



ANNUAL REPORT 2012

For the year ended March 31, 2012

Shin-Etsu Chemical Co., Ltd.



An Evergreen Stream



Highlights of the Year

Operating Performance

- Net sales of **1,047,731** million yen, down 1.0%
- Overseas sales ratio of **65%**
- Ordinary income of **165,237** million yen, up 3.1%
- Net income of **100,643** million yen, up 0.5%

Financial Performance

- Net assets of **1,494,573** million yen
- Stockholders' equity ratio of **80.3%**
- Capital expenditures of **87** billion yen
- Moody's credit rating of **Aa3**

Our Activities

- Completed **raw material** plant for the world's top share PVC business
- Construct a plant in **China** for both the Silicones Business and optical fiber preform business
- **Fast recovery** in the earthquake-affected Semiconductor Silicon Business

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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.

About the Cover

The Hocchi River in Gunma Prefecture, from the Shin-Etsu Group's 2012 original calendar, "Colors of the Seasons: Japan's Scenic Beauty"





A LETTER FROM THE MANAGEMENT

To Our Stockholders,

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



Chihiro Kanagawa
Chairman



Shunzo Mori
President

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

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

Challenges and Accomplishments

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

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

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

Our Mission

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

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

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

Strategies for Core Businesses

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

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

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

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

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

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

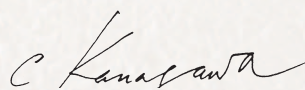
We continue to strengthen the existing core businesses that are the basis of our steady growth. At the same time, we are investing in new products that will transform our future. Research and development people are the driving forces of our company. We are constantly channeling resources to R&D activities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

Fair Business Practices

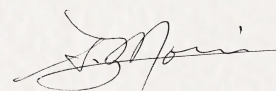
All our Group companies have strict internal control systems to ensure that business activities are fair and in compliance with all laws and regulations. Furthermore, five external directors and three external statutory auditors are monitoring execution of management from an independent standpoint. Collectively,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

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

Sincerely yours,



Chihiro Kanagawa
Chairman

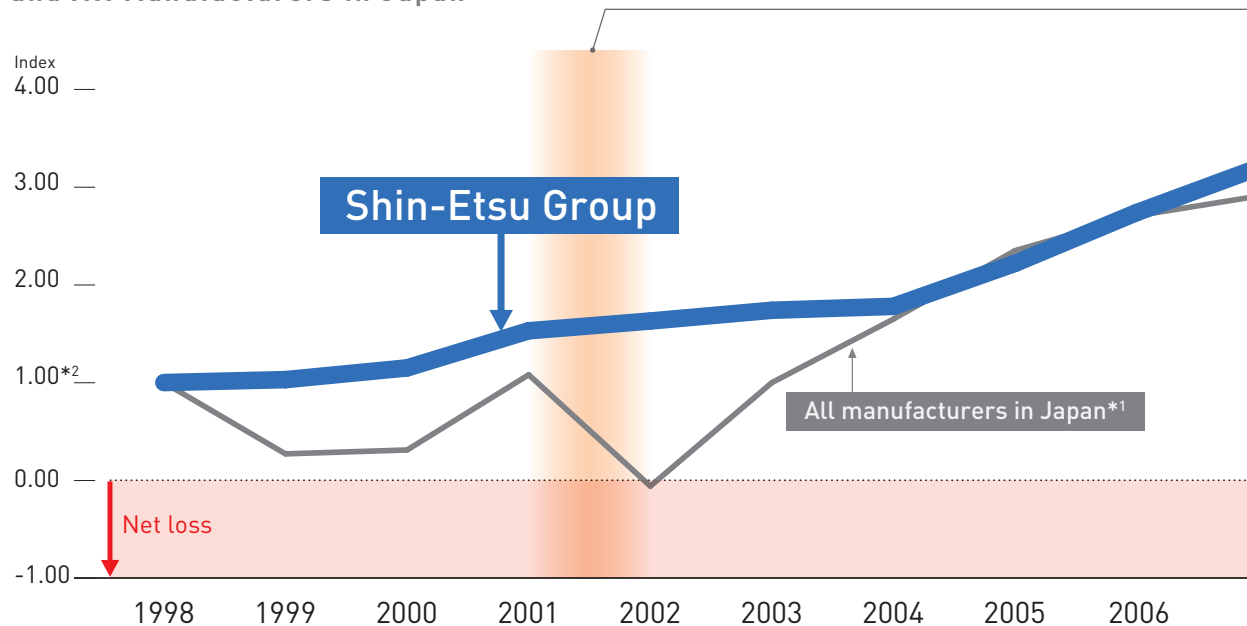


Shunzo Mori
President

Maintaining Stable Profitability

The Shin-Etsu Group is a manufacturer that holds the world's top market share for polyvinyl chloride (PVC), semiconductor silicon, and other products. We started overseas operations more than half a century ago to establish manufacturing and sales bases close to our customers. Currently, overseas sales account for over 60% of consolidated sales. We make capital expenditures in established businesses to adapt to changing markets and launch new businesses with a next-generation perspective. These activities give us sound operating bases that can maintain stable profitability regardless of changes in the operating environment.

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



Selected as "Company of the Year" by C&EN

Shin-Etsu Chemical was selected as "Company of the year 2011" by *Chemical & Engineering News (C&EN)*, the weekly news magazine published by the American Chemical Society. This award was established by C&EN in 2007 and since then, among all the chemical manufacturers in the world, a company that has set out on a remarkable transformation or has achieved outstanding business results has been chosen to receive this award. The reason why Shin-Etsu Chemical was chosen this year was its "exemplary tenacity in getting back to normal after the Great East Japan Earthquake."





Challenges

IT Bubble Collapse



Internet-related stocks reached high levels in the late 1990s, mainly in the United States. This bubble collapsed in 2001, causing a downturn in the performance of many IT companies.

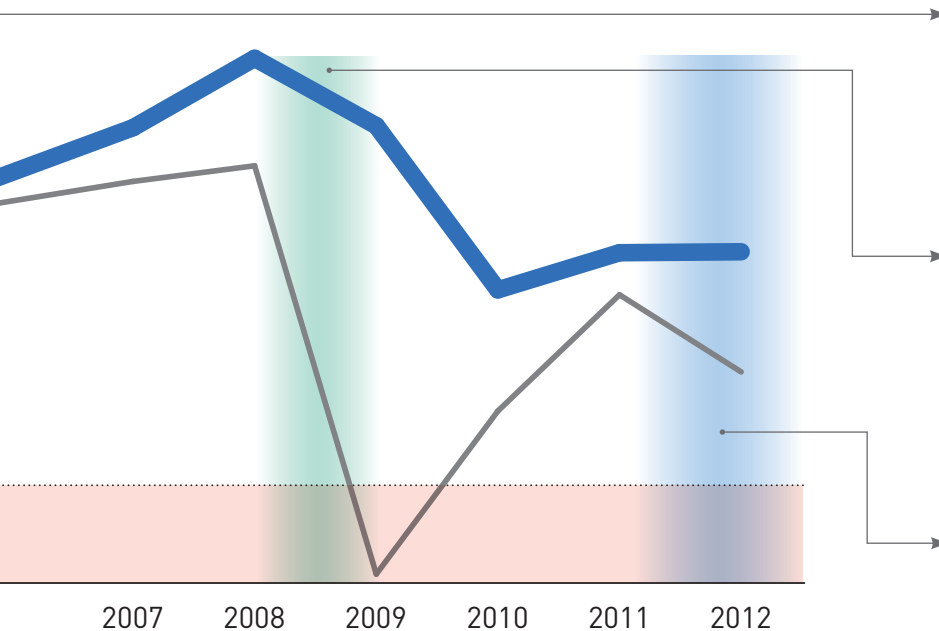
Financial Crisis



A U.S. investment bank collapsed in September 2008, triggering a worldwide financial crisis that made an impact on a broad range of industries.

Natural Disasters, Strong Yen

A devastating earthquake and tsunami hit Japan in March 2011. It had a massive impact on the Japanese economy. Factories were damaged, and manufacturing was suspended because of supply chain disruptions and rolling blackouts. Along with the yen's record strength and flooding in Thailand, the operating environment was challenging throughout the past fiscal year. Despite these difficulties, the Shin-Etsu Group achieved growth in earnings.



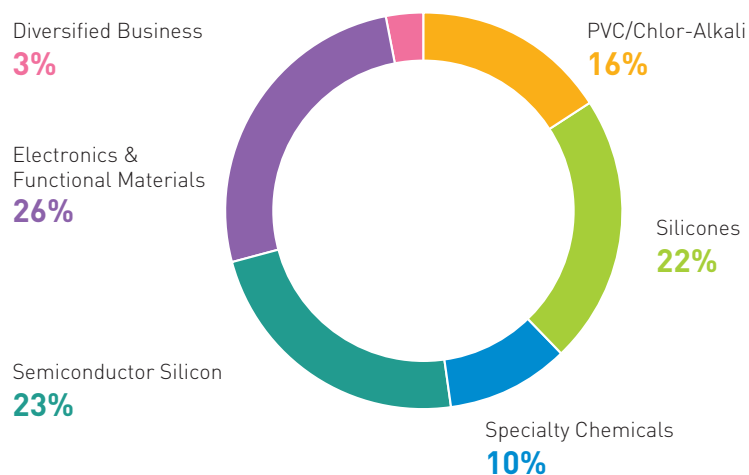
*1 Figures are calculated using average net income for all manufacturers that are listed on the Tokyo Stock Exchange except Shin-Etsu Chemical.

*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.

Balanced Business Portfolio

The Shin-Etsu Group's stable profitability reflects a well-balanced business portfolio centered on three businesses with high global market shares: PVC/Chlor-Alkali, Semiconductor Silicon, and Silicones. To further enlarge this foundation, we are expanding our manufacturing and sales network to target demand in growing markets in Asia and other regions. Also, we make capital expenditures to further enhance our ability to maintain steady supplies of key raw materials.

Segment Income Composition



The Highest Credit Rating among Chemical Companies Worldwide

Shin-Etsu received an Aa3 credit rating from Moody's Japan K.K. in April 2007, and has retained this rating since then. It is the highest rating among all of the world's publicly owned chemical companies. Moody's states that Shin-Etsu has maintained strong financial profile and its strong balance sheets and excellent liquidity, including substantial earnings from overseas, will mitigate the weakened state of the domestic business environment.

Ranking	Company	Long-term rating	Country
1.	Shin-Etsu Chemical Co., Ltd.	Aa3	Japan
2.	BASF (SE) Monsanto Company	A1	Germany U.S.A.
3.	Air Products and Chemicals, Inc. Asahi Kasei Corporation E.I. du Pont de Nemours and Company Praxair, Inc. Sigma-Aldrich Corporation Syngenta AG	A2	U.S.A. Japan U.S.A. U.S.A. U.S.A. Switzerland

As of June 27, 2012
Source: Shin-Etsu Chemical, based on Moody's data



Global Market Share Leadership

The Shin-Etsu Group has the world's top market share in its mainstay PVC/Chlor-Alkali and Semiconductor Silicon Businesses. In addition, synthetic quartz photomask substrates for LCD and rare-earth magnets for hard disk drives also rank first in market share worldwide.



See page 10 and 19

Activities in Growing Markets

More economic growth is foreseen in China and in other areas of the world. To meet the resulting strong growth in demand, the Shin-Etsu Group is expanding its manufacturing and sales bases.



See page 13, 15, and 21

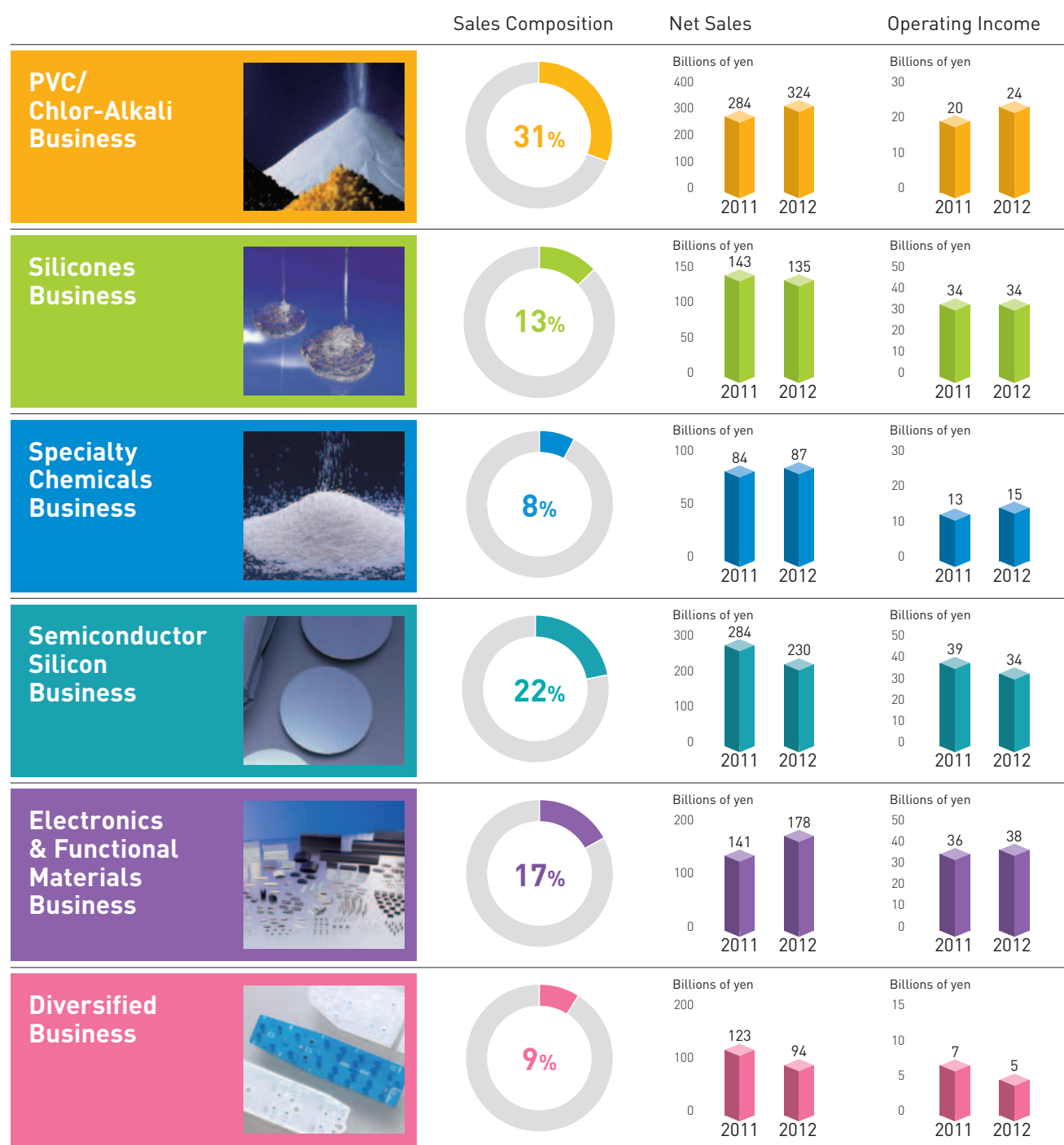
In-house Raw Material Production to Diversify Procurement

The Shin-Etsu Group's manufacturing infrastructure begins with the raw materials used to fabricate our major products. We are increasing the in-house production of raw materials in anticipation of global growth in demand for PVC and other products. This will strengthen our ability to provide customers with a stable supply of products.

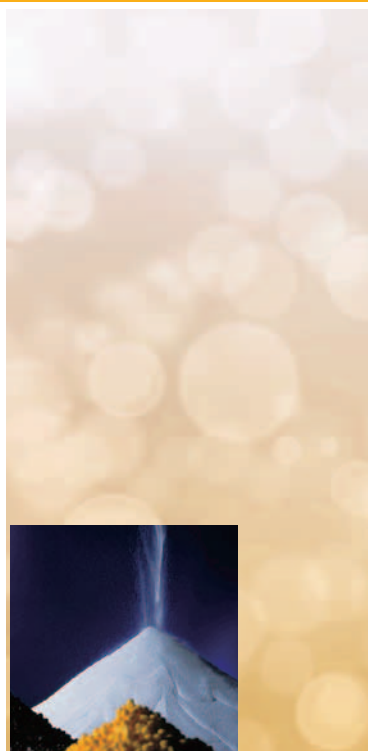


See page 11, 15, and 21

At a Glance



PVC/Chlor-Alkali



Main Products

- Polyvinyl chloride
- Caustic soda
- Methanol
- Chloromethane

Application Examples

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

Business Profile

The primary product in this business is polyvinyl chloride (PVC), a commodity plastic with outstanding physical properties, ease of processing, and cost advantages. PVC is used to make vital infrastructure components such as water and sewage pipes and electrical wire covering, as well as construction materials, household products, and medical devices. Demand for PVC is growing worldwide, driven by infrastructure projects in emerging countries. PVC window frames are attracting attention because of interest in excellent thermal insulation properties. These frames are ideal for building residences that are energy-efficient and comfortable.

The Shin-Etsu Group serves customers worldwide from its core PVC operations in the United States and manufacturing facilities in Europe and Japan. Shintech Inc. in the United States is the world's largest manufacturer of PVC. This company has recently completed second phase construction of a plant that makes vinyl chloride monomer. This plant further reinforces the Shin-Etsu Group's ability to maintain a reliable supply of PVC to meet growing global demand.

Results for Fiscal 2012

With regard to PVC, despite the prolonged slump in the U.S. housing market, Shintech Inc. maintained a high level of shipments by expanding its sales to worldwide customers and it greatly increased its business performance. In addition, Shin-Etsu PVC in The Netherlands also continued firm shipments. On the other hand, in Japan, a tough business situation continued due to such factors as the effects of the operation stoppage at our Kashima Plant as a consequence of the Great East Japan Earthquake and sluggish demand.



PVC/Chlor-Alkali



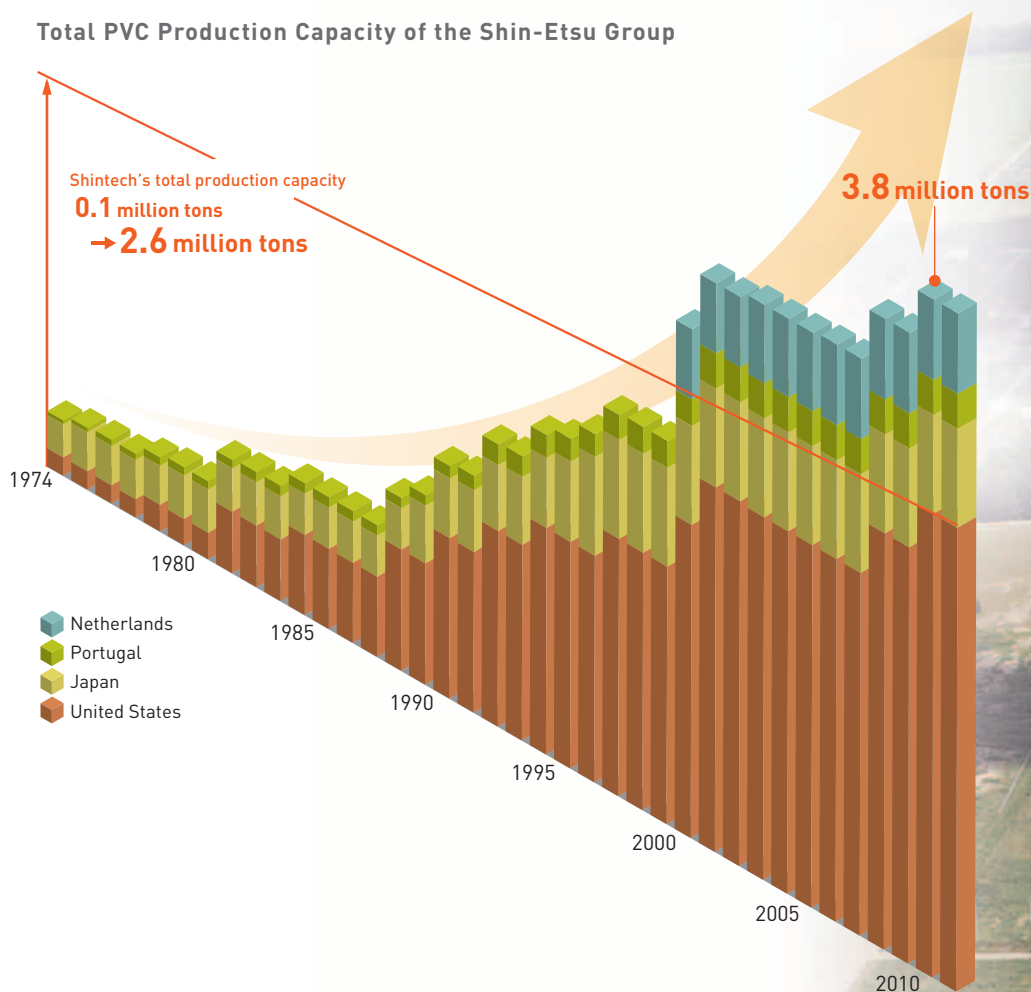
Global Market Share Leadership

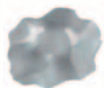
The World's Largest PVC Manufacturer

Shintech Inc. is a company based in the U.S. that produces PVC, and is the world's largest manufacturer of this material. By constantly making capital expenditures that accurately target increases in demand, Shintech Inc. has increased its PVC production capacity more than 26 times since operations began in 1974 with annual output of 100,000 tons. This high production volume provides cost advantages that strengthen the company's competitive edge.

Shintech Inc.'s location also offers advantages. Due to its relative political stability, the United States has a low country risk in terms of business. Furthermore, U.S. energy resources are abundant, partly because of the ongoing development of shale gas. These attributes will make the U.S. chemical industry even more competitive. Shintech Inc. is currently using these advantages and its worldwide sales network to further heighten its stature in the global PVC industry.

Total PVC Production Capacity of the Shin-Etsu Group



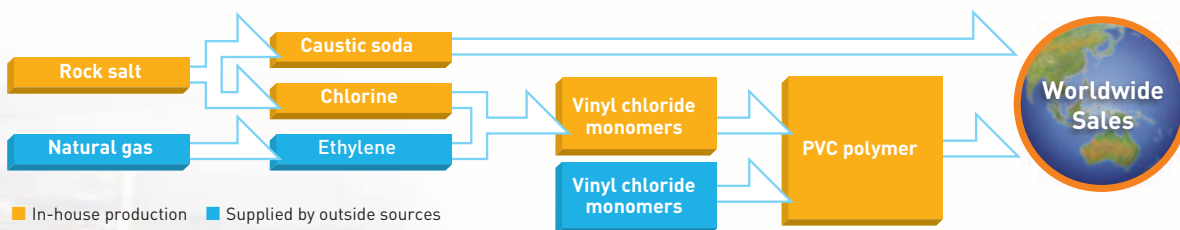


In-house Raw Material Production to Diversify Procurement

Shintech Completes Work for Integrated Production

In 2011, Shintech Inc. completed second phase construction of a vinyl chloride monomer plant that manufactures raw material for PVC. Since the first phase of construction was completed in 2008, this plant has made every stage of PVC production possible starting with rock salt, the initial raw material, and ending with PVC polymer. With this increase in internal production, the company is now in an even better position to maintain a consistent supply of PVC to meet growing global demand.

Shintech's Integrated Production Facilities



A message from Shintech



Mr. David Wise
Vice President,
Shintech Louisiana
LLC

Shintech's Louisiana operations consist of two world-scale, integrated chlor-alkali, VCM and PVC production facilities. Shintech Plaquemine Plant-1 includes utilities, a chlor-alkali unit, vinyl chloride monomer unit and polyvinyl chloride (PVC) unit, while Shintech Plaquemine Plant-2 produces chlorine, ethylene dichloride (EDC) and vinyl chloride monomer (VCM) for supply to Shintech's nearby Addis PVC facility. The facilities have certainly helped solidify Shin-Etsu's position as the world's largest producer of PVC.

The completion and operation of the Plaquemine manufacturing units have allowed the company better control and integration of raw materials for the manufacture of PVC. This successful integration has resulted in a more stable supply of PVC to customers around the world. The company has improved its cost position by consolidating large-scale operations in one location and securing reliable, competitively priced supply of critical raw materials by pipeline. The Louisiana facilities have also provided Shintech another U.S. Gulf Coast manufacturing location that geographically diversifies its manufacturing operations to ensure capability to respond to customer needs.

Shintech's focus on quality control, employee training and equipment and technology is another reason it is able to produce such a stable supply of high-quality products. This is especially true at our Louisiana operations.

Silicones



Main Products

- Silicones

Application Examples

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

Business Profile

Silicones combine organic and inorganic properties and can be produced in various physical forms, such as an oil, resin, rubber or fluid. Properties of this versatile material include electrical insulation and resistance to heat and cold. The Shin-Etsu Group supplies more than 5,000 types of silicone products for electronic products such as computers and mobile phones, cosmetics, household products, automobiles, houses, and many other applications.

Outside Japan, the Shin-Etsu Group manufactures silicones in the United States, the Netherlands, Taiwan, South Korea, and Thailand. In addition, a silicone rubber plant will start its operation in China in 2012 to meet the rapid growth in local demand. With a production and sales capability in China, we are better positioned to meet demand for silicones in Asia. Furthermore, we plan to increase sales of silicones globally by aggressively conducting business activities that are closely linked to the needs of individual markets worldwide.

Results for Fiscal 2012

Sales in Japan during the first half of the fiscal year continued to be firm, mainly in product applications areas such as the electronics and cosmetic fields. In the second half of the fiscal year, on the whole, business was slow, although some recovery was seen in such applications as those for automobiles. Our overseas business was strongly affected by sluggish market prices in the Asian region, such as in China.





Activities in Growing Markets

New Silicone Plant in China

A new silicone plant in China will start its operation in 2012. Its annual output capacity will be 25,000 tons of silicone rubber for molding and other silicone products. Demand for silicones is constantly increasing in various fields along with Chinese economic growth. Producing silicone locally allows this business to precisely match market conditions in China. We plan to expand the plant's silicone product lineup, responding to customer needs in the future.

Key Materials for Advanced Technologies

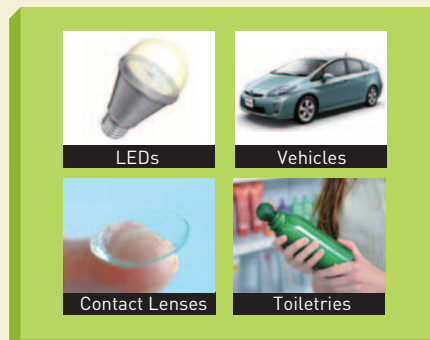
Silicones have various characteristics due to their molecular structure, and are a highly functional resin with immense potential. For example, new functions can be added through mixing technologies. Also, the properties of silicones can be combined with those of other materials. This flexibility makes silicones

a key material for advanced technologies involving LEDs, solar cells, automobiles, cosmetics, and chemicals. With silicones in use in so many industries, this business continues to grow regardless of the performance of any particular market.

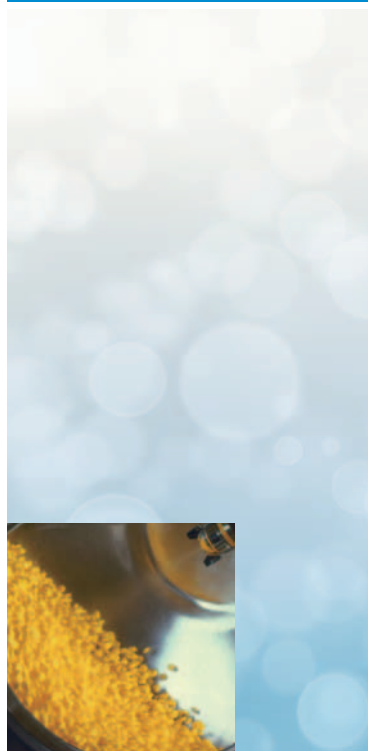
Products



Applications



Specialty Chemicals



Main Products

- Cellulose derivatives
- Silicon metal
- Poval
- Synthetic pheromones

Application Examples

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

Business Profile

Cellulose derivatives are environmentally friendly materials made from wood pulp. One of their typical uses is pharmaceutical application, such as the coatings and binders for tablets and granules, a field where safety is top priority. They are also used for automobiles, construction materials, civil engineering materials, and several other applications. Shin-Etsu Chemical is the largest manufacturer of cellulose derivatives for pharmaceutical use in the world.

Synthetic pheromones are used as an insect control agent. They are receiving attention as a revolutionary environmentally friendly product that can replace traditional chemical insecticides.

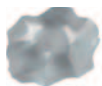
In Australia, we manufacture silicon metal, the primary raw material to make semiconductor silicon, silicones, and synthetic quartz.

Results for Fiscal 2012

With regard to cellulose derivatives, in addition to the business in Japan continuing to do well, mainly in pharmaceutical-use products and industrial-use products, the business of

SE Tylose in Germany continued to be firm due to the recovery of demand in building and construction application products. Furthermore, the silicon metal business of Simcoa Operations in Australia continued to do well, aided by rising market conditions.





In-house Raw Material Production to Diversify Procurement

Silicon Metal Output Capacity Increase at Simcoa Operations

In Australia, construction is underway at Simcoa Operations to boost annual output capacity of silicon metal from the current 32,000 tons to 48,000 tons. Silicon metal is the raw material for the main products of the Shin-Etsu Group: semiconductor silicon, silicones, synthetic quartz, and also solar cells, a product with much worldwide growth potential. Increasing output will enable Simcoa Operations to meet the rising demand for silicon metal in a variety of applications.



Simcoa Operations in Australia



Activities in Growing Markets

SE Tylose to Construct a Plant in the U.S.

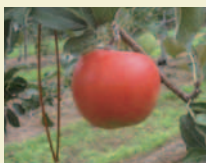
SE Tylose will construct a plant that will manufacture hydroxyethyl cellulose (HEC), which is used mainly for water-soluble coating for paints. The plant will be constructed on a lot that is part of the vast land owned in Louisiana by Shintech Inc. It is scheduled to start operation at the beginning of 2014. The U.S. plant's annual output of 9,000 tons will enable SE Tylose to keep up with the steady growth in HEC demand.

Other Products of this Segment

Synthetic Pheromones

Shin-Etsu's synthetic pheromone products are used for mating disruption of agricultural pests, thereby holding down the population of these destructive insects. These products also warn insects to stay away from a particular area.

Synthetic pheromones have a much smaller effect on the environment than conventional agricultural chemicals. Due to this property, these pheromones are widely used in fruit orchards and vineyards in Europe and the United States where people are very concerned about the environment and agricultural chemical residue on food products. Use of synthetic pheromones is growing in Japan as well, primarily in fruit orchards. In addition, growers of vegetables are using these pheromones, and in recent years, sugar cane growers in Okinawa have started using these pheromones to combat insects.



Poval

Poval is a water-soluble synthetic resin made from vinyl acetate. The Shin-Etsu Group manufactures vinyl acetate and Poval in Japan. The primary features of Poval are strong adhesion to fibers and glass along with outstanding transparency and durability. Poval is used as a raw material in vinylon synthetic fibers, fiber processing agents, adhesives, the interlayer of laminated automobile glass, and a broad array of other products.



Developing Products for the Semiconductor Industry

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

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.

Silica and Silicon Metal

Simcoa Operations Pty. Ltd. of Australia has long-standing silica mining rights 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

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.



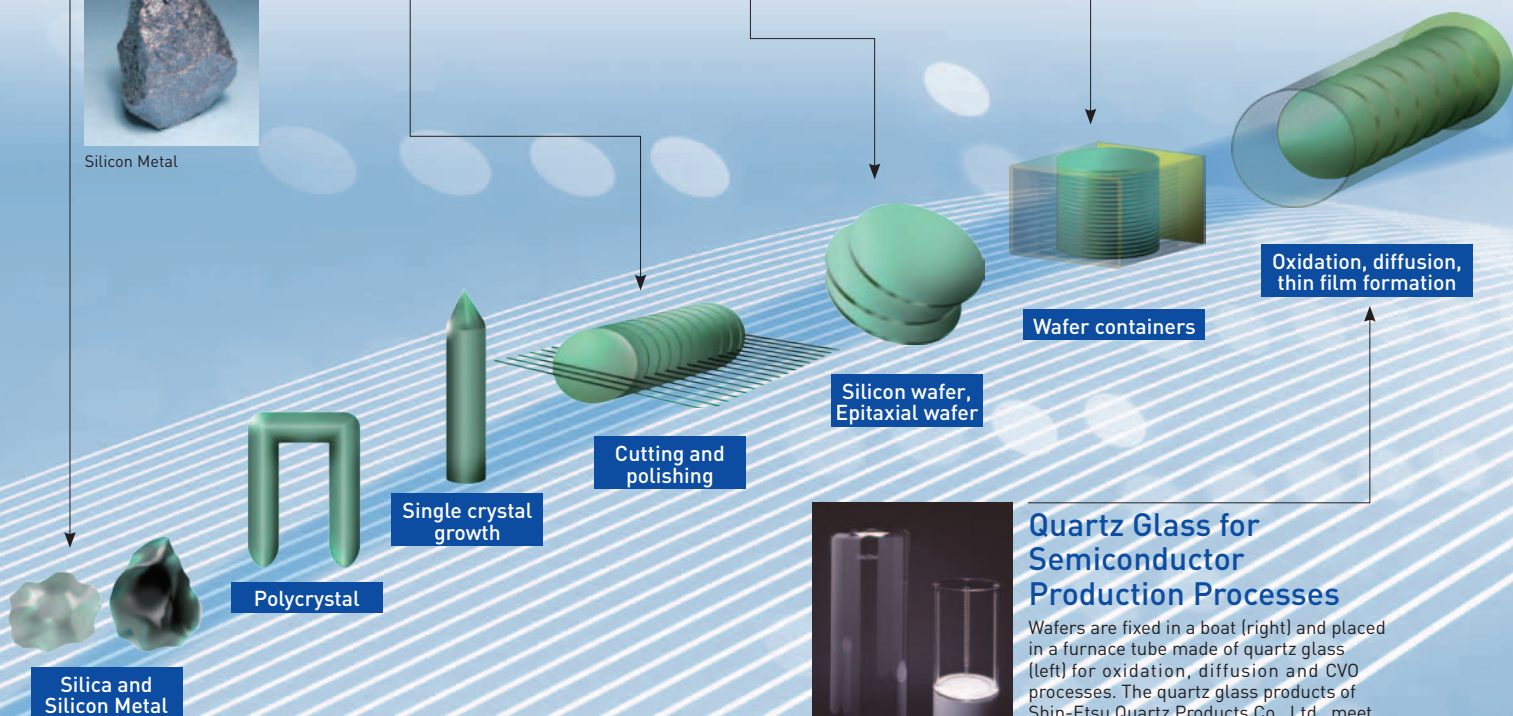
Silicon Wafers

Shin-Etsu was first to globally 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).

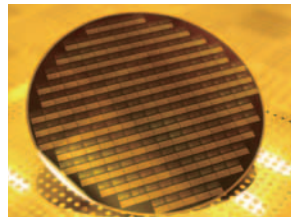


Quartz Glass for Semiconductor Production Processes

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.

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.

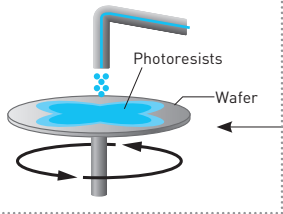


Synthetic Quartz Photomask Substrates for LSIs

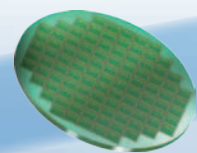
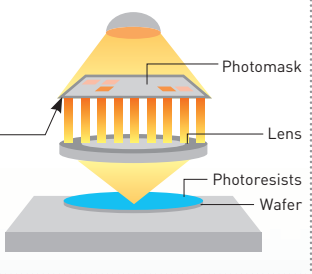
Used to transfer circuit patterns to semiconductor wafers, these photomask substrates have earned a reputation among customers for outstanding quality and consistency of supply. In recent years, these substrates are also being used as raw materials for photomask blanks.



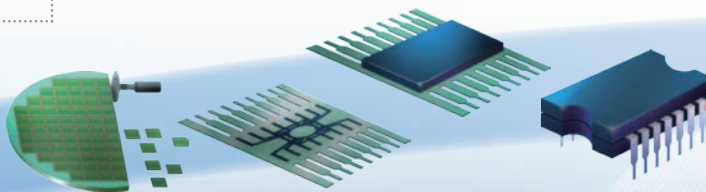
Resist coating



Exposure



Pattern formation



Dicing

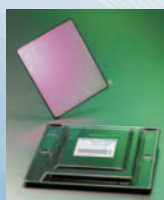
Assembly

Plastic molding

Device

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.



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."

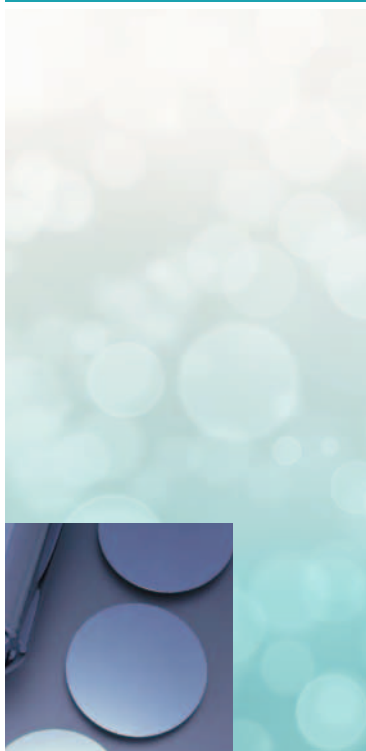


Silicone-based Thermal Interface Materials

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



Semiconductor Silicon



Main Products

- Semiconductor silicon

Application Examples

- PCs
- Mobile phones
- Home appliances
- Automobiles

Business Profile

The Shin-Etsu Group is the world's largest supplier of silicon wafers, which are vital to the production of semiconductors used in PCs, mobile phones, digital home appliances, and many other products. These wafers are supplied to companies worldwide from production facilities in Japan, Malaysia, Taiwan, the United States, and the United Kingdom. The Japanese and U.S. production bases manufacture 300mm wafers, the core product in this category. With these plants, we can provide a reliable supply of larger-diameter wafers, wafers with super flatness, and other types that meet the demands of the leading edge devices.

Results for Fiscal 2012

In addition to the stoppage of operations due to the effects of the Great East Japan Earthquake at our major production base in Shirakawa, Japan, there was a continuing slowdown in demand for wafers after the summer due to the sluggish electronics market for such products as PCs and flat panel TVs, and the severe business situation continued.





Global Market Share Leadership

Fast Earthquake Recovery

Shin-Etsu Handotai's Shirakawa Plant in Fukushima Prefecture is the Shin-Etsu Group's primary source of 300mm silicon wafers. It was damaged by the Great East Japan Earthquake that hit Japan in March 2011. By drawing on the resources of the entire Group, we succeeded in returning this facility to normal operations by the end of June 2011. This accomplishment attracted much attention, including the selection of Shin-Etsu Chemical as "Company of the year 2011" by *Chemical & Engineering News*.

While operations were suspended at the Shirakawa Plant, we continued to ship wafers to our customers by using the output of other plants in Japan and in the United States in the Shin-Etsu Group. Our geographically diverse production network, designed to avoid various risks, allowed us to minimize the impact of the earthquake on supplies.

Silicon Wafer Production Bases



Electronics & Functional Materials



Main Products

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

Application Examples

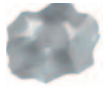
- Hybrid vehicles
(Rare-earth magnets)
- Energy-saving air conditioners
(Rare-earth magnets)
- Wind generators
(Rare-earth magnets)
- PCs (Rare-earth magnets, photoresists, photomask blanks, pellicles)
- Optical fiber
(Synthetic quartz products)

Business Profile

This business provides many types of products to a wide range of industries. Rare-earth magnets are used in motors for home appliances, automobiles, PC hard disk drives and other products. Synthetic quartz products include preforms for optical fiber and large-sized photomask substrates for manufacturing LCD panels. Our encapsulating materials have a multitude of properties required by high-brightness LEDs. Higher demand is foreseen for LEDs to reduce energy consumption. In addition, we supply photoresists for printing integrated circuits, pellicles, and other products that are essential to the semiconductor lithography process. In recent years, we started supplying photomask blanks. Furthermore, we developed a liquid fluoroelastomer called SHIN-ETSU SIFEL®.

Results for Fiscal 2012

With regard to rare-earth magnets, we addressed the sharp rise of raw materials prices, and at the same time, we endeavored to expand sales mainly for applications in hybrid automobiles. As a result, the business continued to do well. Photoresist products remained strong, aided by the progress in semiconductor device miniaturization. The business of materials for high-luminance LED packaging also continued to do well. With regard to the optical fiber preform business, although this business was affected by the stoppage of operations at the Kashima Plant due to the Great East Japan Earthquake, after the restoration, firm shipments continued.



In-house Raw Material Production to Diversify Procurement

Diversifying Sources of Rare Earths

Construction is underway in China and Vietnam on plants that will help maintain a stable supply of rare earth for manufacturing rare-earth magnets. The plant in China will produce magnet alloys, an intermediate material, and the plant in Vietnam will carry out the separation and refinement of rare earths. Both plants are scheduled to begin operations in 2013. We will further strengthen our ability to maintain a reliable supply of rare-earth magnets by diversifying sources of raw materials while lowering the volume of rare earths used.



Magnet alloy



Activities in Growing Markets

New Preform Plant in China

A new plant in China that makes optical fiber preform will start full-scale operations later in 2012. Demand for optical fiber is increasing in China with the large volume of infrastructure projects, and this growth is expected to continue. Operating the plant in a promising market area will reinforce the growth of the optical fiber preform business.



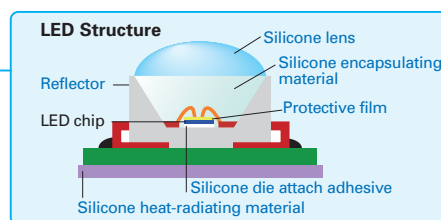
Optical fiber preform

New LED Materials Plant in Vietnam

Construction is proceeding in Vietnam on a plant that will manufacture LED encapsulating materials. Scheduled to start operating in 2013, this facility will supply these materials to meet the expected growth of demand in Asian countries. This plant will reinforce our position as the world's top supplier of LED encapsulating materials. Furthermore, building a plant in Asia will reduce risk exposure by creating a second production base along with the plant in Gunma Prefecture, Japan.



LED optical module



Note: Blue text indicates products that are handled by the Shin-Etsu Group.

Diversified Business



Main Products and Services

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

Application Examples

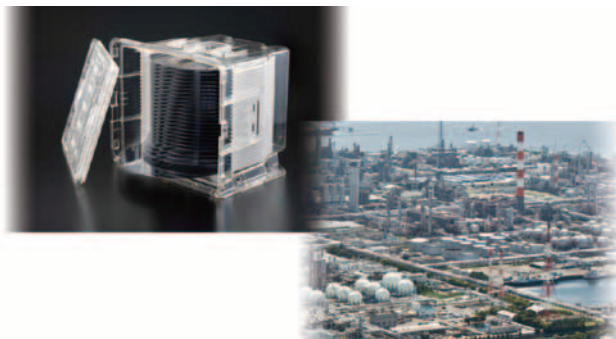
- Mobile phones (Input/output parts for electronic devices)
- Chemical plants

Business Profile

Shin-Etsu Polymer Co., Ltd., manufactures semiconductor wafer-related containers, 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 also receives a large volume of orders from outside the Group.

Results for Fiscal 2012

Shin-Etsu Polymer Co., Ltd.'s business of keypads for mobile phones remained in a severe situation due to a large decrease in demand resulting from the rapid spread of touch-panel type smartphones. In addition, the business of semiconductor wafer-related containers continued to be slow due to sluggish semiconductor device demand. The engineering business was firm.



Research & Development

The Shin-Etsu Group's R&D policy is to develop innovative technologies which will further differentiate our products and add higher value to avoid competition based on price. The R&D Department is committed to developing and then speeding up the commercialization of new products through its activities.

The first step of R&D activities is to define and determine new materials that are marketable, promising, and profitable. Those activities are intended to utilize our own original technologies and to contribute to low carbon dioxide emissions and also to meeting the needs of an aging society. Periodical management review will be held once a decision has been made to start an R&D project, and then business launch will follow the screening process.

The Shin-Etsu Group is engaged in activities which

R&D Costs (Billions of yen)



require more than one R&D organization to work jointly in order to maximize its resources, reduce duplicated studies, and bring efficiency to new products releases. It is one recent trend.

The Shin-Etsu Group is well aware that intellectual property is an important asset for our business. As of March 31, 2012, the Group has 5,551 patents in Japan and 6,882 overseas patents, which include 211 patents in the United States in 2011. Those numbers place in the top class among Japanese chemical companies.

Number of Patents by Region

	Number of patents acquired during the year ended March 31, 2012	Cumulative number of patents acquired as of the end of FY 2012
Japan	762	5,551
North America	212	2,398
Asia/Oceania	314	2,146
Europe	354	2,318
Other Areas	0	20
Total	1,642	12,433



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

Director Komiyama's Comment

Looking back on my experiences as an external director of Shin-Etsu Chemical over the past year, one very noteworthy event was the occasion of Chairman Kanagawa's being awarded a doctoral degree in July 2011. His dissertation was highly evaluated as a quite significant research study that analyzes in detail the PVC business, one of Shin-Etsu's main business pillars, from the perspectives of both technology and management. His thesis proposed and tested a model for effectively managing a commodity business and turning it into a highly profitable business. This was quite a valuable achievement, particularly in Japan, which has sometimes had some bitter experiences in the kind of business endeavor where specialty products, starting with semiconductors, could not advance to become commodity products.

Toward the end of 2011, I participated in a special roundtable discussion event at the Head Office, the contents of which

were reported in the New Year's edition of Shin-Etsu's in-house PR magazine. My keynote address dealt with the theme: "Toward the Realization of a Platinum Society.*" In the type of high-quality Platinum Society that Japan is aiming to become, the key to its realization rests on three innovation processes: "Green" innovations related to the environment, resource, and energy fields for which Shin-Etsu Chemical has already been providing the world with various superior technologies and products; "Silver" innovations in fields related to the aging of society for which Shin-Etsu's silicones and cellulose derivative products are proving to be quite useful; and "Gold" innovations related to the IT field for which human resources are being nurtured to work on basic research studies to achieve breakthroughs. I believe that in the building of a Platinum Society, Shin-Etsu Chemical is going to play quite an enormous role.

*As proposed by Dr. Hiroshi Komiyama, a Platinum Society will be the next demand of people who are satisfied with their physical possessions. This society will be achieved by combining innovation in three categories – Green, Silver, and Gold.

Board of Directors and Auditors

(As of June 28, 2012)

CHAIRMAN	PRESIDENT	EXECUTIVE VICE PRESIDENTS		EXECUTIVE SENIOR MANAGING DIRECTOR
				
Chihiro Kanagawa	Shunzo Mori	Fumio Akiya	Yasuhiko Saitoh	Yoshiaki Ono

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

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, The Dow Chemical Company (US)

Masashi Kaneko*

Former Director & Chairman of the Board of Executive Officers, former Nikko Cordial Corporation

Tsuyoshi Miyazaki*

Advisor, Mitsubishi Logistics Corporation

Toshihiko Fukui*

Former Governor, the Bank of Japan

Hiroshi Komiyama*

Former President, 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

The basic management policy of the Shin-Etsu Group is to meet the expectations of shareholders by constantly increasing corporate value. To accomplish this, 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 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, and provides a framework to upgrade and reinforce supervision. The Managing Directors' Meeting and the Board of Directors fulfill the roles necessary to discuss issues involving business operations and to reach decisions. In principle, both hold meetings once each month.

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.

The Auditing Department is responsible for performing internal audits and for establishing internal control systems for financial reports. 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.

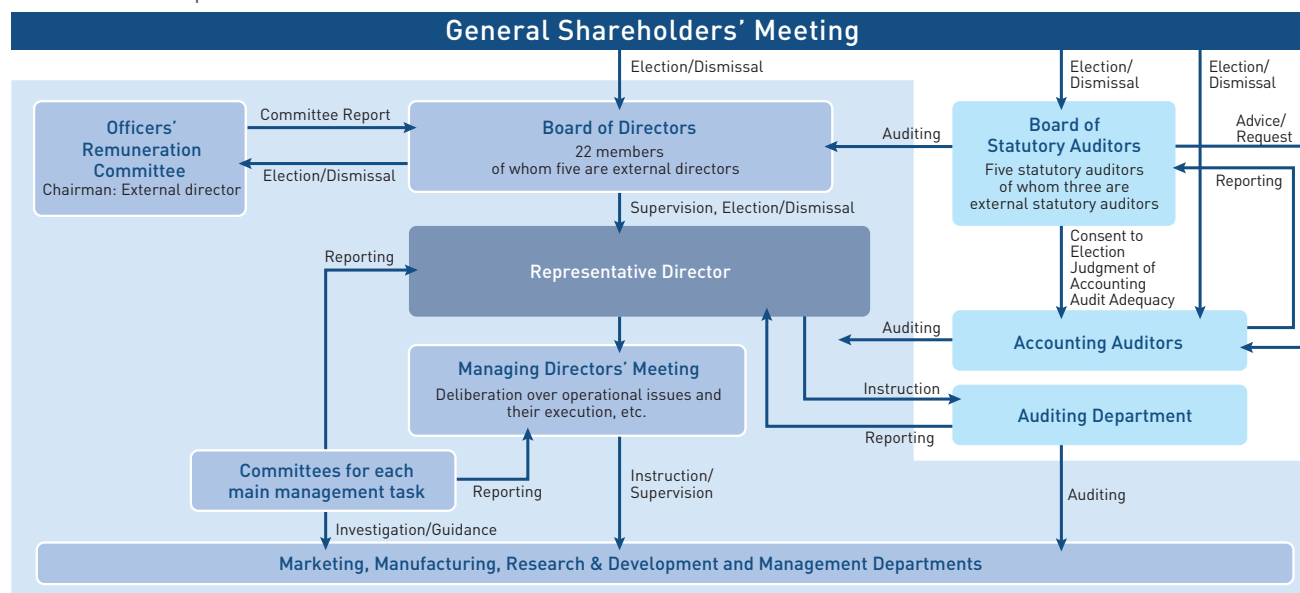
Shin-Etsu is dedicated to ensuring the reliability of financial reporting and improving the transparency of its

management. The Company established the "Basic Policy Internal Control Over 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.

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.

Shin-Etsu's Corporate Governance Structure



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 2012, total remuneration paid to officers was ¥1,365 million. Of this amount, ¥169 million was paid to external directors and external statutory auditors. This remuneration does not include salaries (including bonuses) paid to the employee director in return for serving as employees.

■ 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

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, a countermeasure headquarters is established and the situation is handled in accordance with the Shin-Etsu emergency response manual.

When the Great East Japan Earthquake occurred on March 11, 2011, Shin-Etsu immediately formed a Disaster Response Headquarters led by the Company President. Subsequent confirmation of the status of damaged facilities and repairs resulted in the completion of all recovery activities by the end of June 2011.

Shin-Etsu has formulated a Business Continuity Plan for all units, and has prescribed various associated countermeasures, including the preparation, implementation, and management of Business Continuity Plans.

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)

Based on the corporate mission statement, “the Group complies strictly with all laws and regulations, conducts fair corporate activities, and contributes to people’s daily lives as well as to the advancement of industry and society by providing key materials and technologies,” the Shin-Etsu Group focuses on developing environmentally responsible products and placing priority on safety, environmental protection, and social activities.

Basic CSR Policy

The Shin-Etsu Group believes that its obligation to society is to adhere to the corporate mission and make contributions to shareholders and all other relevant parties. The following basic CSR policy provides concrete guidelines for fulfilling this obligation. It also serves as the framework for a variety of internal rules and regulations as well as all of the Group’s activities.

The Shin-Etsu Group:

1. Will enhance the Group’s corporate value through sustained growth and make multi-faceted contributions to society.
2. Will carry out our business activities by making safety always our highest priority.
3. Will constantly pursue energy-saving, resource-saving, and the reduction of the environmental burden, and seek to maintain harmony with the environment.
4. Will endeavor to use our cutting-edge technologies and products in order to contribute to combating global warming and protecting biodiversity.
5. Will respect human dignity, assure equal employment opportunities, and support the self-fulfillment of our employees.
6. Will disclose information that is timely and accurate.
7. Will perform transparent business activities that are sound and trustworthy in accordance with the highest ethical standards.

Safety and Environmental Initiatives

Always making safety the highest priority is one management objective of the Shin-Etsu Group. With this in mind, we implement extensive safety measures and frequent education programs and drills so that we are always prepared to respond to any event.

To eliminate potential sources of danger in manufacturing processes, we create the best possible designs for equipment and processes and constantly make improvements. Furthermore, all workers must adhere to work manuals that ensure safety. Manuals are continuously reexamined and improved. Information from employees about hazards as well as ideas for improvements are posted on the *hiyari-hatto* (close call) incidents section of the Shin-Etsu website. This safety information is thus available to all employees as well as to the public.

The Shin-Etsu Group uses all aspects of its business operations to protect the environment, thereby combating global warming and creating a sustainable society. We have established ambitious targets for cutting greenhouse gas emissions and the environmental burden of our manufacturing processes. By using an organizational, continuous approach, we are creating clean manufacturing processes. As a manufacturer of materials, we are dedicated to protecting the global environment by developing and enhancing products and technologies that help lower the environmental burden.

Shin-Etsu has established the mid-term environmental goal of bringing our unit greenhouse gas emissions down to 50% of the 1990 level in terms of the consumption rate by 2015. In FY 2012, these emissions were 60.6% of the 1990 level.

Another goal at Shin-Etsu is to achieve zero emissions (less than 1% of all waste materials sent to landfills) by 2015. This ratio was 1.92% in FY 2012, and more action will be taken to further lower this figure.



Safety audit

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 introduced in 2000 based on a proposal by then U.N. Secretary General Kofi Annan at a global economic forum. The compact encourages companies and organizations worldwide to become even better corporate citizens by supporting and following 10 principles in the areas of human rights, labor, the environment and the prevention of corruption.

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.



The U.N. Global Compact's Ten Principles

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

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.

Assistance for Victims of the Great East Japan Earthquake

The Shin-Etsu Group and its employees participated in donation collections and other activities to support programs for earthquake victims. At Shintech Inc. in the United States, employees supported a T-shirt charity sales event by the local Japanese Club and made donations to earthquake relief organizations. At CIRES, S.A. in Portugal, employees made contributions that were equal to one day's salary to the Red Cross for its activities in Japan. At Shin-Etsu Magnetics Philippines, Inc., many employees took part in a marathon to collect donations that were sent to earthquake recovery programs. Each employee completed their own targeted distance for the marathon under a banner that read "Don't give up Japan, Don't give up Tohoku."



A message from the staff of CIRES



Students show gratitude for a donation to their local elementary school made by Shin-Etsu Handotai Europe in Scotland.

Elementary school students from Tokyo took a field trip to Simcoa Operations in Australia.

Products for a Low Carbon Society

PVC (PVC Window Frames)

PVC contributes greatly to the environment. It relies less on petroleum than other types of plastics, and a high percentage is recycled.

PVC window frames have been attracting increasing attention in recent years. Windows are estimated to be responsible for 58% of the heat that is lost from a house during the winter and for 73% of the heat that enters a house during the summer. PVC's thermal conductivity is one-thousandth of that of aluminum. Replacing an aluminum window with one made of PVC will cut the loss of heat through windows by about one-third. Furthermore, PVC reduces the formation of condensation. With these attributes, PVC windows can play a role in creating living environments that are healthy and energy-efficient.

In Japan, PVC interwindows are used in buildings of the Ministry of the Environment and the University of Tokyo. The benefits of using these windows resulted in their inclusion among products eligible for the home eco-point system for housing, designated by the Ministry of Land, Infrastructure, Transport and Tourism. The selection of PVC windows to help keep the temporary housing warm for the victims of the Great East Japan Earthquake further demonstrates the increasingly widespread use of these windows.



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 are used in motors for hybrid and fuel cell vehicles, air conditioners, and other products. Using these powerful magnets improves the coefficient of performance (efficiency of energy consumption), which in turn helps to conserve energy and lower CO₂ emissions.

Wind turbine motors are a relatively new application for these magnets. Equipping motors with rare-earth magnets reduces the size and weight of the power generation system and lowers noise as well. The ability to generate electricity efficiently is another important benefit of using rare-earth magnets.



Hybrid vehicles



Wind generators



Air conditioners

Eleven-Year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2002 through 2012

	Millions of yen				
	2002	2003	2004	2005	2006
For the year:					
Net sales	¥ 775,096	¥ 797,523	¥ 832,804	¥ 967,486	¥1,127,915
Cost of sales	572,365	585,220	619,085	715,143	831,333
Selling, general and administrative expenses	88,007	90,152	88,094	100,608	111,262
Operating income	114,723	122,149	125,625	151,734	185,320
Ordinary income	117,031	122,119	125,612	151,503	185,040
Net income	68,518	73,015	74,805	93,160	115,045
Capital expenditures	81,543	75,211	113,591	110,277	145,329
R&D costs	28,207	27,279	26,329	27,924	32,003
Depreciation and amortization	70,878	66,566	73,581	90,874	111,637
At year-end:					
Total assets	¥1,288,432	¥1,310,874	¥1,386,216	¥1,476,248	¥1,671,280
Working capital	363,677	409,262	401,878	444,935	572,205
Common stock	110,259	110,271	110,493	117,513	119,419
Net assets	—	—	—	—	—
Stockholders' equity	812,068	846,961	900,724	996,307	1,173,679
Interest-bearing debt	182,729	167,362	163,167	120,422	83,838
Per share (Yen and U.S. dollars):					
Net income—primary	¥ 162.93	¥ 173.13	¥ 177.25	¥ 219.10	¥ 266.63
Net income—fully diluted ²	159.38	169.36	173.52	216.11	266.07
Cash dividends	12.00	14.00	16.00	20.00	35.00
Payout ratio (%)	7.4	8.1	9.0	9.1	13.1
Net assets	1,930.30	2,014.11	2,140.23	2,329.47	2,730.94
General:					
Operating income to net sales ratio (%)	14.8	15.3	15.1	15.7	16.4
Net income to net sales ratio (%)	8.8	9.2	9.0	9.6	10.2
ROE (%) ³	9.0	8.8	8.6	9.8	10.6
ROA (%)	9.2	9.4	9.3	10.6	11.8
Equity ratio (%)	63.0	64.6	65.0	67.5	70.2
Number of employees	16,456	16,573	17,384	18,151	18,888
Number of shares issued (Thousands)	422,555	422,567	422,798	430,118	432,106

Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥82 = US\$1, the approximate rate of exchange on March 31, 2012.

2. Diluted net income per share for the fiscal year ended March 31, 2012 is not presented as there were no securities with dilutive effect.

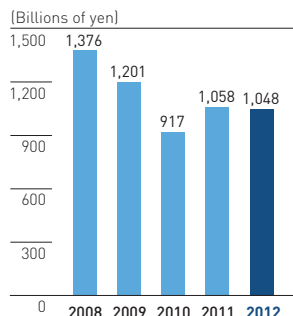
3. Stockholders' equity used for calculation of indices from the fiscal year ended March 31, 2007 consists of "stockholders' equity" and "valuation and translation adjustments."

Millions of yen						Thousands of U.S. dollars (Note 3)
2007	2008	2009	2010	2011	2012	2012
¥1,304,695	¥1,376,364	¥1,200,813	¥ 916,837	¥1,058,257	¥1,047,731	\$12,777,212
933,199	946,940	853,433	700,902	803,574	798,592	9,738,937
130,467	142,278	114,453	98,718	105,460	99,505	1,213,485
241,028	287,145	232,927	117,215	149,221	149,632	1,824,789
247,018	300,040	250,533	127,019	160,338	165,237	2,015,089
154,010	183,580	154,731	83,852	100,119	100,643	1,227,353
210,613	268,479	159,406	123,793	119,884	87,165	1,062,992
41,737	47,944	37,469	33,574	37,321	35,725	435,676
138,462	141,269	119,457	87,722	93,732	82,868	1,010,595
¥1,859,995	¥1,918,544	¥1,684,944	¥1,769,139	¥1,784,166	¥1,809,841	\$22,071,240
628,986	638,806	606,632	612,447	638,493	694,803	8,473,213
119,419	119,419	119,419	119,419	119,419	119,419	1,456,337
1,360,315	1,483,669	1,407,353	1,474,212	1,469,429	1,494,573	18,226,501
—	—	—	—	—	—	—
45,143	34,045	23,827	20,052	14,574	15,732	191,860
¥ 357.78	¥ 426.63	¥ 362.39	¥ 197.53	¥ 235.80	¥ 237.03	\$ 2.891
357.32	426.35	362.35	197.50	235.80	—	—
70.00	90.00	100.00	100.00	100.00	100.00	1.220
19.6	21.1	27.6	50.6	42.4	42.2	42.2
3,065.80	3,344.17	3,218.28	3,370.56	3,360.39	3,422.93	41.743
18.5	20.9	19.4	12.8	14.1	14.3	14.3
11.8	13.3	12.9	9.1	9.5	9.6	9.6
12.4	13.3	11.0	6.0	7.0	7.0	7.0
14.0	15.9	13.9	7.4	9.0	9.2	9.2
71.0	75.0	81.1	80.9	80.0	80.3	80.3
19,177	20,241	19,170	16,955	16,302	16,167	16,167
432,106	432,106	432,106	432,106	432,106	432,106	432,106

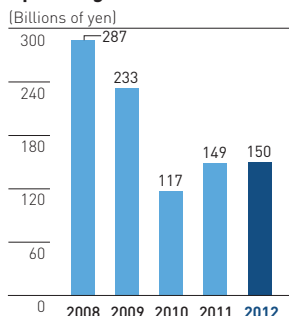
Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

Net Sales



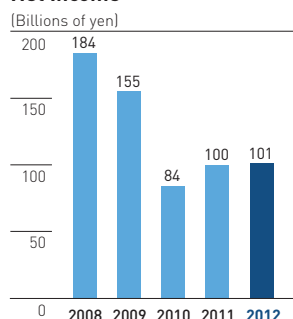
Operating Income



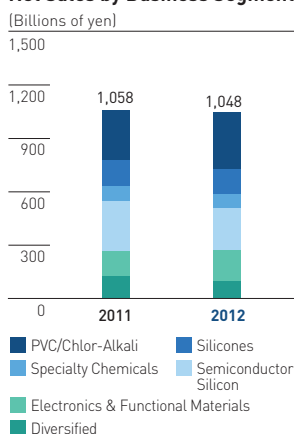
Overview of the Shin-Etsu Group

The Shin-Etsu Group (the "Group") was composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 110 subsidiaries and 17 affiliates as of March 31, 2012. 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 using mutual cooperation among all of these companies.

Net Income



Net Sales by Business Segment

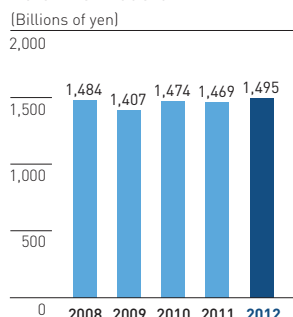


Consolidated Operating Performance

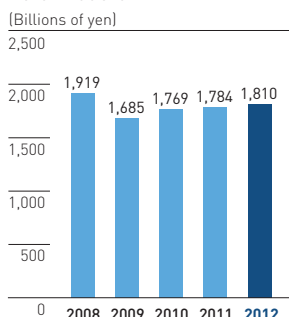
With regard to the world economy, during FY 2012 (April 1, 2011 to March 31, 2012), although, on the whole, emerging economies in regional areas such as Asia and Central and South America performed well, the recovery of the United States economy continued to be slow due to a weak employment situation and a sluggish housing market, and in Europe, there continued to be a serious lingering debt concern that has rapidly brought about a strong sense of economic stagnation. On the other hand, due to the effects of the Great East Japan Earthquake, the flood damage in Thailand and the additional headwind resulting from the progression in the rapid appreciation of the Japanese yen, overall, the severe situation of the Japanese economy continued.

Under these circumstances, the Shin-Etsu Group worked to carry out its sales activities to its wide range of customers worldwide, and at the same time, made concerted efforts to restore Shin-Etsu Chemical's Kashima Plant and Shin-Etsu Handotai's Shirakawa Plant that had been damaged by the Great East Japan Earthquake in March 2011, and by the end of June 2011, we completed the restoration work. In addition, we have focused on building a strong business foundation by such means as working to stably secure raw materials and assiduously carrying out our strategy of establishing multiple manufacturing bases.

Total Net Assets



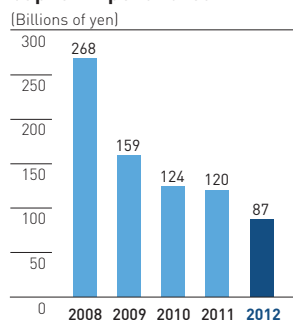
Total Assets



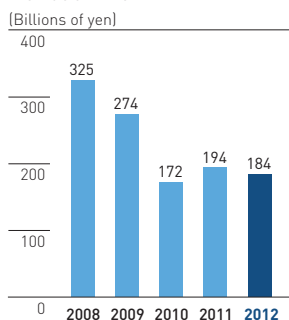
Net Sales

Net sales decreased 1.0% (¥10.5 billion) to ¥1,047.7 billion compared with the previous fiscal year.

Capital Expenditures



Net Cash Flow*



* Net cash flow = Net income + Depreciation and amortization

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales decreased 0.6% (¥5.0 billion) to ¥798.6 billion but the ratio of cost of sales to net sales increased 0.3 of a percentage point to 76.2%. Selling, general and administrative (SG&A) expenses decreased 5.6% (¥6.0 billion) to ¥99.5 billion, but the ratio of these expenses to sales decreased 0.5 of a percentage point to 9.5%.

Research and development costs, which are included in manufacturing costs and SG&A expenses, decreased 4.3% (¥1.6 billion) to ¥35.7 billion and the ratio of these costs to net sales was 3.4%.

Operating Income

Operating income increased 0.3% (¥0.4 billion) to ¥149.6 billion and the operating margin increased 0.2 of a percentage point to 14.3%.

Business Segment Overview

PVC/Chlor-Alkali Business

With regard to PVC, despite the prolonged slump in the U.S. housing market, Shintech Inc. in the U.S. maintained a high level of shipments by expanding its sales to worldwide customers and it greatly increased its business performance. In addition, Shin-Etsu PVC in The Netherlands also continued firm shipments. On the other hand, in Japan, a tough business situation continued due to such factors as the effects of the operation stoppage at our Kashima Plant as a consequence of the Great East Japan Earthquake and sluggish demand.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 14.3% (¥40,505 million) to ¥324,030 million and operating income increased by 20.2% (¥3,977 million) to ¥23,651 million.

Silicones Business

With regard to the silicones business, sales in Japan during the first half of the fiscal year continued to be firm, mainly in product applications areas such as the electronics and cosmetic fields. In the second half of the fiscal year, on the whole, business was slow, although some recovery was seen in such applications as those for automobiles. Our overseas business was strongly affected by sluggish market prices in the Asian region, such as in China.

As a result, compared with the previous fiscal year, net sales for this business segment decreased by 5.3% (¥7,603 million) to ¥135,461 million and operating income decreased by 1.1% (¥370 million) to ¥33,687 million.

Specialty Chemicals Business

With regard to cellulose derivatives, in addition to the business in Japan continuing to do well, mainly in pharmaceutical-use products and industrial-use products, the business of SE Tylose in Germany continued to be firm due to the recovery of demand in building and construction application products. Furthermore, the silicon metal business of Simcoa Operations in Australia continued to do well, aided by rising market conditions.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 4.3% (¥3,615 million) to ¥87,127 million and operating income increased by 13.8% (¥1,784 million) to ¥14,698 million.

Semiconductor Silicon Business

With regard to the semiconductor silicon business, in addition to the stoppage of operations due to the effects of the

Great East Japan Earthquake at our major production base in Shirakawa, Japan, there was a continuing slowdown in demand for wafers after the summer due to the sluggish electronics market for such products as PCs and flat panel TVs, and the severe business situation continued.

As a result, compared with the previous fiscal year, net sales for this business segment decreased by 19.1% (¥54,133 million) to ¥229,656 million and operating income decreased by 11.7% (¥4,531 million) to ¥34,333 million.

Electronics & Functional Materials Business

With regard to rare-earth magnets, we addressed the sharp rise of raw materials prices, and at the same time, we endeavored to expand sales mainly for applications in hybrid automobiles. As a result, the business continued to do well. Photoresist products remained strong, aided by the progress in semiconductor device miniaturization. The business of materials for high-luminance LED packaging also continued to do well. With regard to the optical fiber preform business, although this business was affected by the stoppage of operations at the Kashima Plant due to the Great East Japan Earthquake, after the restoration, firm shipments continued.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 25.8% (¥36,409 million) to ¥177,792 million and operating income increased by 5.7% (¥2,053 million) to ¥38,171 million.

Diversified Business

Shin-Etsu Polymer Co., Ltd.'s business of keypads for mobile phones remained in a severe situation due to a large decrease in demand resulting from the rapid spread of touch-panel type smartphones. In addition, the business of semiconductor wafer-related containers continued to be slow due to sluggish semiconductor device demand.

As a result, compared with the previous fiscal year, net sales for this business segment decreased by 23.8% (¥29,318 million) to ¥93,663 million and operating income decreased by 31.4% (¥2,308 million) to ¥5,032 million.

Other Income and Extraordinary Loss

Net non-operating income was ¥15.6 billion, which included equity in earnings of affiliates of ¥15.7 billion. There was a net extraordinary loss of ¥10.6 billion that included an extraordinary profit from the reversal of restoration costs for earthquake and extraordinary losses for loss on impairment of fixed assets and loss on disaster. After these items, income before income taxes increased 11.0% (¥15.4 billion) to ¥154.7 billion.

Net Income

Income taxes increased ¥16.2 billion to ¥54.2 billion because in the previous fiscal year there was a refund of income

taxes paid in prior years. Net income increased 0.5% (¥0.5 billion) to ¥100.6 billion and net income per share increased ¥1.23 to ¥237.03.

Analysis of Financial Position

Information on Assets, Liabilities and Net Assets

At the end of FY 2012, total assets increased by ¥25,675 million, compared with that at the end of the previous fiscal year to ¥1,809,841 million. This was mainly due to an increase in inventory.

Total liabilities increased by ¥531 million from that at the end of the previous fiscal year to ¥315,268 million.

Total net assets increased by ¥25,144 million to ¥1,494,573 million, compared to that at the end of the previous fiscal year. Retained earnings increased resulting from the net income of ¥100,643 million for FY 2012. On the other hand, foreign currency translation adjustments decreased as a result of the appreciation of the yen.

The stockholders' equity ratio was 80.3%, up 0.3 percentage points from 80.0% at the end of the previous fiscal year.

Status of Cash Flows

The balance of cash and cash equivalents at the end of FY 2012 decreased by 10.6% (¥31,964 million) compared to that at the end of previous fiscal year to ¥270,321 million.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥96,567 million, down ¥120,923 million from the previous fiscal year. Income before income taxes was ¥154,671 million and depreciation and amortization was ¥82,868 million. Major uses of cash were a ¥77,517 million increase in inventories, ¥41,124 million for the payment of income taxes and ¥21,041 million in payment of restoration costs for the earthquake.

Cash flows from investing activities

Net cash used for investing activities was ¥89,190 million, a decrease of ¥42,815 million over the previous fiscal year, consisted mainly of ¥80,320 million for purchases of property, plant and equipment.

Cash flows from financing activities

Net cash used for financing activities decreased by ¥6,447 million from the previous fiscal year to ¥42,174 million. This is mainly for cash dividends paid of ¥42,459 million.

Capital expenditures

Capital expenditures totaled ¥87.2 billion. In the PVC/Chlor-Alkali Business, expenditures decreased to ¥18.3 billion because of the completion of the expansion of integrated PVC production facilities at Shintech Inc. In the Silicones Business, there were expenditures of ¥14.4 billion for a new

silicone rubber plant in China and other projects. Expenditures were ¥14.6 billion in the Electronics & Functional Materials Business, which includes building an optical fiber preform plant in China, ¥23.6 billion in the Semiconductor Silicon Business, ¥13.0 billion in the Specialty Chemicals Business and ¥3.4 billion in the Diversified Business.

Basic policy concerning 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. Accordingly, the total annual dividend per share for FY 2012 is ¥100, the same amount as in the previous fiscal year.

Outlook for Fiscal 2013 (ending March 2013)

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 due to such concerns as the sharp rise in crude oil prices and the financial worries associated with Europe's fiscal problems. In Japan as well, the severe economic situation is forecasted to continue because of such concerns as restrictions on electric power supplies and the effects of deflation.

Under these circumstances, the Shin-Etsu Group will manufacture products that have high reliability resulting from its stable production activities and will carry out its aggressive sales activities to its wide range of customers around the world. Moreover, we will focus on further improving our technologies and enhancing product quality, and we will cultivate new demand through the development of products that have special characteristics. Furthermore, we will aim to build an even stronger business foundation by striving to establish multiple manufacturing bases on a global scale and working 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 intended 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 65.0% of the consolidated net sales of the Group in fiscal 2012, 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, carries out a constant program of facility maintenance activities at its production facilities and makes facility investments to enhance safety and establish multiple manufacturing bases. 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 im-

port/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 large-scale 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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
ASSETS			
Current Assets:			
Cash and time deposits (Note 24)	¥ 241,390	¥ 244,002	\$ 2,943,781
Notes and accounts receivable—trade (Note 4)	264,283	270,499	3,222,965
Securities (Notes 6 and 24)	89,301	116,714	1,089,040
Merchandise and finished goods	121,471	97,816	1,481,358
Work in process	9,386	9,784	114,474
Raw materials and supplies	129,450	80,683	1,578,661
Deferred taxes, current (Note 22)	34,599	21,114	421,947
Other	59,344	49,847	723,716
Less: Allowance for doubtful accounts (Note 2 (5))	(6,982)	(2,534)	(85,153)
Total current assets	942,244	887,927	11,490,790
Fixed Assets:			
Property, Plant and Equipment (Notes 2 (8) and 9):			
Buildings and structures, net	156,403	155,719	1,907,362
Machinery and equipment, net	330,707	252,229	4,033,015
Land	65,400	64,577	797,562
Construction in progress	40,240	141,770	490,732
Other, net	5,807	6,037	70,818
Total property, plant and equipment	598,558	620,334	7,299,491
Intangible Fixed Assets:			
Goodwill	9,020	10,521	110,006
Other	4,566	3,499	55,689
Total intangible fixed assets	13,587	14,020	165,696
Investments and Other Assets:			
Investments in securities (Notes 6 and 8)	154,161	155,899	1,880,023
Long-term loans	3,583	3,627	43,703
Deferred taxes, non-current (Note 22)	19,937	22,185	243,138
Other (Note 8)	77,786	80,209	948,614
Less: Allowance for doubtful accounts (Note 2 (5))	(17)	(38)	(218)
Total investments and other assets	255,451	261,883	3,115,262
Total fixed assets	867,596	896,238	10,580,449
Total Assets	¥1,809,841	¥1,784,166	\$22,071,240

The accompanying notes are an integral part of the statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Notes and accounts payable—trade (Note 4)	¥ 109,378	¥ 110,753	\$ 1,333,889
Short-term borrowings (Note 10)	13,862	8,712	169,053
Accounts payable-other	32,011	36,508	390,378
Accrued expenses	45,375	37,486	553,358
Accrued income taxes	34,758	21,072	423,885
Accrued bonuses for employees.....	1,887	2,037	23,016
Accrued bonuses for directors	360	395	4,392
Provision for loss on disaster	—	24,401	—
Other (Notes 4 and 22).....	9,807	8,066	119,602
Total current liabilities	247,441	249,434	3,017,577
Long-Term Liabilities:			
Long-term debt (Note 10)	1,454	5,548	17,734
Deferred taxes, non-current (Note 22)	44,295	39,498	540,194
Accrued retirement benefits (Note 11)	16,687	14,119	203,510
Accrued retirement bonuses for directors.....	421	379	5,142
Other	4,967	5,757	60,579
Total long-term liabilities.....	67,827	65,302	827,161
Total Liabilities	315,268	314,737	3,844,738
Commitment and Contingent Liabilities (Note 12)			
Net Assets			
Stockholders' Equity:			
Common stock:.....	119,419	119,419	1,456,337
Authorized: 1,720,000,000 shares			
Issued: 432,106,693 shares as of March 31, 2012			
and 2011, respectively			
Additional paid-in capital	128,177	128,177	1,563,142
Retained earnings (Note 13)	1,435,693	1,376,043	17,508,452
Less: Treasury stock, at cost	(40,925)	(40,917)	(499,087)
7,512,807 shares and 7,510,657 shares as of March 31, 2012			
and 2011, respectively			
Total stockholders' equity	1,642,365	1,582,724	20,028,844
Accumulated Other Comprehensive Income:			
Unrealized gains (losses) on available-for-sale securities (Note 2 (7))	1,212	3,275	14,785
Deferred gains (losses) on hedges	25	895	315
Foreign currency translation adjustments.....	(190,249)	(160,087)	(2,320,120)
Total accumulated other comprehensive income	(189,011)	(155,916)	(2,305,019)
Share Subscription Rights	3,491	3,822	42,584
Minority Interests in Consolidated Subsidiaries	37,727	38,798	460,092
Total net assets	1,494,573	1,469,429	18,226,501
Total Liabilities and Net Assets	¥1,809,841	¥1,784,166	\$22,071,240

Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2012	2011	2010	2012
Net Sales (Note 25)	¥1,047,731	¥1,058,257	¥916,837	\$12,777,212
Cost of Sales (Notes 11 and 17)	798,592	803,574	700,902	9,738,937
Gross profit	249,138	254,682	215,934	3,038,274
Selling, General and Administrative Expenses (Notes 11, 16 and 17)....	99,505	105,460	98,718	1,213,485
Operating income (Note 25)	149,632	149,221	117,215	1,824,789
Other Income (Expenses):				
Interest income	2,978	2,800	3,772	36,319
Dividend income	1,530	1,350	1,259	18,669
Equity in earnings of affiliates	15,656	12,627	9,994	190,931
Interest expenses	(517)	(529)	(767)	(6,313)
Loss on disposal of property, plant and equipment	(938)	(897)	(1,404)	(11,441)
Foreign exchange gain (loss)	(416)	(9,122)	(845)	(5,085)
Cost of inactive facilities	—	—	(2,359)	—
Other, net	(2,688)	4,888	154	(32,781)
Ordinary income	165,237	160,338	127,019	2,015,089
Extraordinary Income (Losses):				
Reversal of restoration costs for earthquake (Note 19)	5,491	—	—	66,971
Loss on impairment of fixed assets (Note 20)	(6,191)	—	—	(75,507)
Loss on disaster (Note 21)	(5,312)	(21,032)	—	(64,792)
Provision of allowance for doubtful accounts	(4,553)	—	—	(55,524)
Income before income taxes and minority interests	154,671	139,305	127,019	1,886,236
Income Taxes (Note 22):				
Current	56,417	35,998	23,679	688,012
Prior years	—	(10,654)	—	—
Deferred	(2,259)	12,643	18,711	(27,549)
	54,157	37,987	42,390	660,462
Income before minority interests	100,513	101,318	84,629	1,225,773
Minority Interests in Earnings of Consolidated Subsidiaries	129	(1,199)	(776)	1,580
Net Income	¥ 100,643	¥ 100,119	¥ 83,852	\$ 1,227,353
		Yen		U.S. dollars (Note 3)
Per Share (Note 2 (15)):				
Net income—primary	¥237.03	¥235.80	¥197.53	\$2.891
Net income—fully diluted	—	235.80	197.50	—
Cash dividends	100.00	100.00	100.00	1.220
Weighted-Average Number of Shares Outstanding (Thousands)	424,594	424,598	424,513	424,594

The accompanying notes are an integral part of the statements.

Diluted net income per share for the fiscal year ended March 31, 2012 is not presented as there were no securities with dilutive effect.

Consolidated Statements of Comprehensive Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2012	2011	2010	2012
Income before Minority Interests	¥100,513	¥101,318	¥ 84,629	\$1,225,773
Other Comprehensive Income (Note 23):				
Unrealized gains (losses) on available-for-sale securities	(2,410)	(3,466)	7,401	(29,399)
Deferred gains (losses) on hedges	(211)	136	147	(2,583)
Foreign currency translation adjustments.....	(28,452)	(56,951)	14,038	(346,978)
Share of other comprehensive income of associates accounted for by using equity method.....	(2,988)	(3,117)	2,227	(36,446)
Total other comprehensive income	(34,063)	(63,400)	23,814	(415,407)
Comprehensive Income	¥ 66,450	¥ 37,918	¥108,443	\$ 810,366
(Breakdown)				
Comprehensive income attributable to owners of the parent....	¥67,547	¥38,175	¥106,859	\$823,749
Comprehensive income attributable to minority interests	(1,097)	(256)	1,583	(13,383)

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						
		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	Share subscription rights	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2009	432,106	¥119,419	¥128,177	¥1,277,056	¥(41,613)	¥1,483,039	¥(1,776)	¥ (41)	¥(115,159)	¥(116,978)	¥2,446	¥38,846	¥1,407,353
Cash dividends [Note 13].....				(42,448)		(42,448)							(42,448)
Net income.....				83,852		83,852							83,852
Changes in scope of consolidation.....				119		119							119
Purchase of treasury stock....					(31)	(31)							(31)
Disposal of treasury stock.....				(166)	752	586							586
Net changes of items other than stockholders' equity.....							8,494	559	13,952	23,006	1,202	570	24,779
Balance at March 31, 2010	432,106	119,419	128,177	1,318,413	(40,892)	1,525,118	6,717	517	(101,207)	(93,972)	3,648	39,417	1,474,212
Cash dividends [Note 13].....				(42,460)		(42,460)							(42,460)
Net income.....				100,119		100,119							100,119
Changes in scope of consolidation.....				(28)		(28)							(28)
Purchase of treasury stock....					(25)	(25)							(25)
Disposal of treasury stock.....				(0)	0	0							0
Net changes of items other than stockholders' equity.....							(3,442)	377	(58,879)	(61,943)	174	(619)	(62,388)
Balance at March 31, 2011	432,106	119,419	128,177	1,376,043	(40,917)	1,582,724	3,275	895	(160,087)	(155,916)	3,822	38,798	1,469,429
Cash dividends [Note 13].....				(42,459)		(42,459)							(42,459)
Net income.....				100,643		100,643							100,643
Changes in scope of consolidation.....				1,466		1,466							1,466
Purchase of treasury stock....					(9)	(9)							(9)
Disposal of treasury stock.....				(0)	1	1							1
Net changes of items other than stockholders' equity.....							(2,063)	(869)	(30,162)	(33,095)	(330)	(1,070)	(34,496)
Balance at March 31, 2012	432,106	¥119,419	¥128,177	¥1,435,693	¥(40,925)	¥1,642,365	¥ 1,212	¥ 25	¥(190,249)	¥(189,011)	¥3,491	¥37,727	¥1,494,573

	Thousands						Thousands of U.S. dollars [Note 3]						
	Number of shares of common stock	Stockholders' Equity					Accumulated Other Comprehensive Income						
		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	Share subscription rights	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2011	432,106	\$1,456,337	\$1,563,142	\$16,781,022	\$(498,988)	\$19,301,514	\$ 39,944	\$ 10,920	\$(1,952,280)	\$(1,901,415)	\$46,617	\$473,150	\$17,919,865
Cash dividends [Note 13].....				(517,799)		(517,799)							(517,799)
Net income.....				1,227,353		1,227,353							1,227,353
Changes in scope of consolidation.....				17,880		17,880							17,880
Purchase of treasury stock....					(118)	(118)							(118)
Disposal of treasury stock.....				(5)	19	13							13
Net changes of items other than stockholders' equity.....							(25,158)	(10,605)	(367,839)	(403,603)	(4,033)	(13,057)	(420,694)
Balance at March 31, 2012	432,106	\$1,456,337	\$1,563,142	\$17,508,452	\$(499,087)	\$20,028,844	\$ 14,785	\$ 315	\$(2,320,120)	\$(2,305,019)	\$42,584	\$460,092	\$18,226,501

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, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2012	2011	2010	2012
Cash Flows from Operating Activities:				
Income before income taxes.....	¥154,671	¥ 139,305	¥ 127,019	\$ 1,886,236
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization.....	82,868	93,732	87,722	1,010,595
Loss on impairment of fixed assets.....	6,191	—	—	75,507
Increase in accrued retirement benefits.....	2,663	1,727	1,165	32,484
(Gain) loss on sales of investment securities.....	(23)	(1,202)	(164)	(280)
Loss on write-down of investment securities.....	677	52	403	8,268
Increase (decrease) in allowance for doubtful accounts.....	4,496	(166)	(26)	54,838
Interest and dividend income.....	(4,509)	(4,150)	(5,032)	(54,989)
Interest expenses.....	517	529	767	6,313
Exchange (gain) loss.....	(395)	3,918	(1,491)	(4,818)
Equity in earnings of affiliates.....	(15,656)	(12,627)	(9,994)	(190,931)
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable.....	2,110	(7,274)	(52,339)	25,738
(Increase) decrease in inventories.....	(77,517)	(11,292)	27,710	(945,332)
Increase in long-term advance payment.....	(2,354)	(5,285)	(16,595)	(28,714)
Increase (decrease) in notes and accounts payable.....	(1,585)	20,822	15,855	(19,336)
Increase (decrease) in provision for loss on disaster.....	(4,725)	24,401	—	(57,622)
Other, net.....	(6,472)	(15,156)	2,184	(78,928)
Subtotal.....	140,960	227,333	177,184	1,719,029
Proceeds from interest and dividends.....	8,553	14,335	13,330	104,315
Payment of interest.....	(513)	(538)	(793)	(6,267)
Payment of income taxes.....	(41,124)	(33,277)	(18,182)	(501,514)
Income taxes refund.....	—	9,637	—	—
Payment for disaster losses.....	(21,041)	—	—	(256,607)
Insurance income on disaster.....	9,733	—	—	118,696
Net cash provided by operating activities.....	96,567	217,490	171,538	1,177,652
Cash Flows from Investing Activities:				
Purchases of securities.....	(24,988)	(26,044)	(21,970)	(304,739)
Proceeds from redemption of securities.....	21,400	16,900	52,612	260,983
Proceeds from sales of securities.....	6,031	5,576	—	73,559
Purchases of property, plant and equipment.....	(80,320)	(117,517)	(131,625)	(979,516)
Proceeds from sales of property, plant and equipment.....	513	410	9,227	6,261
Purchases of intangible fixed assets.....	(904)	(1,539)	(1,006)	(11,025)
Purchases of investments in securities.....	(691)	(3,104)	(6,170)	(8,430)
Proceeds from sales of investments in securities.....	195	2,203	1,141	2,381
Proceeds from redemption of investments in securities.....	—	3,181	2,017	—
Purchase of investments in subsidiaries resulting in changes in scope of consolidation.....	—	—	(2,044)	—
Payments of loans.....	(7,595)	(207)	(241)	(92,630)
Proceeds from collection of loans.....	464	34	78	5,666
Other, net.....	(3,296)	(11,898)	(4,854)	(40,202)
Net cash used for investing activities.....	(89,190)	(132,005)	(102,835)	(1,087,693)
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term borrowings.....	2,058	(211)	90	25,105
Proceeds from long-term debt.....	1,188	13	16	14,489
Repayment of long-term debt.....	(2,093)	(5,387)	(8,083)	(25,533)
Purchase of treasury stock.....	(9)	(25)	(31)	(118)
Proceeds from sales of treasury stock.....	1	0	586	13
Cash dividends paid.....	(42,459)	(42,460)	(42,448)	(517,799)
Cash dividends paid to minority interests.....	(879)	(466)	(1,007)	(10,728)
Other, net.....	20	(84)	(82)	251
Net cash used for financing activities.....	(42,174)	(48,621)	(50,960)	(514,320)
Effect of Exchange Rate Changes on Cash and Cash Equivalents ...	(7,026)	(5,511)	1,762	(85,693)
Net Increase (Decrease) in Cash and Cash Equivalents.....	(41,824)	31,352	19,505	(510,055)
Cash and Cash Equivalents at Beginning of Year.....	302,285	270,443	251,044	3,686,410
Increase (Decrease) in Cash and Cash Equivalents Resulting from Changes in Scope of Consolidation.....	9,859	489	(106)	120,243
Cash and Cash Equivalents at End of Year (Note 24).....	¥270,321	¥ 302,285	¥ 270,443	\$ 3,296,598

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, 2012, 2011 and 2010

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.

The amounts in the accompanying consolidated financial statements are stated in millions of yen. Amounts less than ¥1 million are omitted, except where otherwise indicated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of consolidation

The Company had 110 majority-owned subsidiaries as of March 31, 2012 (102 and 101 as of March 31, 2011 and 2010, respectively). The consolidated financial statements include the accounts of the Company and 77 (72 and 70 for 2011 and 2010, respectively) majority-owned subsidiaries (the "Companies"), of which the principal firms are listed on page 65 with their respective fiscal year-ends.

The remaining 33 (30 and 31 for 2011 and 2010, 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 Silicone International Trading (Shanghai) Co., Ltd., Shin-Etsu Silicone (Nantong) Co., Ltd. and Shin-Etsu (Jiangsu) Optical Pre-form Co., Ltd., which had been unconsolidated subsidiaries during the fiscal year ended March 31, 2011, were newly included in the scope of consolidation due to increased importance. Dongguan Shin-Etsu Polymer Co., Ltd. and SHIN-ETSU HANDOTAI SINGAPORE PTE. LTD., which were established during the fiscal year ended March 31, 2012, were also newly included in the scope of consolidation.

(2) Accounting for investments in unconsolidated subsidiaries and affiliates

The Company had 33 (30 and 31 for 2011 and 2010, respectively) unconsolidated subsidiaries (majority-owned) and 17 (17 and 16 for 2011 and 2010, 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 7 for 2011 and 2010, 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, 2012 and 2011.

(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, foreign exchange contracts and currency swaps. 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 11).

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 13).

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) Application of the "Accounting Standard for Accounting Changes and Error Corrections"

Effective from April 1, 2011, the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, issued on December 4, 2009) have been applied for accounting changes and corrections of prior period errors.

(19) 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.

(20) Reclassifications

Certain reclassifications have been made in the 2011 and 2010 financial statements to conform to the presentation for 2012.

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 ¥82 to US\$1, the approximate effective rate of exchange on March 31, 2012. 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 ¥82 to US\$1 or at any other rate.

4. NOTES AND ACCOUNTS RECEIVABLE AND PAYABLE

The Companies recognize settlements of trade notes receivable and trade notes payable when the bank clearance of the notes is actually made. As March 31, 2012 was a holiday for financial institutions, the following accounts include the unsettled balances of trade notes receivable and trade notes payable due on that date in the accompanying consolidated balance sheet as of March 31, 2012.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Notes and accounts receivable—trade			
Trade notes receivable	¥2,509	¥—	\$30,598
Notes and accounts payable—trade			
Trade notes payable	975	—	11,900
Other	8	—	106

5. 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, 2012 and 2011, book value, fair value and the difference between the two are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2012			2012		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
(1) Cash and time deposits.....	¥241,390	¥241,390	¥ —	\$2,943,781	\$2,943,781	\$ —
(2) Notes and accounts receivable—trade	264,283	264,283	—	3,222,965	3,222,965	—
(3) Securities and investments in securities						
i) Bonds held to maturity	15,043	15,119	75	183,462	184,387	924
ii) Investments in and advances to unconsolidated subsidiaries and affiliates..	21,822	11,105	(10,716)	266,125	135,432	(130,692)
iii) Available-for-sale securities.....	119,581	119,581	—	1,458,312	1,458,312	—
(4) Long-term loans	3,583	3,811	228	43,703	46,486	2,782
Total	¥665,704	¥655,291	¥(10,412)	\$8,118,351	\$7,991,365	\$[(126,985)]
Liabilities:						
(1) Notes and accounts payable—trade.....	¥109,378	¥109,378	¥ —	\$1,333,889	\$1,333,889	\$ —
(2) Short-term borrowings.....	13,862	13,862	—	169,053	169,053	—
(3) Accounts payable—other	32,011	32,011	—	390,378	390,378	—
(4) Accrued expenses	45,375	45,375	—	553,358	553,358	—
(5) Accrued income taxes.....	34,758	34,758	—	423,885	423,885	—
(6) Long-term debt	1,454	1,449	(4)	17,734	17,675	(58)
Total	¥236,840	¥236,835	¥ (4)	\$2,888,299	\$2,888,240	\$ (58)
Derivative transactions:						
Hedge accounting not applied	¥ 1,124	¥ 1,124	¥ —	\$ 13,713	\$ 13,713	\$ —
Hedge accounting applied.....	(100)	(100)	—	(1,221)	(1,221)	—
Total	¥ 1,024	¥ 1,024	¥ —	\$ 12,491	\$ 12,491	\$ —

	Millions of yen		
	2011		
	Book value	Fair value	Difference
Assets:			
(1) Cash and time deposits.....	¥244,002	¥244,002	¥ —
(2) Notes and accounts receivable—trade	270,499	270,499	—
(3) Securities and investments in securities			
i) Bonds held to maturity.....	16,900	17,020	120
ii) Investments in and advances to unconsolidated subsidiaries and affiliates.....	22,088	12,585	(9,503)
iii) Available-for-sale securities.....	157,795	157,795	—
(4) Long-term loans	3,627	3,941	313
Total	¥714,914	¥705,845	¥(9,069)
Liabilities:			
(1) Notes and accounts payable—trade.....	¥110,753	¥110,753	¥ —
(2) Short-term borrowings.....	8,712	8,712	—
(3) Accounts payable—other	36,508	36,508	—
(4) Accrued expenses	37,486	37,486	—
(5) Accrued income taxes.....	21,072	21,072	—
(6) Long-term debt	5,548	5,609	61
Total	¥220,081	¥220,142	¥ 61
Derivative transactions:			
Hedge accounting not applied	¥ 1,722	¥ 1,722	¥ —
Hedge accounting applied.....	(146)	(146)	—
Total	¥ 1,575	¥ 1,575	¥ —

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—trade

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) Notes and accounts payable—trade, (2) Short-term borrowings, (3) Accounts payable—other, (4) Accrued expenses and (5) Accrued income taxes. 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.

(6) 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
	2012	2011	2012
Non-listed equity securities.....	¥81,531	¥70,239	\$ 994,283
Investment securities, etc.	5,484	5,589	66,879
Total	¥87,015	¥75,828	\$1,061,162

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			
	2012				2012			
	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	¥241,346	¥ —	¥ —	¥ —	\$2,943,251	\$ —	\$ —	\$ —
Notes and accounts receivable.....	264,283	—	—	—	3,222,965	—	—	—
Securities and investments in securities	89,325	6,182	164	—	1,089,336	75,390	2,002	—
Long-term loans.....	—	1,814	1,502	266	—	22,131	18,325	3,246
Total	¥594,955	¥7,996	¥1,666	¥266	\$7,255,553	\$97,521	\$20,328	\$3,246

Description	Millions of yen			
	2011			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Time deposits	¥243,959	¥ —	¥ —	¥ —
Notes and accounts receivable.....	270,499	—	—	—
Securities and investments in securities	116,725	14,136	177	—
Long-term loans.....	—	1,582	1,537	507
Total	¥631,183	¥15,718	¥1,715	¥507

See Note 10 for repayment schedule of long-term debt.

6. SECURITIES

Securities as of March 31, 2012 and 2011 consisted of the following:

(1) Market value of bonds held to maturity

Description	Millions of yen						Thousands of U.S. dollars		
	2012			2011			2012		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with fair value that exceeds book value.....	¥ 7,043	¥ 7,129	¥ 85	¥ 5,570	¥ 5,734	¥163	\$ 85,902	\$ 86,950	\$1,048
Securities with fair value that does not exceed book value	7,999	7,989	(10)	11,330	11,286	(43)	97,560	97,436	(123)
Total	¥15,043	¥15,119	¥ 75	¥16,900	¥17,020	¥120	\$183,462	\$184,387	\$ 924

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

Description	Millions of yen						Thousands of U.S. dollars		
	2012			2011			2012		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value that exceeds acquisition cost.....	¥ 27,119	¥ 19,623	¥ 7,495	¥ 29,903	¥ 17,265	¥12,638	\$ 330,722	\$ 239,313	\$ 91,409
Securities with book value that does not exceed acquisition cost	92,462	97,799	(5,337)	127,892	134,208	(6,316)	1,127,590	1,192,676	(65,086)
Total	¥119,581	¥117,423	¥ 2,158	¥157,795	¥151,473	¥ 6,322	\$1,458,312	\$1,431,989	\$ 26,323

Note: Non-listed equity securities and other investment securities whose fair value is extremely difficult to estimate are excluded from the above. See Note 5 (2) note 2 for details.

7. DERIVATIVE TRANSACTIONS

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

1) Currency related:

As of March 31, 2012

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\$.....	¥39,180	¥ 93	¥ 93	\$477,806	\$ 1,140	\$ 1,140
EUR.....	2,805	(101)	(101)	34,212	(1,240)	(1,240)
Other.....	1,501	23	23	18,313	292	292
Purchase Contracts:						
US\$.....	184	1	1	2,244	18	18
EUR.....	0	0	0	11	0	0
Other.....	1,417	(7)	(7)	17,290	(91)	(91)
Foreign currency swap contracts						
Receive Japanese Yen, pay British Pounds...	4,161	1,117	1,117	50,754	13,629	13,629
Total	¥49,251	¥1,127	¥1,127	\$600,633	\$13,749	\$13,749

As of March 31, 2011

Description	Millions of yen		
	Contract amounts	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sales Contracts:			
US\$.....	¥ 5,923	¥ 174	¥ 174
EUR.....	4,318	145	145
Other.....	434	(2)	(2)
Purchase Contracts:			
US\$.....	1,017	21	21
EUR.....	15	0	0
Other.....	937	15	15
Foreign currency swap contracts			
Receive Japanese Yen, pay British Pounds.....	5,224	1,366	1,366
Total	¥17,872	¥1,722	¥1,722

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

2) Interest related:

As of March 31, 2012

Description	Millions of yen			Thousands of U.S. dollars		
	Contract amounts	Fair value	Unrealized gain (loss)	Contract amounts	Fair value	Unrealized gain (loss)
Interest rate swap contracts						
Receive floating, pay fixed.....	¥199	¥(2)	¥(2)	\$2,430	\$(36)	\$(36)
Total	¥199	¥(2)	¥(2)	\$2,430	\$(36)	\$(36)

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, 2012

			Millions of yen			Thousands of U.S. dollars		
Hedge accounting method	Nature of transaction	Hedged items	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							
	US\$	Accounts receivable-trade	¥1,612	¥ —	¥ (78)	\$19,659	\$ —	\$ (958)
	EUR	Accounts receivable-trade	13	—	(0)	165	—	(1)
	Purchase contracts							
	EUR	Accounts payable-trade	5,650	2,715	115	68,913	33,118	1,404
	US\$	Accounts payable-trade	93	—	5	1,135	—	67
Deferral hedge accounting	Foreign currency swap contracts:							
	Receive US\$ pay Thai Baht	Long-term debt	¥ 802	¥ —	¥(142)	\$ 9,783	\$ —	\$(1,732)
Total			¥8,171	¥2,715	¥(100)	\$99,657	\$33,118	\$(1,221)

As of March 31, 2011

			Millions of yen		
Hedge accounting method	Nature of transaction	Hedged items	Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Forward foreign exchange contracts:				
	Sales contracts				
	EUR	Accounts receivable-trade	¥ 137	¥ —	¥ (3)
	Purchase contracts				
	EUR	Accounts payable-trade	4,184	—	388
	US\$	Accounts payable-trade	75	—	0
Deferral hedge accounting	Foreign currency swap contracts:				
	Receive US\$ pay Thai Baht	Long-term debt	¥2,777	¥884	¥(531)
Total			¥7,175	¥884	¥(146)

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

2) Interest related:

As of March 31, 2012

			Millions of yen			Thousands of U.S. dollars		
Hedge accounting method	Nature of transaction	Hedged items	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	¥(110)	\$ 60,975	\$60,975	\$(1,348)
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	¥ —	¥ 25	\$ 60,975	\$ —	\$ 305
Total			¥10,000	¥5,000	¥ (85)	\$121,951	\$60,975	\$(1,043)

As of March 31, 2011

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 floating, pay fixed	Interest of investments in securities	¥ 5,000	¥ 5,000	¥(177)
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
Total			¥10,000	¥10,000	¥(105)

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

8. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Investments in securities (Stocks).....	¥83,128	¥71,893	\$1,013,762
Other (Investments in capital).....	3,873	7,551	47,234

9. ACCUMULATED DEPRECIATION

Accumulated depreciation of property, plant and equipment as of March 31, 2012 and 2011 are ¥1,393,976 million (\$16,999,714 thousand) and ¥1,350,394 million, respectively.

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

Short-term borrowings, long-term debt and lease obligations as of March 31, 2012 and 2011 consisted of the following:

	Average interest rate	Due date	Millions of yen		Thousands of U.S. dollars
			2012	2011	2012
Short-term borrowings.....	1.8%	—	¥ 8,410	¥ 6,570	\$102,570
Current portion of long-term debt.....	2.0%	—	5,451	2,142	66,483
Current portion of lease obligations.....	—	—	119	83	1,454
Long-term debt, excluding current portion.....	1.0%	January 2013 – September 2021	1,454	5,548	17,734
Lease obligations, excluding current portion.....	—	January 2013 – December 2017	296	229	3,617
Total.....	—	—	¥15,732	¥14,574	\$191,860

Notes: 1. Average interest rate is the weighted average rate based on the balance as of March 31, 2012.

2. Average interest rate of lease obligations is not shown as the balance includes the interest portion.

3. Repayment schedule 5 years subsequent to March 31, 2012 for long-term debt and lease obligations, excluding the current portion, is as follows:

	Millions of yen		Thousands of U.S. dollars	
	Long-term debt	Lease obligations	Long-term debt	Lease obligations
Years ending March 31,				
2014.....	¥ 15	¥103	\$ 194	\$1,258
2015.....	61	85	748	1,048
2016.....	63	61	773	746
2017.....	1,213	33	14,798	412

11. RETIREMENT AND PENSION PLANS

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

Certain overseas consolidated subsidiaries have defined benefit 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, 2012 and 2011 are analyzed as follows:

Benefit Obligations

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
(a) Benefit obligations	¥(33,191)	¥(28,984)	\$(404,772)
(b) Pension assets	14,291	14,339	174,285
(c) Unfunded benefit obligations [(a)+(b)]	(18,899)	(14,644)	(230,487)
(d) Unrecognized actuarial differences	3,822	2,044	46,611
(e) Unrecognized prior service cost (negative) (Note 1)	14	(83)	179
(f) Net retirement benefit obligations [(c)+(d)+(e)]	(15,063)	(12,683)	(183,696)
(g) Prepaid pension expenses	1,624	1,435	19,814
(h) Accrued retirement benefits [(f)-(g)]	¥(16,687)	¥(14,119)	\$(203,510)

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
	2012	2011	2012
(a) Service costs (Note 1)	¥2,810	¥2,471	\$34,272
(b) Interest costs	1,056	905	12,888
(c) Expected return on plan assets	(720)	(593)	(8,781)
(d) Recognized actuarial loss	1,097	1,070	13,387
(e) Amortization of prior service cost	(66)	(83)	(809)
(f) Other (Note 2)	1,789	1,706	21,828
(g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)]	¥5,968	¥5,478	\$72,785

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 2.0% (Principally 2.5% for fiscal year ended March 31, 2011)
(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

12. COMMITMENT AND CONTINGENT LIABILITIES

The Companies were contingently liable as guarantors of housing loans for employees and loans to unconsolidated subsidiaries, affiliates and others as of March 31, 2012 and 2011 in the aggregate amounts of ¥25 million (\$315 thousand) and ¥31 million, respectively.

13. RETAINED EARNINGS

(1) Cash dividends from retained earnings represent dividends with an effective date during the fiscal year. Details of cash dividends are as follows:

					Millions of yen	Yen	Thousands of U.S. dollars	
						Cash dividends per share		Cash dividends per share
Resolution	Type of shares	Record date	Effective date	Total amount of dividends			Total amount of dividends	
Fiscal year ended March 31, 2012								
Ordinary general meeting of shareholders held on June 29, 2011	Common stock	March 31, 2011	June 30, 2011	¥21,229	¥50.00		\$258,900	\$0.61
Board of directors meeting held on October 27, 2011	Common stock	September 30, 2011	November 17, 2011	21,229	50.00		258,899	0.61
Total				¥42,459			\$517,799	

Resolution	Type of shares	Record date	Effective date	Millions of yen	Yen
				Total amount of dividends	Cash dividends per share
Fiscal year ended March 31, 2011					
Ordinary general meeting of shareholders held on June 29, 2010	Common stock	March 31, 2010	June 30, 2010	¥21,230	¥50.00
Board of directors meeting held on October 28, 2010	Common stock	September 30, 2010	November 18, 2010	21,229	50.00
Total				¥42,460	
Fiscal year ended March 31, 2010					
Ordinary general meeting of shareholders held on June 26, 2009	Common stock	March 31, 2009	June 29, 2009	¥21,223	¥50.00
Board of directors meeting held on October 26, 2009	Common stock	September 30, 2009	November 18, 2009	21,225	50.00
Total				¥42,448	

(2) Cash dividends for the fiscal year ended March 31, 2012 with an effective date in the subsequent fiscal year are as follows:

						Millions of yen	Yen	Thousands of U.S. dollars	
								U.S. dollars	
Resolution	Type of shares	Source of dividends	Record date	Effective date	Total amount of dividends	Cash dividends per share	Total amount of dividends	Cash dividends per share	
Fiscal year ended March 31, 2012									
Ordinary general meeting of shareholders held on June 28, 2012	Common stock	Retained earnings	March 31, 2012	June 29, 2012	¥21,229	¥50.00	\$258,898	\$0.61	

14. SHARE SUBSCRIPTION RIGHTS

Fiscal year ended March 31, 2012

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, 2012	Balance at March 31, 2012
The Company	Stock options (Note)	Common stock	3,449,900	293,000	611,900	3,131,000	¥3,243	\$39,558
Consolidated subsidiary	—	—	—	—	—	—	248	3,025
Total							¥3,491	\$42,584

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
			Beginning Balance	Increase	Decrease	Ending Balance	Balance at March 31, 2011
The Company	Stock options (Note)	Common stock	3,283,100	272,000	105,200	3,449,900	¥3,474
Consolidated subsidiary	—	—	—	—	—	—	348
Total							¥3,822

Note: Share subscription rights not yet exercisable as of March 31, 2012 and 2011 are ¥231 million (\$2,819 thousand) and ¥223 million, respectively.

15. STOCK OPTIONS

(1) Shin-Etsu Chemical Co., Ltd.

Stock option expenses for the fiscal years ended March 31, 2012 and 2011 of ¥231 million (\$2,819 thousand) and ¥223 million, respectively, were included in selling, general and administrative expenses in the consolidated statements of income. Gains on forfeited stock options for the fiscal years ended March 31, 2012 and 2011 were ¥461 million (\$5,633 thousand) and ¥78 million, respectively.

Stock options as of March 31, 2012 were as follows:

	2011	2010	2009
Grantees	75 Employees of the Company	68 Employees of the Company	18 Directors of the Company 64 Employees of the Company
Number of stock options granted by category of stock (in shares)	293,000 shares of Common Stock	272,000 shares of Common Stock	937,000 shares of Common Stock
Date of grant	July 27, 2011	October 29, 2010	August 6, 2009
Vesting conditions	No provision	No provision	No provision
Exercise period	July 28, 2012 through March 31, 2016	October 30, 2011 through March 31, 2015	August 7, 2010 through March 31, 2014
	2008	2007	
Grantees	16 Directors of the Company 61 Employees of the Company	20 Directors of the Company 54 Employees of the Company	
Number of stock options granted by category of stock (in shares)	826,000 shares of Common Stock	915,000 shares of Common Stock	
Date of grant	July 14, 2008	July 2, 2007	
Vesting conditions	No provision	No provision	
Exercise period	July 15, 2009 through March 31, 2013	July 2, 2007 through March 31, 2012	

Movement in stock options was as follows:

	Number of shares					
	2011	2010	2009	2008	2007	2006
Beginning balance.....	—	272,000	937,000	826,000	868,000	546,900
Granted	293,000	—	—	—	—	—
Exercised.....	—	—	—	—	—	—
Forfeited.....	—	—	—	34,000	31,000	546,900
Unexercised balance.....	293,000	272,000	937,000	792,000	837,000	—
Yen						
Exercise price	¥4,423	¥4,352	¥4,804	¥6,755	¥8,949	¥—
Weighted average market value per share at the exercise date.....	—	—	—	—	—	—
Fair value per share at the grant date.....	789	823	1,235	943	1,057	—
U.S. dollars						
Exercise price	\$53.94	\$53.07	\$58.59	\$82.38	\$109.13	\$—
Weighted average market value per share at the exercise date.....	—	—	—	—	—	—
Fair value per share at the grant date.....	9.62	10.04	15.06	11.50	12.89	—

The fair value of options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

Stock options granted on July 27, 2011

Expected volatility.....	35.55%
Expected remaining life	2.84 years
Expected dividend.....	100 yen
Risk-free interest rate	0.209%

[2] Shin-Etsu Polymer Co., Ltd.

Stock option expenses for the fiscal years ended March 31, 2012 and 2011 of ¥20 million (\$243 thousand) and ¥36 million, respectively, were included in selling, general and administrative expenses in the consolidated statements of income. Gains on forfeited stock options for the fiscal years ended March 31, 2012 and 2011 were ¥120 million (\$1,471 thousand) and ¥7 million, respectively.

Stock options as of March 31, 2012 were as follows:

	2011	2010	2009
Grantees	9 Directors 13 Employees 8 Directors of its subsidiaries	9 Directors 14 Employees 10 Directors of its subsidiaries	9 Directors 12 Employees 13 Directors of its subsidiaries
Number of stock options granted by category of stock (in shares)	440,000 shares of Common Stock	455,000 shares of Common Stock	445,000 shares of Common Stock
Date of grant	October 5, 2011	September 2, 2010	September 2, 2009
Vesting conditions	No provision	No provision	No provision
Exercise period	December 1, 2011 through November 30, 2016	December 1, 2010 through November 30, 2015	December 1, 2009 through November 30, 2014
	2008	2007	2006
Grantees	10 Directors 12 Employees 14 Directors of its subsidiaries	10 Directors 12 Employees 13 Directors of its subsidiaries	10 Directors 13 Employees 9 Directors of its subsidiaries
Number of stock options granted by category of stock (in shares)	470,000 shares of Common Stock	465,000 shares of Common Stock	415,000 shares of Common Stock
Date of grant	August 7, 2008	August 8, 2007	September 7, 2006
Vesting conditions	No provision	No provision	No provision
Exercise period	December 1, 2008 through November 30, 2013	December 1, 2007 through November 30, 2012	December 1, 2006 through November 30, 2011

Movement in stock options was as follows:

	Number of shares					
	2011	2010	2009	2008	2007	2006
Beginning balance.....	—	455,000	445,000	445,000	430,000	370,000
Granted	440,000	—	—	—	—	—
Exercised.....	—	—	—	—	—	—
Forfeited.....	—	—	—	5,000	5,000	370,000
Unexercised balance.....	440,000	455,000	445,000	440,000	425,000	—
	Yen					
	2011	2010	2009	2008	2007	2006
Exercise price	¥414	¥505	¥653	¥632	¥1,643	¥1,838
Weighted average market value per share at the exercise date	—	—	—	—	—	—
Fair value per share at the grant date.....	47	80	139	112	188	322
	U.S. dollars					
	2011	2010	2009	2008	2007	2006
Exercise price	\$5.05	\$6.16	\$7.96	\$7.71	\$20.04	\$22.41
Weighted average market value per share at the exercise date	—	—	—	—	—	—
Fair value per share at the grant date.....	0.57	0.98	1.70	1.37	2.29	3.93

The fair value of options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

Stock options granted on October 5, 2011

Expected volatility.....	30.781%
Expected remaining life	2.66 years
Expected dividend.....	12 yen
Risk-free interest rate	0.178%

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2012, 2011 and 2010 mainly consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	2012
Shipment expenses	¥24,797	¥27,019	¥24,839	\$302,411
Salaries and allowances	18,488	18,407	18,474	225,475
Provision for bonuses for employees.....	1,228	1,344	1,300	14,975
Provision for bonuses for directors.....	360	400	558	4,395
Provision for retirement benefits	565	586	601	6,894
Provision for retirement bonuses for directors	48	63	21	594
Depreciation and amortization	1,485	1,546	1,720	18,114
Technical research expenses	11,497	13,223	10,330	140,215
(Including provision for retirement benefits)	(118)	(196)	(184)	(1,439)
Provision of allowance for doubtful accounts.....	21	311	411	262

17. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred and charged to income for the years ended March 31, 2012, 2011 and 2010 were ¥35,725 million (\$435,676 thousand), ¥37,321 million and ¥33,574 million, respectively.

18. LEASE TRANSACTIONS

Lease expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2012 and 2011 amounted to ¥95 million (\$1,164 thousand) and ¥147 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2012, 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 ¥95 million (\$1,164 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
	2012	2011	2012
Acquisition cost	¥588	¥860	\$7,181
Accumulated depreciation	557	762	6,800
Net book value	¥ 31	¥ 98	\$ 380

the portion of interest thereon, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Future Lease Payments:			
Within one year	¥21	¥61	\$267
Over one year	9	36	113
	¥31	¥98	\$380

The amounts of outstanding future lease payments due in respect of operating lease contracts at March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Future Lease Payments:			
Within one year	¥1,858	¥2,529	\$22,669
Over one year	2,430	3,134	29,639
	¥4,289	¥5,663	\$52,309

19. REVERSAL OF RESTORATION COSTS FOR EARTHQUAKE

Reversal of restoration costs for the earthquake for the fiscal year ended March 31, 2012 relates to a gain on reversal of expenses estimated for restoration work on assets damaged due to the Great East Japan Earthquake in the fiscal year ended March 31, 2011.

20. LOSS ON IMPAIRMENT OF FIXED ASSETS

During the fiscal year ended March 31, 2012, the Company and its consolidated subsidiaries recognized impairment losses for the following asset category, recording a total of ¥6,191 million (\$75,507 thousand) as Extraordinary losses. The fixed assets are grouped according to managerial accounting categories, which are regarded as the smallest units independently generating cash flows. However, idle assets not directly used to manufacture goods are accounted for individually.

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

			Millions of yen	Thousands of U.S. dollars
Location	Use	Asset category	2012	2012
Shirakawa Plant (Nishishirakawa-gun, Fukushima Prefecture)	Idle assets	Construction in progress	¥6,191	\$75,507

The Company and its consolidated subsidiaries do not have any specific business plan for using the idle assets above because of the change in climate of the semiconductor silicon business. As a result, the book value of the asset has been marked down to its recoverable amount, which is calculated as the net sale amount.

21. LOSS ON DISASTER

Loss on disaster for the fiscal year ended March 31, 2012 relates to losses from the stoppage of operations and other costs incurred during the first half of the fiscal year due to the Great East Japan Earthquake.

Loss on disaster for the fiscal year ended March 31, 2011 relates to losses due to the Great East Japan Earthquake, consisting largely of expenses for restoration work in the amount of ¥16,654 million after deducting the estimated amount of insurance compensation.

22. 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, 2012, 2011 and 2010.

Tax effects of material temporary differences and loss carry forwards which resulted in deferred tax assets or liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred Tax Assets:			
Depreciation.....	¥14,861	¥16,757	\$181,240
Unsettled accounts receivable and payable.....	5,057	2,060	61,674
Accrued retirement benefits.....	4,293	5,324	52,354
Maintenance cost.....	3,681	2,982	44,891
Accrued bonus allowance.....	3,397	3,662	41,429
Unrealized profit.....	3,192	3,148	38,933
Accrued enterprise taxes.....	2,492	1,556	30,396
Allowance for doubtful accounts.....	1,639	448	19,992
Tax loss carry forwards.....	1,562	331	19,056
Unrealized gains/losses on available-for-sale securities.....	51	0	622
Other.....	19,434	14,085	237,011
Valuation allowance.....	(3,188)	(3,464)	(38,884)
Total.....	¥56,474	¥46,893	\$688,719
Deferred Tax Liabilities:			
Depreciation.....	¥42,532	¥37,138	\$518,687
Unrealized gains/losses on available-for-sale securities.....	770	2,520	9,398
Reserve for special depreciation.....	204	78	2,490
Other.....	3,658	3,800	44,610
Total.....	¥47,165	¥43,537	\$575,185
Net deferred tax assets.....	¥ 9,309	¥ 3,355	\$113,533

Net Deferred Tax Assets are included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current assets: Deferred taxes, current.....	¥ 34,599	¥ 21,114	\$421,947
Non-current assets: Deferred taxes, non-current.....	19,937	22,185	243,138
Current liabilities: Other.....	(931)	(446)	(11,358)
Non-current liabilities: Deferred taxes, non-current.....	(44,295)	(39,498)	(540,194)

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

	2012	2011
Statutory tax rate.....	40.4%	40.4%
Equity in earnings of affiliates	(4.1)	(3.7)
Rate difference from foreign subsidiaries	(2.9)	(1.7)
Dividend income and other not taxable.....	(2.7)	(4.4)
Elimination of intercompany dividend income	2.7	4.4
Tax deduction for research expenses	(1.5)	(1.0)
Entertainment and other non-deductible expenses.....	0.3	0.3
Income taxes-Prior years	—	(7.6)
Adjustment on deferred tax assets due to change in income tax rate	2.1	—
Other, net.....	0.7	0.6
Effective tax rate	35.0	27.3

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.

Change in statutory effective tax rate

The statutory effective tax rate used for the calculation of deferred tax assets and liabilities has changed to 37.8% for tax differences expected to be realized during April 1, 2012 to March 31, 2015 and to 35.4% for tax differences expected to be realized after April 1, 2015 from the 40.4% used in previous fiscal year. This is due to revisions of tax laws in Japan promulgated on December 2, 2011, which reduce the corporate tax rate while, at the same time, implementing a temporary tax increase to fund the rebuilding of areas devastated by the Great East Japan Earthquake.

Due to the change in the tax rate, amounts of deferred tax assets (net of deferred tax liabilities) decreased by ¥3,157 million (\$38,510 thousand), deferred income taxes increased by ¥3,244 million (\$39,569 thousand) and unrealized gains on available-for-sale securities increased by ¥86 million (\$1,058 thousand) as of and for the fiscal year ended March 31, 2012.

23. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal year ended March 31, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized gains (losses) on available-for-sale securities		
Amount arising during the year	¥ (4,837)	\$ (58,995)
Reclassification adjustment for gains and losses included in net income.....	678	8,270
Unrealized gains (losses) on available-for-sale securities before tax.....	(4,159)	(50,725)
Tax effect.....	1,748	21,325
Unrealized gains (losses) on available-for-sale securities	(2,410)	(29,399)
Deferred gains (losses) on hedges		
Amount arising during the year	(179)	(2,186)
Reclassification adjustment for gains and losses included in net income.....	(172)	(2,103)
Deferred gains (losses) on hedges before tax.....	(351)	(4,290)
Tax effect.....	139	1,706
Deferred gains (losses) on hedges	(211)	(2,583)
Foreign currency translation adjustments		
Amount arising during the year	(28,452)	(346,978)
Share of other comprehensive income of associates accounted for by using the equity method		
Amount arising during the year	(2,501)	(30,510)
Reclassification adjustment for gains and losses included in net income.....	(486)	(5,935)
Share of other comprehensive income of associates accounted for by using the equity method....	(2,988)	(36,446)
Total other comprehensive income.....	¥(34,063)	\$(415,407)

24. 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, 2012, 2011 and 2010 are presented below:

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	2012
Cash and time deposits.....	¥241,390	¥244,002	¥209,046	\$2,943,781
Securities.....	89,301	116,714	109,761	1,089,040
Time deposits for which maturities are approximately over three months	(43,131)	(46,881)	(37,434)	(525,993)
Securities (maturities approximately over three months)	(17,238)	(11,550)	(10,930)	(210,229)
Cash and cash equivalents	¥270,321	¥302,285	¥270,443	\$3,296,598

25. 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 the 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								
	2012								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment ⁽¹⁾	Figures in consolidated financial statements
Sales to outside customers.....	¥324,030	¥135,461	¥87,127	¥229,656	¥177,792	¥ 93,663	¥1,047,731	¥ —	¥1,047,731
Intersegment sales	3,824	4,483	7,846	1	2,954	68,471	87,581	(87,581)	—
Total	¥327,854	¥139,944	¥94,974	¥229,657	¥180,746	¥162,134	¥1,135,312	¥(87,581)	¥1,047,731
Segment income (Operating income)	¥ 23,651	¥ 33,687	¥14,698	¥ 34,333	¥ 38,171	¥ 5,032	¥ 149,575	¥ 57	¥ 149,632
Depreciation and amortization.....	¥ 17,145	¥ 7,994	¥ 7,912	¥ 31,014	¥ 14,286	¥ 3,897	¥ 82,251	¥ (265)	¥ 81,985
Amortization of goodwill ...	¥ —	¥ —	¥ 882	¥ —	¥ —	¥ 0	¥ 882	¥ 0	¥ 882
Increase in property, plant and equipment and intangible fixed assets...	¥ 18,333	¥ 14,421	¥13,002	¥ 23,639	¥ 14,579	¥ 3,356	¥ 87,333	¥ (168)	¥ 87,165

	Millions of yen								
	2011								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment ⁽¹⁾	Figures in consolidated financial statements
Sales to outside customers.....	¥283,525	¥143,064	¥83,512	¥283,789	¥141,383	¥122,981	¥1,058,257	¥ —	¥1,058,257
Intersegment sales	26,827	4,056	6,649	5	3,464	65,380	106,384	(106,384)	—
Total	¥310,352	¥147,121	¥90,162	¥283,795	¥144,848	¥188,362	¥1,164,641	¥(106,384)	¥1,058,257
Segment income (Operating income)	¥ 19,674	¥ 34,057	¥12,914	¥ 38,864	¥ 36,118	¥ 7,340	¥ 148,970	¥ 251	¥ 149,221
Depreciation and amortization.....	¥ 12,806	¥ 7,992	¥ 7,253	¥ 45,963	¥ 14,705	¥ 4,366	¥ 93,088	¥ (280)	¥ 92,807
Amortization of goodwill ...	¥ —	¥ —	¥ 924	¥ —	¥ —	¥ 0	¥ 925	¥ —	¥ 925
Increase in property, plant and equipment and intangible fixed assets ⁽²⁾	¥ 55,730	¥ 6,641	¥14,661	¥ 24,406	¥ 9,501	¥ 3,320	¥ 114,261	¥ (370)	¥ 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	¥254,027	¥113,777	¥108,469	¥ 916,837	¥ —	¥916,837
Intersegment sales	3,128	3,347	5,354	43	2,197	91,554	105,626	(105,626)	—
Total	¥240,859	¥125,697	¥85,836	¥254,070	¥115,975	¥200,024	¥1,022,464	¥(105,626)	¥916,837
Segment income (Operating income)	¥ 19,577	¥ 24,916	¥13,902	¥ 22,631	¥ 30,746	¥ 6,782	¥ 118,556	¥ (1,340)	¥117,215
Depreciation and amortization.....	¥ 12,065	¥ 8,282	¥ 7,936	¥ 41,720	¥ 12,085	¥ 4,223	¥ 86,314	¥ (206)	¥ 86,108
Amortization of goodwill ...	¥ —	¥ —	¥ 1,622	¥ —	¥ —	¥ (8)	¥ 1,614	¥ —	¥ 1,614
Increase in property, plant and equipment and intangible fixed assets ⁽³⁾	¥ 65,133	¥ 5,134	¥20,529	¥ 12,063	¥ 12,791	¥ 7,061	¥ 122,714	¥ (1,478)	¥121,235

	Thousands of U.S. dollars								
	2012								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment ⁽¹⁾	Figures in consolidated financial statements
Sales to outside customers.....	\$3,951,596	\$1,651,965	\$1,062,534	\$2,800,687	\$2,168,195	\$1,142,232	\$12,777,212	\$ —	\$12,777,212
Intersegment sales	46,634	54,678	95,686	17	36,028	835,020	1,068,066	(1,068,066)	—
Total	\$3,998,231	\$1,706,644	\$1,158,220	\$2,800,705	\$2,204,223	\$1,977,253	\$13,845,279	\$(1,068,066)	\$12,777,212
Segment income (Operating income)	\$ 288,434	\$ 410,819	\$ 179,248	\$ 418,701	\$ 465,510	\$ 61,370	\$ 1,824,085	\$ 704	\$ 1,824,789
Depreciation and amortization.....	\$ 209,090	\$ 97,498	\$ 96,495	\$ 378,228	\$ 174,223	\$ 47,532	\$ 1,003,069	\$ (3,240)	\$ 999,828
Amortization of goodwill ...	\$ —	\$ —	\$ 10,765	\$ —	\$ —	\$ 0	\$ 10,765	\$ 1	\$ 10,766
Increase in property, plant and equipment and intangible fixed assets...	\$ 223,579	\$ 175,877	\$ 158,565	\$ 288,290	\$ 177,795	\$ 40,934	\$ 1,065,043	\$ (2,051)	\$ 1,062,992

Notes: [1] Elimination of intersegment transactions.

[2] During the fiscal year ended March 31, 2011, the Company made investments of ¥2,993 million and ¥3,000 million 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 ¥119,884 million. [Capital expenditures for Silicones Business and Electronics & Functional Materials Business amounted to ¥9,634 million and ¥12,501 million 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 ¥2,557 million 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 ¥123,793 million. [Capital expenditures for PVC/Chlor-Alkali Business amounted to ¥67,691 million.]

2. Related information
Geographic information
(1) Net Sales

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Net Sales			
Japan.....	¥ 366,342	¥ 386,128	\$ 4,467,593
U.S.	159,617	153,059	1,946,555
China	107,581	113,709	1,311,973
Other	414,189	405,359	5,051,089
Total	¥1,047,731	¥1,058,257	\$12,777,212

	Millions of yen
	2010
Net Sales	
Japan.....	¥354,773
North America	137,280
Asia/Oceania	259,159
Europe.....	98,472
Other Areas.....	67,152
Total	¥916,837

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
	2012	2011	2012
Property, plant and equipment			
Japan.....	¥247,440	¥260,693	\$3,017,570
U.S.	261,857	276,339	3,193,381
Other	89,260	83,301	1,088,540
Total	¥598,558	¥620,334	\$7,299,491

3. Loss on impairment of fixed assets

Millions of yen							
2012							
PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Total
Loss on impairment of fixed assets.....	¥—	¥—	¥—	¥6,191	¥—	¥—	¥6,191

Thousands of U.S. dollars							
2012							
PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Total
Loss on impairment of fixed assets.....	\$—	\$—	\$—	\$75,507	\$—	\$—	\$75,507

Note: Loss on impairment of fixed assets for the fiscal year ended March 31, 2011 is not presented as the amount is immaterial.

4. Amortization of goodwill and unamortized balance

Millions of yen							
2012							
PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	¥—	¥—	¥ 882	¥—	¥—	¥ 0	¥ 882
Unamortized balance	¥—	¥—	¥9,020	¥—	¥—	¥—	¥9,020

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	¥—	¥—	¥ 924	¥—	¥—	¥ 0	¥ 925
Unamortized balance	¥—	¥—	¥10,521	¥—	¥—	¥—	¥10,521

Thousands of U.S. dollars							
2012							
PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	\$—	\$—	\$ 10,756	\$—	\$—	\$ 0	\$ 10,766
Unamortized balance	\$—	\$—	\$110,006	\$—	\$—	\$—	\$110,006

26. RELATED PARTY TRANSACTIONS

(1) Related party transactions

Transaction between the consolidated subsidiaries and a related party during the fiscal year ended March 31, 2012 is as follows:

Type	Affiliates
Name	Hemlock Semiconductor L.L.C.
Location	U.S.
Capital	\$10 thousand
Business	Semiconductor Silicon Business
Percentage of Voting Rights	24.5% (indirect)
Relationship	Purchase of raw materials, Interlocking Directors
Transaction	Long-term advance payment
Transaction amount	¥7,395 million
Account	Investments and Other Assets "Other"
Balance	¥28,077 million

Note: Purchase prices are based on market value. Long-term advance payment has been made based on a contract.

(2) Significant Affiliates

Summarized financial information for all affiliates, including Hemlock Semiconductor Corp., accounted for by the equity method is as follows:

(Mimasu Semiconductor Industry Co., Ltd., Shin-Etsu Quartz Products Co., Ltd., Kashima Vinyl Chloride Monomer Co., Ltd., Admatechs Co., Ltd., Asia Silicones Monomer Limited, Hemlock Semiconductor Corp. and Hemlock Semiconductor L.L.C.)

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Current Assets	¥239,296	\$2,918,243
Fixed Assets	355,917	4,340,451
Current Liabilities	78,068	952,048
Long-Term Liabilities	301,273	3,674,060
Net Assets	215,871	2,632,573
Net Sales	260,114	3,172,121
Income before Income Taxes	84,191	1,026,719
Net Income	53,661	654,402

27. CHANGES IN THE METHOD OF PRESENTATION

Consolidated Statements of Income

The expense item "Cost of inactive facilities" in other expenses is included in "Other, net" for fiscal years ended March 31, 2012 and 2011. 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, 2012 and 2011 are ¥49 million (\$609 thousand) and ¥74 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."

The amounts in the consolidated financial statements presented in the Annual Report issued for fiscal years ended March 31, 2011 and earlier were stated in millions of yen by rounding amounts less than ¥1 million. The amounts in the accompanying consolidated financial statements and the notes thereto, including the amounts for prior fiscal years, are stated in millions of yen with amounts less than ¥1 million omitted.

Consolidated Subsidiaries

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 2012

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shintech Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31
Shin-Etsu Handotai America, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Polymer Co., Ltd.	53.1	March 31
S.E.H. Malaysia Sdn. Bhd. ⁽¹⁾⁽²⁾	100.0	December 31
Shin-Etsu PVC B.V. ⁽¹⁾	100.0	December 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31
SE Tylose GmbH & Co. KG ⁽¹⁾	100.0	December 31
Shin-Etsu Handotai Europe, Ltd. ⁽¹⁾	100.0	December 31
Nagano Electronics Industrial Co., Ltd.	90.0	February 29
Shin-Etsu Handotai Taiwan Co., Ltd. ⁽¹⁾	70.0	December 31
Naoetsu Electronics Co., Ltd.	100.0	February 29
Shin-Etsu Astech Co., Ltd.	99.6	March 31
S-E, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Electronics Materials Singapore Pte. Ltd. ⁽¹⁾	100.0	December 31
Shin-Etsu Silicone International Trading (Shanghai) Co., Ltd. ⁽¹⁾	100.0	December 31
Shin-Etsu Finetech Co., Ltd. ⁽³⁾	100.0	March 31
JAPAN VAM & POVAL Co., Ltd.	100.0	March 31
CIRES, S.A. ⁽¹⁾	100.0	December 31
Shin-Etsu Singapore Pte. Ltd. ⁽¹⁾	100.0	December 31
Shin-Etsu Silicone Korea Co., Ltd. ⁽¹⁾	100.0	December 31
Shinano Polymer Co., Ltd.	100.0	March 31
Shin-Etsu Silicones (Thailand) Ltd. ⁽¹⁾	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 29
Shin-Etsu MicroSi, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Silicone Taiwan Co., Ltd. ⁽¹⁾	93.3	December 31
Shin-Etsu Silicones of America, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Silicones Europe B.V. ⁽¹⁾	100.0	December 31
Shin-Etsu Unit Co., Ltd. ⁽³⁾	100.0	March 31
Shin-Etsu Opto Electronic Co., Ltd. ⁽¹⁾	80.0	December 31
Shin-Etsu Polymer (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	December 31
Shin-Etsu Polymer Europe B.V. ⁽¹⁾	100.0	December 31
Shin-Etsu International Europe B.V. ⁽¹⁾	100.0	December 31

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Nihon Resin Co., Ltd.	100.0	December 31
Naoetsu Precision Co., Ltd.	100.0	February 29
Skyward Information Systems Co., Ltd.	100.0	March 31
Shinano Electric Refining Co., Ltd.	77.4	March 31
Fukui Environmental Analysis Center Co., Ltd.	100.0	February 29
Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu Technology Service Co., Ltd.	76.9	February 29
Urawa Polymer Co., Ltd.	100.0	March 31
Niigata Polymer Company Limited	100.0	March 31
Shin-Etsu Polymer America, Inc. ⁽¹⁾	100.0	December 31
Naoetsu Sangyo Limited	100.0	March 31
San-Ace Co., Ltd.	100.0	March 31
Shinken Total Plant Co., Ltd.	100.0	February 29
Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Magnet Co., Ltd.	100.0	March 31
Shin-Etsu Polymer India Pvt. Ltd. ⁽¹⁾	89.7	December 31
PT. Shin-Etsu Polymer Indonesia ⁽¹⁾	100.0	December 31
Shin-Etsu Polymer Singapore Pte. Ltd. ⁽¹⁾	100.0	December 31
Shin-Etsu Polymer Shanghai Co., Ltd. ⁽¹⁾	100.0	December 31
Shin-Etsu Polymer Hong Kong Co., Ltd. ⁽¹⁾	100.0	December 31
Shin-Etsu Polymer Hungary Kft. ⁽¹⁾	100.0	December 31
Dongguan Shin-Etsu Polymer Co., Ltd. ⁽¹⁾	100.0	December 31
Human Create Co., Ltd.	100.0	March 31
Suzhou Shin-Etsu Polymer Co., Ltd. ⁽¹⁾	71.4	December 31
S.E.H. (Shah Alam) Sdn. Bhd. ⁽¹⁾	100.0	December 31
SHIN-ETSU HANDOTAI SINGAPORE PTE. LTD. ⁽¹⁾	100.0	December 31
Simcoa Operations Pty. Ltd. ⁽¹⁾	100.0	December 31
Shincor Silicones, Inc. ⁽¹⁾	100.0	December 31
K-Bin, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Silicone (Nantong) Co., Ltd. ⁽¹⁾	100.0	December 31
Shin-Etsu (Jiangsu) Optical Preform Co., Ltd. ⁽¹⁾	75.0	December 31
11 other consolidated subsidiaries		

(1) Overseas subsidiary

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

(3) Shin-Etsu Unit Co., Ltd. was absorbed into Shin-Etsu Finetech Co., Ltd. through an absorption-type merger as of April 1, 2012.

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Shin-Etsu Chemical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin-Etsu Chemical Co., Ltd. and consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young Shin Nihon LLC

June 28, 2012
Tokyo, Japan

Investor Information

As of March 31, 2012

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:

¥119,419 million

Number of Employees:

16,167 (including 77 consolidated subsidiaries)

Number of Shares Authorized:

1,720,000,000

Number of Shares Issued:

432,106,693

Number of Stockholders:

67,762

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)	33,953	8.0
Japan Trustee Services Bank, Ltd. (Trust account)	32,403	7.6
Nippon Life Insurance Company	24,370	5.7
The Hachijuni Bank, Ltd.	11,790	2.8
Japan Trustee Services Bank, Ltd. (Trust account 4)	11,696	2.8
Meiji Yasuda Life Insurance Company	10,962	2.6
SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS	9,249	2.2
STATE STREET BANK AND TRUST COMPANY 505225	6,411	1.5
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT	6,309	1.5
MELLON OMNIBUS US PENSION	6,309	1.5
NIPPONKOA Insurance Co., Ltd.	5,777	1.4

Note: Shin-Etsu holds 7,512,807 shares of treasury stock, but is excluded from the above list of major stockholders. Stockholding percentages are calculated excluding treasury stock.

Information:

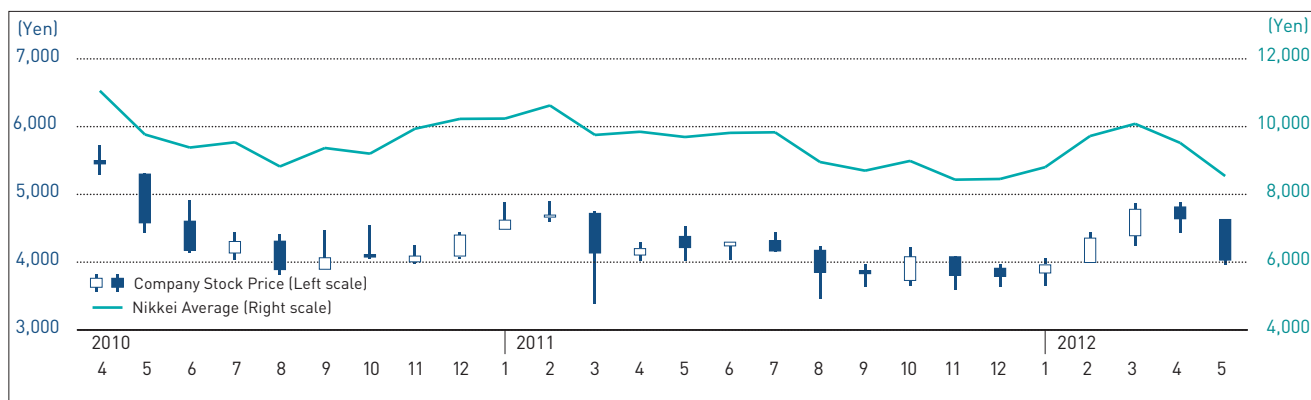
Public Relations Department

Phone: +81-3-3246-5091

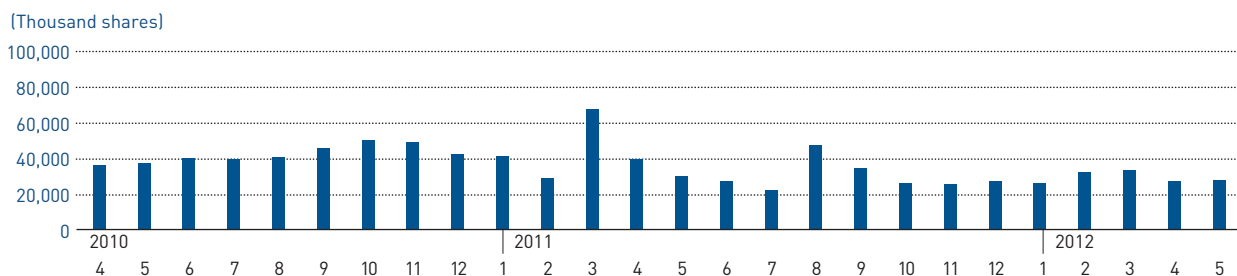
Fax: +81-3-3246-5096

e-mail: sec-pr@shinetsu.jp

Common Stock Price

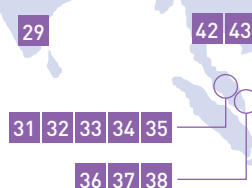
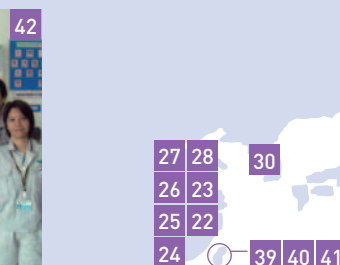


Trading Volume



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: +1-408-883-7000 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 MICROSII, 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 Input Devices and Display-related Devices
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
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

Germany

Hungary

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

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: Sales of Input Devices and Display-related Devices
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
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 Input Devices and Display-related Devices
24. **SHIN-ETSU POLYMER HONG KONG CO., LTD.**
Phone: +852-2377-9131 Fax: +852-2377-1673
Business: Sales of OA Device Components and Input Devices
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
27. **SHIN-ETSU (JIANGSU) OPTICAL PREFORM CO., LTD.**
Phone: +86-510-8609-6060 Fax: +86-510-8609-6055
Business: Production and Sales of Preforms for Optical Fiber
28. **SHIN-ETSU SILICONE (NANTONG) CO., LTD.**
Phone: +86-513-8592-1902 Fax: +86-513-8359-3016
Business: Production and Sales of Silicone Products

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49 50 51 52 53
54 55 56 57



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India

- 29. SHIN-ETSU POLYMER INDIA PVT. LTD.**
Phone: +91-44-6711-2800 Fax: +91-44-6711-2801
Business: Production and Sales of Input Devices and Display-related Devices

Korea

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

Malaysia

- 31. 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
- 32. 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
- 33. SHIN-ETSU ELECTRONICS (MALAYSIA) SDN. BHD.**
Phone: +60-3-5192-1081 Fax: +60-3-5192-6572
Business: Production and Sales of Epoxy Molding Compounds
- 34. SHIN-ETSU (MALAYSIA) SDN. BHD.**
Phone: +60-3-5191-2233 Fax: +60-3-5191-2288
Business: Production and Sales of Rare-Earth Magnets
- 35. SHIN-ETSU POLYMER (MALAYSIA) SDN. BHD.**
Phone: +60-3-5191-1161 Fax: +60-3-5191-1181
Business: Production and Sales of Silicone Rubber Molded Products, Embossed Carrier Tapes and Input Devices

Singapore

- 36. SHIN-ETSU ELECTRONICS MATERIALS SINGAPORE PTE. LTD.**
Phone: +65-6297-9211 Fax: +65-6297-9311
Business: Sales of Rare-Earth Magnets and Other Products
- 37. SHIN-ETSU SINGAPORE PTE. LTD.**
Phone: +65-6743-7277 Fax: +65-6743-7477
Business: Sales of Silicone Products

- 38. SHIN-ETSU POLYMER SINGAPORE PTE. LTD.**
Phone: +65-6735-0007 Fax: +65-6735-0008
Business: Sales of OA Device Components and Input Devices

Taiwan

- 39. 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
- 40. SHIN-ETSU OPTO ELECTRONIC CO., LTD.**
Phone: +886-3-578-4566 Fax: +886-3-578-9864
Business: Production and Sales of Compound Semiconductors
- 41. SHIN-ETSU SILICONE TAIWAN CO., LTD.**
Phone: +886-2-2715-0055 Fax: +886-2-2715-0066
Business: Production and Sales of Silicone Products

Thailand

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

Japan

- 44. 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
- 45. 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
- 46. SHIN-ETSU ENGINEERING CO., LTD.**
Phone: +81-3-3296-1080 Fax: +81-3-3296-1085
Business: Engineering Services and Production of Mechatronics Systems
- 47. SHIN-ETSU FILM CO., LTD.**
Phone: +81-3-3259-1061 Fax: +81-3-3259-1064
Business: Production and Sales of PP Film for Condensers
- 48. 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
- 49. SHIN-ETSU POLYMER CO., LTD.**
Phone: +81-3-5289-3712 Fax: +81-3-5289-3707
Business: Production and Sales of Synthetic Resin Products
- 50. SHIN-ETSU QUARTZ PRODUCTS CO., LTD.**
Phone: +81-3-3348-1912 Fax: +81-3-3348-4919
Business: Production and Sales of Quartz Glass Products
- 51. 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
- 52. KASHIMA VINYL CHLORIDE MONOMER CO., LTD.**
Phone: +81-299-96-3415 Fax: +81-299-96-6354
Business: Production and Sales of Vinyl Chloride Monomer
- 53. 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
- 54. NAOETSU ELECTRONICS CO., LTD.**
Phone: +81-25-530-2631 Fax: +81-25-530-2908
Business: Production, Processing and Sales of Semiconductor Silicon Wafers
- 55. 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
- 56. 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
- 57. 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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