

## *Orchestrating Value*

**ANNUAL REPORT 2013**

For the year ended March 31, 2013

Shin-Etsu Chemical Co., Ltd.



# *Orchestrating Value*

The Shin-Etsu Group is a global chemical manufacturer that holds the world's top market share in products such as polyvinyl chloride (PVC) and semiconductor silicon.

Our products play key roles in various fields. For example, PVC is vital for home construction material and infrastructure components, and semiconductor silicon improves the performance and reduces the size of cutting-edge electronic devices. Our materials and technologies offer value by contributing to people's daily lives as well as to the advancement of industry and society. We are orchestrating that value to achieve growth regardless of changes in the economic environment.

*For electronics*



*For cosmetics*



*For hybrid vehicles*



*For various industries*



## Contents

---

### 02 Playing a Key Role

---

### 07 Creating a Harmonized Portfolio

---

### 08 Showing an Energetic Performance

---

### 10 In the Spotlight

10 Shintech: The World's Largest PVC Manufacturer

12 Technologies for the Semiconductor Industry

---

### 14 Management's Direction

14 Message from the Chairman

16 Message from the President

---

### 18 Preparing for the Next Stage

18 Capital Expenditures in Growing Markets

19 Capital Expenditures for Raw Material Production

20 Research & Development

---

### 21 Management

21 Board of Directors and Audit & Supervisory Board

22 Corporate Governance and Compliance

24 Corporate Social Responsibility (CSR)

26 CSR Opportunities

---

### 28 Financial Section

---

### 66 Shin-Etsu's Worldwide Network

---

#### 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.

# Playing a Key Role



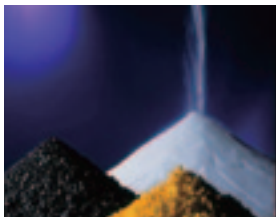
## For vital infrastructure

### PVC siding

PVC is an ideal material for durable products that require a long useful life. It is used for home construction materials, such as exterior siding.



## Polyvinyl Chloride



Polyvinyl chloride

### Application Examples

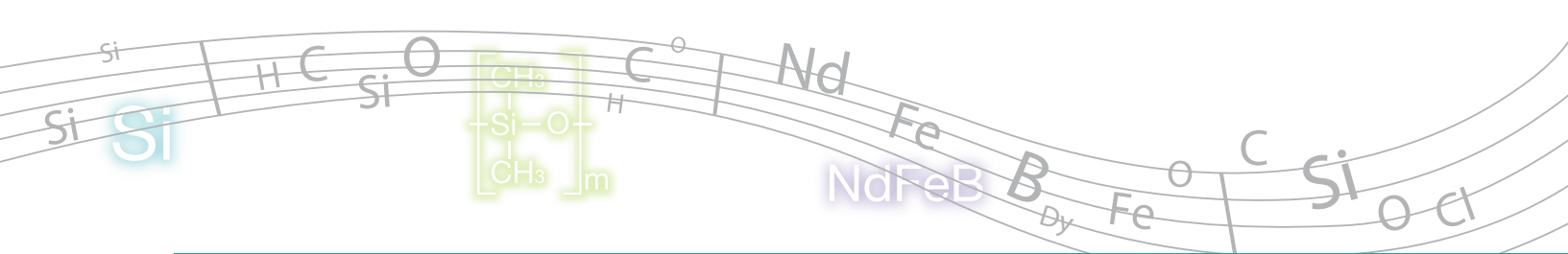
- Infrastructure components
- Window frames
- PVC pipes
- Plastic greenhouse for agricultural use

### The world's largest manufacturer of PVC, a material indispensable to infrastructure and daily lives

PVC is a widely used commodity plastic resin with outstanding physical properties, ease of processing and economic merits, such as lower cost compared to other plastics. It has many applications that are essential to people's daily lives. These include infrastructure components such as water and sewage pipes, construction materials and household products.

The Shin-Etsu Group started overseas PVC operations more than half a century ago, and has plants in the U.S., Europe and Japan. We are the world's largest manufacturer of this material, with an **annual PVC production capacity of 3.84 million tons.**

Demand for PVC is continuing to grow worldwide. In emerging countries, infrastructure projects are driving growth. In developed countries, growing awareness of energy conservation is increasing demand for PVC window frames and similar products which reduce CO<sub>2</sub> emissions.



# For electronics

## Tablets

Integrated circuit chips made with semiconductor wafers are used in light, portable digital electronic devices, such as tablets.



## Semiconductor Silicon



Single crystal silicon ingot and wafers

### Application Examples

- PCs
- Mobile phones
- Home appliances
- Automobiles

### The world's leading manufacturer with the highest quality and technology for silicon wafers

Silicon wafers are vital to the production of semiconductor devices, which are used in products such as PCs, mobile phones, and digital home appliances. With restless advancement of technology, high integration and high functionality of these devices have led electronic products to be smaller and more innovative in recent decades. The evolution of smartphones is an example.

The Shin-Etsu Group has production facilities in Japan, Malaysia, Taiwan, the U.S. and the U.K to serve our customers worldwide. As **the world's leading manufacturer** of silicon wafers, we have played a key role in the evolution of semiconductor devices through the development of larger diameter wafers and super flat wafers. For 300mm wafers, the most widely used size of wafers today, we have **four supply locations in Japan and the U.S.** providing a stable supply of high quality wafers to our customers.

# Playing a Key Role



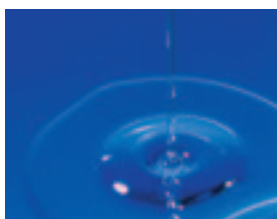
## For cosmetics

### Cosmetics

Silicones make cosmetics comfortable to use by preventing makeup deterioration due to sweat and improving oil resistance. Silicones are used in a variety of cosmetics, including emulsions, creams, lipsticks, foundations and eye shadows.



## Silicones



Silicone oil

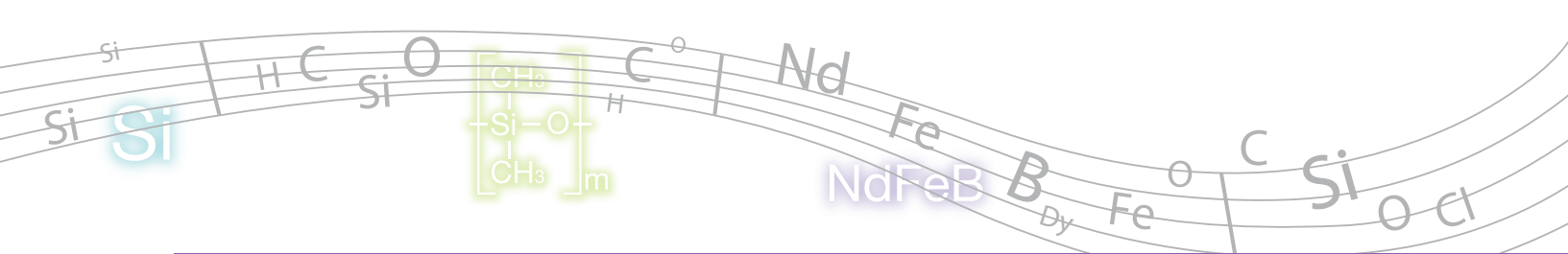
### Application Examples

- Cosmetics and toiletries
- Automobiles
- Construction
- LEDs
- Computers
- Mobile phones

### Advanced development to create products for a variety of applications in various fields from one diverse material

Silicones can be produced in various physical forms, such as an oil, resin or rubber. This highly functional material is used in a diverse array of applications.

The Shin-Etsu Group develops unique products and technologies with knowledge gained from 60 years of experience in the silicones business. Currently, we supply **more than 5,000 types** of silicone products. They are sold to companies that manufacture computers, mobile phones, automobiles, construction materials, chemicals, cosmetics and more. With silicones at use in so many industries, this business **continues to grow regardless of the performance of any particular market.** That continuous growth produces stable earnings for the Shin-Etsu Group.



## For hybrid vehicles

### Hybrid vehicles

In hybrid and electric vehicles, the motor affects both fuel efficiency and driving performance. Rare-earth magnets in hybrid vehicle motors help conserve energy by lowering motor weight and conserving fuel.



## Rare-Earth Magnets



Rare-earth magnets

### Application Examples

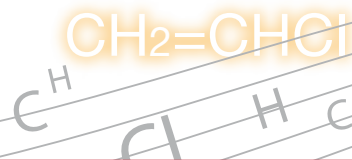
- Hybrid vehicles
- Energy-saving air conditioners
- Wind power turbines
- PCs

### Producing rare-earth magnets from raw materials to contribute to environmentally friendly products

Small yet powerful, rare-earth magnets are a key component in automobiles, home appliances and digital electronics. They are also used in the generators of wind power turbines, an environmentally friendly energy source.

The Shin-Etsu Group has **the world's only comprehensive production system**, which starts with the refinement of rare earth and ends with finished magnets. At each production stage, we use our advanced technologies to supply high-quality magnets. Furthermore, we are a global leader in technological innovation and mass production. For example, we have developed an exclusive production method that reduces the amount of heavy rare earths in magnets without affecting performance.

# Playing a Key Role



*For various industries*



## Other Materials

### Materials that are used in various industries

We supply basic materials for a diverse array of household and industrial applications. These include a variety of materials for LEDs (lenses, packaging materials, reflecting materials, etc.) in the consumer products field and preforms for optical fiber in the communications field. In the health care field, our cellulose derivatives are used for pharmaceutical coatings and binders for tablets and granules. In the agricultural field, we supply synthetic pheromones, which are used as a mating disruption agent for specific insects.



Cellulose derivatives used as a coating for tablets



Optical fiber preform with diameters of 200mm and lengths of 2,000m

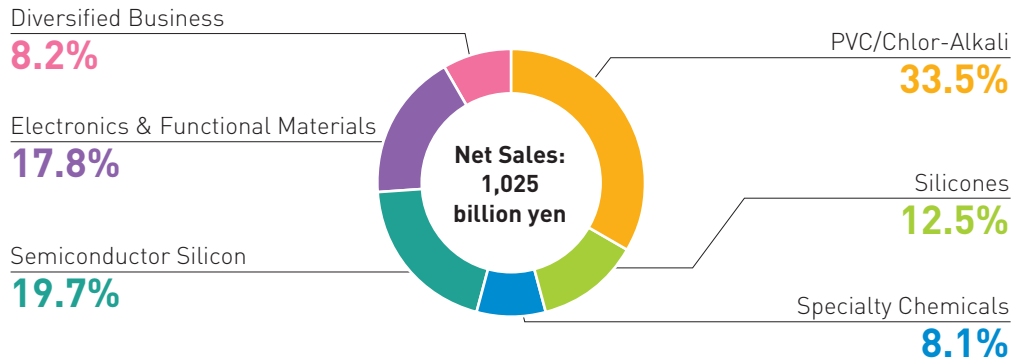


Synthetic pheromones used in orchards as a mating disruption agent

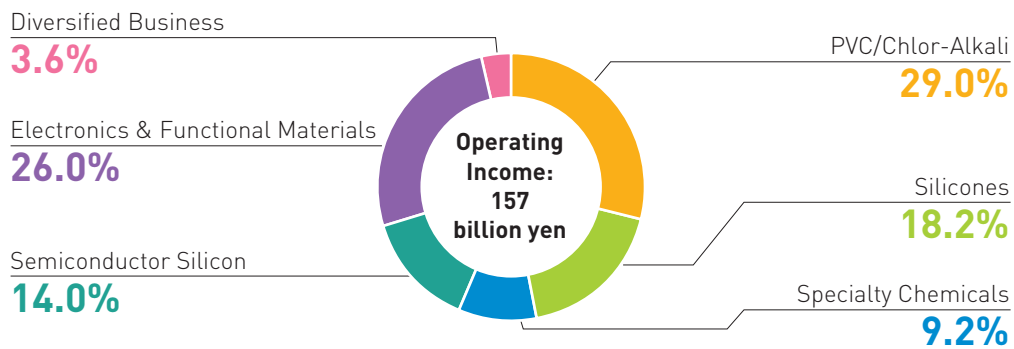


# Creating a Harmonized Portfolio

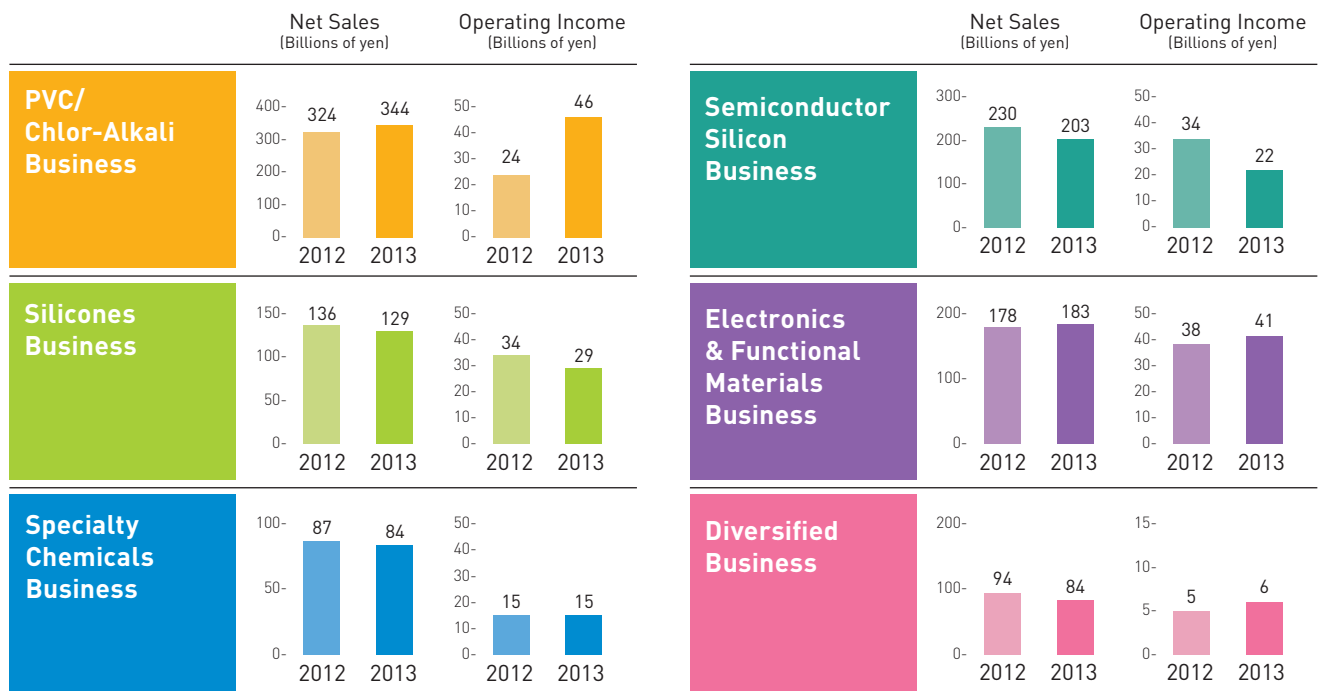
## Sales Composition



## Segment Income Composition



## Net Sales / Operating Income by Segment



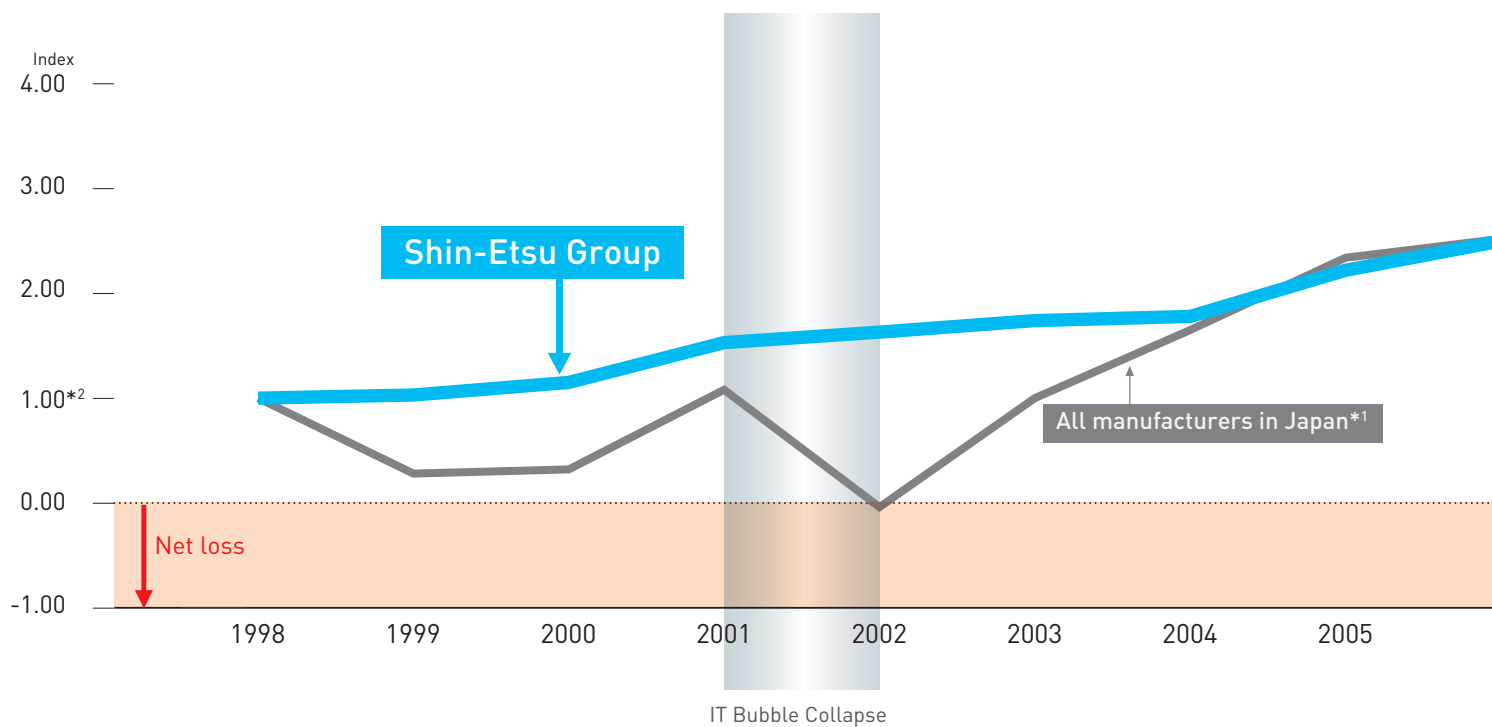
# Showing an Energetic Performance



The Shin-Etsu Group is a global manufacturer with production and sales bases around the world for our wide variety of products. We started operations overseas more than half a century ago, and in fiscal 2013, overseas sales accounted for about 67% of our consolidated sales. Although our main products are PVC and semiconductor silicon, which are affected by market fluctuations, we have achieved 13 consecutive years of record earnings through

fiscal 2008. We maintained high earnings in the extremely difficult operating environment caused by the 2008 global financial crisis and 2011 Great East Japan Earthquake. In fiscal 2013, we recorded another profit increase. One of the keys to our performance is making capital investments at the right time. We have the financial strength to use our own funds for large investments, and we carefully target growing business fields and regions.

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



\*1 Figures are calculated using average net income for all manufacturers that are listed on the Tokyo Stock Exchange.  
 \*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.

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.



## Operating performance

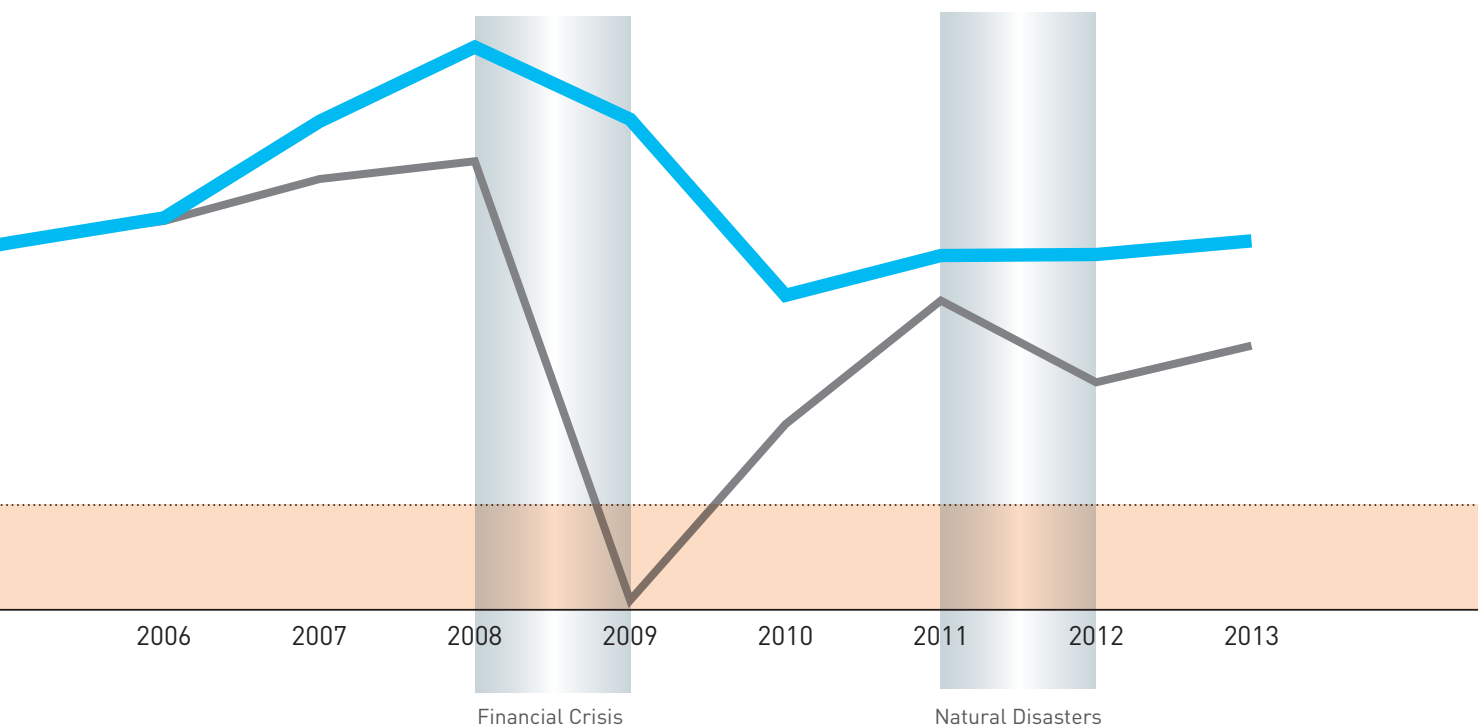
(Fiscal 2013)

<b>Net Sales</b> <b>1,025,409</b> <small>million yen, down 2.1%</small>	<b>Ordinary Income</b> <b>170,207</b> <small>million yen, up 3.0%</small>
<b>Overseas Sales Ratio</b> <b>67%</b>	<b>Net Income</b> <b>105,714</b> <small>million yen, up 5.0%</small>

## Financial performance

(Fiscal 2013)

<b>Net Assets</b> <b>1,623,176</b> <small>million yen</small>	<b>Stockholders' Equity Ratio</b> <b>82.0%</b>
<b>Capital Expenditures</b> <b>86,841</b> <small>million yen</small>	<b>Moody's Credit Rating</b> <b>Aa3</b>



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  
 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.

# In the Spotlight

## Shintech: The World's Largest PVC Manufacturer

### Driving Group Earnings

Shintech in the U.S. is the world's largest PVC manufacturer, and plays a major part in the Shin-Etsu Group's PVC business.

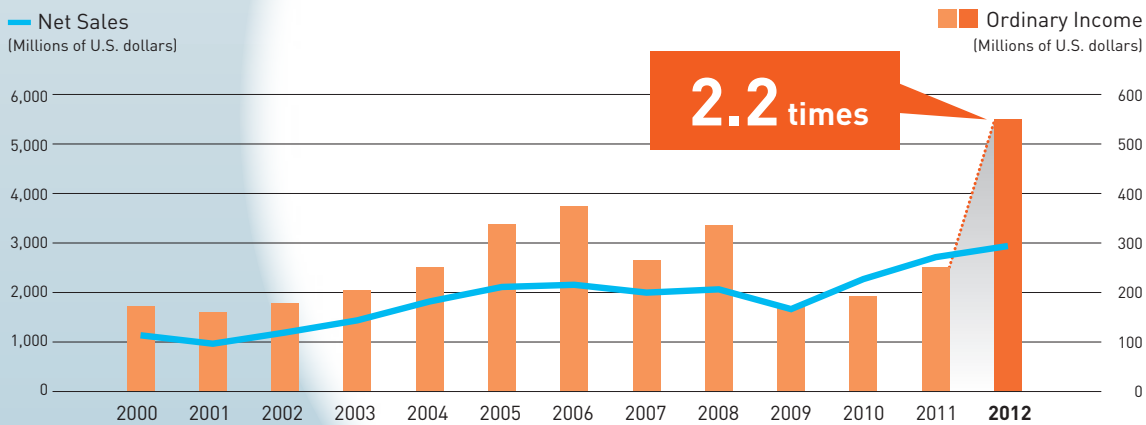
In fiscal 2013, Shintech achieved record net sales of \$2,941 million, up 8.3% and record ordinary income of \$551 million, up 2.2 times from the previous year. It maintained a high level of shipments by expanding sales to its customers worldwide, not only in the U.S. but also in emerging countries such as Central and South America. As a result, the company achieved significant growth in sales and earnings.

An integrated PVC production facility was constructed in the state of Louisiana at a total investment of \$2.5 billion in order to ensure a stable supply of raw materials. Since its completion in fiscal 2012, this facility has been maintaining a high operating rate and contributed to the large increases in sales and earnings at Shintech.



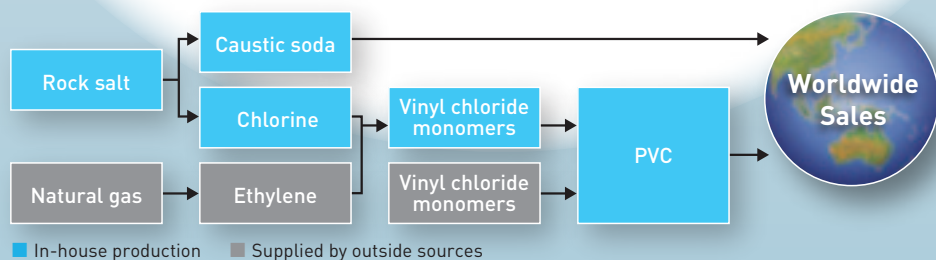
Plaquemine Plant

### Shintech's Operating Performance



Rock salt mine (1,800 meters underground)

### Shintech's Integrated Production Facilities

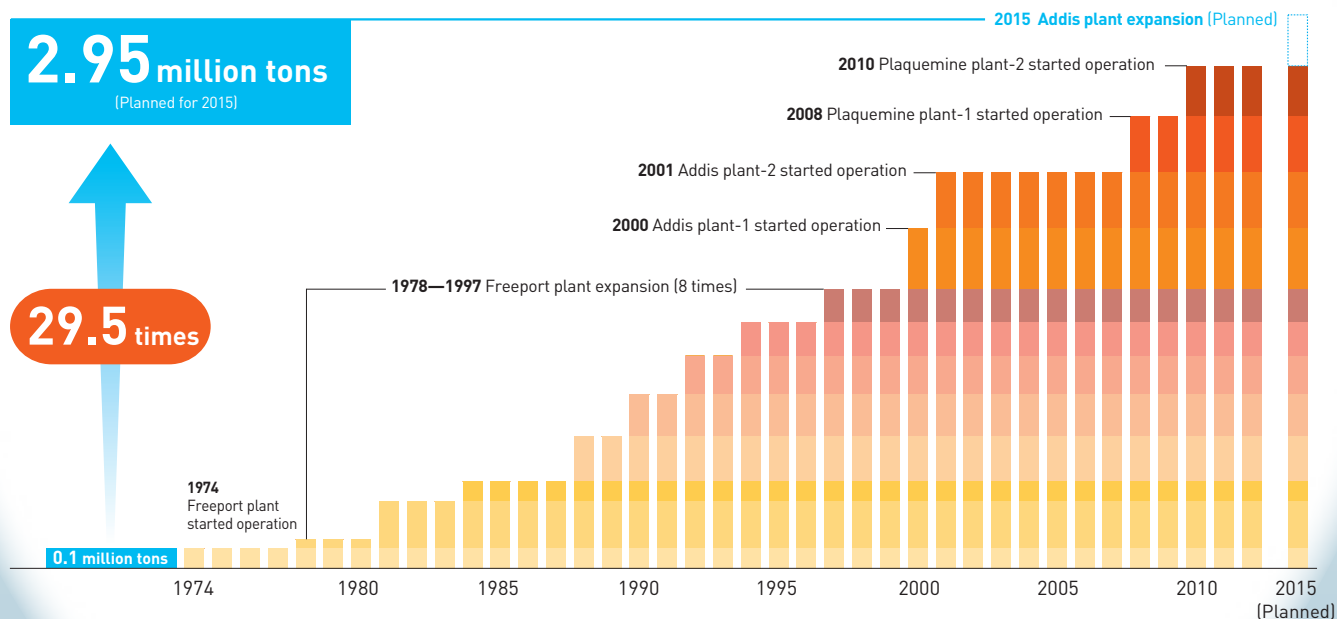


## Preparing for the Future

In June 2013, Shintech decided to further increase its production capacity of PVC at its bases in Louisiana. The planned production capacity increase will be about 300,000 tons per year of PVC. With this expansion, Shintech's total PVC production capacity will become 2.95 million tons per year—combined with Shintech's existing manufacturing facilities in Louisiana and Texas. Completion of this expansion is targeted for 2015, and the amount of investment is expected to be \$500 million.

Since starting operations in 1974, Shintech has been consistently operating at a high level of utilization and selling its entire output while increasing its production capacity by carefully watching changes in PVC demand. Shintech expanded its Freeport plant eight times and newly constructed its Addis and Plaquemine plants. Its current annual PVC production capacity is 2.64 million tons. As the world's largest producer of PVC, Shintech will use its fully integrated production operations to capture global growth in demand.

### Shintech's Total PVC Production Capacity



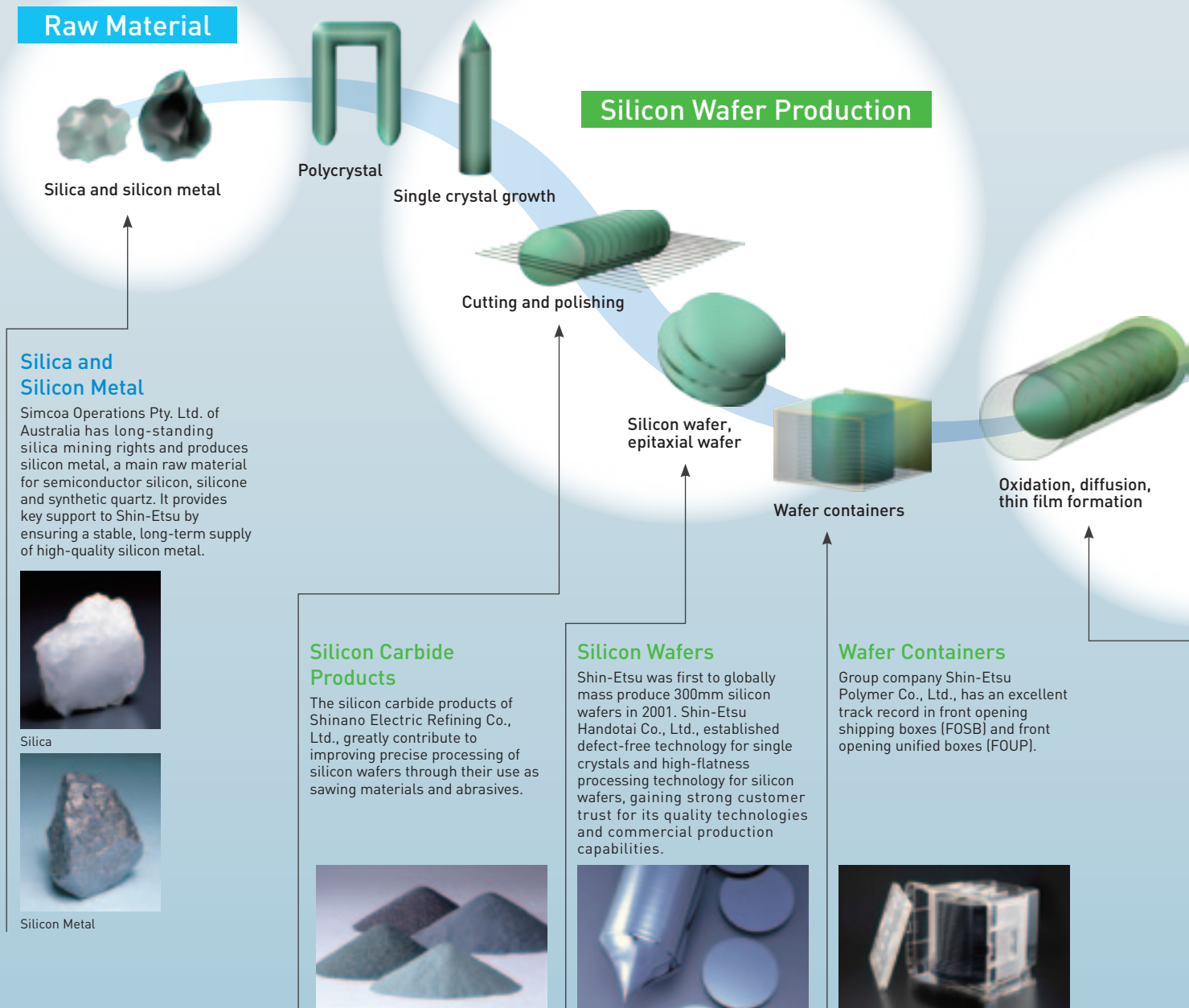
## More Growth Expected for PVC Demand

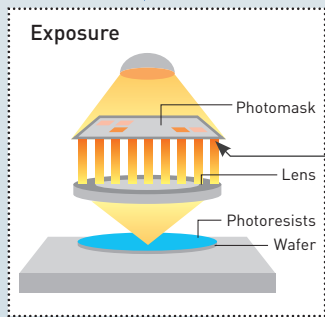
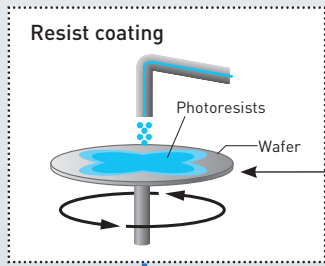
PVC is used primarily in products related to housing such as water and sewage pipes, exterior siding materials and window frames, and products used for infrastructure. Demand is increasing worldwide, particularly in emerging countries. Global demand for PVC has increased at an annual rate of about 3% over the past decade, and was estimated to be approximately 37 million tons in 2012. Shintech's planned 2015 increase in production capacity will allow the company to continue capturing the rising global demand for PVC.



## Technologies for the Semiconductor Industry

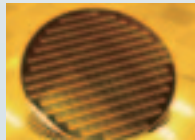
The Shin-Etsu Group provides a variety of products which are essential to a broad range of manufacturing process for semiconductor devices. With our solid customer relationships, we quickly acquire information about changes in semiconductor industry demand, and that information enables us to make the appropriate investments at the right time.





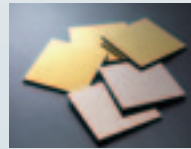
### Photoresists

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.



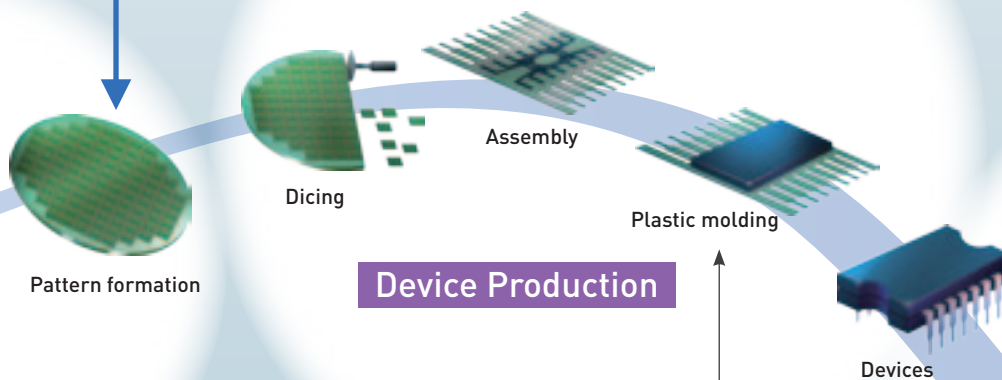
### Synthetic Quartz Photomask Substrates for LSIs

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.



### 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.



## Pattern Formation

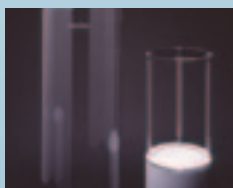
## Device Production



## Application

### 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 CVD processes. The quartz glass products of Shin-Etsu Quartz Products Co., Ltd., meet customers' needs for high-temperature processes.



### 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.



# Management's Direction

## *Message from the Chairman*



### Further strengthening our top global businesses

Chihiro Kanagawa  
Chairman

We wish to express our sincere appreciation to all the stockholders for your continued support and long-term view of our company's direction. We are pleased to present the annual report for fiscal 2013, in which you will see our steady progress since fiscal 2010. I would like to take this opportunity to highlight a couple of things.

For fiscal 2013, the dynamics of our business portfolio worked again. It was our polyvinyl chloride (PVC) operation in the U.S., namely Shintech. It attained a record income (\$551 million of income before tax, \$371 million of net income), which was more than double that of the last fiscal year. That result contributed significantly to the continued growth in the Shin-Etsu Group's total earnings.

In late 2004, I decided to carry out an investment for the PVC integrated production facilities in the State of Louisiana, U.S. It was the biggest investment in Shin-Etsu Chemical's 80 year history. The total amount invested was \$2.5 billion.

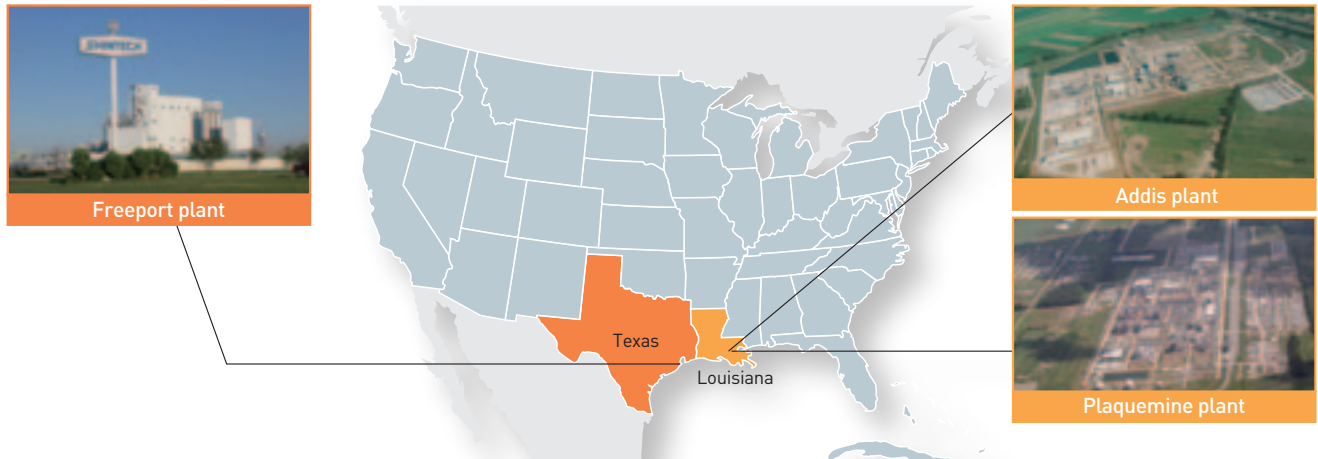
When I made the decision in 2004, the price of natural gas in the U.S. was soaring. Many people believed that the high priced natural gas would continue perpetually and the chemical industries in the U.S. had lost their cost competitiveness. However, I had a different view due to the following perspectives: First, I was confident that the U.S. has the ability to find solutions to the energy issue. In the past, the U.S. was successful in overcoming challenges through its indomitable and pioneering spirit. Second, it is an unwavering policy of mine not to make any major investments in any area where political risks exist.

Frankly, I did not know shale gas back then. I think I can safely say that the U.S. has found a tremendous solution to the energy issue. The U.S. has developed a game-changing technology to extract shale gas. As a result, the price of natural gas in the U.S. dropped significantly, and we started the operation of the new plant at the right time, when U.S. natural gas regained its global competitiveness.



---

## Shintech's U.S. Operations



For fiscal 2013, Shintech's ratio of EBITDA (earnings before interest, tax, depreciation and amortization) to revenue reached 26%, which compares to the average EBITDA margin of 15% among the global specialty chemical industries. While PVC is regarded as a typical commodity, what Shintech delivers is a kind of specialty.

We have several top global businesses. The most notable ones are Shintech's PVC and Shin-Etsu's silicon wafer businesses. However, we should not be complacent with the current position. Our mission is to further strengthen those top global businesses through strong research and development, strong production, nimble sales and wise investments. To give you an example, we recently acquired the total shares held by General Electric Company (GE) of Asia Silicones Monomer Limited, which had been jointly managed by GE and Shin-Etsu. With this acquisition, Shin-Etsu will expand its business in the Asia region by optimizing the efficiency of its silicone business operations in Thailand.

On behalf of the management team and all the employees of the Shin-Etsu Group, I would like to express my appreciation to customers and suppliers, and to thank you, our stockholders, for your investment in the values of our company.

Sincerely yours,

Chihiro Kanagawa  
Chairman

# Management's Direction

## *Message from the President*



### Acting swiftly and producing results

Shunzo Mori  
President

#### Results of operations

In fiscal 2013, net sales decreased 2.1% to ¥1,025,409 million, but earnings were higher mainly because of doubling income at U.S.-based Shintech. Operating income increased 5.0% to ¥157,043 million, and ordinary income increased 3.0% to ¥170,207 million. As a result, earnings were higher for the third consecutive year. Furthermore, the stockholder's equity ratio remained high at 82%.

I would like to introduce the results of the following business segments:

##### **PVC/Chlor-Alkali**

Shintech recorded significant growth in sales and earnings, with high volumes of shipments to customers worldwide despite a slow recovery in the U.S. housing market. We would like to deeply thank our Shintech people for their great contributions to the Shin-Etsu Group's earnings.

##### **Semiconductor Silicon**

Although the demand for some cutting-edge semiconductor devices, such as smartphones and tablet PCs, remained strong, demand for consumer electronics products such as PCs and flat-panel TVs continued to be slow, and a severe business situation continued.

##### **Silicones**

Sales in Japan were firm for product applications in the cosmetics field. However, sales of product applications for electronics equipment generally continued to be slow. On the other hand, in our silicones business outside of Japan, the business was strongly affected by a slump in market prices in the Asian region, such as China.

##### **Electronics and Functional Materials**

With regard to the rare-earth magnets businesses, shipments of products for applications in automobiles were strong. The photoresist business continued to be good, and the business of materials for LED packaging continued to be firm. Shipments of optical fiber preform continued to be robust, contributed to by the operations of our new plant in China as well as continued strong demand.

#### Strategies for sustained growth

As a manufacturer, the Shin-Etsu Group must make capital expenditures in order to continue growing. Over the years, our substantial financial resources have been used for investments in existing and new businesses. I would like to report our capital expenditures in existing businesses during fiscal 2013 herein.

From a geographical point of view, the U.S. is one of the most important locations for the Shin-Etsu Group's investments. Our group company Shintech, the world's largest manufacturer of PVC, has gained extensive

## The Shin-Etsu Group's Investments in Asia



experience from operating in the U.S. for 40 years. This experience is a valuable asset not only for Shintech but also for the entire Shin-Etsu Group. It will be extremely beneficial toward making future U.S. investments.

In 2012, the decision was made to build a plant to make hydroxyethyl cellulose (HEC) in Louisiana. HEC is expected to be in increasing demand for the production of coatings for building materials. Construction of the plant started and is scheduled for completion in 2014. With the Group's existing plant in Germany, we will diversify manufacturing operations as well as reinforce our ability to capture the expected growth in demand for HEC.

In Asia, we constructed several production facilities. Two of them, in China and Vietnam, will diversify our procurement of raw materials for rare-earth magnets. Another is for LED packaging materials that will enable us to meet the increasing demand in Asia.

The Shin-Etsu Group is working to develop our innovations into new technologies and products. Two of our new fields for development are energy and health care. In the energy field, we are developing materials for advanced high-capacity lithium ion batteries. In health care, we have made an investment in pharmaceutical venture company NanoCarrier Co., Ltd., in 2012. Shin-Etsu Chemical is applying its cutting-edge technology to joint research for materials to effectively deliver drugs to targeted parts of the body. The Shin-Etsu Group aims to continue growing by developing these and other new businesses while strengthening our existing businesses.

### Our ongoing 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 advancement of industry and society by providing key materials and technologies. To do this, group companies will further reinforce internal controls and maintain strict compliance. Also, we will continue to carry out our social responsibilities as a chemicals manufacturer while promoting a "safety first" policy among our executives and employees.

The Shin-Etsu Group will continue to pursue higher earnings while fulfilling our social responsibility, and will also keep working to meet our stockholders' expectations by maximizing our corporate value.

Sincerely yours,

Shunzo Mori  
President



# Preparing for the Next Stage

The Shin-Etsu Group has been making capital expenditures that will strengthen our operations to become even more profitable. We construct production facilities to capture demand in growing markets, such as Asia, and also build facilities for internal production of raw materials for our key products. This will strengthen our ability to maintain stable supplies of products.

## Capital Expenditures in Growing Markets

### Electronics & Functional Materials Business

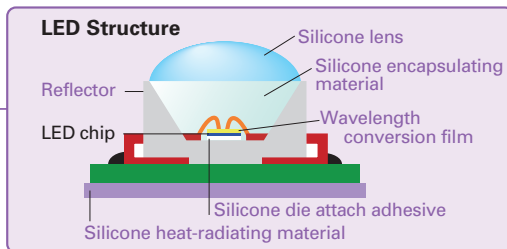
#### LED Materials Plant Completed in Vietnam

Construction of a plant in Vietnam for manufacturing LED packaging materials was completed in June 2013. With many LED manufacturers located in Asia and continued global growth expected in the LED market, the new plant enables us to supply these materials from Asia and

reinforces our position as the world's top supplier of LED packaging materials. Furthermore, the Vietnam plant reduces risk exposure by creating a second production base along with our plant in Japan.



LED optical module



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

### Specialty Chemicals Business

#### Construction of a Cellulose Derivatives Plant in the U.S.

SE Tylose, a subsidiary of Shin-Etsu Chemical in Germany, has been constructing a new plant in Louisiana, U.S. The new plant will manufacture hydroxyethyl cellulose (HEC), which is used for coatings for building materials. The production capacity of the new plant will be 9,000 tons annually, and the start-up is scheduled for 2014. This will raise the Group's annual production capacity of HEC to 27,000 tons together with the existing capacity of 18,000 tons in Germany. With these two operations, we aim to capture the anticipated global growth.



## Capital Expenditures for Raw Material Production

### Electronics & Functional Materials Business

#### Construction of Two Rare Earth Plants in Asia Completed

In 2013, we completed construction of two plants to maintain a stable supply of rare earth, the raw material for rare-earth magnets. The plant in China produces magnet alloys and the plant in Vietnam separates and refines rare earths. With applications in products such as next-generation vehicles (including hybrids) and energy-efficient air conditioners, demand for

rare-earth magnets is expanding. The Shin-Etsu Group is working to develop technologies that will lower the amount of heavy rare earths needed to manufacture these magnets. At the same time, we will strengthen our ability to maintain a stable supply by diversifying sources for raw materials.

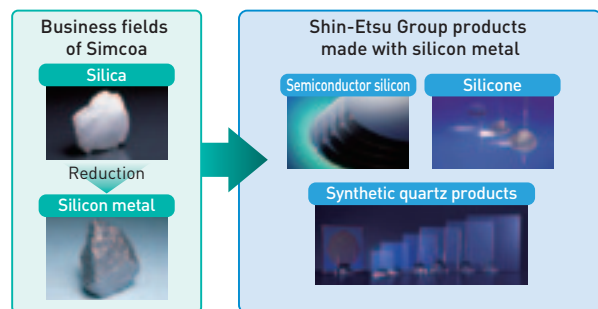
#### Rare-earth magnets production process



### Specialty Chemicals Business

#### Increased Silicon Metal Output Capacity at Simcoa Operations

In Australia, Simcoa Operations completed a production capacity expansion in 2012 that raised the annual capacity of silicon metal from 32,000 tons to 48,000 tons. The Shin-Etsu Group uses silicon metal as the primary raw material for semiconductor silicon, silicones, synthetic quartz—a product with much potential for global growth. This expansion will enable Simcoa Operations to meet the rising demand for silicon metal.



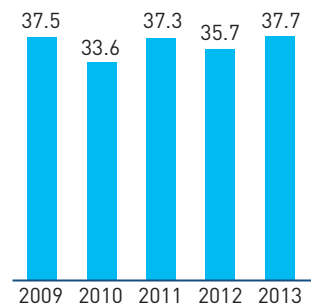
# Preparing for the Next Stage

## Research & Development

The Shin-Etsu Group's R&D focuses on creating unique technologies that differentiate us from competitors. We are also speeding up the commercialization of new products that can become profit centers of the future.

We select new business development based on market size, growth potential, profitability and the relationship to our technologies and expertise. Once selected, we periodically check progress toward commercialization. In addition, we are working on new business models in domains that span several of our research facilities. These business models will increase collaboration among facilities as we perform new research with the Group's collective resources to commercialize products that benefit from our core strengths.

R&D Costs (Billions of yen)



Intellectual property, such as patents and technologies, is an important asset of the Shin-Etsu Group. As of March 31, 2013, the Group had 5,985 patents in Japan and 7,604 overseas patents, which include 198 patents in the U.S. in 2012. We are in the top class among Japanese chemical companies for patents in the U.S.

Number of Patents by Region

	Number of patents acquired during the year ended March 31, 2013	Cumulative number of patents acquired as of the end of FY 2013
Japan	824	5,985
North America	200	2,442
Asia/Oceania	396	2,528
Europe	352	2,614
Other Areas	1	20
Total	1,773	13,589

### New Business Development in Five Priority Sectors

The Shin-Etsu Group has been focusing on five priority sectors for new businesses: "energy," "wide-gap materials," "health care," "optics and telecommunications," and "semiconductor-related materials." New R&D programs are under way in these sectors. In health care, we invested in NanoCarrier Co., Ltd. in 2012. This Japanese pharmaceutical venture company is developing an efficient method to deliver anti-cancer drugs to the targeted area of the body. We have started joint development for the high-quality polymers vital to NanoCarrier's technologies. To launch businesses in the five priority sectors, we will make extensive use of alliances with companies that have expertise in areas new to the Shin-Etsu Group.



# Management

## Board of Directors and Audit & Supervisory Board

(As of June 27, 2013)



Chihiro Kanagawa

Shunzo Mori

Fumio Akiya

Yasuhiko Saitoh

Toshinobu Ishihara

### 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

### SENIOR MANAGING DIRECTOR

Toshinobu Ishihara

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

### 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

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

Fumio Arai

General Manager, Organic Chemicals Division

Yukihiro Matsui

General Manager, Electronics Materials Division

### 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

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

Hiroaki Okamoto

In charge of Patents  
General Manager, Development & Investigation Department

Susumu Ueno

General Manager, Silicone Division

Kazumasa Maruyama

General Manager, New Functional Materials Department

### FULL-TIME AUDIT & SUPERVISORY BOARD MEMBER

Osamu Okada

### AUDIT & SUPERVISORY BOARD MEMBERS

Masahiko Watase

Taku Fukui\*\*

Yoshihito Kosaka\*\*

Kiyoshi Nagano\*\*

\* Outside director

\*\* Outside audit & supervisory board member

# Management

## 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 timely and accurate information to shareholders and other investors as one of the most important responsibilities of management.

### Corporate Governance System

The Shin-Etsu Board of Directors has 23 members, including five outside 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 audit & supervisory board member system. There are five audit & supervisory board members including three outside audit & supervisory board members, a framework that provides for upgrading and reinforcing the auditing function.

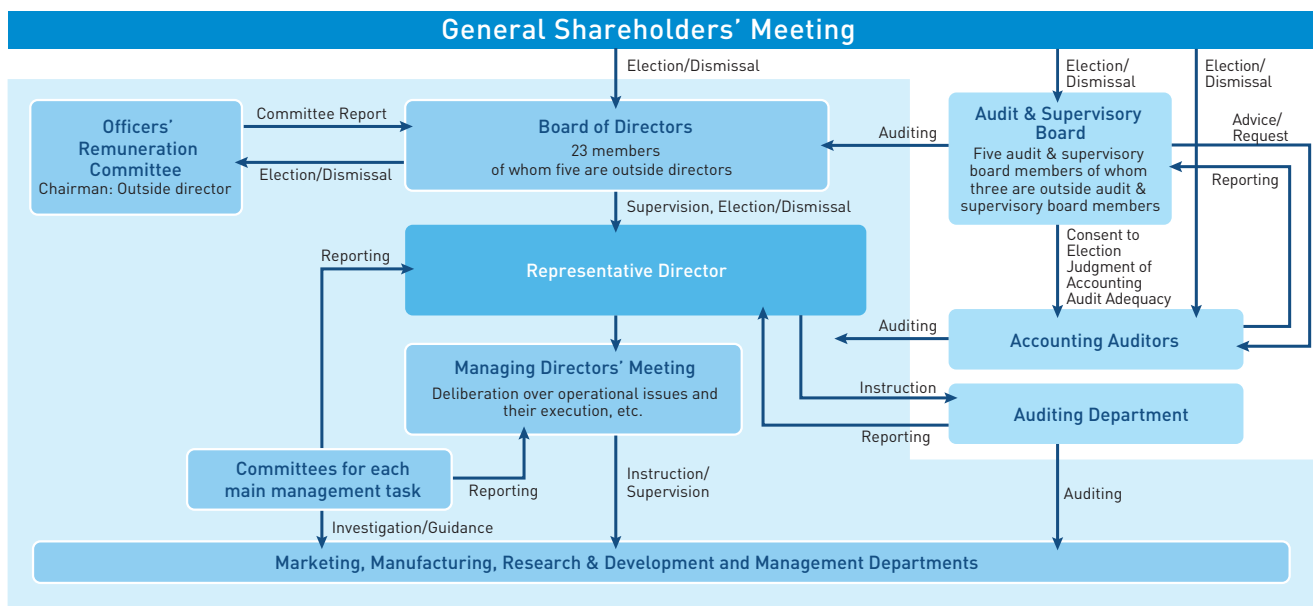
The Auditing Department is responsible for performing internal audits and for evaluating internal control systems for financial reports. This department audits business

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 on Internal Controls for Financial Reporting" in December 2007 and implements strict internal controls in line with this policy. These controls comply with the system of internal control over financial reporting based on the Financial Instruments and Exchange Law, which became effective in the fiscal year ended March 31, 2009. Information about specific activities involving corporate governance and compliance can be viewed on the Company's website (Japanese only) and is disclosed in other ways as well.

### Shin-Etsu's Corporate Governance Structure





---

## Selection and Roles of Outside Directors and Audit & Supervisory Board Member

Shin-Etsu's Board of Directors includes a number of prominent individuals from outside the Shin-Etsu Group. These outside directors include corporate executives and others who can use their wealth of experience and knowledge to assist in the Group's management. Outside 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 outside audit & supervisory board members. These individuals perform audits by utilizing their specialized knowledge and experience and their insight as corporate managers. Outside audit & supervisory board members safeguard the compliance system by attending meetings of the Board of Directors and Audit & Supervisory Board and other important meetings. At these meetings, the outside audit & supervisory board members provide input that reflects know-how in their respective areas of expertise and a broad perspective in their experience as corporate managers.

The outside directors and outside audit & supervisory board members are not former members of the parent company, its affiliated companies, major stockholders or major clients, and are highly independent of the Group.

## Officers' Remuneration

The Officers' Remuneration Committee is chaired by an outside 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 2013, total remuneration paid to officers was ¥1,379 million. Of this amount, ¥170 million was paid to outside directors and outside audit & supervisory board members. This remuneration does not include salaries (including bonuses) paid to the employee directors 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, based on the Disaster Response Headquarters Policy, a countermeasure headquarters is established and the situation is handled in accordance with the Shin-Etsu emergency response manual.

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 (Japanese only). Furthermore, we educate employees about this act and take other steps to ensure that personal information is handled properly and thoroughly protected.

# Management

## Corporate Social Responsibility (CSR)

The Shin-Etsu Group's global manufacturing network supplies many types of materials and products that are used by individuals and companies. The Group focuses all its resources and energy on business operations, which include safety, the environment 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.

### Participation in U.N. Global Compact



As a member of the global chemical industry, the Shin-Etsu Group signed the Responsible Care Global Charter of the International Council of Chemical Associations in 2006. Responsible Care covers worldwide activities involving environmental protection, safety, and health. Shin-Etsu Chemical became a participant in the U.N. Global Compact in November 2010. This international initiative was started in 2000 based

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

These activities are consistent with the Shin-Etsu Group's corporate philosophy and basic CSR policy. We will continue to do business in line with these principles to build even stronger relationships with the public.

#### 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.

### Reinforcing Business Continuity

To ensure the continuity of business operations, the Shin-Etsu Group takes extensive safety measures to be prepared for any situation, from accidents to natural disasters.

## Responses to Emergencies

Many of the Shin-Etsu Group's products have high global market shares and are used in specialized applications in high-tech industries. Any disruption in the supply of these products could have a serious impact on society.

We have formulated a company-wide Business Continuity Management Standards to fulfill our responsibility to supply important products even after a major disaster. These standards include the creation of a business continuity plan and its management.

## Safety Measures for Equipment

All Shin-Etsu Group's production bases comply with all legal requirements for safety. We even further enhance the inherent safety of our equipment and processes with the most advanced technologies. Moreover, we use an organizational approach to perform, examine, and confirm preliminary assessments of safety measures.

## Environmental Safety Audits

We perform environmental safety audits and special audits for specific purposes on a regular basis. The purpose is to confirm that environmental protection and workplace health and safety activities are performed as required.

Individuals from outside the Group participate to provide advice and guidance.

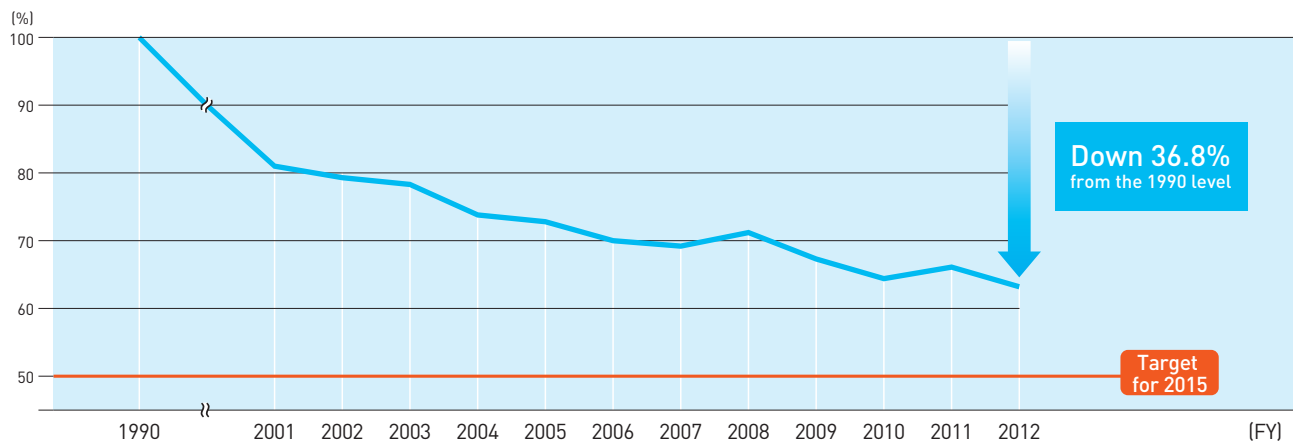
## Environmental Initiatives

As a chemical manufacturer, the Shin-Etsu Group takes actions to protect the environment, such as conserving energy, mitigating global warming, reducing the environmental impact of business activities.

We manufacture a wide variety of products. While energy sources including electricity, heavy oil, kerosene, diesel oil, and steam are used to support this manufacturing, every Group company and production base has been making every effort to promote energy conservation. In fiscal 2013, the Shin-Etsu Group's energy consumption (crude oil equivalent) was 2,429 million liters, up 145 million liters from the previous fiscal year. This rise in energy consumption was caused by the increase in production volume of the entire Group. However, the Group's the energy consumption intensity decreased in metric tons of CO<sub>2</sub>e per production.

The Group has established two mid-term environmental targets. One is reducing unit greenhouse gas emissions intensity to 50% of the 1990 level by 2015. In fiscal 2013, greenhouse gas emissions intensity was 63.2% of the 1990 level. The second target is realizing zero emissions (landfill waste 1% or less of all waste generated) by 2015. In fiscal 2013, 2.1% of industrial waste went to landfills. We will work even harder at lowering this percentage in order to achieve the target.

The Shin-Etsu Group's Greenhouse Gas Emissions Intensity Relative to Fiscal 1990 Levels



# Management

## CSR Opportunities

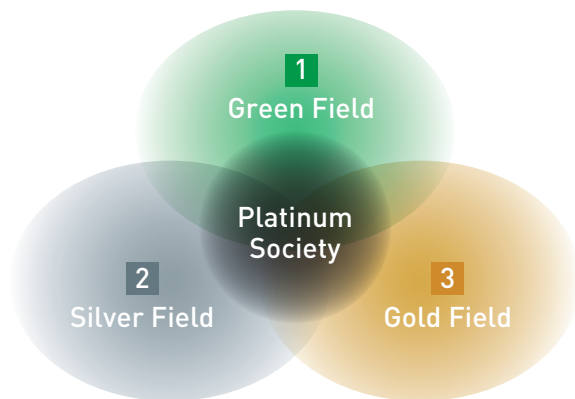
There are high expectations for companies in the chemical industry to play a role in resolving social issues and creating a sustainable society by developing revolutionary products and efficient technologies. With a focus on materials, technologies and products, the Shin-Etsu Group is striving towards realizing the concept of a Platinum Society. The term "Platinum Society" was coined in a book written by an outside director of

Shin-Etsu, Dr. Hiroshi Komiyama, in 2011 to describe a future society which is sustainable and has hope. In a Platinum Society, various problems in areas such as the environment, population aging and lack of demand and employment will be resolved and efforts are made to realize a society in which all people can fully enjoy their lives.

### Group Activities in Three Fields: Green, Silver and Gold

Realizing a Platinum Society will require innovation in three fields:

- Green (Environment, resources and energy fields)
- Silver (Aging society fields)
- Gold (New technologies including IT)



## 1 Green Field (Environment, resources and energy)

Necessary innovation

- 1) Raise Japan's energy self-sufficiency rate to 70% by 2050 by developing renewable and natural energy sources and using energy more efficiently

#### Contributions by the Shin-Etsu Group

##### ■ Rare-earth magnets

Used in the generators of wind power turbines, which conserve energy

##### ■ Polyvinyl chloride

PVC windows conserve energy with their excellent thermal insulating properties.

##### ■ Solar cell sealing materials

Used in solar panels, a source of renewable energy

##### ■ LED packaging materials

A vital material for LEDs, which greatly reduce energy consumption



- 2) Raise Japan's self-sufficiency rate for mineral resources to 70% by 2050 by promoting recycling

#### Contributions by the Shin-Etsu Group

##### ■ Rare-earth magnets

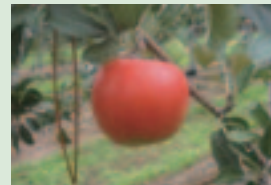
We aim to maintain a self-sufficient supply of rare earths by establishing a recycling system.

- 3) Raise Japan's food self-sufficiency rate to 70% and timber self-sufficiency rate to 100% by 2050

#### Contributions by the Shin-Etsu Group

##### ■ Synthetic pheromones

We supply synthetic pheromones for low-pesticide agricultural and forestry operations.



## 2 Silver Field (Aging society)

### Necessary innovation

1) Use anti-aging innovations to create a society in which senior citizens can continue to participate with pride

#### Contributions by the Shin-Etsu Group

##### ■ Cellulose derivatives

We contribute to healthcare progress by developing products for pharmaceuticals that utilize the functions of cellulose derivatives.



2) Use robots and similar means to assist senior citizens who need help with physical activities such as using stairs or carrying heavy items

#### Contributions by the Shin-Etsu Group

##### ■ Rare-earth magnets

Rare-earth magnets are used in joint motors of nursing care and support robots.

##### ■ Silicones

Silicones are used as a cushioning material in nursing care and support robots.

##### ■ Semiconductor silicon

Semiconductor silicon is used in electronic control devices for nursing care and support robots.

## 3 Gold Field (New technologies including IT)

### Necessary innovation

Contribute to the development of advanced new technologies

#### The potential of the Shin-Etsu Group

##### ■ Encapsulation technology for 3-D stacked packages

We are developing a 3-D stacked package technology to achieve further advances in integration and memory

capacity of semiconductor devices. Vertically stacking and encapsulating silicon wafers will require new semiconductor silicon as well as encapsulation and lithography technologies.



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

### Director Komiyama's Comment

The operating environment for companies with global operations has been consistently challenging because of the European debt crisis and slowing economic growth in emerging countries. I believe this is more than simply part of an economic cycle. In industrialized countries, we are seeing a saturation of demand as consumers are satisfied with their physical possessions. This is the

true cause of the prolonged lackluster economic performance of industrialized countries. Consequently, downturns are no longer merely part of an economic cycle. Structural factors have become an increasingly important aspect of these downturns.

The Platinum Society is "a high-quality society where people can obtain the goods they want." The first step toward solving

problems in Japan is creating new demand by innovations in three fields: green (environment, resources and energy), silver (aging society) and gold (use of information and communication technology for "smart" products and services).

Manufacturers of materials will play a major role in achieving a Platinum Society. Innovative materials will be essential to making products that are efficient with respect to resources and the environment. Shin-Etsu already supplies many outstanding products that conserve energy: high-performance silicones that greatly improve LED brightness, PVC window frames with excellent thermal insulation, magnets for hybrid and electric vehicle motors, and cathode materials for high-capacity, high-output next-generation lithium-ion batteries. Applications for materials are virtually unlimited. Society's expectations are great for more innovation in materials that will help make a Platinum Society a reality.

# Eleven-Year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES  
For the years ended March 31, 2003 through 2013

	Millions of yen				
	2003	2004	2005	2006	2007
<b>For the year:</b>					
Net sales	¥ 797,523	¥ 832,804	¥ 967,486	¥1,127,915	¥1,304,695
Cost of sales	585,220	619,085	715,143	831,333	933,199
Selling, general and administrative expenses	90,152	88,094	100,608	111,262	130,467
Operating income	122,149	125,625	151,734	185,320	241,028
Ordinary income	122,119	125,612	151,503	185,040	247,018
Net income	73,015	74,805	93,160	115,045	154,010
Capital expenditures	75,211	113,591	110,277	145,329	210,613
R&D costs	27,279	26,329	27,924	32,003	41,737
Depreciation and amortization	66,566	73,581	90,874	111,637	138,462
<b>At year-end:</b>					
Total assets	¥1,310,874	¥1,386,216	¥1,476,248	¥1,671,280	¥1,859,995
Working capital	409,262	401,878	444,935	572,205	628,986
Common stock	110,271	110,493	117,513	119,419	119,419
Net assets	—	—	—	—	1,360,315
Stockholders' equity	846,961	900,724	996,307	1,173,679	—
Interest-bearing debt	167,362	163,167	120,422	83,838	45,143
<b>Per share (Yen and U.S. dollars):</b>					
Net income—primary	¥ 173.13	¥ 177.25	¥ 219.10	¥ 266.63	¥ 357.78
Net income—fully diluted <sup>2</sup>	169.36	173.52	216.11	266.07	357.32
Cash dividends	14.00	16.00	20.00	35.00	70.00
Payout ratio (%)	8.1	9.0	9.1	13.1	19.6
Net assets	2,014.11	2,140.23	2,329.47	2,730.94	3,065.80
<b>General:</b>					
Operating income to net sales ratio (%)	15.3	15.1	15.7	16.4	18.5
Net income to net sales ratio (%)	9.2	9.0	9.6	10.2	11.8
ROE (%) <sup>3</sup>	8.8	8.6	9.8	10.6	12.4
ROA (%)	9.4	9.3	10.6	11.8	14.0
Equity ratio (%)	64.6	65.0	67.5	70.2	71.0
Number of employees	16,573	17,384	18,151	18,888	19,177
Number of shares issued (Thousands)	422,567	422,798	430,118	432,106	432,106

Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥94 = US\$1, the approximate rate of exchange on March 31, 2013.

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.

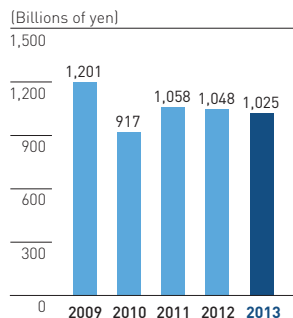
3. Stockholders' equity used for calculation of indices from the fiscal year ended March 31, 2007 consists of "stockholders' equity" and "accumulated other comprehensive income."

Millions of yen						Thousands of U.S. dollars
2008	2009	2010	2011	2012	2013	2013
¥1,376,364	¥1,200,813	¥ 916,837	¥1,058,257	¥1,047,731	¥1,025,409	\$10,908,610
946,940	853,433	700,902	803,574	798,592	769,427	8,185,402
142,278	114,453	98,718	105,460	99,505	98,938	1,052,534
287,145	232,927	117,215	149,221	149,632	157,043	1,670,672
300,040	250,533	127,019	160,338	165,237	170,207	1,810,715
183,580	154,731	83,852	100,119	100,643	105,714	1,124,623
268,479	159,406	123,793	119,884	87,165	86,841	923,843
47,944	37,469	33,574	37,321	35,725	37,671	400,765
141,269	119,457	87,722	93,732	82,868	80,961	861,294
¥1,918,544	¥1,684,944	¥1,769,139	¥1,784,166	¥1,809,841	¥1,920,903	\$20,435,140
638,806	606,632	612,447	638,493	694,803	832,878	8,860,407
119,419	119,419	119,419	119,419	119,419	119,419	1,270,422
1,483,669	1,407,353	1,474,212	1,469,429	1,494,573	1,623,176	17,267,831
—	—	—	—	—	—	—
34,045	23,827	20,052	14,574	15,732	13,929	148,181
¥ 426.63	¥ 362.39	¥ 197.53	¥ 235.80	¥ 237.03	¥ 248.94	\$ 2,648
426.35	362.35	197.50	235.80	—	248.92	2,648
90.00	100.00	100.00	100.00	100.00	100.00	1.064
21.1	27.6	50.6	42.4	42.2	40.2	40.2
3,344.17	3,218.28	3,370.56	3,360.39	3,422.93	3,709.19	39.459
20.9	19.4	12.8	14.1	14.3	15.3	15.3
13.3	12.9	9.1	9.5	9.6	10.3	10.3
13.3	11.0	6.0	7.0	7.0	7.0	7.0
15.9	13.9	7.4	9.0	9.2	9.1	9.1
75.0	81.1	80.9	80.0	80.3	82.0	82.0
20,241	19,170	16,955	16,302	16,167	17,712	17,712
432,106	432,106	432,106	432,106	432,106	432,106	432,106

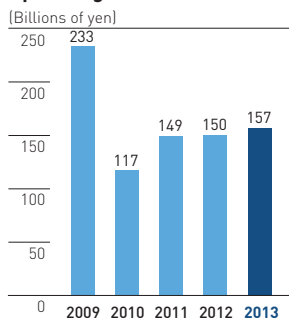
# Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

## Net Sales



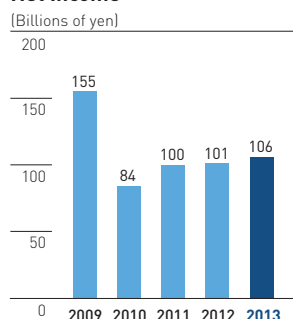
## Operating Income



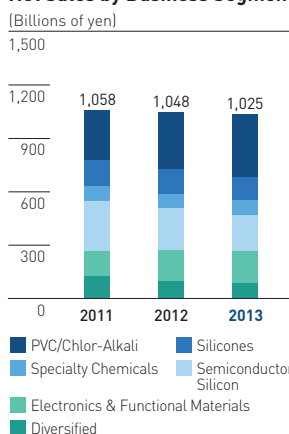
## Overview of the Shin-Etsu Group

The Shin-Etsu Group (the "Group") was composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 119 subsidiaries and 16 affiliates as of March 31, 2013. 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

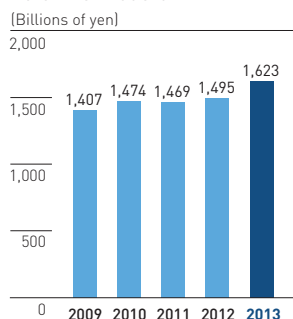


## Consolidated Operating Performance

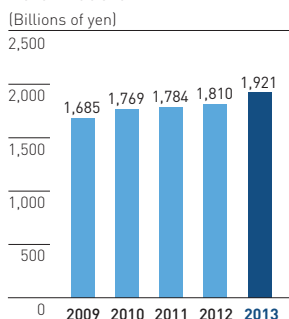
With regard to the world economy, during fiscal 2013 (April 1, 2012 to March 31, 2013), although a gradual recovery continued in the U.S., there was sluggishness in the European economy due to Europe's financial problems as well as a slowdown in economic growth in emerging markets such as China. As a whole, a deceleration trend continued in the world economy. On the other hand, with regard to the Japanese economy, although some encouraging signs have been seen since the start of the New Year, due in part to such affects as the slowdown of the world economy, overall, the severe situation of the Japanese economy continued.

Under these circumstances, the Shin-Etsu Group worked to carry out sales activities to its wide range of customers around the world, and at the same time, we assiduously worked on the development of new products in addition to enhancing our technologies and product quality. Furthermore, we endeavored to build a strong business foundation by such means as turning our new global plants into an advantageous strategic asset at an early stage and by focusing on stably securing raw materials.

## Total Net Assets



## Total Assets



## Net Sales

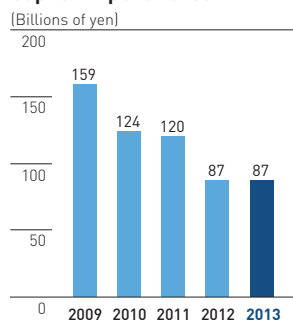
Net sales decreased 2.1% (¥22.3 billion) to ¥1,025.4 billion compared with the previous fiscal year.

## Cost of Sales and Selling, General and Administrative Expenses

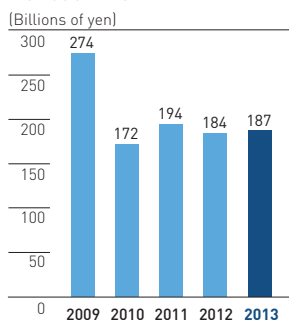
Cost of sales decreased 3.7% (¥29.2 billion) to ¥769.4 billion and the ratio of cost of sales to net sales decreased 1.2 percentage points to 75.0%. Selling, general and administrative (SG&A) expenses decreased 0.6% (¥0.6 billion) to ¥98.9 billion, but the ratio of these expenses to sales increased 0.1 of a percentage point to 9.6%.

Research and development costs, which are included in manufacturing costs and SG&A expenses, increased 5.4% (¥1.9 billion) to ¥37.7 billion and the ratio of these costs to net sales was 3.7%.

## Capital Expenditures



## Net Cash Flow\*



\* Net cash flow = Net income + Depreciation and amortization



## Operating Income

Operating income increased 5.0% (¥7.4 billion) to ¥157.0 billion and the operating margin increased 1.0 percentage point to 15.3%.

## Business Segment Overview

### PVC/Chlor-Alkali Business

With regard to the PVC business, although the recovery in demand in the U.S. remained at a low level, Shintech in the U.S. maintained a high level of shipments by expanding sales to its customers worldwide, starting with its customers in Central and South America, and its business performance increased greatly. Shin-Etsu PVC in the Netherlands also maintained its good shipments. On the other hand, the tough business situation in Japan continued due in part to sluggish demand and the effect of raw material price increases.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 6.1% (¥19,667 million) to ¥343,697 million and operating income increased by 92.6% (¥21,901 million) to ¥45,552 million.

### Silicones Business

With regard to the silicones business, sales in Japan were firm for product applications in the cosmetics field. However, sales of product applications for the automobile field were sluggish from the latter half of fiscal 2013. In addition, sales of product applications for electronics equipment generally continued to be slow. On the other hand, in our silicones business outside of Japan, the business was strongly affected by a slump in 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 4.7% (¥6,432 million) to ¥129,029 million and operating income decreased by 15.0% (¥5,044 million) to ¥28,643 million.

### Specialty Chemicals Business

With regard to cellulose derivatives, in Japan, this business continued to do well mainly in products for building and construction applications and for pharmaceutical-use, and in addition, the business of SE Tylose in Germany also continued to be firm, mainly in coating applications. The silicon metal business of Simcoa Operations in Australia was affected by a sluggish market.

As a result, compared with the previous fiscal year, net sales for this business segment decreased by 4.1% (¥3,601 million) to ¥83,526 million and operating income decreased by 1.6% (¥231 million) to ¥14,467 million.

### Semiconductor Silicon Business

With regard to semiconductor silicon, although the demand for some cutting-edge semiconductor devices, such as

smartphones and tablet PCs, remained strong, demand for consumer electronics products such as PCs and flat-panel TVs continued to be slow, and a severe business situation continued.

As a result, compared with the previous fiscal year, net sales for this business segment decreased by 11.8% (¥27,190 million) to ¥202,466 million and operating income decreased by 36.1% (¥12,396 million) to ¥21,937 million.

### Electronics & Functional Materials Business

With regard to the rare earth magnets business, although shipments of products for such applications as in hard disk drives and air-conditioners continued to be slow, shipments of products for applications in automobiles were strong, starting with hybrid vehicles. The photoresist products business continued to be good, aided by the progress in semiconductor device miniaturization. The business of materials for LED packaging continued to be firm. Shipments of optical fiber preform continued to be robust, contributed to by the operations of our new plant in China as well as continued strong demand.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 2.8% (¥4,989 million) to ¥182,781 million and operating income increased by 7.1% (¥2,692 million) to ¥40,863 million.

### Diversified Business

Shin-Etsu Polymer Co., Ltd.'s business of keypads for automobile applications remained steady; however, the company's business of semiconductor wafer-related containers continued to be slow due to sluggish demand for semiconductor devices.

As a result, compared with the previous fiscal year, net sales for this business segment decreased by 10.4% (¥9,756 million) to ¥83,907 million and operating income increased by 11.3% (¥569 million) to ¥5,601 million.

### Other Income and Extraordinary Loss

Net non-operating income was ¥13.2 billion, which included equity in earnings of affiliates of ¥6.4 billion and a foreign exchange gain of ¥4.6 billion. There was a net extraordinary loss of ¥6.1 billion because of a ¥6.1 billion loss on sales of investments in securities. After these items, income before income taxes increased 6.1% (¥9.4 billion) to ¥164.1 billion.

### Net Income

Income taxes totaled ¥56.8 billion. As a result, net income increased 5.0% (¥5.1 billion) to ¥105.7 billion and net income per share increased ¥11.91 to ¥248.94.

### Analysis of Financial Position

#### Information on Assets, Liabilities and Net Assets

As the end of fiscal 2013, total assets were ¥1,920,903

million, ¥111,062 million higher than at the end of the previous fiscal year. This was primarily attributable to an increase in yen conversions of assets of overseas consolidated subsidiaries because of the weaker yen.

Total liabilities decreased by ¥17,541 million from the end of the previous fiscal year to ¥297,727 million.

Total net assets increased by ¥128,603 million to ¥1,623,176 million from the end of the previous fiscal year. Retained earnings increased because of net income of ¥105,714 million in fiscal 2013 and the foreign translation adjustments increased because of the yen's decline.

The stockholders' equity ratio was 82.0%, up 1.7 percentage points from 80.3% at the end of the previous fiscal year.

### Status of Cash Flows

The balance of cash and cash equivalents at the end of fiscal 2013 totaled ¥363,028 million, an increase of 34.3% (¥92,707 million) compared with the end of the previous fiscal year.

### Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥235,622 million, an increase of ¥139,055 million from the previous fiscal year. Major sources of cash were income before income taxes of ¥164,070 million, depreciation and amortization of ¥80,961 million, decrease in notes and accounts receivable of ¥32,803 million, and a ¥17,708 million decrease in inventories. A major use of cash was payment of income taxes of ¥64,004 million.

### Cash Flows from Investing Activities

Net cash used for investing activities was ¥119,254 million, an increase of ¥30,064 million from the previous fiscal year. The primary use of cash was purchases of property, plant and equipment of ¥80,775 million.

### Cash Flows from Financing Activities

Net cash used for financing activities was ¥44,011 million, an increase of ¥1,837 million from the previous fiscal year. Cash was used mainly for cash dividends paid of ¥42,459 million.

### Capital Expenditures

Capital expenditures totaled ¥86.8 billion. The Electronics & Functional Materials Business segment accounted for the largest share of these expenditures at ¥22.0 billion. The main reasons are the construction of an LED packaging materials plant and a plant for separating and refining rare earths, which are used to make rare-earth magnets, both in Vietnam. Capital expenditures were ¥18.5 billion in the PVC/Chlor-Alkali Business, ¥15.4 billion in the Silicones Business, ¥14.8 billion in the Semiconductor Silicon

Business, ¥12.2 billion in the Specialty Chemicals Business and ¥4.2 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 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 fiscal 2013 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 the world economy is expected to move in the direction of gradual recovery, the situation of the world economy remains uncertain because of such issues as concerns about the effects of Europe's financial problems. In Japan as well, although a recovery in the economy is expected, the situation is such that it does not allow for optimism because of concerns about the future employment situation and the effects of the world economy's downward movement.

Facing such a situation, the Shin-Etsu Group will utilize the Group's overall strengths to expand its aggressive sales activities to a wide range of customers worldwide. Moreover, we will focus on enhancing productivity and product quality, and at the same time, we will cultivate new demand through the development of products that have special characteristics. Furthermore, we will aim to build a strong business foundation by accelerating global business development, by constructing manufacturing bases at the optimal locations, and, at the same time, by striving to assure the stable securing of 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 67.4% of the consolidated net sales of the Group in fiscal 2013, 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 import/export regulations as well as by various related laws concerning commercial transactions, labor, patents, taxes, foreign exchange and other items. Any changes in

these regulations and laws could have a significant effect on the Group's business operations results.

#### **5) Influence of Supply Factors on Procurement of Materials**

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

#### **6) Influence of the Development of New Products and Technologies**

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

#### **7) Influence of Environmental Issues**

The Group handles various types of chemical substances and complies strictly with various laws and regulations concerning the environment. In addition, the Group has been making efforts for energy-saving in order to help combat global warming and for eliminating or significantly reducing emissions of substances that are harmful to the environment. However, if regulations concerning the environment become more strict than presently anticipated and require 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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and time deposits (Note 24).....	¥ 252,881	¥ 241,390	\$ 2,690,227
Notes and accounts receivable—trade (Note 4).....	243,785	264,283	2,593,466
Securities (Notes 6 and 24).....	214,380	89,301	2,280,645
Merchandise and finished goods.....	123,442	121,471	1,313,216
Work in process.....	11,012	9,386	117,155
Raw materials and supplies.....	134,922	129,450	1,435,341
Deferred taxes, current (Note 22).....	27,462	34,599	292,152
Other.....	31,290	59,344	332,879
Less: Allowance for doubtful accounts (Note 2 (5)).....	(6,664)	(6,982)	(70,898)
Total current assets.....	1,032,513	942,244	10,984,187
<b>Fixed Assets:</b>			
<b>Property, Plant and Equipment</b> (Notes 2 (8) and 9):			
Buildings and structures, net.....	164,885	156,403	1,754,097
Machinery and equipment, net.....	356,970	330,707	3,797,554
Land.....	70,110	65,400	745,857
Construction in progress.....	50,862	40,240	541,085
Other, net.....	6,822	5,807	72,584
Total property, plant and equipment.....	649,650	598,558	6,911,179
<b>Intangible Fixed Assets:</b>			
Goodwill.....	9,363	9,020	99,608
Other.....	5,274	4,566	56,110
Total intangible fixed assets.....	14,637	13,587	155,719
<b>Investments and Other Assets:</b>			
Investments in securities (Notes 6 and 8).....	129,551	154,161	1,378,209
Long-term loans.....	6,405	3,583	68,144
Deferred taxes, non-current (Note 22).....	14,590	19,937	155,220
Other (Note 8).....	73,900	77,786	786,176
Less: Allowance for doubtful accounts (Note 2 (5)).....	(347)	(17)	(3,695)
Total investments and other assets.....	224,101	255,451	2,384,054
Total fixed assets.....	888,389	867,596	9,450,953
<b>Total Assets</b> .....	¥1,920,903	¥1,809,841	\$20,435,140

The accompanying notes are an integral part of the statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities:</b>			
Notes and accounts payable—trade (Note 4) .....	¥ 100,197	¥ 109,378	\$ 1,065,932
Short-term borrowings (Note 10) .....	5,507	13,862	58,589
Accounts payable-other .....	28,882	32,011	307,265
Accrued expenses .....	45,537	45,375	484,437
Accrued income taxes .....	6,220	34,758	66,177
Accrued bonuses for employees.....	1,995	1,887	21,226
Accrued bonuses for directors .....	372	360	3,965
Other (Notes 4 and 22).....	10,921	9,807	116,185
Total current liabilities .....	199,635	247,441	2,123,779
<b>Long-Term Liabilities:</b>			
Long-term debt (Note 10) .....	7,709	1,454	82,018
Deferred taxes, non-current (Note 22) .....	65,033	44,295	691,847
Accrued retirement benefits (Note 11) .....	20,185	16,687	214,734
Accrued retirement bonuses for directors.....	276	421	2,938
Other .....	4,887	4,967	51,990
Total long-term liabilities.....	98,091	67,827	1,043,529
<b>Total Liabilities</b> .....	297,727	315,268	3,167,309
<b>Commitment and Contingent Liabilities</b> (Note 12)			
<b>Net Assets</b>			
<b>Stockholders' Equity:</b>			
Common stock:.....	119,419	119,419	1,270,422
Authorized: 1,720,000,000 shares			
Issued: 432,106,693 shares as of March 31, 2013 and 2012, respectively			
Additional paid-in capital .....	128,234	128,177	1,364,192
Retained earnings (Note 13) .....	1,470,015	1,435,693	15,638,466
Less: Treasury stock, at cost .....	(39,167)	(40,925)	(416,673)
7,190,226 shares and 7,512,807 shares as of March 31, 2013 and 2012, respectively			
Total stockholders' equity .....	1,678,502	1,642,365	17,856,408
<b>Accumulated Other Comprehensive Income:</b>			
Unrealized gains (losses) on available-for-sale securities (Note 2 (7)) .....	11,591	1,212	123,311
Deferred gains (losses) on hedges .....	174	25	1,858
Foreign currency translation adjustments.....	(114,172)	(190,249)	(1,214,601)
Total accumulated other comprehensive income.....	(102,406)	(189,011)	(1,089,431)
<b>Share Subscription Rights</b> .....	2,149	3,491	22,864
<b>Minority Interests in Consolidated Subsidiaries</b> .....	44,931	37,727	477,989
Total net assets.....	1,623,176	1,494,573	17,267,831
<b>Total Liabilities and Net Assets</b> .....	¥1,920,903	¥1,809,841	\$20,435,140

# Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES  
For the years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2013	2012	2011	2013
<b>Net Sales</b> (Note 25) .....	¥1,025,409	¥1,047,731	¥1,058,257	\$10,908,610
<b>Cost of Sales</b> (Notes 11 and 17) .....	769,427	798,592	803,574	8,185,402
Gross profit .....	255,981	249,138	254,682	2,723,207
<b>Selling, General and Administrative Expenses</b> (Notes 11, 16 and 17) .....	98,938	99,505	105,460	1,052,534
Operating income (Note 25) .....	157,043	149,632	149,221	1,670,672
<b>Other Income (Expenses):</b>				
Interest income .....	2,417	2,978	2,800	25,720
Dividend income .....	1,560	1,530	1,350	16,596
Equity in earnings of affiliates .....	6,430	15,656	12,627	68,412
Interest expenses .....	(465)	(517)	(529)	(4,948)
Loss on disposal of property, plant and equipment .....	(690)	(938)	(897)	(7,350)
Foreign exchange gain (loss) .....	4,565	(416)	(9,122)	48,568
Other, net .....	(653)	(2,688)	4,888	(6,957)
Ordinary income .....	170,207	165,237	160,338	1,810,715
<b>Extraordinary Income (Losses):</b>				
Reversal of restoration costs for earthquake (Note 19) .....	—	5,491	—	—
Loss on sales of investment securities .....	(6,137)	—	—	(65,287)
Loss on impairment of fixed assets (Note 20) .....	—	(6,191)	—	—
Loss on disaster (Note 21) .....	—	(5,312)	(21,032)	—
Provision of allowance for doubtful accounts .....	—	(4,553)	—	—
Income before income taxes and minority interests .....	164,070	154,671	139,305	1,745,427
<b>Income Taxes</b> (Note 22):				
Current .....	37,059	56,417	35,998	394,249
Prior years .....	—	—	(10,654)	—
Deferred .....	19,696	(2,259)	12,643	209,535
	56,755	54,157	37,987	603,785
Income before minority interests .....	107,314	100,513	101,318	1,141,642
<b>Minority Interests in Earnings of Consolidated Subsidiaries</b> .....	(1,599)	129	(1,199)	(17,019)
<b>Net Income</b> .....	¥ 105,714	¥ 100,643	¥ 100,119	\$ 1,124,623
		Yen		U.S. dollars (Note 3)
<b>Per Share</b> (Note 2 (14)):				
Net income—primary .....	¥248.94	¥237.03	¥235.80	\$2.648
Net income—fully diluted .....	248.92	—	235.80	2.648
Cash dividends .....	100.00	100.00	100.00	1.064
<b>Weighted-Average Number of Shares Outstanding</b> (Thousands) .....	424,651	424,594	424,598	424,651

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, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2013	2012	2011	2013
<b>Income before Minority Interests</b> .....	<b>¥107,314</b>	¥100,513	¥101,318	<b>\$1,141,642</b>
<b>Other Comprehensive Income</b> (Note 23):				
Unrealized gains (losses) on available-for-sale securities .....	<b>10,314</b>	(2,410)	(3,466)	<b>109,724</b>
Deferred gains (losses) on hedges .....	<b>238</b>	(211)	136	<b>2,541</b>
Foreign currency translation adjustments.....	<b>66,415</b>	(28,452)	(56,951)	<b>706,547</b>
Share of other comprehensive income of associates accounted for by using equity method.....	<b>6,499</b>	(2,988)	(3,117)	<b>69,140</b>
Total other comprehensive income .....	<b>83,467</b>	(34,063)	(63,400)	<b>887,954</b>
<b>Comprehensive Income</b> .....	<b>¥190,782</b>	¥ 66,450	¥ 37,918	<b>\$2,029,597</b>
(Breakdown)				
Comprehensive income attributable to owners of the parent....	<b>¥186,861</b>	¥67,547	¥38,175	<b>\$1,987,887</b>
Comprehensive income attributable to minority interests .....	<b>3,920</b>	(1,097)	(256)	<b>41,710</b>

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					Total net assets	
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total	Share subscription rights		Minority interests in consolidated subsidiaries
<b>Balance at March 31, 2010</b> .....	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 and equity method .....				(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)
<b>Balance at March 31, 2011</b> .....	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 and equity method .....				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)
<b>Balance at March 31, 2012</b> .....	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
Cash dividends (Note 13).....				(42,459)		(42,459)							(42,459)
Net income.....				105,714		105,714							105,714
Changes in scope of consolidation and equity method .....				(28,932)		(28,932)							(28,932)
Purchase of treasury stock....					(11)	(11)							(11)
Disposal of treasury stock.....			56		1,769	1,825							1,825
Net changes of items other than stockholders' equity.....							10,378	148	76,077	86,605	(1,342)	7,203	92,465
<b>Balance at March 31, 2013</b> .....	432,106	¥119,419	¥128,234	¥1,470,015	¥(39,167)	¥1,678,502	¥11,591	¥ 174	¥(114,172)	¥(102,406)	¥ 2,149	¥44,931	¥1,623,176

	Thousands		Thousands of U.S. dollars (Note 3)										
	Number of shares of common stock	Stockholders' Equity					Accumulated Other Comprehensive Income					Total net assets	
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total	Share subscription rights		Minority interests in consolidated subsidiaries
<b>Balance at March 31, 2012</b> .....	432,106	\$1,270,422	\$1,363,592	\$15,273,330	\$(435,374)	\$17,471,970	\$ 12,897	\$ 275	\$(2,023,934)	\$(2,010,761)	\$ 37,147	\$401,357	\$15,899,714
Cash dividends (Note 13).....				(451,696)		(451,696)							(451,696)
Net income.....				1,124,623		1,124,623							1,124,623
Changes in scope of consolidation and equity method .....				(307,790)		(307,790)							(307,790)
Purchase of treasury stock....					(118)	(118)							(118)
Disposal of treasury stock.....			600		18,819	19,419							19,419
Net changes of items other than stockholders' equity.....							110,413	1,582	809,333	921,330	(14,283)	76,631	983,679
<b>Balance at March 31, 2013</b> .....	432,106	\$1,270,422	\$1,364,192	\$15,638,466	\$(416,673)	\$17,856,408	\$123,311	\$1,858	\$(1,214,601)	\$(1,089,431)	\$ 22,864	\$477,989	\$17,267,831

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, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2013	2012	2011	2013
<b>Cash Flows from Operating Activities:</b>				
Income before income taxes.....	¥ 164,070	¥154,671	¥ 139,305	\$1,745,427
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization.....	80,961	82,868	93,732	861,294
Loss on impairment of fixed assets.....	—	6,191	—	—
Increase in accrued retirement benefits.....	2,486	2,663	1,727	26,446
(Gain) loss on sales of investment securities.....	6,039	(23)	(1,202)	64,250
Loss on write-down of investment securities.....	485	677	52	5,164
Increase (decrease) in allowance for doubtful accounts.....	(210)	4,496	(166)	(2,240)
Interest and dividend income.....	(3,977)	(4,509)	(4,150)	(42,316)
Interest expenses.....	465	517	529	4,948
Exchange (gain) loss.....	323	(395)	3,918	3,436
Equity in earnings of affiliates.....	(6,430)	(15,656)	(12,627)	(68,412)
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable.....	32,803	2,110	(7,274)	348,971
(Increase) decrease in inventories.....	17,708	(77,517)	(11,292)	188,391
Increase in long-term advance payment.....	7,521	(2,354)	(5,285)	80,015
Increase (decrease) in notes and accounts payable.....	(1,189)	(1,585)	20,822	(12,649)
Increase (decrease) in provision for loss on disaster.....	—	(4,725)	24,401	—
Other, net.....	(5,700)	(6,472)	(15,156)	(60,646)
Subtotal.....	295,355	140,960	227,333	3,142,080
Proceeds from interest and dividends.....	4,754	8,553	14,335	50,575
Payment of interest.....	(482)	(513)	(538)	(5,132)
Payment of income taxes.....	(64,004)	(41,124)	(33,277)	(680,899)
Income taxes refund.....	—	—	9,637	—
Payment for disaster losses.....	—	(21,041)	—	—
Insurance income on disaster.....	—	9,733	—	—
<b>Net cash provided by operating activities.....</b>	<b>235,622</b>	<b>96,567</b>	<b>217,490</b>	<b>2,506,623</b>
<b>Cash Flows from Investing Activities:</b>				
Purchases of securities.....	(66,030)	(24,988)	(26,044)	(702,451)
Proceeds from redemption of securities.....	18,810	21,400	16,900	200,106
Proceeds from sales of securities.....	5,189	6,031	5,576	55,206
Purchases of property, plant and equipment.....	(80,775)	(80,320)	(117,517)	(859,314)
Proceeds from sales of property, plant and equipment.....	285	513	410	3,037
Purchases of intangible fixed assets.....	(884)	(904)	(1,539)	(9,405)
Purchases of investments in securities.....	(7,581)	(691)	(3,104)	(80,658)
Proceeds from sales of investments in securities.....	898	195	2,203	9,561
Proceeds from redemption of investments in securities.....	22,978	—	3,181	244,450
Payments of loans.....	(5,368)	(7,595)	(207)	(57,109)
Proceeds from collection of loans.....	327	464	34	3,482
Other, net.....	(7,103)	(3,296)	(11,898)	(75,564)
<b>Net cash used for investing activities.....</b>	<b>(119,254)</b>	<b>(89,190)</b>	<b>(132,005)</b>	<b>1,268,659</b>
<b>Cash Flows from Financing Activities:</b>				
Net increase (decrease) in short-term borrowings.....	(3,407)	2,058	(211)	(36,255)
Proceeds from long-term debt.....	6,517	1,188	13	69,339
Repayment of long-term debt.....	(5,482)	(2,093)	(5,387)	(58,327)
Purchase of treasury stock.....	(11)	(9)	(25)	(118)
Proceeds from sales of treasury stock.....	1,490	1	0	15,861
Cash dividends paid.....	(42,459)	(42,459)	(42,460)	(451,696)
Cash dividends paid to minority interests.....	(574)	(879)	(466)	(6,112)
Other, net.....	(84)	20	(84)	(894)
<b>Net cash used for financing activities.....</b>	<b>(44,011)</b>	<b>(42,174)</b>	<b>(48,621)</b>	<b>(468,202)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents.....</b>	<b>16,899</b>	<b>(7,026)</b>	<b>(5,511)</b>	<b>179,786</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents.....</b>	<b>89,257</b>	<b>(41,824)</b>	<b>31,352</b>	<b>949,547</b>
<b>Cash and Cash Equivalents at Beginning of Year.....</b>	<b>270,321</b>	<b>302,285</b>	<b>270,443</b>	<b>2,875,755</b>
<b>Increase (Decrease) in Cash and Cash Equivalents Resulting from Changes in Scope of Consolidation.....</b>	<b>3,450</b>	<b>9,859</b>	<b>489</b>	<b>36,705</b>
<b>Cash and Cash Equivalents at End of Year (Note 24).....</b>	<b>¥ 363,028</b>	<b>¥270,321</b>	<b>¥ 302,285</b>	<b>\$3,862,009</b>

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, 2013, 2012 and 2011

## 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 119 majority-owned subsidiaries as of March 31, 2013 (110 and 102 as of March 31, 2012 and 2011, respectively). The consolidated financial statements include the accounts of the Company and 87 (77 and 72 for 2012 and 2011, respectively) majority-owned subsidiaries (the "Companies"), of which the principal firms are listed on page 65 with their respective fiscal year-ends.

The remaining 32 (33 and 30 for 2012 and 2011, 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.

Kashima Vinyl Chloride Monomer Co., Ltd., which had previously been an affiliate under the equity method, and Kashima Chlorine & Alkali Co., Ltd., which had previously been a non-equity-method affiliate, were newly included in the scope of consolidation due to the acquisition of additional shares and increased importance respectively. Shin-Etsu Magnetics Philippines, Inc., which had previously been an unconsolidated subsidiary, was newly included in the scope of consolidation due to increased importance.

Shin-Etsu Unit Co., Ltd., which had previously been a consolidated subsidiary, was excluded from the scope of consolidation due to an absorption-type merger with Shin-Etsu Finetech Co., Ltd., which is a consolidated subsidiary.

### (2) Accounting for investments in unconsolidated subsidiaries and affiliates

The Company had 32 (33 and 30 for 2012 and 2011, respectively) unconsolidated subsidiaries (majority-owned) and 16 (17 and 17 for 2012 and 2011, respectively) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 4 (7 and 7 for 2012 and 2011, 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.

Hemlock Semiconductor Corp. and Hemlock Semiconductor L.L.C., which had previously been affiliates under the equity method, were excluded from the scope of equity method application due to a decrease in equity interests in these affiliates.

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.

### (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, 2013 and 2012.

#### **(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.

Effective from the fiscal year ended March 31, 2013, due to a revision of the corporate tax law in Japan, the Company and some of its domestic consolidated subsidiaries have applied a depreciation method based on the revised law for tangible assets purchased on or after April 1, 2012. The impact of this change on operating income, ordinary income and income before income taxes for the fiscal year ended March 31, 2013 is immaterial.

#### **(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) 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.

**(13) Research and development costs**

Research and development costs are charged to income as incurred.

**(14) 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.

**(15) 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.

**(16) Accrued retirement bonuses for directors**

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

**(17) 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.

**(18) Consumption tax**

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

**(19) Reclassifications**

Certain reclassifications have been made in the 2012 and 2011 financial statements to conform to the presentation for 2013.

**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 ¥94 to US\$1, the approximate effective rate of exchange on March 31, 2013. 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 ¥94 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, 2013 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, 2013.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Notes and accounts receivable—trade			
Trade notes receivable .....	¥2,462	¥2,509	\$26,199
Notes and accounts payable—trade			
Trade notes payable .....	1,340	975	14,261
Other .....	20	8	216

## 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, 2013 and 2012, book value, fair value and the difference between the two are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2013			2013		
	Book value	Fair value	Difference	Book value	Fair value	Difference
<b>Assets:</b>						
(1) Cash and time deposits.....	¥252,881	¥252,881	¥ —	\$2,690,227	\$2,690,227	\$ —
(2) Notes and accounts receivable—trade .....	243,785	243,785	—	2,593,466	2,593,466	—
(3) Securities and investments in securities						
i) Bonds held to maturity.....	11,890	11,933	42	126,497	126,953	456
ii) Investments in and advances to unconsolidated subsidiaries and affiliates..	21,932	13,008	(8,924)	233,327	138,383	(94,943)
iii) Available-for-sale securities.....	265,575	265,575	—	2,825,273	2,825,273	—
(4) Long-term loans .....	6,405	6,644	238	68,144	70,686	2,541
<b>Total</b> .....	<b>¥802,471</b>	<b>¥793,829</b>	<b>¥(8,642)</b>	<b>\$8,536,936</b>	<b>\$8,444,990</b>	<b>\$(91,945)</b>
<b>Liabilities:</b>						
(1) Notes and accounts payable—trade.....	¥100,197	¥100,197	¥ —	\$1,065,932	\$1,065,932	\$ —
(2) Short-term borrowings.....	5,507	5,507	—	58,589	58,589	—
(3) Accounts payable—other .....	28,882	28,882	—	307,265	307,265	—
(4) Accrued expenses .....	45,537	45,537	—	484,437	484,437	—
(5) Accrued income taxes.....	6,220	6,220	—	66,177	66,177	—
(6) Long-term debt.....	7,709	7,665	(44)	82,018	81,546	(472)
<b>Total</b> .....	<b>¥194,055</b>	<b>¥194,011</b>	<b>¥ (44)</b>	<b>\$2,064,421</b>	<b>\$2,063,949</b>	<b>\$ (472)</b>
<b>Derivative transactions:</b>						
Hedge accounting not applied .....	¥ (1,376)	¥ (1,376)	¥ —	\$ (14,647)	\$ (14,647)	\$ —
Hedge accounting applied.....	416	416	—	4,435	4,435	—
<b>Total</b> .....	<b>¥ (959)</b>	<b>¥ (959)</b>	<b>¥ —</b>	<b>\$ (10,211)</b>	<b>\$ (10,211)</b>	<b>\$ —</b>

	Millions of yen		
	2012		
	Book value	Fair value	Difference
<b>Assets:</b>			
(1) Cash and time deposits.....	¥241,390	¥241,390	¥ —
(2) Notes and accounts receivable—trade .....	264,283	264,283	—
(3) Securities and investments in securities			
i) Bonds held to maturity.....	15,043	15,119	75
ii) Investments in and advances to unconsolidated subsidiaries and affiliates.....	21,822	11,105	(10,716)
iii) Available-for-sale securities.....	119,581	119,581	—
(4) Long-term loans .....	3,583	3,811	228
<b>Total</b> .....	<b>¥665,704</b>	<b>¥655,291</b>	<b>¥(10,412)</b>
<b>Liabilities:</b>			
(1) Notes and accounts payable—trade.....	¥109,378	¥109,378	¥ —
(2) Short-term borrowings.....	13,862	13,862	—
(3) Accounts payable—other .....	32,011	32,011	—
(4) Accrued expenses .....	45,375	45,375	—
(5) Accrued income taxes.....	34,758	34,758	—
(6) Long-term debt .....	1,454	1,449	(4)
<b>Total</b> .....	<b>¥236,840</b>	<b>¥236,835</b>	<b>¥ (4)</b>
<b>Derivative transactions:</b>			
Hedge accounting not applied .....	¥ 1,124	¥ 1,124	¥ —
Hedge accounting applied.....	(100)	(100)	—
<b>Total</b> .....	<b>¥ 1,024</b>	<b>¥ 1,024</b>	<b>¥ —</b>

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. Negotiable certificates of deposit are settled within a short time, and the fair value and book value are nearly equal. Thus, the book value is listed as fair value in the table above.

(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
	2013	2012	2013
Non-listed equity securities.....	¥39,106	¥81,531	\$416,029
Investment securities, etc. ....	5,426	5,484	57,727
<b>Total</b> .....	<b>¥44,533</b>	<b>¥87,015</b>	<b>\$473,757</b>

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			
	2013				2013			
	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 .....	¥252,845	¥ —	¥ —	¥ —	\$2,689,842	\$ —	\$ —	\$ —
Notes and accounts receivable.....	243,785	—	—	—	2,593,466	—	—	—
Securities and investments in securities ....	214,380	2,141	5,000	—	2,280,645	22,784	53,191	—
Long-term loans.....	—	2,053	4,052	299	—	21,850	43,106	3,187
<b>Total</b> .....	<b>¥711,011</b>	<b>¥4,195</b>	<b>¥9,052</b>	<b>¥299</b>	<b>\$7,563,954</b>	<b>\$44,635</b>	<b>\$96,298</b>	<b>\$3,187</b>

Description	Millions of yen			
	2012			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Time deposits .....	¥241,346	¥ —	¥ —	¥ —
Notes and accounts receivable.....	264,283	—	—	—
Securities and investments in securities .....	89,325	6,182	164	—
Long-term loans.....	—	1,814	1,502	266
<b>Total</b> .....	<b>¥594,955</b>	<b>¥7,996</b>	<b>¥1,666</b>	<b>¥266</b>

4. Repayment schedule of short-term borrowings, long-term debt and lease obligations.

Description	Millions of yen					
	2013					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term borrowings .....	¥5,238	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt .....	268	365	396	1,537	5,360	49
Lease obligations .....	219	202	179	72	34	3
<b>Total</b> .....	<b>¥5,727</b>	<b>¥567</b>	<b>¥575</b>	<b>¥1,610</b>	<b>¥5,395</b>	<b>¥53</b>

Description	Thousands of U.S. dollars					
	2013					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term borrowings .....	\$55,731	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt .....	2,857	3,892	4,214	16,356	57,025	530
Lease obligations .....	2,339	2,150	1,905	773	369	34
<b>Total</b> .....	<b>\$60,928</b>	<b>\$6,042</b>	<b>\$6,120</b>	<b>\$17,130</b>	<b>\$57,395</b>	<b>\$564</b>

Description	Millions of yen					
	2012					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term borrowings.....	¥ 8,410	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt .....	5,451	15	61	63	1,213	99
Lease obligations .....	119	103	85	61	33	12
<b>Total</b> .....	<b>¥13,981</b>	<b>¥119</b>	<b>¥147</b>	<b>¥124</b>	<b>¥1,247</b>	<b>¥112</b>

## 6. SECURITIES

Securities as of March 31, 2013 and 2012 consisted of the following:

### (1) Market value of bonds held to maturity

Description	Millions of yen						Thousands of U.S. dollars		
	2013			2012			2013		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with fair value that exceeds book value.....	¥10,920	¥10,970	¥49	¥ 7,043	¥ 7,129	¥ 85	\$ 116,175	\$ 116,704	\$ 528
Securities with fair value that does not exceed book value.....	970	963	(6)	7,999	7,989	(10)	10,321	10,249	(71)
<b>Total</b> .....	<b>¥11,890</b>	<b>¥11,933</b>	<b>¥42</b>	<b>¥15,043</b>	<b>¥15,119</b>	<b>¥ 75</b>	<b>\$126,497</b>	<b>\$126,953</b>	<b>\$456</b>

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

Description	Millions of yen						Thousands of U.S. dollars		
	2013			2012			2013		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value that exceeds acquisition cost.....	¥ 41,121	¥ 20,483	¥20,638	¥ 27,119	¥ 19,623	¥ 7,495	\$ 437,464	\$ 217,905	\$219,558
Securities with book value that does not exceed acquisition cost.....	224,454	226,955	(2,501)	92,462	97,799	(5,337)	2,387,808	2,414,424	(26,615)
<b>Total</b> .....	<b>¥265,575</b>	<b>¥247,438</b>	<b>¥18,136</b>	<b>¥119,581</b>	<b>¥117,423</b>	<b>¥ 2,158</b>	<b>\$2,825,273</b>	<b>\$2,632,329</b>	<b>\$192,943</b>

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, 2013

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\$.....	¥41,135	¥(1,447)	¥(1,447)	\$437,609	\$(15,395)	\$(15,395)
EUR.....	2,946	(289)	(289)	31,350	(3,077)	(3,077)
Other.....	1,298	99	99	13,812	1,060	1,060
Purchase Contracts:						
US\$.....	346	(3)	(3)	3,691	(42)	(42)
EUR.....	10	0	0	109	9	9
Other.....	4,311	(344)	(344)	45,868	(3,662)	(3,662)
Foreign currency swap contracts						
Receive Japanese Yen, pay British Pounds...	3,099	610	610	32,970	6,492	6,492
<b>Total</b> .....	<b>¥53,148</b>	<b>¥(1,373)</b>	<b>¥(1,373)</b>	<b>\$565,412</b>	<b>\$(14,615)</b>	<b>\$(14,615)</b>



As of March 31, 2012

Description	Millions of yen		
	Contract amounts	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sales Contracts:			
US\$.....	¥39,180	¥ 93	¥ 93
EUR.....	2,805	(101)	(101)
Other.....	1,501	23	23
Purchase Contracts:			
US\$.....	184	1	1
EUR.....	0	0	0
Other.....	1,417	(7)	(7)
Foreign currency swap contracts			
Receive Japanese Yen, pay British Pounds.....	4,161	1,117	1,117
<b>Total</b> .....	<b>¥49,251</b>	<b>¥1,127</b>	<b>¥1,127</b>

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

2) Interest related:  
As of March 31, 2013

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.....	¥195	¥(2)	¥(2)	\$2,074	\$(31)	\$(31)
<b>Total</b> .....	<b>¥195</b>	<b>¥(2)</b>	<b>¥(2)</b>	<b>\$2,074</b>	<b>\$(31)</b>	<b>\$(31)</b>

As of March 31, 2012

Description	Millions of yen		
	Contract amounts	Fair value	Unrealized gain (loss)
Interest rate swap contracts			
Receive floating, pay fixed.....	¥199	¥(2)	¥(2)
<b>Total</b> .....	<b>¥199</b>	<b>¥(2)</b>	<b>¥(2)</b>

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, 2013

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen			Thousands of U.S. dollars		
			Contract amounts	Contract amounts over one year	Fair value	Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Forward foreign exchange contracts: Purchase contracts	EUR Accounts payable-trade	¥2,715	¥—	¥416	\$28,890	\$—	\$4,435
			<b>Total</b> .....	<b>¥2,715</b>	<b>¥—</b>	<b>¥416</b>	<b>\$28,890</b>	<b>\$—</b>

As of March 31, 2012

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen		
			Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Forward foreign exchange contracts:				
	Sales contracts				
	US\$	Accounts receivable-trade	¥1,612	¥ —	¥ (78)
	EUR	Accounts receivable-trade	13	—	(0)
	Purchase contracts				
	EUR	Accounts payable-trade	5,650	2,715	115
	US\$	Accounts payable-trade	93	—	5
Deferral hedge accounting	Foreign currency swap contracts:				
	Receive US\$ pay Thai Baht	Long-term debt	¥ 802	¥ —	¥(142)
<b>Total</b>			<b>¥8,171</b>	<b>¥2,715</b>	<b>¥(100)</b>

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

2) Interest related:

As of March 31, 2013

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen			Thousands of U.S. dollars		
			Contract amounts	Contract amounts over one year	Fair value	Contract amounts	Contract amounts over one year	Fair value
Special hedge accounting treatment of interest rate swaps under JGAAP	Interest rate swap contracts: Receive floating, pay fixed	Interest of investments in securities	¥5,000	¥—	¥(39)	\$53,191	\$—	\$(416)
<b>Total</b>			<b>¥5,000</b>	<b>¥—</b>	<b>¥(39)</b>	<b>\$53,191</b>	<b>\$—</b>	<b>\$(416)</b>

As of March 31, 2012

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	¥(110)
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
<b>Total</b>			<b>¥10,000</b>	<b>¥5,000</b>	<b>¥ (85)</b>

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, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Investments in securities (Stocks).....	¥55,927	¥83,128	\$594,968
Other (Investments in capital).....	5,211	3,873	55,442

## 9. ACCUMULATED DEPRECIATION

Accumulated depreciation of property, plant and equipment as of March 31, 2013 and 2012 are ¥1,550,390 million (\$16,493,516 thousand) and ¥1,393,976 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, 2013 and 2012 consisted of the following:

	Average interest rate	Due date	Millions of yen		Thousands of U.S. dollars
			2013	2012	2013
Short-term borrowings .....	0.8%	—	¥ 5,238	¥ 8,410	\$ 55,731
Current portion of long-term debt .....	0.9%	—	268	5,451	2,857
Current portion of lease obligations.....	—	—	219	119	2,339
Long-term debt, excluding current portion .....	0.8%	February 2014 – February 2022	7,709	1,454	82,018
Lease obligations, excluding current portion .....	—	January 2014 – January 2019	492	296	5,234
<b>Total .....</b>	—	—	<b>¥13,929</b>	<b>¥15,732</b>	<b>\$148,181</b>

Notes: 1. Average interest rate is the weighted average rate based on the balance as of March 31, 2013.  
 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, 2013 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,				
2015.....	¥ 365	¥202	\$ 3,892	\$2,150
2016.....	396	179	4,214	1,905
2017.....	1,537	72	16,356	773
2018.....	5,360	34	57,025	369

## 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, 2013 and 2012 are analyzed as follows:

### Benefit Obligations

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
(a) Benefit obligations .....	¥(40,595)	¥(33,191)	\$(431,871)
(b) Pension assets .....	17,670	14,291	187,983
(c) Unfunded benefit obligations [(a)+(b)] .....	(22,925)	(18,899)	(243,887)
(d) Unrecognized actuarial differences .....	4,430	3,822	47,137
(e) Unrecognized prior service cost (negative) (Note 1).....	(37)	14	(403)
(f) Net retirement benefit obligations [(c)+(d)+(e)].....	(18,532)	(15,063)	(197,153)
(g) Prepaid pension expenses .....	1,652	1,624	17,580
(h) Accrued retirement benefits [(f)-(g)] .....	¥(20,185)	¥(16,687)	\$(214,734)

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
	2013	2012	2013
(a) Service costs (Note 1) .....	¥2,916	¥2,810	\$31,031
(b) Interest costs.....	1,035	1,056	11,020
(c) Expected return on plan assets.....	(592)	(720)	(6,305)
(d) Recognized actuarial loss.....	1,905	1,097	20,268
(e) Amortization of prior service cost .....	54	(66)	579
(f) Other (Note 2) .....	1,989	1,789	21,162
(g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)] .....	¥7,309	¥5,968	\$77,756

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 1.5% (Principally 2.0% for fiscal year ended March 31, 2012)
(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 of loans by unconsolidated subsidiaries, affiliates and others as of March 31, 2013 and 2012 in the aggregate amounts of ¥474 million (\$5,043 thousand) and ¥25 million, respectively.

In addition, as of March 31, 2013, the Companies had contingent liabilities arising from notes receivable discounted by banks in the amount of ¥131 million (\$1,399 thousand). There were no contingent liabilities arising from notes receivable discounted by banks as of March 31, 2012.

## 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:

Resolution	Type of shares	Record date	Effective date	Millions of yen		Thousands of U.S. dollars	
				Total amount of dividends	Cash dividends per share	Total amount of dividends	Cash dividends per share
Fiscal year ended March 31, 2013							
Ordinary general meeting of shareholders held on June 28, 2012	Common stock	March 31, 2012	June 29, 2012	¥21,229	¥50.00	\$225,847	\$0.53
Board of directors meeting held on October 25, 2012	Common stock	September 30, 2012	November 19, 2012	21,229	50.00	225,848	0.53
<b>Total</b>				¥42,459		\$451,696	

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, 2012						
Ordinary general meeting of shareholders held on June 29, 2011	Common stock	March 31, 2011	June 30, 2011	¥21,229		¥50.00
Board of directors meeting held on October 27, 2011	Common stock	September 30, 2011	November 17, 2011	21,229		50.00
<b>Total</b>				¥42,459		
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
<b>Total</b>				¥42,460		

(2) Cash dividends for the fiscal year ended March 31, 2013 with an effective date in the subsequent fiscal year are as follows:

Resolution	Type of shares	Source of dividends	Record date	Effective date	Millions of yen		Thousands of U.S. dollars	
					Total amount of dividends	Cash dividends per share	Total amount of dividends	Cash dividends per share
Fiscal year ended March 31, 2013								
Ordinary general meeting of shareholders held on June 27, 2013	Common stock	Retained earnings	March 31, 2013	June 28, 2013	¥21,245	¥50.00	\$226,019	\$0.53

Resolution	Type of shares	Source of dividends	Record date	Effective date	Millions of yen	Yen
					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

## 14. SHARE SUBSCRIPTION RIGHTS

Fiscal year ended March 31, 2013

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, 2013	Balance at March 31, 2013
The Company	Stock options (Note)	Common stock	3,131,000	—	1,215,700	1,915,300	¥1,964	\$20,903
Consolidated subsidiary	—	—	—	—	—	—	184	1,961
<b>Total</b>							<b>¥2,149</b>	<b>\$22,864</b>

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
			Beginning Balance	Increase	Decrease	Ending Balance	Balance at March 31, 2012
The Company	Stock options (Note)	Common stock	3,449,900	293,000	611,900	3,131,000	¥3,243
Consolidated subsidiary	—	—	—	—	—	—	248
<b>Total</b>							<b>¥3,491</b>

Note: There are no share subscription rights not yet exercisable as of March 31, 2013; as of March 31, 2012 are ¥231 million.

## 15. STOCK OPTIONS

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

Stock option expenses for the fiscal year ended March 31, 2013 were not recorded. The expenses for the fiscal year ended March 31, 2012 of ¥231 million 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, 2013 and 2012 were ¥944 million (\$10,046 thousand) and ¥461 million, respectively.

Stock options as of March 31, 2013 were as follows:

	2011	2010
Grantees	75 Employees of the Company	68 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
Date of grant	July 27, 2011	October 29, 2010
Vesting conditions	No provision	No provision
Exercise period	July 28, 2012 through March 31, 2016	October 30, 2011 through March 31, 2015

	2009	2008
Grantees	18 Directors of the Company 64 Employees of the Company	16 Directors of the Company 61 Employees of the Company
Number of stock options granted by category of stock (in shares)	937,000 shares of Common Stock	826,000 shares of Common Stock
Date of grant	August 6, 2009	July 14, 2008
Vesting conditions	No provision	No provision
Exercise period	August 7, 2010 through March 31, 2014	July 15, 2009 through March 31, 2013

Movement in stock options was as follows:

	Number of shares				
	2011	2010	2009	2008	2007
Beginning balance.....	293,000	272,000	937,000	792,000	837,000
Granted .....	—	—	—	—	—
Exercised.....	36,000	122,500	166,200	—	—
Forfeited.....	—	—	30,000	24,000	837,000
Unexercised balance.....	257,000	149,500	740,800	768,000	—
	Yen				
Exercise price .....	¥4,423	¥4,352	¥4,804	¥6,755	¥—
Weighted average market value per share at the exercise date.....	5,681.94	5,564.57	5,760.26	—	—
Fair value per share at the grant date.....	789	823	1,235	943	—
	U.S. dollars				
Exercise price .....	\$47.05	\$46.30	\$51.11	\$71.86	\$—
Weighted average market value per share at the exercise date.....	60.446	59.198	61.279	—	—
Fair value per share at the grant date.....	8.39	8.76	13.14	10.03	—

## (2) Shin-Etsu Polymer Co., Ltd.

Stock option expenses for the fiscal years ended March 31, 2013 and 2012 of ¥16 million (\$171 thousand) and ¥20 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, 2013 and 2012 were ¥79 million (\$850 thousand) and ¥120 million, respectively.

Stock options as of March 31, 2013 were as follows:

	2012	2011	2010
Grantees	10 Directors 15 Employees 11 Directors of its subsidiaries	9 Directors 13 Employees 8 Directors of its subsidiaries	9 Directors 14 Employees 10 Directors of its subsidiaries
Number of stock options granted by category of stock (in shares)	475,000 shares of Common Stock	440,000 shares of Common Stock	455,000 shares of Common Stock
Date of grant	September 5, 2012	October 5, 2011	September 2, 2010
Vesting conditions	No provision	No provision	No provision
Exercise period	December 1, 2012 through November 30, 2017	December 1, 2011 through November 30, 2016	December 1, 2010 through November 30, 2015

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

Movement in stock options was as follows:

	Number of shares					
	2012	2011	2010	2009	2008	2007
Beginning balance.....	—	440,000	455,000	445,000	440,000	425,000
Granted .....	475,000	—	—	—	—	—
Exercised.....	—	—	—	—	—	—
Forfeited.....	—	—	—	—	—	425,000
Unexercised balance.....	475,000	440,000	455,000	445,000	440,000	—
	Yen					
Exercise price .....	¥342	¥414	¥505	¥653	¥632	¥1,643
Weighted average market value per share at the exercise date .....	—	—	—	—	—	—
Fair value per share at the grant date.....	34	47	80	139	112	188
	U.S. dollars					
Exercise price .....	\$3.64	\$4.40	\$5.37	\$6.95	\$6.72	\$17.48
Weighted average market value per share at the exercise date .....	—	—	—	—	—	—
Fair value per share at the grant date.....	0.36	0.50	0.85	1.48	1.19	2.00

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

Stock options granted on September 5, 2012

Expected volatility.....	29.421%
Expected remaining life .....	2.74 years
Expected dividend.....	9 yen
Risk-free interest rate .....	0.095%

## 16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2013, 2012 and 2011 mainly consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Shipment expenses .....	¥24,983	¥24,797	¥27,019	\$265,780
Salaries and allowances .....	18,843	18,488	18,407	200,460
Provision for bonuses for employees .....	1,235	1,228	1,344	13,142
Provision for bonuses for directors.....	373	360	400	3,968
Provision for retirement benefits .....	582	565	586	6,194
Provision for retirement bonuses for directors .....	52	48	63	559
Depreciation and amortization .....	1,523	1,485	1,546	16,210
Technical research expenses .....	11,740	11,497	13,223	124,893
<Including provision for retirement benefits> .....	<115>	<118>	<196>	<1,228>
Provision of allowance for doubtful accounts.....	150	21	311	1,602

## 17. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred and charged to income for the years ended March 31, 2013, 2012 and 2011 were ¥37,671 million (\$400,765 thousand), ¥35,725 million and ¥37,321 million, respectively.

## 18. LEASE TRANSACTIONS

Lease expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2013 and 2012 amounted to ¥21 million (\$225 thousand) and ¥95 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the years ended March 31, 2013 and 2012 which were computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value, amounted to ¥21 million (\$225 thousand) and ¥95 million, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Acquisition cost .....	¥76	¥588	\$812
Accumulated depreciation .....	66	557	708
<b>Net book value</b> .....	<b>¥ 9</b>	<b>¥ 31</b>	<b>\$103</b>

The portion of interest thereon, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Future Lease Payments:</b>			
Within one year .....	¥6	¥21	\$ 70
Over one year .....	3	9	32
	<b>¥9</b>	<b>¥31</b>	<b>\$103</b>

The amounts of outstanding future lease payments due in respect of operating lease contracts at March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Future Lease Payments:</b>			
Within one year .....	¥1,599	¥1,858	\$17,016
Over one year .....	2,130	2,430	22,666
	<b>¥3,730</b>	<b>¥4,289</b>	<b>\$39,682</b>

## 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 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.)

Location	Use	Asset category	Millions of yen
			2012
Shirakawa Plant (Nishishirakawa-gun, Fukushima Prefecture)	Idle assets	Construction in progress	¥6,191

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 37.8% for the year ended March 31, 2013, 40.4% for the year ended March 31, 2012.

Tax effects of material temporary differences and loss carry forwards which resulted in deferred tax assets or liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Deferred Tax Assets:</b>			
Depreciation.....	¥ 13,090	¥14,861	\$ 139,260
Accrued retirement benefits.....	5,030	4,293	53,511
Accrued bonus allowance.....	3,531	3,397	37,567
Unrealized profit.....	3,488	3,192	37,113
Maintenance cost.....	3,287	3,681	34,975
Unsettled accounts receivable and payable.....	3,018	5,057	32,109
Allowance for doubtful accounts.....	1,927	1,639	20,508
Tax loss carry forwards.....	1,199	1,562	12,762
Accrued enterprise taxes.....	687	2,492	7,319
Unrealized gains/losses on available-for-sale securities.....	58	51	627
Other.....	16,629	19,434	176,904
Valuation allowance.....	(3,777)	(3,188)	(40,184)
<b>Total.....</b>	<b>¥ 48,172</b>	<b>¥56,474</b>	<b>\$ 512,474</b>
<b>Deferred Tax Liabilities:</b>			
Depreciation.....	¥ 60,329	¥42,532	\$ 641,799
Unrealized gains/losses on available-for-sale securities.....	6,488	770	69,027
Reserve for special depreciation.....	153	204	1,634
Other.....	4,924	3,658	52,391
<b>Total.....</b>	<b>¥ 71,896</b>	<b>¥47,165</b>	<b>\$ 764,852</b>
<b>Net deferred tax assets.....</b>	<b>¥(23,723)</b>	<b>¥ 9,309</b>	<b>\$(252,378)</b>

Net Deferred Tax Assets are included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current assets: Deferred taxes, current.....	¥ 27,462	¥ 34,599	\$292,152
Non-current assets: Deferred taxes, non-current.....	14,590	19,937	155,220
Current liabilities: Other.....	(742)	(931)	(7,903)
Non-current liabilities: Deferred taxes, non-current.....	(65,033)	(44,295)	(691,847)

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

	2013	2012
Statutory tax rate.....	37.8%	40.4%
Rate difference from foreign subsidiaries .....	(2.3)	(2.9)
Equity in earnings of affiliates .....	(1.5)	(4.1)
Dividend income and other not taxable.....	(1.4)	(2.7)
Elimination of intercompany dividend income.....	1.3	2.7
Tax deduction for research expenses .....	(1.0)	(1.5)
Entertainment and other non-deductible expenses.....	0.2	0.3
Adjustment on deferred tax assets due to change in income tax rate .....	—	2.1
Other, net.....	1.5	0.7
<b>Effective tax rate .....</b>	<b>34.6</b>	35.0

### 23. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized gains (losses) on available-for-sale securities			
Amount arising during the year .....	¥15,512	¥ (4,837)	\$165,025
Reclassification adjustment for gains and losses included in net income.....	459	678	4,887
Unrealized gains (losses) on available-for-sale securities before tax.....	15,971	(4,159)	169,913
Tax effect.....	(5,657)	1,748	(60,188)
Unrealized gains (losses) on available-for-sale securities .....	10,314	(2,410)	109,724
Deferred gains (losses) on hedges			
Amount arising during the year .....	324	(179)	3,452
Reclassification adjustment for gains and losses included in net income.....	55	(172)	594
Deferred gains (losses) on hedges before tax.....	380	(351)	4,046
Tax effect.....	(141)	139	(1,504)
Deferred gains (losses) on hedges .....	238	(211)	2,541
Foreign currency translation adjustments			
Amount arising during the year .....	66,415	(28,452)	706,547
Share of other comprehensive income of associates accounted for by using the equity method			
Amount arising during the year .....	5,070	(2,501)	53,941
Reclassification adjustment for gains and losses included in net income.....	1,428	(486)	15,199
Share of other comprehensive income of associates accounted for by using the equity method.....	6,499	(2,988)	69,140
Total other comprehensive income.....	¥83,467	¥(34,063)	\$887,954

## 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 cash equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2013, 2012 and 2011 are presented below:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Cash and time deposits.....	¥252,881	¥241,390	¥244,002	\$2,690,227
Securities.....	214,380	89,301	116,714	2,280,645
Time deposits for which maturities are approximately over three months .....	(47,438)	(43,131)	(46,881)	(504,669)
Securities (maturities approximately over three months).....	(56,794)	(17,238)	(11,550)	(604,194)
Cash and cash equivalents .....	¥363,028	¥270,321	¥302,285	\$3,862,009

## 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, Packaging 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 consolidated 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								
	2013								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment <sup>(1)</sup>	Figures in consolidated financial statements
Sales to outside customers.....	¥343,697	¥129,029	¥83,526	¥202,466	¥182,781	¥ 83,907	¥1,025,409	¥ —	¥1,025,409
Intersegment sales .....	3,385	4,608	8,122	3	3,234	60,900	80,254	(80,254)	—
<b>Total</b> .....	<b>¥347,082</b>	<b>¥133,638</b>	<b>¥91,649</b>	<b>¥202,470</b>	<b>¥186,015</b>	<b>¥144,808</b>	<b>¥1,105,663</b>	<b>¥(80,254)</b>	<b>¥1,025,409</b>
Segment income (Operating income) .....	¥ 45,552	¥ 28,643	¥14,467	¥ 21,937	¥ 40,863	¥ 5,601	¥ 157,065	¥ (22)	¥ 157,043
Depreciation and amortization.....	¥ 20,416	¥ 8,245	¥ 8,105	¥ 26,193	¥ 13,754	¥ 3,708	¥ 80,424	¥ (284)	¥ 80,139
Amortization of goodwill ...	¥ —	¥ —	¥ 815	¥ —	¥ —	¥ 6	¥ 822	¥ 0	¥ 822
Increase in property, plant and equipment and intangible fixed assets <sup>(2)</sup>	¥ 18,478	¥ 15,374	¥12,193	¥ 14,828	¥ 18,209	¥ 4,161	¥ 83,245	¥ (226)	¥ 83,018

	Millions of yen								
	2012								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment <sup>(1)</sup>	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)	—
<b>Total</b> .....	<b>¥327,854</b>	<b>¥139,944</b>	<b>¥94,974</b>	<b>¥229,657</b>	<b>¥180,746</b>	<b>¥162,134</b>	<b>¥1,135,312</b>	<b>¥(87,581)</b>	<b>¥1,047,731</b>
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 <sup>(1)</sup>	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)	—
<b>Total</b> .....	<b>¥310,352</b>	<b>¥147,121</b>	<b>¥90,162</b>	<b>¥283,795</b>	<b>¥144,848</b>	<b>¥188,362</b>	<b>¥1,164,641</b>	<b>¥(106,384)</b>	<b>¥1,058,257</b>
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 <sup>(3)</sup>	¥ 55,730	¥ 6,641	¥14,661	¥ 24,406	¥ 9,501	¥ 3,320	¥ 114,261	¥ (370)	¥ 113,890

	Thousands of U.S. dollars								Figures in consolidated financial statements
	2013								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment <sup>(1)</sup>	
Sales to outside customers.....	\$3,656,357	\$1,372,655	\$888,580	\$2,153,902	\$1,944,479	\$892,635	\$10,908,610	\$—	\$10,908,610
Intersegment sales.....	36,012	49,025	86,412	36	34,405	647,876	853,768	(853,768)	—
<b>Total</b> .....	<b>\$3,692,369</b>	<b>\$1,421,680</b>	<b>\$974,993</b>	<b>\$2,153,939</b>	<b>\$1,978,885</b>	<b>\$1,540,511</b>	<b>\$11,762,378</b>	<b>\$(853,768)</b>	<b>\$10,908,610</b>
Segment income (Operating income).....	\$484,597	\$304,718	\$153,910	\$233,375	\$434,721	\$59,590	\$1,670,913	\$(241)	\$1,670,672
Depreciation and amortization.....	\$217,201	\$87,719	\$86,226	\$278,650	\$146,324	\$39,455	\$855,578	\$(3,031)	\$852,547
Amortization of goodwill.....	\$—	\$—	\$8,673	\$—	\$—	\$72	\$8,745	\$1	\$8,746
Increase in property, plant and equipment and intangible fixed assets <sup>(2)</sup>	\$196,575	\$163,557	\$129,716	\$157,753	\$193,713	\$44,272	\$885,590	\$(2,414)	\$883,175

Notes: [1] Elimination of intersegment transactions.

[2] During the fiscal year ended March 31, 2013, the Company made investments of ¥3,822 million in unconsolidated subsidiaries established: Shin-Etsu (Changting) Technology Co., Ltd., Shin-Etsu Electronics Materials Vietnam Co., Ltd. and Shin-Etsu Magnetic Materials Vietnam Co., Ltd. The expenditures related to the investments are not included in the table above. The total capital expenditures for the fiscal year ended March 31, 2013, including these investments, amounted to ¥86,841 million. (Capital expenditures for Electronics & Functional Materials Business amounted to ¥22,031 million.)

[3] During the fiscal year ended March 31, 2011, the Company made investments of ¥2,993 million and ¥3,000 million respectively in new unconsolidated 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.)

## 2. Related information

### Geographic information

#### (1) Net Sales

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Net Sales				
Japan.....	¥334,288	¥366,342	¥386,128	\$3,556,264
U.S. ....	190,433	159,617	153,059	2,025,883
China.....	100,109	107,581	113,709	1,064,994
Asia / Oceania excluding China.....	194,891	180,523	191,743	2,073,318
Europe.....	114,538	130,920	122,802	1,218,492
Other.....	91,147	102,744	90,813	969,656
<b>Total</b> .....	<b>¥1,025,409</b>	<b>¥1,047,731</b>	<b>¥1,058,257</b>	<b>\$10,908,610</b>

#### (2) Property, plant and equipment

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Property, plant and equipment				
Japan.....	¥252,894	¥247,440	¥260,693	\$2,690,365
U.S. ....	284,774	261,857	276,339	3,029,516
Other.....	111,981	89,260	83,301	1,191,297
<b>Total</b> .....	<b>¥649,650</b>	<b>¥598,558</b>	<b>¥620,334</b>	<b>\$6,911,179</b>

### 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

Note: Loss on impairment of fixed assets for the fiscal year ended March 31, 2013 is not presented as the amount is immaterial.

### 4. Amortization of goodwill and unamortized balance

Millions of yen								
2013								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill .....	¥—	¥—	¥ 815	¥—	¥—	¥ 6	¥ 0	¥ 822
Unamortized balance .....	¥—	¥—	¥9,363	¥—	¥—	¥—	¥—	¥9,363

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								
2013								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill .....	\$—	\$—	\$ 8,673	\$—	\$—	\$72	\$ 1	\$ 8,746
Unamortized balance .....	\$—	\$—	\$99,608	\$—	\$—	\$—	\$—	\$99,608

## 26. RELATED PARTY TRANSACTIONS

Transactions between the Company and related parties during the fiscal year ended March 31, 2013 are as follows:

Type	Name	Percentage of voting rights	Relationship	Transaction	Millions of yen			Thousands of U.S. dollars
					Transaction amount (Thousands of shares)	Account	Balance	Transaction amount (Thousands of shares)
Director	Shunzo Mori	Direct Ownership 0.01%	Representative Director, President	Exercise of stock options (Note)	¥360 (75)	—	—	\$3,832 (75)
Director	Fumio Akiya	Direct Ownership 0.00%	Representative Director, Executive Vice President	Exercise of stock options (Note)	¥48 (10)	—	—	\$511 (10)
Director	Yasuhiko Saitoh	Direct Ownership 0.00%	Representative Director, Executive Vice President	Exercise of stock options (Note)	¥36 (7.7)	—	—	\$393 (7.7)
Director	Kiichi Habata	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥72 (15)	—	—	\$766 (15)
Director	Masahiko Todoroki	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥38 (8)	—	—	\$408 (8)
Director	Toshiyuki Kasahara	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥28 (6)	—	—	\$306 (6)
Director	Hidenori Onezawa	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥14 (3)	—	—	\$153 (3)
Director	Ken Nakamura	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥28 (6)	—	—	\$306 (6)
Director	Yukihiko Matsui	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥24 (5)	—	—	\$255 (5)

Note: Share subscription rights granted based on resolution by the board of directors meeting held on July 22, 2009 was exercised.

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.

## 27. CHANGES IN THE METHOD OF PRESENTATION

### Consolidated Statements of Changes in Net Assets

The item "Changes in scope of consolidation" for the previous fiscal years ended March 31, 2012 and 2011 is renamed as "Changes in scope of consolidation and equity method" effective from the fiscal year ended March 31, 2013.

## 28. STANDARDS ISSUED BUT NOT YET EFFECTIVE

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009. The major changes are as follows:

- (1) Treatment in the balance sheet – Actuarial gains and losses and prior service cost that have yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
- (2) Treatment in the statement of income and the statement of comprehensive income – Actuarial gains and losses and prior service cost that arose in the current period and have yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and prior service cost that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This standard and related guidance are effective as of the end of fiscal years beginning on or after April 1, 2013. The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

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, 2013

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shintech Inc. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31
Shin-Etsu Handotai America, Inc. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Polymer Co., Ltd.	53.1	March 31
S.E.H. Malaysia Sdn. Bhd. <sup>(1)(2)</sup>	100.0	December 31
Shin-Etsu PVC B.V. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31
SE Tylose GmbH & Co. KG <sup>(1)</sup>	100.0	December 31
Shin-Etsu Handotai Europe, Ltd. <sup>(1)</sup>	100.0	December 31
Nagano Electronics Industrial Co., Ltd.	90.0	February 28
Shin-Etsu Handotai Taiwan Co., Ltd. <sup>(1)</sup>	70.0	December 31
Naoetsu Electronics Co., Ltd.	100.0	February 28
Shin-Etsu Astech Co., Ltd.	99.6	March 31
Kashima Vinyl Chloride Monomer Co., Ltd.	70.6	March 31
S-E, Inc. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Electronics Materials Singapore Pte. Ltd. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Silicone International Trading (Shanghai) Co., Ltd. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Finetech Co., Ltd.	100.0	March 31
Shin-Etsu Magnetics Philippines., Inc. <sup>(1)</sup>	100.0	December 31
JAPAN VAM & POVAL Co., Ltd.	100.0	March 31
CIRES, S.A. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Singapore Pte. Ltd. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Silicone Korea Co., Ltd. <sup>(1)</sup>	100.0	December 31
Shinano Polymer Co., Ltd.	100.0	March 31
Shin-Etsu Silicones (Thailand) Ltd. <sup>(1)</sup>	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd. <sup>(1)</sup>	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 28
Shin-Etsu MicroSi, Inc. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Silicone Taiwan Co., Ltd. <sup>(1)</sup>	93.3	December 31
Shin-Etsu Silicones of America, Inc. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Silicones Europe B.V. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Opto Electronic Co., Ltd. <sup>(1)</sup>	80.0	December 31
Shin-Etsu Polymer (Malaysia) Sdn. Bhd. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Polymer Europe B.V. <sup>(1)</sup>	100.0	December 31
Shin-Etsu International Europe B.V. <sup>(1)</sup>	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 28
Skyward Information System Co., Ltd.	100.0	March 31
Shinano Electric Refining Co., Ltd.	77.5	March 31
Fukui Environmental Analysis Center Co., Ltd.	100.0	February 28
Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu Technology Service Co., Ltd.	76.9	February 28
Urawa Polymer Co., Ltd.	100.0	March 31
Niigata Polymer Company Limited	100.0	March 31
Shin-Etsu Polymer America, Inc. <sup>(1)</sup>	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 28
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. <sup>(1)</sup>	92.0	December 31
PT. Shin-Etsu Polymer Indonesia <sup>(1)</sup>	100.0	December 31
Shin-Etsu Polymer Singapore Pte. Ltd. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Polymer Shanghai Co., Ltd. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Polymer Hong Kong Co., Ltd. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Polymer Hungary Kft. <sup>(1)</sup>	100.0	December 31
Dongguan Shin-Etsu Polymer Co., Ltd. <sup>(1)</sup>	100.0	December 31
Human Create Co., Ltd.	100.0	March 31
Suzhou Shin-Etsu Polymer Co., Ltd. <sup>(1)</sup>	71.4	December 31
S.E.H. (Shah Alam) Sdn. Bhd. <sup>(1)</sup>	100.0	December 31
SHIN-ETSU HANDOTAI SINGAPORE PTE. LTD. <sup>(1)</sup>	100.0	December 31
Simcoa Operations Pty. Ltd. <sup>(1)</sup>	100.0	December 31
Shincor Silicones, Inc. <sup>(1)</sup>	100.0	December 31
K-Bin, Inc. <sup>(1)</sup>	100.0	December 31
Shin-Etsu Silicone (Nantong) Co., Ltd. <sup>(1)</sup>	100.0	December 31
Shin-Etsu (Jiangsu) Optical Preform Co., Ltd. <sup>(1)</sup>	75.0	December 31
Kashima Chlorine & Alkali Co., Ltd.	79.0	March 31
19 other consolidated subsidiaries		

(1) Overseas subsidiary

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

## Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Shin-Etsu Chemical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, 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 its consolidated subsidiaries as at March 31, 2013, 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.



June 27, 2013  
Tokyo, Japan

# Investor Information As of March 31, 2013

## 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:

17,712 (including 87 consolidated subsidiaries)

### Number of Shares Authorized:

1,720,000,000

### Number of Shares Issued:

432,106,693

### Number of Stockholders:

58,910

### 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:

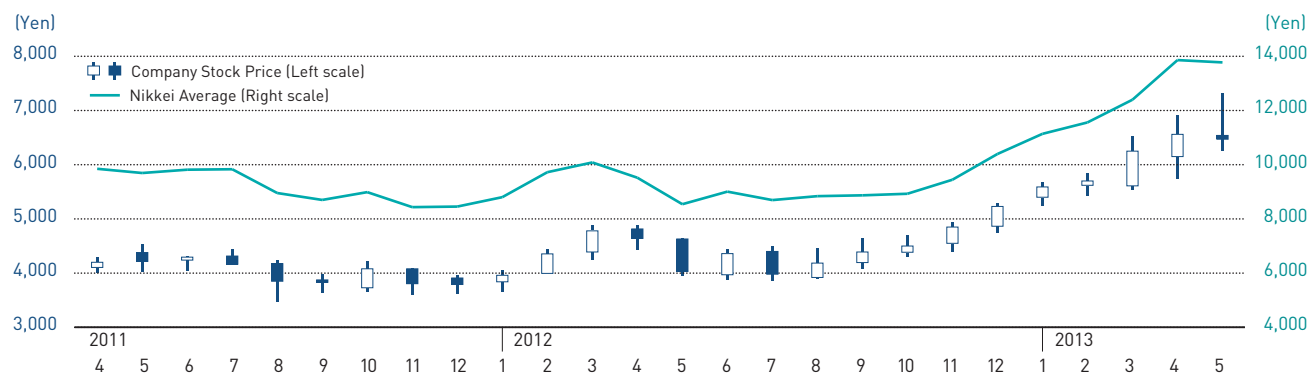
Name	Number of Shares (Thousands)	Percentage of Total Equity (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	37,667	8.9
Japan Trustee Services Bank, Ltd. (Trust Account)	29,538	7.0
Nippon Life Insurance Company	24,370	5.7
The Hachijuni Bank, Ltd.	11,790	2.8
Japan Trustee Services Bank, Ltd. (Trust Account 4)	11,330	2.7
Meiji Yasuda Life Insurance Company	10,687	2.5
SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS	8,975	2.1
STATE STREET BANK AND TRUST COMPANY 505225	6,773	1.6
THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	5,889	1.4
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	5,474	1.3

Note: Shin-Etsu holds 7,190,226 shares of treasury stock, but is excluded from the above list of major stockholders. Stockholding percentages are calculated excluding treasury stock.

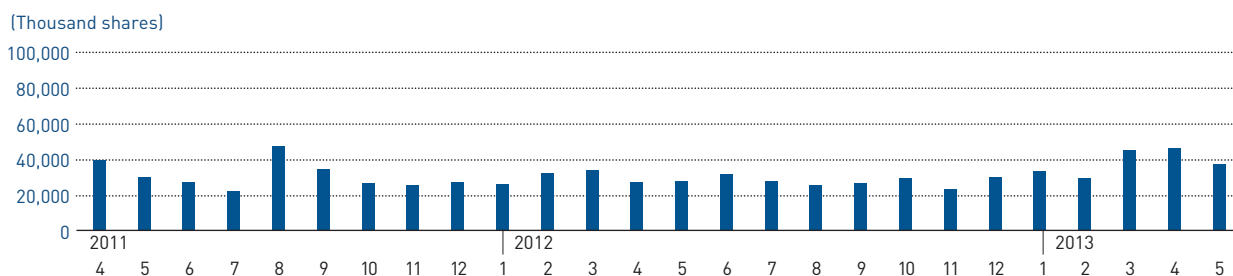
### Information:

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

### Common Stock Price

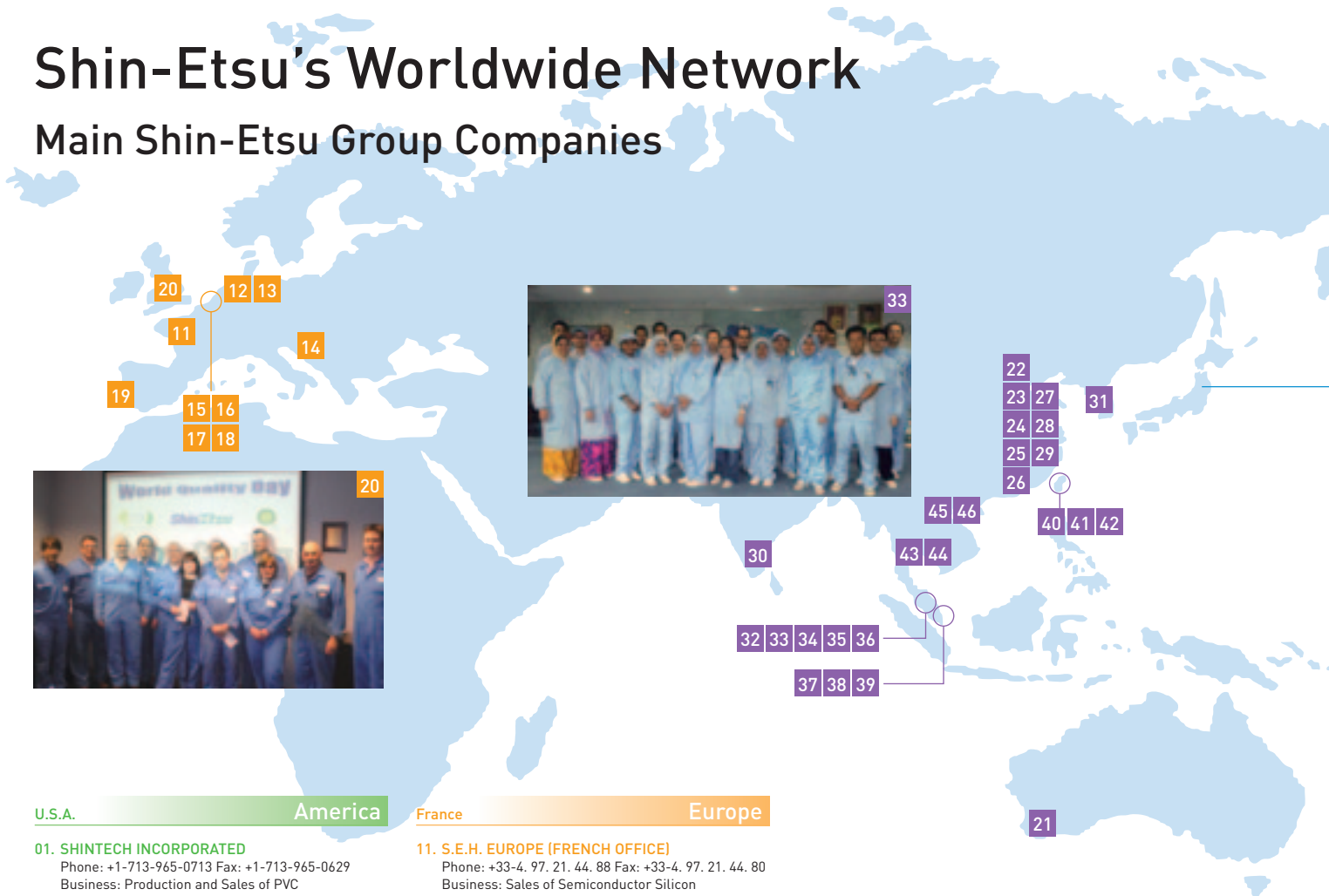


### Trading Volume



# Shin-Etsu's Worldwide Network

## Main Shin-Etsu Group Companies



### U.S.A. America

- 01. SHINTECH INCORPORATED**  
Phone: +1-713-965-0713 Fax: +1-713-965-0629  
Business: Production and Sales of PVC
- 02. SHIN-ETSU HANDOTAI AMERICA, INC. (S.E.H. AMERICA)**  
Phone: +1-360-883-7000 Fax: +1-360-254-6973  
Business: Production and Sales of Semiconductor Silicon
- 03. SHIN-ETSU MAGNETICS, INC.**  
Phone: +1-408-383-9240 Fax: +1-408-383-9245  
Business: Sales of Rare-Earth Magnets
- 04. SHIN-ETSU MICROSSI, 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
- Germany**
- 12. SE TYLOSE GMBH & CO. KG**  
Phone: +49-611-962-8189 Fax: +49-611-962-9071  
Business: Production and Sales of Cellulose Derivatives
  - 13. S.E.H. EUROPE (GERMAN OFFICE)**  
Phone: +49-8161-98905-0 Fax: +49-8161-98905-20  
Business: Sales of Semiconductor Silicon

### Hungary

- 14. SHIN-ETSU POLYMER HUNGARY KFT.**  
Phone: +36-96-887-100 Fax: +36-96-887-110  
Business: Production and Sales of 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, LDA (COMPANHIA INDUSTRIAL DE RESINAS SINTETICAS, LDA)**  
Phone: +351-234-811-200 Fax: +351-234-811-204  
Business: Production and Sales of PVC

### U.K.

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

### Australia Asia-Oceania

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

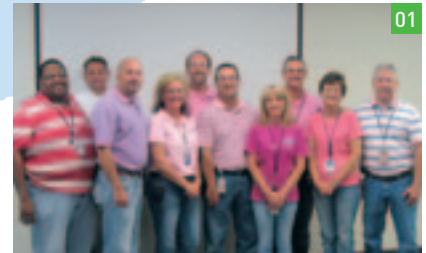
### China

- 22. SHIN-ETSU SILICONE INTERNATIONAL TRADING (SHANGHAI) CO., LTD.**  
Phone: +86-21-6443-5550 Fax: +86-21-6443-5868  
Business: Sales of Silicone Products
- 23. SUZHOU SHIN-ETSU POLYMER CO., LTD.**  
Phone: +86-512-6327-0704 Fax: +86-512-6327-2674  
Business: Production and Sales of 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
- 29. SHIN-ETSU (CHANGTING) TECHNOLOGY CO., LTD.**  
Phone: +86-597-6688270 Fax: +86-597-6688215  
Business: Production and Sales of Magnet Alloys Used for the Manufacture of Rare-Earth Magnets

47	48	49	50	51
52	53	54	55	56
57	58	59	60	



02 10  
07  
03  
05  
04  
01 08  
06 09



#### India

30. **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

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

#### Malaysia

32. **S.E.H. MALAYSIA SDN. BHD.**  
Phone: +60-3-4259-6600 Fax: +60-3-4257-5751  
Business: Production and Sales of Semiconductor Silicon
33. **S.E.H. (SHAH ALAM) SDN. BHD.**  
Phone: +60-3-5123-7000 Fax: +60-3-5191-3111  
Business: Production and Sales of Semiconductor Silicon
34. **SHIN-ETSU ELECTRONICS (MALAYSIA) SDN. BHD.**  
Phone: +60-3-5192-1081 Fax: +60-3-5192-6572  
Business: Production and Sales of Epoxy Molding Compounds
35. **SHIN-ETSU (MALAYSIA) SDN. BHD.**  
Phone: +60-3-5191-2233 Fax: +60-3-5191-2288  
Business: Production and Sales of Rare-Earth Magnets
36. **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

37. **SHIN-ETSU ELECTRONICS MATERIALS SINGAPORE PTE. LTD.**  
Phone: +65-6297-9211 Fax: +65-6297-9311  
Business: Sales of Rare-Earth Magnets and Other Products
38. **SHIN-ETSU SINGAPORE PTE. LTD.**  
Phone: +65-6743-7277 Fax: +65-6743-7477  
Business: Sales of Silicone Products
39. **SHIN-ETSU POLYMER SINGAPORE PTE. LTD.**  
Phone: +65-6735-0007 Fax: +65-6735-0008  
Business: Sales of QA Device Components and Input Devices

#### Taiwan

40. **SHIN-ETSU HANDOTAI TAIWAN CO., LTD. [S.E.H. TAIWAN]**  
Phone: +886-3-577-1188 Fax: +886-3-577-1199  
Business: Production and Sales of Semiconductor Silicon
41. **SHIN-ETSU OPTO ELECTRONIC CO., LTD.**  
Phone: +886-3-578-4566 Fax: +886-3-578-9864  
Business: Production and Sales of Compound Semiconductors
42. **SHIN-ETSU SILICONE TAIWAN CO., LTD.**  
Phone: +886-2-2715-0055 Fax: +886-2-2715-0066  
Business: Production and Sales of Silicone Products
43. **SHIN-ETSU SILICONES (THAILAND) LTD.**  
Phone: +66-2-632-2941 Fax: +66-2-632-2945  
Business: Production and Sales of Silicone Products
44. **ASIA SILICONES MONOMER LTD.**  
Phone: +66-38-687-050 Fax: +66-38-687-060  
Business: Production and Sales of Silicone Monomer

#### Vietnam

45. **SHIN-ETSU MAGNETIC MATERIALS VIETNAM CO., LTD.**  
Phone: +84-31-3250-518 Fax: +84-31-3757-295  
Business: Separation and Refinement of Rare Earths
46. **SHIN-ETSU ELECTRONICS MATERIALS VIETNAM CO., LTD.**  
Phone: +84-321-3974-880 Fax: +84-321-3974-889  
Business: Production and Sales of Silicone-Based Encapsulating Materials and Reflectors for LEDs

#### Japan

47. **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
48. **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
49. **SHIN-ETSU ENGINEERING CO., LTD.**  
Phone: +81-3-3296-1080 Fax: +81-3-3296-1085  
Business: Engineering Services and Production of Mechatronics Systems

#### 50. SHIN-ETSU FILM CO., LTD.

Phone: +81-3-3259-1061 Fax: +81-3-3259-1064  
Business: Production and Sales of PP Film for Condensers

#### 51. 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

#### 52. SHIN-ETSU POLYMER CO., LTD.

Phone: +81-3-5289-3712 Fax: +81-3-5289-3707  
Business: Production and Sales of Synthetic Resin Products

#### 53. SHIN-ETSU QUARTZ PRODUCTS CO., LTD.

Phone: +81-3-3348-1912 Fax: +81-3-3348-4919  
Business: Production and Sales of Quartz Glass Products

#### 54. 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

#### 55. KASHIMA VINYL CHLORIDE MONOMER CO., LTD.

Phone: +81-299-96-3415 Fax: +81-299-96-6354  
Business: Production and Sales of Vinyl Chloride Monomer

#### 56. 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

#### 57. NAOETSU ELECTRONICS CO., LTD.

Phone: +81-25-530-2631 Fax: +81-25-530-2908  
Business: Production, Processing and Sales of Semiconductor Silicon Wafers

#### 58. 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

#### 59. 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

#### 60. SHINANO ELECTRIC REFINING CO., LTD.

Phone: +81-3-5298-1601 Fax: +81-3-5298-0071  
Business: Production and Sales of Carborundum Products

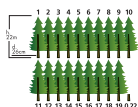


www.shinetsu.co.jp



Shin-Etsu Chemical printed this annual report by reusing 26.29kg of aluminium plates in the printing process, thus **reducing CO<sub>2</sub> emissions by 267.87kg.**

Japan Smart Energy Co.,Ltd. examined this numerical value and confirmed it.



267.87kg is the same quantity of CO<sub>2</sub> which 19.22 cedars of 50 years old (h=22m/d.=26cm) absorb for one year.

(Source: Forestry report 1997, Forestry Agency of Japan)