auditors

The Board of Directors
Shin-Etsu Chemical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Shin-Etsu Chemical Co., Ltd. and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin-Etsu Chemical Co., Ltd. and consolidated subsidiaries at March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 29, 2011

Investor Information

As of March 31, 2011

Shin-Etsu Chemical Co., Ltd.

Head Office: 6-1, Ohtemachi 2-chome,
Chiyoda-ku, Tokyo 100-0004, Japan

Date of Establishment:

September 16, 1926

Capital:

¥119,420 million

Number of Employees:

16,302 (including 72 consolidated subsidiaries)

Number of Shares Authorized:

1,720,000,000

Number of Shares Issued:

432,106,693

Number of Stockholders:

74,366

Fiscal Year-End:

March 31

Stockholders' Meeting:

June

Stock Listings:

Tokyo, Osaka, Nagoya (Ticker Code: 4063)

Transfer Agent:

Mitsubishi UFJ Trust and Banking Corporation

Auditor:

Ernst & Young ShinNihon

Please visit our website:

<http://www.shinetsu.co.jp>
(English, Japanese and Chinese)



Major Stockholders:

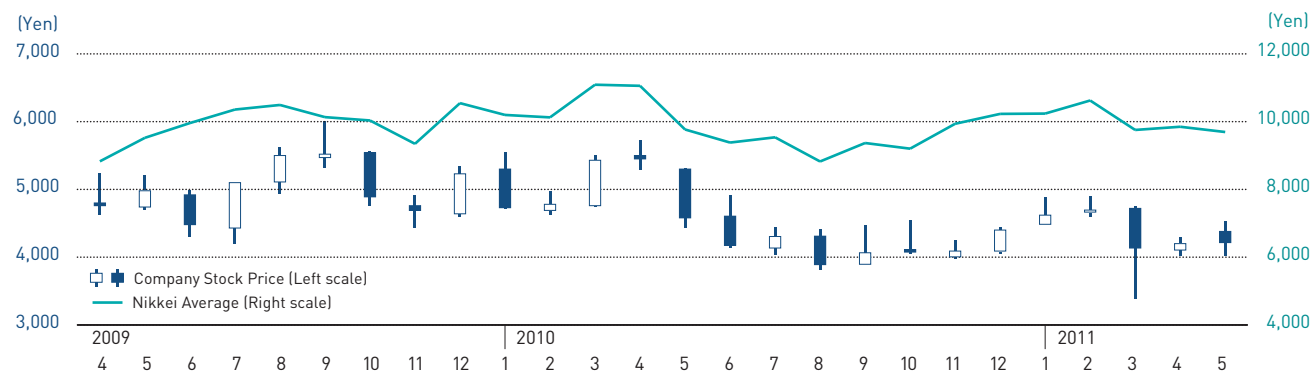
| Name | Number of Shares (Thousands) | Percentage of Total Equity (%) |
|---|------------------------------|--------------------------------|
| The Master Trust Bank of Japan, Ltd. (Trust account) | 31,279 | 7.4 |
| Japan Trustee Services Bank, Ltd. (Trust account) | 29,560 | 7.0 |
| Nippon Life Insurance Company | 24,370 | 5.7 |
| The Hachijuni Bank, Ltd. | 11,790 | 2.8 |
| Japan Trustee Services Bank, Ltd.(Trust account 4) | 11,735 | 2.8 |
| Meiji Yasuda Life Insurance Company | 10,962 | 2.6 |
| SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS | 8,105 | 1.9 |
| NIPPONKOA Insurance Co., Ltd. | 7,077 | 1.7 |
| STATE STREET BANK CLIENT OMNIBUS OM04 | 6,183 | 1.5 |
| Mellon Bank, N.A. As Agent For Its Client Mellon Omnibus us Pension | 5,297 | 1.2 |

Note: Shin-Etsu holds 7,510,657 shares of treasury stock, but is excluded from the above list of major stockholders. Stockholding percentages are calculated excluding treasury stock.

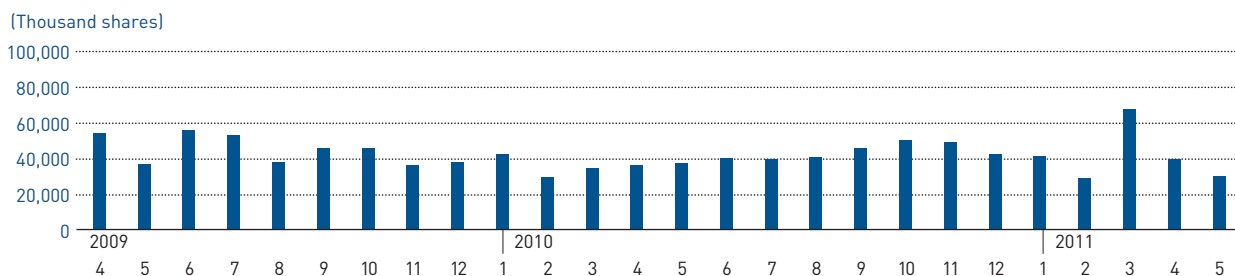
Information:

Public Relations Department
Phone: +81-3-3246-5091
Fax: +81-3-3246-5096
e-mail: sec-pr@shinetsu.jp

Common Stock Price



Trading Volume



Shin-Etsu's Worldwide Network

Main Shin-Etsu Group Companies



U.S.A. America

01. **SHINTECH INCORPORATED**
Phone: +1-713-965-0713 Fax: +1-713-965-0629
Business: Production and Sales of PVC
02. **SHIN-ETSU HANDOTAI AMERICA, INC. (S.E.H. AMERICA)**
Phone: +1-360-883-7000 Fax: +1-360-254-6973
Business: Production and Sales of Semiconductor Silicon
03. **SHIN-ETSU MAGNETICS, INC.**
Phone: +1-408-383-9240 Fax: +1-408-383-9245
Business: Sales of Rare-Earth Magnets
04. **SHIN-ETSU MICROSI, INC.**
Phone: +1-480-893-8898 Fax: +1-480-893-8637
Business: Sales of Electronics Materials
05. **SHIN-ETSU POLYMER AMERICA, INC.**
Phone: +1-510-623-1881 Fax: +1-510-623-1603
Business: Sales of Keypads and Inter-Connectors
06. **SHIN-ETSU SILICONES OF AMERICA, INC.**
Phone: +1-330-630-9860 Fax: +1-330-630-9855
Business: Production and Sales of Silicone Products
07. **HERAEUS SHIN-ETSU AMERICA, INC.**
Phone: +1-360-834-4004 Fax: +1-360-834-3115
Business: Production and Sales of Quartz Crucibles for Drawing Semiconductor Silicon
08. **K-BIN INC.**
Phone: +1-713-965-0713 Fax: +1-713-965-0629
Business: Production and Sales of PVC Compounds
09. **SHINCOR SILICONES, INC.**
Phone: +1-330-630-9460 Fax: +1-330-630-1491
Business: Production and Sales of Silicone Products
10. **PACIFIC BIOCONTROL CORPORATION**
Phone: +1-360-571-2247 Fax: +1-360-571-2248
Business: Sales of Pheromone Formulation

France Europe

11. **S.E.H. EUROPE (FRENCH OFFICE)**
Phone: +33-4. 97. 21. 44. 88 Fax: +33-4. 97. 21. 44. 80
Business: Sales of Semiconductor Silicon

Germany

12. **SE TYLOSE GMBH & CO. KG**
Phone: +49-611-962-8189 Fax: +49-611-962-9071
Business: Production and Sales of Cellulose Derivatives
13. **S.E.H. EUROPE (GERMAN OFFICE)**
Phone: +49-8161-98905-0 Fax: +49-8161-98905-20
Business: Sales of Semiconductor Silicon

Hungary

14. **SHIN-ETSU POLYMER HUNGARY KFT.**
Phone: +36-96-887-100 Fax: +36-96-887-110
Business: Production and Sales of Keypads

The Netherlands

15. **SHIN-ETSU PVC B.V.**
Phone: +31-35-689-8010 Fax: +31-35-685-0989
Business: Production and Sales of Vinyl Chloride Monomer and PVC
16. **SHIN-ETSU INTERNATIONAL EUROPE B.V.**
Phone: +31-20-662-1359 Fax: +31-20-664-9000
Business: Sales of Chemical Products and Electronics Materials
17. **SHIN-ETSU POLYMER EUROPE B.V.**
Phone: +31-77-323-6000 Fax: +31-77-323-6001
Business: Production and Sales of Keypads and Inter-Connectors
18. **SHIN-ETSU SILICONES EUROPE B.V.**
Phone: +31-36-5493170 Fax: +31-36-5326459
Business: Production and Sales of Silicone Products

Portugal

19. **CIRES, S.A. (COMPANHIA INDUSTRIAL DE RESINAS SINTETICAS, S.A.)**
Phone: +351-234-811-200 Fax: +351-234-811-204
Business: Production and Sales of PVC

U.K.

20. **SHIN-ETSU HANDOTAI EUROPE, LTD. (S.E.H. EUROPE)**
Phone: +44-1506-41-5555 Fax: +44-1506-41-7171
Business: Production and Sales of Semiconductor Silicon

Australia Asia-Oceania

21. **SIMCOA OPERATIONS PTY. LTD.**
Phone: +61-8-9780-6744 Fax: +61-8-9780-6777
Business: Production and Sales of Silicon Metal

China

22. **SHIN-ETSU SILICONE INTERNATIONAL TRADING (SHANGHAI) CO., LTD.**
Phone: +86-21-6443-5550 Fax: +86-21-6443-5868
Business: Sales of Silicone Products
23. **SUZHOU SHIN-ETSU POLYMER CO., LTD.**
Phone: +86-512-6327-0704 Fax: +86-512-6327-2674
Business: Production and Sales of Keypads and Inter-Connectors
24. **SHIN-ETSU POLYMER HONG KONG CO., LTD.**
Phone: +852-2377-9131 Fax: +852-2377-1673
Business: Sales of Keypads and Inter-Connectors
25. **ZHEJIANG SHIN-ETSU HIGH-TECH CHEMICAL CO., LTD.**
Phone: +86-573-8475-5071 Fax: +86-573-8475-5070
Business: Production and Sales of Silicone Products
26. **SHIN-ETSU TECHNOLOGY (SUZHOU) CO., LTD.**
Phone: +86-512-6276-3270 Fax: +86-512-6276-3277
Business: Production and Sales of Rare-Earth Magnets

India

27. **SHIN-ETSU POLYMER INDIA PVT. LTD.**
Phone: +91-44-6711-2800 Fax: +91-44-6711-2801
Business: Production of Keypads

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Korea

- 28. SHIN-ETSU SILICONE KOREA CO., LTD.**
 Phone: +82-2-590-2500 Fax: +82-2-590-2501
 Business: Production and Sales of Silicone Products

Malaysia

- 29. S.E.H. MALAYSIA SDN. BHD.**
 Phone: +60-3-4259-6600 Fax: +60-3-4257-5751
 Business: Production, Processing and Sales of Semiconductor Silicon Wafers
- 30. S.E.H. (SHAH ALAM) SDN. BHD.**
 Phone: +60-3-5123-7000 Fax: +60-3-5191-3111
 Business: Production and Processing of Semiconductor Silicon Wafers
- 31. SHIN-ETSU ELECTRONICS (MALAYSIA) SDN. BHD.**
 Phone: +60-3-5192-1081 Fax: +60-3-5192-6572
 Business: Production and Sales of Epoxy Molding Compounds
- 32. SHIN-ETSU (MALAYSIA) SDN. BHD.**
 Phone: +60-3-5191-2233 Fax: +60-3-5191-2288
 Business: Production and Sales of Rare-Earth Magnets
- 33. SHIN-ETSU POLYMER (MALAYSIA) SDN. BHD.**
 Phone: +60-3-5191-1161 Fax: +60-3-5191-1181
 Business: Production, Processing and Sales of Keypads, Silicone Products and Embossed Carrier Tapes and Processing of Inter-Connectors

Singapore

- 34. SHIN-ETSU ELECTRONICS MATERIALS SINGAPORE PTE. LTD.**
 Phone: +65-6297-9211 Fax: +65-6297-9311
 Business: Sales of Rare-Earth Magnets and Other Products
- 35. SHIN-ETSU SINGAPORE PTE. LTD.**
 Phone: +65-6743-7277 Fax: +65-6743-7477
 Business: Sales of Silicone Products
- 36. SHIN-ETSU POLYMER SINGAPORE PTE. LTD.**
 Phone: +65-6735-0007 Fax: +65-6735-0008
 Business: Sales of Keypads and Inter-Connectors

Taiwan

- 37. SHIN-ETSU HANDOTAI TAIWAN CO., LTD. [S.E.H. TAIWAN]**
 Phone: +886-3-577-1188 Fax: +886-3-577-1199
 Business: Production, Processing and Sales of Semiconductor Silicon Wafers
- 38. SHIN-ETSU OPTO ELECTRONIC CO., LTD.**
 Phone: +886-3-578-4566 Fax: +886-3-578-9864
 Business: Production and Sales of Compound Semiconductors
- 39. SHIN-ETSU SILICONE TAIWAN CO., LTD.**
 Phone: +886-2-2715-0055 Fax: +886-2-2715-0066
 Business: Production and Sales of Silicone Products

Thailand

- 40. SHIN-ETSU SILICONES (THAILAND) LTD.**
 Phone: +66-2-632-2941 Fax: +66-2-632-2945
 Business: Production and Sales of Silicone Products
- 41. ASIA SILICONES MONOMER LTD.**
 Phone: +66-38-687-050 Fax: +66-38-687-060
 Business: Production and Sales of Silicone Monomer

Japan

- 42. SHIN-ETSU CHEMICAL CO., LTD.**
 Phone: +81-3-3246-5011 Fax: +81-3-3246-5350
 Business: Production and Sales of Products in Organic and Inorganic Chemicals, Electronics Materials, and Functional Materials and Others
- 43. SHIN-ETSU ASTECH CO., LTD.**
 Phone: +81-3-5298-3211 Fax: +81-3-3254-1931
 Business: Construction Businesses and Sales of Chemical Products and Others
- 44. SHIN-ETSU ENGINEERING CO., LTD.**
 Phone: +81-3-3296-1080 Fax: +81-3-3296-1085
 Business: Engineering Services and Production of Mechatronics Systems
- 45. SHIN-ETSU FILM CO., LTD.**
 Phone: +81-3-3259-1061 Fax: +81-3-3259-1064
 Business: Production and Sales of PP Film for Condensers
- 46. SHIN-ETSU HANDOTAI CO., LTD.**
 Phone: +81-3-3243-1500 Fax: +81-3-3247-1271
 Business: Production and Sales of Semiconductor Silicon and Compound Semiconductors
- 47. SHIN-ETSU POLYMER CO., LTD.**
 Phone: +81-3-5289-3712 Fax: +81-3-5289-3707
 Business: Production and Sales of Synthetic Resin Products
- 48. SHIN-ETSU QUARTZ PRODUCTS CO., LTD.**
 Phone: +81-3-3348-1912 Fax: +81-3-3348-4919
 Business: Production and Sales of Quartz Glass Products
- 49. JAPAN VAM & POVAL CO., LTD.**
 Phone: +81-72-245-1131 Fax: +81-72-245-8144
 Business: Production and Sales of Vinyl Esters of Carboxylic Acids, such as Vinyl Acetate Monomer and Polyvinyl Alcohol
- 50. KASHIMA VINYL CHLORIDE MONOMER CO., LTD.**
 Phone: +81-299-96-3415 Fax: +81-299-96-6354
 Business: Production and Sales of Vinyl Chloride Monomer
- 51. NAGANO ELECTRONICS INDUSTRIAL CO., LTD.**
 Phone: +81-26-261-3100 Fax: +81-26-261-3131
 Business: Production, Processing and Sales of Semiconductor Silicon Wafers and Other Products
- 52. NAOETSU ELECTRONICS CO., LTD.**
 Phone: +81-25-530-2631 Fax: +81-25-530-2908
 Business: Production, Processing and Sales of Semiconductor Silicon Wafers
- 53. MIMASU SEMICONDUCTOR INDUSTRY CO., LTD.**
 Phone: +81-27-372-2021 Fax: +81-27-372-2018
 Business: Precision Production, Processing and Sales of Semiconductor Silicon Wafers and Others
- 54. NISSIN CHEMICAL INDUSTRY CO., LTD.**
 Phone: +81-778-22-5100 Fax: +81-778-24-0657
 Business: Production and Sales of Synthetic Resin Emulsions and Other Products
- 55. SHINANO ELECTRIC REFINING CO., LTD.**
 Phone: +81-3-5298-1601 Fax: +81-3-5298-0071
 Business: Production and Sales of Carborundum Products



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About the Cover



Beech Forest in Niigata, from the Shin-Etsu Group original calendar 2011 "Colors of the Seasons: The Natural Beauty of Japan"

