

Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

Overview of the Shin-Etsu Group

The Shin-Etsu Group (the "Group") is composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 97 subsidiaries and 16 affiliates, as of March 31, 2009. The Organic and Inorganic Chemicals segment focuses on the manufacture and sale of polyvinyl chloride (PVC), silicones and other products. The Electronics Materials segment mainly manufactures and sells semiconductor silicon, and the Functional Materials and Others segment focuses on the manufacture and sale of synthetic quartz and other products as well as providing various services including construction and repair. The Company conducts business activities in mutual cooperation with Group companies in the areas of manufacturing and sales.

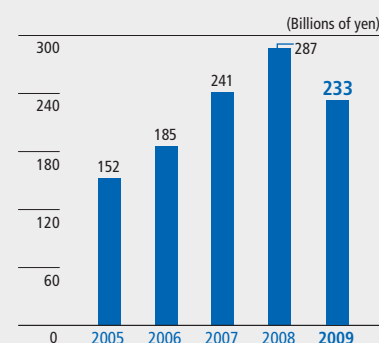
Consolidated Operating Performance

During fiscal 2009, the year ended March 31, 2009, the environment in which the Shin-Etsu Group operates was extremely challenging. Prices of raw materials including crude oil remained high through the first half, and in the second half the global economy deteriorated rapidly due to the financial crisis that originated in the United States. Although the Japanese economy was initially firm, the situation became serious from the second half as corporate earnings fell sharply due to a worldwide decrease in demand, with effects including deterioration of employment.

Under these conditions, the Group carried out aggressive sales activities directed at a wide range of customers worldwide, rationalized and streamlined management, and strenuously worked to develop and commercialize new products. The Group also made efforts to put safety and environmental protection first in all of its operations.

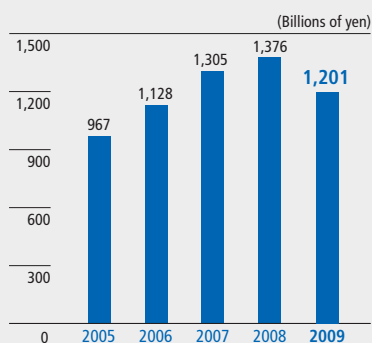
As a result, net sales for fiscal 2009 decreased 12.8% (¥175.6 billion) compared with the previous fiscal year to ¥1,200.8 billion. Operating income decreased 18.9% (¥54.2 billion) to ¥232.9 billion, ordinary income decreased 16.5% (¥49.6 billion) to ¥250.5 billion and net income decreased 15.7% (¥28.8 billion) to ¥154.7 billion.

Operating Income

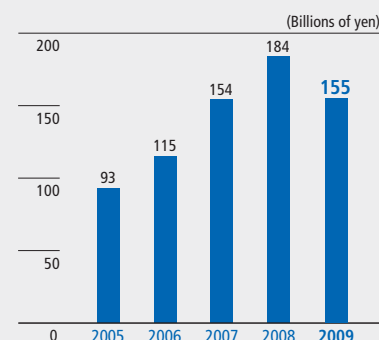


Net sales and operating income decreased due to factors including a sudden decrease in demand for semiconductor silicon both in Japan and overseas.

Net Sales



Net Income



Summary of Net Sales, Operating Costs and Income

Years ended March 31,	Millions of yen			% Change
	2009	2008	2007	2009/2008
Net Sales	1,200,813	1,376,365	1,304,696	(12.8)%
Cost of Sales	853,433	946,941	933,199	(9.9)%
SG&A Expenses	114,453	142,278	130,468	(19.6)%
Operating Income	232,927	287,146	241,029	(18.9)%

Net other income was ¥17.6 billion due to a substantial decrease in foreign exchange loss and other expenses, net, despite decreases in interest and dividend income and equity in earnings of affiliates.

Extraordinary losses totaled ¥6.0 billion due to the absence of net gain on insurance, cumulative effect of foreign subsidiary's accounting change and other extraordinary income recorded in the previous fiscal year, as well as impairment loss for silicone manufacturing facilities at consolidated subsidiary Shin-Etsu Handotai Co., Ltd.

Operating performance by business segment was as follows.

Organic and Inorganic Chemicals

In the PVC business, although the housing market continued to stagnate, Shintech Inc. in the U.S. increased profits significantly by maintaining high-capacity operations through sales expansion efforts aimed at customers worldwide. In addition, Shin-Etsu PVC B.V. in the Netherlands maintained firm sales in Europe. On the other hand, challenging conditions continued in Japan due to a downturn in shipments resulting from the substantial impact of weak demand.

In the silicone business, despite firm sales for applications in fields such as automobiles and information technology equipment in the first half, results were lower than in the previous fiscal year as a result of declining demand across a wide range of fields from the second half. In addition, results for keypads for mobile phones supplied by Shin-Etsu Polymer Co., Ltd. fell sharply due to intensifying price competition and a decrease in shipments.

The cellulose derivatives business was strong in Japan, centered on pharmaceutical applications. However, results were flat at SE Tylose GmbH & Co. KG in Germany due to decreased demand for building material applications. Sales of silicon metal were strong due to an increase in product prices.

As a result, the net sales of this business segment decreased 10.2% (¥71.8 billion) compared with the previous fiscal year to ¥629.2 billion. Operating income decreased 4.4% (¥4.3 billion) to ¥95.1 billion.

Electronics Materials

In the semiconductor silicon business, results were firm in the first half, centered on 300mm wafers, but decreased year on year due to a rapid decrease in demand for semiconductor devices in a wide range of fields from the second half.

Sales of rare-earth magnets for applications in the electronics industry were weak due to the impact of production adjustments for personal computer hard disk drives. In addition, results for photore-sists and organic materials for the electronics industry decreased from the previous fiscal year due to a downturn in shipments.

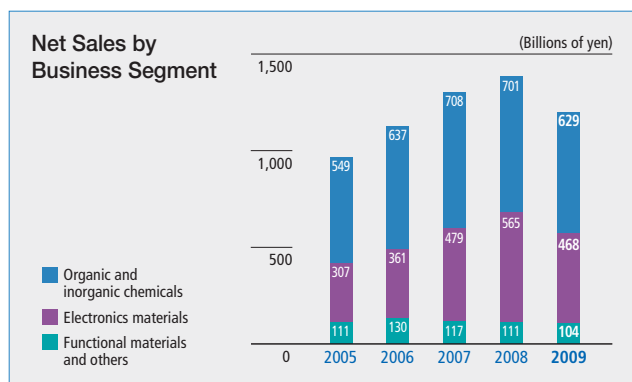
As a result, the net sales of this business segment decreased 17.2% (¥97.2 billion) compared with the previous fiscal year to ¥467.5 billion. Operating income decreased 30.8% (¥49.9 billion) to ¥112.2 billion.

Functional Materials and Others

In the synthetic quartz business, sales of preforms for optical fiber were firm due to increased demand resulting from the world-wide increase in the volume of data communications. However, sales of large-size photomask substrates used for LCDs remained weak due to a drop in demand and the stagnant market.

Results for rare-earth magnets for general applications were flat. Despite strong sales in the first half for applications such as energy-saving motors for air conditioners, demand declined from the second half, primarily for optical pickup and factory automation motor applications. In addition, sales of liquid fluoroelastomers were flat, but shipments of pellicles remained strong.

As a result, the net sales of this business segment decreased 5.9% (¥6.5 billion) compared with the previous fiscal year to ¥104.1 billion. Operating income decreased 1.1% (¥0.3 billion) to ¥25.7 billion.



Analysis of Financial Position

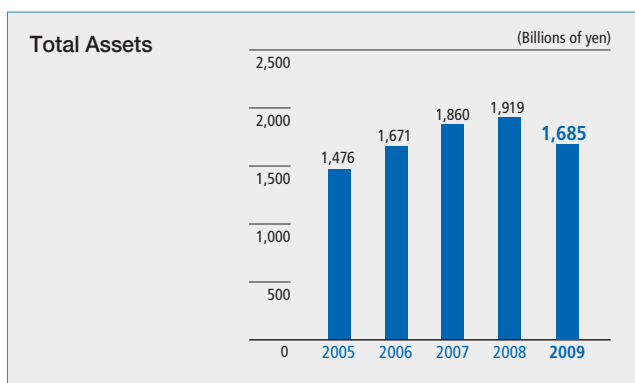
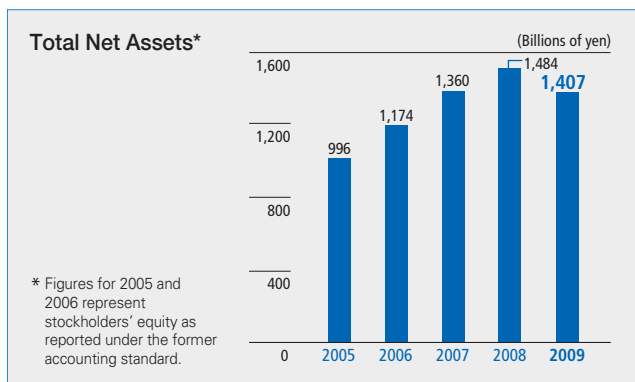
Assets, Liabilities and Net Assets

As of March 31, 2009, total assets decreased ¥233.6 billion from a year earlier to ¥1,684.9 billion. This was mainly due to the decrease in the yen-translated value of assets at overseas subsidiaries resulting from the strong yen.

Total liabilities decreased ¥157.3 billion to ¥277.6 billion. Primary factors include decreases in notes and accounts payable – trade and accounts payable - other for construction of facilities.

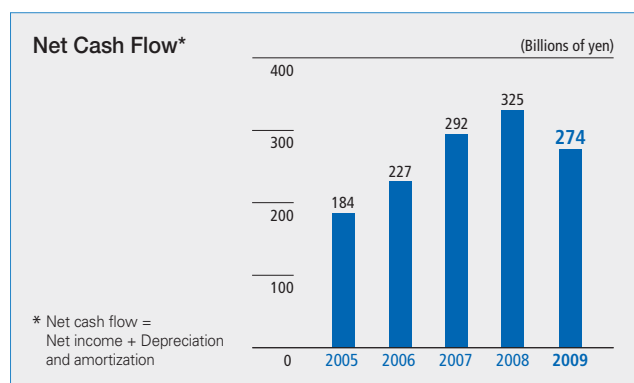
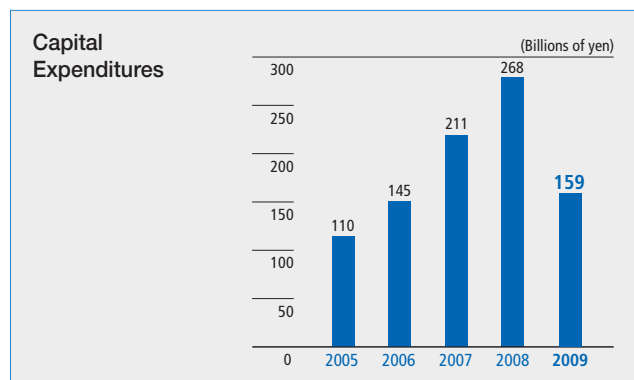
Total net assets decreased ¥76.3 billion to ¥1,407.4 billion. Retained earnings increased due to net income of ¥154.7 billion, but valuation and translation adjustments decreased substantially due to the strong yen.

As a result, the stockholders' equity ratio was 81.1% as of March 31, 2009, an improvement of 6.1 percentage points from 75.0% a year earlier. Net assets per share totaled ¥3,218.28, a decrease of ¥125.89.



Cash Flows from Financing Activities

Net cash used for financing activities increased ¥26.6 billion compared with the previous fiscal year to ¥80.1 billion. Main uses of cash included cash dividends paid of ¥42.9 billion and purchase of treasury stock totaling ¥29.9 billion.



Cash Flows

The balance of cash and cash equivalents at the end of fiscal 2009 decreased by 16.8% (¥50.6 billion) compared with the end of the previous fiscal year to ¥251.0 billion.

Cash Flows from Operating Activities

Net cash provided by operating activities increased ¥54.2 billion compared with the previous fiscal year to ¥256.6 billion. Income before income taxes provided cash of ¥244.5 billion, and depreciation and amortization totaled ¥119.5 billion. Payment of income taxes used cash of ¥91.7 billion, and increase in inventories used cash of ¥20.8 billion.

Cash Flows from Investing Activities

Net cash used for investing activities decreased ¥47.8 billion compared with the previous fiscal year to ¥200.8 billion. The main use of cash was for purchases of property, plant and equipment totaling ¥189.7 billion.

Business Risk

The risks discussed hereinafter could potentially influence such key business matters as the Group's business operations results, financial condition and cash flows.

The Group endeavors to reduce these risks by preventing, dispersing or hedging them. However, if any unforeseeable event occurs, there is a possibility that it could have serious consequences for the Group's business results.

As of the end of the fiscal year under review (the year ended March 31, 2009), the types of risks listed below are those that the Group considers most significant. This list does not represent an attempt to discuss all possible risks that could impact the Group.

1) Influence of Economic Trends and Product Markets

Trends in the economic situation of a country or in local areas where the Group's key products are marketed can have an 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. Although the Group is hedging its risks by such strategies as diversifying and globalizing its business, demand for certain of its products could decrease and price competition could escalate. Such a pattern of events can have huge consequences for the results of the Group's business operations.

2) Influence of Fluctuations in Foreign Exchange Rates

Overseas sales accounted for 62.4% of the total consolidated sales of the Group in fiscal 2009. It is expected that this ratio will remain at a high level. The yen-translated amounts of such items included in the Group's consolidated financial statements related to the results of the Group's consolidated subsidiary companies are influenced by the exchange rate. In case of a large fluctuation in exchange rates, there is a possibility of a major impact on the business operations results of the whole Group. In addition, for transactions in foreign currencies, the Company is taking such measures as making forward-exchange contracts in order to reduce risks. However, a similar major impact might occur.

3) Influence of Natural Disasters, Unexpected Disasters or Unforeseen Accidents

To minimize the damage that could be caused by an interruption of production activities, the Group's production facilities implement such measures as conducting regular disaster prevention checks, carrying out a constant program of facility maintenance activities and making facility investment for safety enhancement. However, unexpected disasters, natural calamities or the effects of unforeseen accidents may cause damage to production facilities and other areas. Such circumstances could have a major impact on the Group's business operations results.

4) Influence of Public Regulatory Requirements and Law

In the countries or local areas where the Group is carrying out business activities, in addition to approvals and licensing requirements regarding investment and import/export regulations, various laws, particularly those concerning commercial transactions, labor, patents, taxes and exchange rates, apply to the Group's business activities. Any changes in these regulations or laws could have a major impact 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 strives to assure steady procurement of these materials by diversifying raw material supply sources. However, in cases where tightening or delays in the supply of these materials occurs, resulting in price increases, there is a possibility of a major impact on the Group's business operations results.

6) Influence on Development of New Products and Technologies

Development of new products and technologies in the electronics industry is very rapid, and this industry is an important market for some of the products of Group companies. Accordingly, the Company is continuously striving to develop the most advanced materials so it can meet customers' needs for speedy technological innovation. However, if the Group should be unable to accurately anticipate and take prompt, appropriate measures to respond to changes in industries and markets, such a situation could have a major impact on the Group's business operations results.

7) Influence of Environmental Problems

The Group handles various kinds of chemical substances, and strictly adheres to various laws and regulations concerning the environment. At the same time, the Group is dedicating its all-out efforts to achieve energy-savings to help contribute to the prevention of global warming, and it also is endeavoring to severely curb the emission of any substance that could have an impact on the environment. However, if regulations concerning the environment become more severe than presently anticipated and it becomes necessary to implement large facility investments, such investments could have a major impact on the Group's business operations results.

8) Influence of Product Liability

The Group is making enormous efforts to secure optimum product quality appropriate to the products' characteristics. However, in the event that a product-quality problem occurs due to unforeseen circumstances, there is a possibility of product-liability issues having a major impact on the Group's business operations results.

Consolidated Balance Sheets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

As of March 31, 2009 and 2008	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	2009
Assets			
Current Assets:			
Cash and time deposits (Note 16).....	¥ 209,542	¥ 217,266	\$ 2,138,184
Securities (Notes 4 and 16)	111,878	184,520	1,141,612
Notes and accounts receivable:			
Trade	209,072	308,026	2,133,388
Unconsolidated subsidiaries and affiliates	13,026	15,886	132,918
Other.....	10,351	16,498	105,622
Less: Allowance for doubtful accounts (Note 2 (5)).....	(2,628)	(4,726)	(26,816)
	229,821	335,684	2,345,112
Merchandise and finished goods.....	117,470	111,521	1,198,673
Work in process	10,313	19,587	105,235
Raw materials and supplies	80,327	73,229	819,663
Deferred taxes, current (Note 15)	36,098	30,188	368,347
Other.....	20,478	45,331	208,960
Total current assets.....	815,927	1,017,326	8,325,786
Property, Plant and Equipment (Note 2 (8)):			
Buildings and structures.....	353,675	380,623	3,608,929
Machinery and equipment	1,358,899	1,296,007	13,866,316
Less: Accumulated depreciation.....	(1,248,324)	(1,243,923)	(12,738,000)
	464,250	432,707	4,737,245
Land	62,574	62,920	638,510
Construction in progress	82,854	159,016	845,449
Total property, plant and equipment.....	609,678	654,643	6,221,204
Intangible Fixed Assets:			
Goodwill.....	15,091	22,804	153,990
Other.....	3,163	3,055	32,275
Total intangible fixed assets	18,254	25,859	186,265
Investments and Other Assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 6)	71,577	78,908	730,378
Investments in securities (Note 4)	76,746	73,033	783,122
Long-term loans	4,639	881	47,337
Deferred taxes, non-current (Note 15).....	34,868	35,011	355,796
Other.....	53,296	32,904	543,836
Less: Allowance for doubtful accounts (Note 2 (5)).....	(40)	(20)	(408)
Total investments and other assets.....	241,086	220,717	2,460,061
Total assets.....	¥ 1,684,945	¥ 1,918,545	\$ 17,193,316

The accompanying notes are an integral part of the statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	2009
Current Liabilities:			
Short-term borrowings (Note 7)	¥ 5,190	¥ 8,460	\$ 52,959
Current portion of long-term debt (Note 7)	5,683	3,366	57,990
Notes and accounts payable:			
Trade	58,850	124,139	600,510
Unconsolidated subsidiaries and affiliates	18,823	29,381	192,071
Other	57,538	95,559	587,123
	135,211	249,079	1,379,704
Accrued income taxes	11,633	39,464	118,704
Accrued expenses	46,772	65,902	477,265
Accrued bonuses for directors	735	909	7,500
Advances received	1,000	1,594	10,204
Other (Note 15)	3,071	7,875	31,337
Total current liabilities	209,295	376,649	2,135,663
Long-Term Liabilities:			
Long-term debt (Note 7)	12,818	22,133	130,796
Accrued retirement benefits (Note 8)	11,406	11,523	116,388
Accrued retirement bonuses for directors	399	2,261	4,071
Deferred taxes, non-current (Note 15)	37,385	16,974	381,480
Other	6,288	5,336	64,163
Total long-term liabilities	68,296	58,227	696,898
Total liabilities	277,591	434,876	2,832,561
Commitment and Contingent Liabilities (Note 9)			
Net Assets			
Stockholders' Equity:			
Common stock:	119,420	119,420	1,218,571
Authorized: 1,720,000,000 shares			
Issued: 432,106,693 shares as of March 31, 2009 and 2008, respectively			
Additional paid-in capital	128,178	128,178	1,307,939
Retained earnings (Note 10)	1,277,056	1,163,680	13,031,184
Less: Treasury stock, at cost (Note 10)	(41,614)	(12,218)	(424,633)
Total stockholders' equity	1,483,040	1,399,060	15,133,061
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities (Note 2 (7))	(1,777)	10,696	(18,133)
Deferred gains (losses) on derivatives under hedge accounting	(42)	3,231	(429)
Foreign currency translation adjustments	(115,160)	25,810	(1,175,101)
Total valuation and translation adjustments	(116,979)	39,737	(1,193,663)
Share subscription rights	2,446	1,614	24,959
Minority interests in consolidated subsidiaries	38,847	43,258	396,398
Total net assets	1,407,354	1,483,669	14,360,755
Total liabilities and net assets	¥1,684,945	¥1,918,545	\$17,193,316

Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2009, 2008 and 2007	Millions of yen			Thousands of U.S. dollars (Note 3)
	2009	2008	2007	2009
Net Sales (Notes 13 and 17).....	¥1,200,814	¥1,376,365	¥1,304,696	\$12,253,204
Cost of Sales (Notes 8, 11 and 13).....	853,434	946,941	933,199	8,708,510
Gross profit	347,380	429,424	371,497	3,544,694
Selling, General and Administrative Expenses (Notes 8 and 11).....	114,453	142,278	130,468	1,167,888
Operating income (Note 17)	232,927	287,146	241,029	2,376,806
Other Income (Expenses):				
Interest and dividend income	8,642	10,473	9,658	88,184
Equity in earnings of affiliates	12,442	14,117	8,085	126,959
Interest expenses	(1,706)	(2,323)	(2,572)	(17,408)
Loss on disposal of inventories	(1,851)	(1,974)	(1,581)	(18,888)
Loss on disposal of property, plant and equipment	(726)	(1,432)	(2,904)	(7,408)
Foreign exchange gain (loss).....	(686)	(3,644)	(4,689)	(7,000)
Other, net.....	1,491	(2,323)	(8)	15,214
Ordinary income	250,533	300,040	247,018	2,556,459
Extraordinary Income (Losses):				
Net gain on insurance.....	—	2,860	—	—
Cumulative effect of foreign subsidiary's accounting change	—	2,554	—	—
Gain on sales of land	—	1,576	—	—
Reversal of allowance for doubtful accents	—	1,238	—	—
Loss on impairment of fixed assets (Note 14)	(4,364)	(7,198)	—	(44,531)
Loss on write-down of investment securities.....	(1,684)	—	—	(17,183)
Income before income taxes	244,485	301,070	247,018	2,494,745
Income Taxes (Note 15):				
Current.....	60,130	100,600	113,214	613,571
Prior years.....	—	10,878	—	—
Deferred.....	28,478	1,191	(25,286)	290,592
	88,608	112,669	87,928	904,163
Income after income taxes	155,877	188,401	159,090	1,590,582
Minority Interests in Earnings of Consolidated Subsidiaries	(1,145)	(4,821)	(5,080)	(11,684)
Net Income	¥ 154,732	¥ 183,580	¥ 154,010	\$1,578,898
		Yen		U.S. dollars (Note 3)
Per Share (Note 2 (14)):				
Net income—primary	¥362.39	¥426.63	¥357.78	\$3.698
Net income—fully diluted	362.35	426.35	357.32	3.697
Cash dividends	100.00	90.00	70.00	1.020
Weighted-Average Number of Shares Outstanding (Thousands).....	426,973	430,304	430,466	426,973

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											
		Stockholders' Equity					Valuation and Translation Adjustments						
		Number of Shares of Common Stock	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
Balance at March 31, 2006	432,107	¥119,420	¥128,179	¥ 882,413	¥ (6,300)	¥1,123,712	¥ 38,599	¥ -	¥ 11,369	¥ 49,968	¥ -	¥34,219	¥1,207,899
Net income.....				154,010		154,010							154,010
Cash dividends (Note 10).....				(18,291)		(18,291)							(18,291)
Directors' and statutory auditors' bonuses				(486)		(486)							(486)
Purchases of treasury stock.....					(5,090)	(5,090)							(5,090)
Disposal of treasury stock.....				(387)	3,830	3,443							3,443
Other				(1)		(1)							(1)
Net change during the year						-	(9,425)	-	22,404	12,979	664	5,188	18,831
Balance at March 31, 2007	432,107	119,420	128,178	1,017,259	(7,560)	1,257,297	29,174	-	33,773	62,947	664	39,407	1,360,315
Net income.....				183,580		183,580							183,580
Cash dividends (Note 10).....				(36,579)		(36,579)							(36,579)
Purchases of treasury stock.....					(7,896)	(7,896)							(7,896)
Disposal of treasury stock.....				(580)	3,238	2,658							2,658
Net change during the year						-	(18,478)	3,231	(7,963)	(23,210)	950	3,851	(18,409)
Balance at March 31, 2008	432,107	119,420	128,178	1,163,680	(12,218)	1,399,060	10,696	3,231	25,810	39,737	1,614	43,258	1,483,669
Effect of changes in accounting policies applied to foreign subsidiaries				1,689		1,689							1,689
Net income.....				154,732		154,732							154,732
Cash dividends (Note 10).....				(42,884)		(42,884)							(42,884)
Purchases of treasury stock.....					(29,938)	(29,938)							(29,938)
Disposal of treasury stock.....				(161)	542	381							381
Net change during the year							(12,473)	(3,273)	(140,970)	(156,716)	832	(4,411)	(160,295)
Balance at March 31, 2009	432,107	¥119,420	¥128,178	¥1,277,056	¥(41,614)	¥1,483,040	¥ (1,777)	¥ (42)	¥(115,160)	¥(116,979)	¥2,446	¥38,847	¥1,407,354

	Thousands	Thousands of U.S. dollars (Note 3)											
		Stockholders' Equity					Valuation and Translation Adjustments						
		Number of Shares of Common Stock	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
Balance at March 31, 2008	432,107	\$1,218,571	\$1,307,939	\$11,874,286	\$(124,673)	\$14,276,123	\$ 109,143	\$ 32,969	\$ 263,368	\$ 405,480	\$16,469	\$441,408	\$15,139,480
Effect of changes in accounting policies applied to foreign subsidiaries				17,235		17,235							17,235
Net income				1,578,898		1,578,898							1,578,898
Cash dividends (Note 10).....				(437,592)		(437,592)							(437,592)
Purchases of treasury stock					(305,491)	(305,491)							(305,491)
Disposal of treasury stock				(1,643)	5,531	3,888							3,888
Net change during the year							(127,276)	(33,398)	(1,438,469)	(1,599,143)	8,490	(45,010)	(1,635,663)
Balance at March 31, 2009	432,107	\$1,218,571	\$1,307,939	\$13,031,184	\$(424,633)	\$15,133,061	\$ (18,133)	\$ (429)	\$(1,175,101)	\$(1,193,663)	\$24,959	\$396,398	\$14,360,755

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, 2009, 2008 and 2007	Millions of yen			Thousands of U.S. dollars (Note 3)
	2009	2008	2007	2009
Cash Flows from Operating Activities:				
Income before income taxes	¥ 244,485	¥ 301,070	¥ 247,018	\$ 2,494,745
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	119,457	141,270	138,462	1,218,949
Loss on impairment of fixed assets.....	4,364	7,198	—	44,531
Increase in accrued retirement benefits	794	557	275	8,102
(Gain) loss on sales of investment securities	(377)	—	108	(3,847)
Loss on write-down of investment securities	1,684	274	333	17,184
Interest and dividend income	(8,642)	(10,473)	(9,658)	(88,184)
Interest expenses	1,706	2,323	2,572	17,408
Exchange gain (loss)	10,257	5,563	1,062	104,663
Equity in earnings of affiliates.....	(12,442)	(14,117)	(8,085)	(126,959)
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	69,103	(679)	(31,018)	705,133
Increase in inventories	(20,783)	(36,643)	(18,417)	(212,071)
Increase in long-term advance payment.....	(21,221)	(15,886)	—	(216,541)
Increase (decrease) in notes and accounts payable	(61,390)	(11,598)	30,805	(626,429)
Other, net.....	6,743	(48,835)	9,114	68,806
Subtotal.....	333,738	320,024	362,571	3,405,490
Proceeds from interest and dividends	16,229	17,129	13,323	165,602
Payment of interest.....	(1,731)	(2,352)	(2,633)	(17,663)
Payment of income taxes	(91,657)	(132,388)	(100,773)	(935,276)
Net cash provided by operating activities	256,579	202,413	272,488	2,618,153
Cash Flows from Investing Activities:				
Purchase of marketable securities.....	(47,538)	(32,973)	(94,675)	(485,082)
Proceeds from the redemption of marketable securities	30,655	54,642	81,021	312,806
Purchases of property, plant and equipment.....	(189,697)	(254,586)	(185,593)	(1,935,684)
Proceeds from sales of property, plant and equipment.....	857	2,979	232	8,745
Purchases of intangible fixed assets	(1,392)	(1,464)	(1,999)	(14,204)
Purchases of investment securities	(34,514)	(32,484)	(5,656)	(352,184)
Proceeds from sales of investment securities	6,838	104	832	69,776
Proceeds from redemption of investment securities	36,666	35,905	29,484	374,143
Payments of loans	(5,636)	(598)	(104)	(57,510)
Proceeds from collection of loans.....	915	71	514	9,337
Other, net.....	2,056	(20,223)	(9,239)	20,979
Net cash used for investing activities	(200,790)	(248,627)	(185,183)	(2,048,878)
Cash Flows from Financing Activities:				
Net decrease in short-term debt.....	(3,460)	(704)	(3,614)	(35,306)
Proceeds from long-term debt	—	5,000	6,242	—
Repayment of long-term debt	(3,318)	(15,136)	(27,803)	(33,857)
Purchase of treasury stock.....	(29,938)	(7,896)	(5,090)	(305,490)
Payment of debentures on redemption.....	—	—	(16,000)	—
Proceeds from sales of treasury stock	382	2,554	3,403	3,898
Cash dividends paid	(42,884)	(36,580)	(18,291)	(437,592)
Cash dividends paid to minority shareholders.....	(827)	(824)	(614)	(8,439)
Other, net.....	(39)	52	(66)	(397)
Net cash used for financing activities	(80,084)	(53,534)	(61,833)	(817,183)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(26,279)	(3,166)	5,197	(268,153)
Net Increase (Decrease) in Cash and Cash Equivalents	(50,574)	(102,914)	30,669	(516,061)
Cash and Cash Equivalents at Beginning of Year	301,619	404,533	373,864	3,077,745
Cash and Cash Equivalents at End of Year (Note 16).....	¥ 251,045	¥ 301,619	¥ 404,533	\$ 2,561,684

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, 2009, 2008 and 2007

1. Basis of presenting financial statements

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

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

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

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

2. Summary of significant accounting policies

(1) Principles of consolidation

The Company had 97 majority-owned subsidiaries as of March 31, 2009 (96 and 94 as of March 31, 2008 and 2007, respectively). The consolidated financial statements include the accounts of the Company and 68 (68 and 68 for 2008 and 2007, respectively) majority-owned subsidiaries (the Companies), of

which the principal firms are listed on page 47 with their respective fiscal year-ends.

The remaining 29 (28 and 26 for 2008 and 2007, respectively) unconsolidated subsidiaries whose combined 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 the accounts of subsidiaries whose fiscal year-ends are not in agreement with that of the Company, necessary adjustments are made on significant intercompany 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.

Legal reserve of consolidated subsidiaries provided subsequent to the acquisition of such subsidiaries by the Company is included in retained earnings and is not shown separately in the consolidated financial statements.

(2) Accounting for investments in unconsolidated subsidiaries and affiliates

The Company had 29 (28 and 26 for 2008 and 2007, respectively) unconsolidated subsidiaries (majority-owned) and 16 (16 and 15 for 2008 and 2007, respectively) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 8 (7 and 7 for 2008 and 2007, respectively) major affiliates and the cost method is applied to investments in the remaining unconsolidated subsidiaries and affiliates since they are not material for the consolidated financial statements.

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

Mimasu Semiconductor Industry Co., Ltd.
Shin-Etsu Quartz Products Co., Ltd.
Kashima Vinyl Chloride Monomer Co., Ltd.
Hemlock Semiconductor Corp.

(3) Translation of foreign currency transactions

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

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

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

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

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

Under the BAC method, all assets and liabilities are translated into yen at current exchange rates while capital accounts and retained earnings are translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year. The resulting translation adjustments are, as before, shown as "Foreign currency translation adjustments" in the accompanying balance sheets as of March 31, 2009 and 2008.

(5) Allowance for doubtful accounts

The Company and consolidated subsidiaries provide an allowance for doubtful accounts by the method which uses the percentage of its own actual experience of bad debt loss written off against the balance of total 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.

Until the fiscal year ended March 31, 2008, the cost method mainly based on the weighted-average method was adopted for measuring inventories held for sale in the ordinary course of business. However, the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued on July 5, 2006) has been applied from the fiscal year ended March 31, 2009, and now these inventories are mainly measured by means of 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. As a result, Operating income, Ordinary income and Income before income taxes each decreased by ¥3,398 million (\$34,673 thousand). The impacts on segment information are described in Note 17. Segment information.

(7) Financial instruments

Securities:

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

Derivatives:

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

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

Hedge accounting:

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

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

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of interest rate fluctuation. 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.

From the fiscal year ended March 31, 2007, the period of depreciation for semiconductor silicon manufacturing facilities was changed mainly from five years to three years, in order to keep pace with rapid technology innovation resulting from strong market demand for higher-quality silicon wafers.

Effective from the fiscal year ended March 31, 2008, in accordance with the revised Japanese Corporation Tax Law, the Company and its domestic subsidiaries changed the depreciation method of tangible fixed assets (except for semiconductor silicon manufacturing facilities/equipment) acquired on or after April 1, 2007.

Effective from the fiscal year ended March 31, 2008, in accordance with the revised Japanese Corporation Tax Law, the Company and its domestic subsidiaries depreciate the residual value of tangible fixed assets acquired on or before March 31,

2007, which was depreciated in accordance with former Japanese Corporation Tax Law, to memorandum value in five years using straight-line method.

Additional depreciation based on excess operating hours is provided for machinery and equipment operated significantly in excess of their normal utilization time.

Effective from the fiscal year ended March 31, 2009, the Company and its domestic subsidiaries reexamined the period of depreciation for tangible fixed assets, and consequently changed the period of depreciation for tangible fixed assets (except for semiconductor silicon manufacturing facilities/equipment) in accordance with the revised Japanese Corporation Tax Law. As a result, the depreciation expenses for the fiscal year ended March 31, 2009 decreased by ¥308 million (\$3,143 thousand), and Operating income, Ordinary income and Income before income taxes each increased by ¥165 million (\$1,684 thousand), compared with the amounts under the formerly applied method. The impacts on segment information are described in Note 17. Segment information.

(9) Repairs and maintenance

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

(10) Accounting for leases

Until the fiscal year ended March 31, 2008, finance lease transactions that do not transfer ownership of the leased property to the lessee followed methods applicable to ordinary rental transactions. However, effective from the fiscal year ended on March 31, 2009, the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, issued on June 17, 1993 (The 1st Committee of Business Accounting Council), revised on March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, issued on January 18, 1994 (Accounting System Committee of Japanese Institute of Certificated Public Accountants), revised on March 30, 2007) have been applied, and such transactions are now accounted for as ordinary sale and purchase transactions. Finance lease transactions starting before the fiscal year ended March 31, 2009 that do not transfer ownership of the leased property to the lessee are accounted for as operating leases. The impact of this change on income is immaterial.

(11) 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 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 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 8).

(12) Income taxes

Income taxes are provided based on amounts required by the tax return for the period. Tax effect is recorded for temporary differences in recognition of certain expenses between tax and financial reporting on the consolidated financial statements.

(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 10).

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

(16) Accounting standard for directors' bonuses

Effective from the fiscal year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the new *Accounting Standard for Directors' Bonuses* (ASBJ Statement No. 4 issued on November 29, 2005).

(17) Accrued retirement bonuses for directors

Until the fiscal year ended March 31, 2007, the Company and certain domestic subsidiaries had expensed directors' retirement bonuses at the time of payment. However, effective in the fiscal year ended March 31, 2008, the Company and certain domestic subsidiaries recognized the required amount of directors' retirement bonuses in accordance with an internal standard. Because *Treatment for Auditing of Reserves under the Special Taxation Measurement Law, Reserves under Special Laws and Reserves for Directors' Retirement Bonuses* (JICPA Audit and Assurance Practice Committee Report No. 42, April 13, 2007) was issued, in addition to that *Accounting Standard for Directors' Bonuses* (ASBJ statement No. 4, issued on November 29, 2005) stipulates to accrue and expense directors' bonuses.

The Company and certain domestic subsidiaries had accrued the required amount of directors' retirement bonuses in Accrued retirement bonuses for directors which was calculated on the basis of an internal standard as at the end of the fiscal year. However, the Company and certain domestic subsidiaries

decided to issue a retirement bonus only for the tenure until the close of the General Meeting of Shareholders held in 2008 due to the abolishment of the Retirement Benefits Program. As a result, in the fiscal year ended March 31, 2009, the amount of retirement bonus for the tenure of ¥1,869 million (\$19,071 thousand) was transferred from Accrued retirement bonuses for directors to Other in Long-term Liabilities.

(18) Accounting standard for presentation of net assets in the balance sheets

Effective from the fiscal year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the new *Accounting Standard for Presentation of Net Assets in the Balance Sheet* (ASBJ Statement No. 5 issued on December 9, 2005 by the Accounting Standards Board of Japan) as well as "Implementation guidance for accounting standards for presentation of net assets in the balance sheet" (ASBJ Guidance No. 8 issued on December 9, 2005).

(19) Accounting standard for stock options

Effective from the fiscal year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the new *Accounting for Subscription Rights to Shares and for Bonds with Subscription Rights to Shares* (ASBJ Statement No. 8 issued on December 27, 2005) as well as "Implementation guidance for Accounting standards for share-based payment" (ASBJ Guidance No. 11 issued on May 31, 2006).

(20) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

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" (ASBJ Practical Issues Task Force No.18, May 17, 2006) has been applied, and accordingly some revisions have been made to the consolidated accounts as necessary. As a result, Operating income decreased by ¥459 million (\$4,684 thousand), Ordinary income and Income before income taxes decreased by ¥384 million (\$3,918 thousand) respectively. The impacts on segment information are described in Note 17. Segment information.

(21) Consumption tax

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

(22) Reclassifications

Certain reclassifications have been made in the 2008 and 2007 financial statements to conform to the presentation for 2009.

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 ¥98 to US\$1, the approximate effective rate of exchange on March 31, 2009. 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 ¥98 to US\$1 or at any other rate.

4. Securities

Securities as of March 31, 2009 and 2008 consisted of the following:

(1) Market value of bonds held to maturity

Description	Millions of yen		
	2009		
	Book value	Market value	Difference
Securities with fair value that exceeds book value	¥21,766	¥21,780	¥ 14
Securities with fair value that does not exceed book value	31,577	30,824	(753)
Total	¥53,343	¥52,604	¥(739)

Description	Millions of yen		
	2008		
	Book value	Market value	Difference
Securities with fair value that exceeds book value	¥11,052	¥11,074	¥ 22
Securities with fair value that does not exceed book value	43,105	43,008	(97)
Total	¥54,157	¥54,082	¥(75)

Description	Thousands of U.S. dollars		
	2009		
	Book value	Market value	Difference
Securities with fair value that exceeds book value	\$222,102	\$222,245	\$ 143
Securities with fair value that does not exceed book value	322,214	314,530	(7,684)
Total	\$544,316	\$536,775	\$(7,541)

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

Description	Millions of yen		
	2009		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value that exceeds acquisition cost:			
Stocks	¥15,424	¥20,756	¥5,332
Securities with book value that does not exceed acquisition cost:			
Stocks	21,904	16,356	(5,548)
Total	¥37,328	¥37,112	¥ (216)

Description	Millions of yen		
	2008		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value that exceeds acquisition cost:			
Stocks	¥28,993	¥47,463	¥18,470
Securities with book value that does not exceed acquisition cost:			
Stocks	6,602	5,661	(941)
Total	¥35,595	¥53,124	¥17,529

Description	Thousands of U.S. dollars		
	2009		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value that exceeds acquisition cost:			
Stocks	\$157,388	\$211,796	\$54,408
Securities with book value that does not exceed acquisition cost:			
Stocks	223,510	166,898	(56,612)
Total	\$380,898	\$378,694	\$ (2,204)

(3) Available-for-sale securities sold during the fiscal year ended March 31, 2009 and 2008

Available-for-sale securities sold during the fiscal years ended March 31, 2009 and 2008 are assumed insignificant.

(4) Major components and book values of securities without market value

Description	Book value		
	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Bonds held to maturity	¥ 592	¥ 20,001	\$ 6,041
Investments in unconsolidated subsidiaries and affiliates	70,147	77,459	715,786
Available-for-sale securities	97,577	130,271	995,684

(5) Repayment schedule of available-for-sale securities with maturity and bonds held to maturity

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Within one year	¥111,924	¥184,541	\$1,142,082
Over one year within five years	17,366	13,350	177,204
Over five years within ten years	632	678	6,449

5. Derivative transactions

Derivative financial instruments were as follows:

As of March 31, 2009

Currency related:

Description	Millions of yen		
	Contract amounts	Market value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sales Contracts:			
US\$	¥18,928	¥17,409	¥1,519
EUR	1,942	2,196	(254)
Buy Contracts:			
US\$	7,011	6,799	(212)
EUR	74	80	6
Other	1,008	988	(20)
Foreign currency swap contracts			
Receive Japanese Yen, pay U.S. Dollars	223	15	15
Receive Japanese Yen, pay British Pound	7,350	1,529	1,529
Receive Euro, pay Japanese Yen	469	(90)	(90)
Total	¥ -	¥ -	¥2,493

Description	Thousands of U.S. dollars		
	Contract amounts	Market value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sales Contracts:			
US\$	\$193,143	\$177,643	\$15,500
EUR	19,816	22,408	(2,592)
Buy Contracts:			
US\$	71,541	69,378	(2,163)
EUR	755	816	61
Other	10,286	10,082	(204)
Foreign currency swap contracts			
Receive Japanese Yen, pay U.S. Dollars	2,276	153	153
Receive Japanese Yen, pay British Pound	75,000	15,602	15,602
Receive Euro, pay Japanese Yen	4,786	(918)	(918)
Total	\$ -	\$ -	\$25,439

Notes: 1. Market rate represents the foreign exchange rate prevailing as of March 31, 2009.

2. The market value is provided by financial institutions with which the Company made the above contracts.

3. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

As of March 31, 2008
Currency related:

Description	Millions of yen		
	Contract amounts	Market value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sales Contracts:			
US\$	¥99,306	¥86,426	¥12,879
EUR	564	567	(4)
Buys Contracts:			
US\$	5,234	4,874	(361)
EUR	140	141	1
Other	465	424	(41)
Foreign currency swap contracts			
Receive Japanese Yen, pay Thai Baht			
	1,293	(174)	(174)
Receive Japanese Yen, pay U.S. Dollars			
	386	22	22
Receive Japanese Yen, pay British Pound			
	12,432	1,131	1,131
Receive Euro, pay Japanese Yen			
	785	52	52
Total	¥ —	¥ —	¥13,505

Notes: 1. Market rate represents the foreign exchange rate prevailing as of March 31, 2008.
2. The market value is provided by financial institutions with which the Company made the above contracts.
3. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

Interest related:

Description	Millions of yen		
	Contract amounts	Market value	Unrealized gain (loss)
Interest rate swap contracts:			
Receive floating, pay fixed	¥642	¥2	¥2
Receive fixed, pay floating	44	0	0
Total	¥686	¥2	¥2

Notes: 1. The market value is provided by financial institutions with which the Company made the interest rate swap contracts.
2. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

6. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Held Directly by the Company:			
Affiliates:			
Four affiliates accounted for by the equity method (See Note 2 (2))*	¥41,618	¥42,630	\$424,673
Other	1,028	1,251	10,490
	¥42,646	¥43,881	\$435,163
Unconsolidated subsidiaries:			
Shin-Etsu Electronics Malaysia Sdn. Bhd.	¥ 1,400	¥ 1,400	\$ 14,286
Other	2,061	1,690	21,031
	¥ 3,461	¥ 3,090	\$ 35,317
Held Indirectly through Subsidiaries:			
Unconsolidated subsidiaries and affiliates:			
Three affiliates accounted for by the equity method (See Note 2 (2))*	¥22,701	¥28,788	\$231,643
Other	2,729	3,089	27,847
	¥25,430	¥31,877	\$259,490
Advances:	40	60	408
	¥71,577	¥78,908	\$730,378

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

7. Short-term borrowing, long-term debt and lease obligations

Short-term borrowings outstanding as of March 31, 2009 and 2008 are represented generally by overdrafts contracted between the Companies and banks.

Long-term debt as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Loans with Banks and Other			
Financial Institutions:			
Secured	¥ 74	¥ 125	\$ 755
Unsecured	18,427	25,374	188,031
	18,501	25,499	188,786
Less Portion Due within One Year	(5,683)	(3,366)	(57,990)
	¥12,818	¥22,133	\$130,796

Lease obligations as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current	¥ 49	¥30	\$ 500
Non-current	88	56	898
Total	¥137	¥86	\$1,398

As of March 31, 2009, assets pledged as collateral for short-term loans and long-term loans were as follows:

	Millions of yen	Thousands of U.S. dollars
Net book value of property, plant and equipment	¥5,218	\$53,245

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

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,		
2011	¥ 5,063	\$ 51,663
2012	2,223	22,684
2013 and thereafter	5,532	56,449
	¥12,818	\$130,796

8. Retirement and pension plans

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

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

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

The reserves for retirement benefits as of March 31, 2009 and 2008 are analyzed as follows:

Benefit Obligations

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
(a) Benefit obligations	¥(26,018)	¥(32,826)	\$(265,490)
(b) Pension assets	12,005	22,522	122,500
(c) Unfunded benefit obligations [(a)+(b)]	(14,013)	(10,304)	(142,990)
(d) Unrecognized actuarial differences	5,268	1,473	53,755
(e) Unrecognized prior service cost (negative) (Note 1)	(333)	(421)	(3,398)
(f) Amount shown on balance sheet [(c)+(d)+(e)]	(9,078)	(9,252)	(92,633)
(g) Prepaid pension expenses	2,328	2,271	23,755
(h) Accrued retirement benefits [(f)-(g)]	¥(11,406)	¥(11,523)	\$(116,388)

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
	2009	2008	2009
(a) Service costs (Note 1)	¥2,481	¥2,533	\$25,316
(b) Interest costs	908	1,128	9,265
(c) Expected return on plan assets	(721)	(950)	(7,357)
(d) Recognized actuarial loss	536	(695)	5,469
(e) Amortization of prior service cost	(128)	(68)	(1,306)
(f) Other (Note 2)	1,614	1,604	16,470
(g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)]	¥4,690	¥3,552	\$47,857

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

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

Basic Assumptions for Calculating Benefit Obligations

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

9. Commitment and contingent liabilities

As of March 31, 2009, the Companies were contingently liable as a guarantor of housing loans for employees and loans to unconsolidated subsidiaries, affiliates and others in the aggregate amount of ¥70 million (\$714 thousand).

In addition, one of the Companies was contingently liable, as of March 31, 2009, in accordance with a contract of debt assumption with a bank for debentures issued by itself in the amounts of ¥5,000 million (\$51,020 thousand).

10. Retained earnings

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

The Company paid interim dividends during the years ended March 31, 2009, 2008 and 2007 in the amounts of ¥21,372 million (\$218,082 thousand) (¥50.0 per share), ¥17,201 million and ¥10,754 million, respectively, which were actually paid to stockholders on November 18, 2008, November 19, 2007 and November 20, 2006, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended March 31, 2009, 2008 and 2007, respectively.

There were 7,636,973 shares and 1,865,726 shares of treasury stock as at March 31, 2009 and 2008, respectively.

11. Research and development costs

Research and development costs incurred and charged to income for the years ended March 31, 2009, 2008 and 2007 were ¥37,470 million (\$382,347 thousand), ¥47,945 million and ¥41,737 million, respectively.

12. Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2009 and 2008 amounted to ¥271 million (\$2,765 thousand) and ¥387 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2009, which was computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value, amounted to ¥271 million (\$2,765 thousand).

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

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Acquisition cost	¥1,241	¥1,643	\$12,663
Accumulated depreciation	737	803	7,520
Net book value	¥ 504	¥ 840	\$ 5,143

The amounts of outstanding future lease payments due in respect of finance lease contracts at March 31, 2009 and 2008, which included the portion of interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Future Lease Payments:			
Within one year	¥240	¥334	\$2,449
Over one year	264	506	2,694
	¥504	¥840	\$5,143

The amounts of outstanding future lease payments due in respect of operating lease contracts at March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Future Lease Payments:			
Within one year	¥1,200	¥1,241	\$12,245
Over one year	1,879	1,430	19,173
	¥3,079	¥2,671	\$31,418

13. Related party transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2009, 2008 and 2007 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Sales	¥16,427	¥13,323	¥ 11,517	\$167,622
Purchases	61,431	88,961	101,942	626,847

14. Loss on impairment of fixed assets

During the fiscal year ended March 31, 2009, the Company and its consolidated subsidiaries recognized impairment losses for the following asset categories, recording a total of ¥4,364 million (\$44,531 thousand) as Extraordinary expenses. The Company and its consolidated subsidiaries group fixed assets based on managerial accounting categories, which are regarded as the smallest units independently generating cash flows.

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

Location	Use	Asset category	Millions of yen		Thousand of U.S. dollars
			2009		2009
Saigata Plant (Joetsu-shi, Niigata-Prefecture) and others	Semiconductor silicon manufacturing facilities/equipment for small-diameter wafers	Machinery and equipment	¥4,086		\$41,694
		Others	278		2,837
		Total	¥4,364		\$44,531

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

During the fiscal year ended March 31, 2008, the Company and its consolidated subsidiaries recognized impairment losses for the following asset categories, recording a total of ¥7,198 million (\$71,980 thousand) as Extraordinary losses. The Company and its consolidated subsidiaries grouped fixed assets based on managerial accounting categories, which are regarded as the smallest units independently generating cash flows.

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

Millions of yen			
Location	Use	Asset category	2008
Kashima Plant (Kamisu-City, Ibaraki-Prefecture)	Manufacturing facilities for polyvinyl chloride	Buildings and structures	¥2,040
		Machinery and equipment	2,449
		Others	1,272
		Total	¥5,761

The polyvinyl chloride business is faced with various kinds of problems, such as soaring costs of raw materials, stagnating domestic demand in Japan, and an increase in world production accompanied by the construction of new large-scale facilities in those markets to which we have been exporting. For these reasons, the competition can be expected to be fiercer than before, and future positive cash flows cannot be expected. As a result, the book value of the assets shown above has been marked down to the recoverable amount, which is calculated at their value-in-use. The discount rate for calculation of the discounted cash flow is zero since the estimated future cash flows are negative.

(2) Consolidated subsidiary (Shin-Etsu Polymer Co., Ltd.)

Millions of yen			
Location	Use	Asset category	2008
Tokyo Plant (Saitama-City, Saitama- Prefecture)	Production equip- ment for packaging products and production equip- ment for construc- tion materials products	Buildings and structures	¥ 297
		Machinery and equipment	655
		Others	45
		Subtotal	997
Nanyo Plant (Shuunan-City, Yamaguchi- Prefecture)	Production equip- ment for construc- tion materials products	Buildings and structures	272
		Machinery and equipment	144
		Others	24
		Subtotal	440
Total			¥1,437

The Construction Materials & Constructing segment (construction materials business) and Packaging Products segment (General packaging materials business) of Shin-Etsu Polymer have been suffering from a deteriorating profit structure, which was primarily caused by sluggish demand due to a decline in public investment and housing starts and changes in the form of packaging used. As a result, the book value of the assets at its Tokyo Plant and Nanyo Plant where these materials are produced has been marked down to the recoverable amount, which is calculated by their net selling price at disposition.

15. Income taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended March 31, 2009, 2008 and 2007 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	2009	2008	2007
Corporate income tax	30.0%	30.0%	30.0%
Enterprise tax	7.2	7.2	7.2
Resident income taxes	6.1	6.1	6.1
	43.3%	43.3%	43.3%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid (unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid)	40.4%	40.4%	40.4%

Tax effects of material temporary differences and loss carry forwards which resulted in deferred tax assets or liabilities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred Tax Assets:			
Depreciation	¥25,386	¥33,816	\$259,041
Maintenance cost	4,529	6,132	46,214
Unsettled accounts receivable and payable	3,092	5,760	31,551
Unrealized profit	4,162	4,918	42,469
Accrued bonus allowance	3,690	4,174	37,653
Accrued retirement benefits	4,204	3,886	42,898
Accrued enterprise taxes	1,111	3,066	11,337
Tax loss carry forwards	12,843	253	131,051
Unrealized gain on available- for-sale securities	240	—	2,449
Other	18,938	17,185	193,245
Valuation allowance	(3,918)	(3,752)	(39,980)
Total	¥74,277	¥75,438	\$757,928
Deferred Tax Liabilities:			
Depreciation	¥37,246	¥16,734	\$380,061
Unrealized gain on available- for-sale securities	146	7,068	1,490
Reserve for special depreciation	139	397	1,418
Other	3,429	3,358	34,990
Total	¥40,960	¥27,557	\$417,959
Net deferred tax assets	¥33,317	¥47,881	\$339,969

Net Deferred Tax Assets are included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current assets: Deferred taxes, current	¥ 36,098	¥ 30,188	\$ 368,347
Non-current assets:			
Deferred taxes, non-current	34,868	35,011	355,796
Current liabilities: Other	(264)	(344)	(2,694)
Non-current liabilities:			
Deferred taxes, non-current	(37,385)	(16,974)	(381,480)

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

	2009	2008
Statutory tax rate	40.4%	40.4%
Rate difference from foreign subsidiaries	(2.7)	(4.4)
Equity in earnings of affiliates	(2.1)	(1.9)
Dividend income and other not taxable	(2.4)	(1.7)
Elimination of intercompany dividend income	2.3	1.7
Tax deduction for research expenses	(0.9)	(0.7)
Entertainment and other non-deductible expenses	0.2	0.1
Correction of taxation based on transfer pricing	–	3.6
Other, net	1.4	0.3
Effective tax rate	36.2	37.4

Income taxes - Prior years

Income taxes - Prior years consist of the amount of additional taxes paid due to the Notification of Correction of Transfer Pricing Taxation for the five fiscal years from the fiscal year ended March 31, 2002 to that ended March 31, 2006.

16. 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.

Reconciliation between cash and equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2009, 2008 and 2007 are presented below:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Cash and time deposits	¥209,542	¥217,266	¥296,852	\$2,138,184
Marketable securities	111,878	184,520	207,178	1,141,612
Time deposits for which maturities are approximately over three months	(31,829)	(44,405)	(20,821)	(324,786)
Marketable securities (maturities approximately over three months)	(38,546)	(55,762)	(78,676)	(393,326)
Cash and cash equivalents	¥251,045	¥301,619	¥404,533	\$2,561,684

17. Segment information

(1) Business segment information

The Companies operate principally in the following three lines of business: "Organic and Inorganic Chemicals," "Electronics Materials" and "Functional Materials and Others." These lines of business deal in the following main products and merchandise:

Organic and inorganic chemicals business segments:

Polyvinyl chloride, Silicones, Methanol, Chloromethanes, Cellulose derivatives, Caustic soda, Silicon metal

Electronics materials business segments: Semiconductor silicon, Organic materials for the electronics industry, Rare earth magnets for the electronics industry, Photoresists

Functional materials and others business segment: Synthetic quartz products, Oxide single crystals, Rare earths and rare earth magnets, Export of technology and plants, Export and import of goods, Construction and plant engineering, Information processing

Sales, related operating costs and expenses, operating income, assets, depreciation and capital expenditure of the Companies at March 31, 2009, 2008 and 2007 and for the years then ended, classified by business segment, are presented as follows:

	Millions of yen				
	2009				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ⁴	Consolidated Total
Sales:					
Sales to outside customers	¥629,174	¥467,521	¥104,119	¥ –	¥1,200,814
Intersegment sales	9,474	2,349	99,862	(111,685)	–
Total	638,648	469,870	203,981	(111,685)	1,200,814
Operating costs and expenses ^{1,3}	543,506	357,635	178,257	(111,511)	967,887
Operating income	¥ 95,142	¥112,235	¥ 25,724	¥ (174)	¥ 232,927
Assets	¥698,063	¥607,213	¥172,493	¥ 207,176	¥1,684,945
Depreciation ²	34,719	75,759	9,215	(236)	119,457
Loss on impairment	–	4,364	–	–	4,364
Capital expenditures	81,981	71,323	6,580	(477)	159,407

	Millions of yen				
	2008				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ⁴	Consolidated Total
Sales:					
Sales to outside customers	¥701,003	¥564,697	¥110,665	¥ –	¥1,376,365
Intersegment sales	17,019	3,359	82,835	(103,213)	–
Total	718,022	568,056	193,500	(103,213)	1,376,365
Operating costs and expenses	618,540	405,956	167,488	(102,765)	1,089,219
Operating income	¥ 99,482	¥162,100	¥ 26,012	¥ (448)	¥ 287,146
Assets	¥782,878	¥713,047	¥199,498	¥ 223,122	¥1,918,545
Depreciation ⁵	31,651	100,983	8,896	(260)	141,270
Loss on impairment	7,198	–	–	–	7,198
Capital expenditures	116,417	144,141	8,617	(696)	268,479

Notes to Consolidated Financial Statements

	Millions of yen				
	2007				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ⁴	Consolidated Total
Sales:					
Sales to outside customers	¥708,434	¥479,392	¥116,870	¥ –	¥1,304,696
Intersegment sales	11,725	3,023	93,653	(108,401)	–
Total	720,159	482,415	210,523	(108,401)	1,304,696
Operating costs and expenses	613,472	375,768	182,919	(108,492)	1,063,667
Operating income	¥106,687	¥106,647	¥ 27,604	¥ 91	¥ 241,029
Assets	¥772,308	¥629,196	¥198,691	¥ 259,801	¥1,859,996
Depreciation ⁶	28,797	101,405	8,473	(213)	138,462
Capital expenditures	94,149	105,619	10,957	(112)	210,613

	Thousands of U.S. dollars				
	2009				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ⁴	Consolidated Total
Sales:					
Sales to outside customers	\$6,420,143	\$4,770,622	\$1,062,439	\$ –	\$12,253,204
Intersegment sales	96,673	23,970	1,019,000	(1,139,643)	–
Total	6,516,816	4,794,592	2,081,439	(1,139,643)	12,253,204
Operating costs and expenses ^{1,3}	5,545,979	3,649,337	1,818,949	(1,137,867)	9,876,398
Operating income	\$ 970,837	\$1,145,255	\$ 262,490	\$ (1,776)	\$ 2,376,806
Assets	\$7,123,092	\$6,196,051	\$1,760,132	\$ 2,114,041	\$17,193,316
Depreciation ²	354,275	773,051	94,031	(2,408)	1,218,949
Loss on impairment	–	44,531	–	–	44,531
Capital expenditures	836,541	727,785	67,143	(4,867)	1,626,602

Notes: 1. As previously mentioned in (6) Inventories in Note 2., the Company and its domestic subsidiaries adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9) and changed the evaluation standard and the evaluation method for inventories from the fiscal year ended March 31, 2009.

As a result, for the fiscal year ended March 31, 2009, the operating expenses under Organic and Inorganic Chemicals business segment, Electronics Materials business segment and Functional Materials and Others business segment increased by ¥1,474 million (\$15,041 thousand), ¥1,597 million (\$16,296 thousand) and ¥326 million (\$3,327 thousand), respectively. Accordingly, the operating income of each segment decreased by the same amounts.

2. As previously mentioned in (8) Property, plant and equipment in Note 2., effective from the fiscal year ended March 31, 2009, the Company and its domestic subsidiaries changed the period of depreciation for tangible fixed assets (except for semiconductor silicon manufacturing facilities/equipment) in accordance with the revised Japanese Corporation Tax Law.

As a result, for the fiscal year ended March 31, 2009, the depreciation expenses under Organic and Inorganic Chemicals business segment and Electronics Materials business segment decreased by ¥303 million (\$3,092 thousand) and ¥44 million (\$449 thousand), respectively, and those under Functional Materials business segment increased ¥39 million (\$398 thousand), compared with the amount under the formerly applied method. The operating expenses under Organic and Inorganic Chemicals business segment and Electronics Materials business segment decreased by ¥164 million (\$1,673 thousand) and ¥25 million (\$255 thousand), respectively, and those under Functional Materials business segment increased ¥23 million (\$235 thousand). Accordingly, the operating income of each segment increased or decreased by the same amounts.

3. As previously mentioned in (20) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements in Note 2., 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" (ASBJ Practical issues Task Force No.18, issued on May 17, 2006) has been applied and accordingly some revisions was made to the consolidated accounts as necessary.

As a result, for the fiscal year ended March 31, 2009, operating expenses under Organic and Inorganic Chemicals business segment and Electronics Materials business segment increased by ¥148 million (\$1,510 thousand), ¥312 million (\$3,184 thousand), respectively. Accordingly operating income of each segment decreased by the same amounts.

4. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2009, 2008, and 2007 were ¥246,636 million (\$2,516,694 thousand), ¥274,993 million and ¥309,306 million, respectively, which mainly consisted of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

5. As previously mentioned in (8) Property, plant and equipment in Note 2., in the fiscal year ended March 31, 2008, the Company and its domestic subsidiaries changed the depreciation method of tangible fixed assets in accordance with the revised Japanese Corporation Tax Law.

As a result, for the fiscal year ended March 31, 2008, the depreciation expenses under Organic and Inorganic Chemicals business segment, Electronics Materials business segment and Functional Materials and Others business segment increased by ¥2,128 million, ¥559 million and ¥668 million, respectively, compared with the amount under the formerly applied method. The operating expenses under Organic and Inorganic Chemicals business segment, Electronics Materials business segment and Functional Materials and Others business segment increased by ¥1,740 million, ¥502 million and ¥561 million, respectively. Accordingly, the operating income of each segment decreased by the same amounts.

6. As previously mentioned in (8) Property, plant and equipment in Note 2., the period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the fiscal year ended March 31, 2007. With this change, the depreciation expenses under the Electronics Materials business segment for the fiscal year ended March 31, 2007, when compared with the figures calculated for the previous depreciable years, increased by ¥23,875 million. Operating expenses increased by ¥22,405 million, and accordingly, operating income decreased by the same amount.

(2) Geographical segment information

The analysis of the sales, operating costs and expenses, operating income and assets of the Companies by geographical segments as of March 31, 2009, 2008 and 2007 and for the years then ended are presented below:

	Millions of yen					
	2009					
	Japan	North America	Asia/Oceania	Europe	Elimination or Common Assets ⁵	Consolidated Total
Sales:						
Sales to outside customers	¥588,312	¥285,538	¥171,409	¥155,555	¥ –	¥1,200,814
Intersegment sales	192,086	55,982	51,860	923	(300,851)	–
Total	780,398	341,520	223,269	156,478	(300,851)	1,200,814
Operating costs and expenses ^{2,3,4}	617,020	297,921	211,352	144,829	(303,235)	967,887
Operating income	¥163,378	¥ 43,599	¥ 11,917	¥ 11,649	¥ 2,384	¥ 232,927
Assets	¥910,071	¥389,243	¥141,560	¥119,218	¥ 124,853	¥1,684,945

	Millions of yen					
	2008					
	Japan	North America	Asia/Oceania	Europe	Elimination or Common Assets ⁵	Consolidated Total
Sales:						
Sales to outside customers	¥ 645,007	¥309,101	¥241,146	¥181,111	¥ –	¥1,376,365
Intersegment sales	280,116	68,365	64,244	2,281	(415,006)	–
Total	925,123	377,466	305,390	183,392	(415,006)	1,376,365
Operating costs and expenses ⁶	710,941	343,140	282,317	168,235	(415,414)	1,089,219
Operating income	¥ 214,182	¥ 34,326	¥ 23,073	¥ 15,157	¥ 408	¥ 287,146
Assets	¥1,014,059	¥442,680	¥201,640	¥169,182	¥ 90,984	¥1,918,545

	Millions of yen					
	2007					
	Japan	North America	Asia/Oceania	Europe	Elimination or Common Assets ⁵	Consolidated Total
Sales:						
Sales to outside customers	¥639,901	¥313,303	¥186,521	¥164,971	¥ –	¥1,304,696
Intersegment sales	244,412	38,996	64,946	837	(349,191)	–
Total	884,313	352,299	251,467	165,808	(349,191)	1,304,696
Operating costs and expenses ⁷	709,157	314,015	236,213	154,858	(350,576)	1,063,667
Operating income	¥175,156	¥ 38,284	¥ 15,254	¥ 10,950	¥ 1,385	¥ 241,029
Assets	¥962,147	¥421,474	¥182,257	¥154,403	¥ 139,715	¥1,859,996

Notes to Consolidated Financial Statements

	Thousands of U.S. dollars					Consolidated Total
	Japan	North America	Asia/Oceania	Europe	Elimination or Common Assets ⁵	
2009						
Sales:						
Sales to outside customers	\$6,003,184	\$2,913,653	\$1,749,071	\$1,587,296	\$ -	\$12,253,204
Intersegment sales	1,960,061	571,245	529,184	9,418	(3,069,908)	-
Total	7,963,245	3,484,898	2,278,255	1,596,714	(3,069,908)	12,253,204
Operating costs and expenses ^{2, 3, 4}	6,296,123	3,040,010	2,156,653	1,477,847	(3,094,235)	9,876,398
Operating income	\$1,667,122	\$ 444,888	\$ 121,602	\$ 118,867	\$ 24,327	\$ 2,376,806
Assets	\$9,286,439	\$3,971,867	\$1,444,490	\$1,216,510	\$ 1,274,010	\$17,193,316

- Notes:
- Main countries or other areas other than Japan:
 - North America U.S.
 - Asia/Oceania Malaysia, Singapore, South Korea, Taiwan, Thailand, Australia
 - Europe U.K., Netherlands, Germany
 - As previously mentioned in (6) Inventories in Note 2., the Company and its domestic subsidiaries adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9) and changed the evaluation standard and the evaluation method for inventories from the fiscal year ended March 31, 2009.

As a result, for the fiscal year ended March 31, 2009, the operating expenses for Japan geographic segment increased by ¥3,398 million (\$34,673 thousand). Accordingly, the operating income decreased by the same amount.
 - As previously mentioned in (8) Property, plant and equipment in Note 2., effective from the fiscal year ended March 31, 2009, the Company and its domestic subsidiaries changed the period of depreciation for tangible fixed assets (except for semiconductor silicon manufacturing facilities/equipment) in accordance with the revised Japanese Corporation Tax Law.

As a result, the operating expenses for Japan geographic segment decreased by ¥165 million (\$1,684 thousand) compared with the amount under the formerly applied method. Accordingly, the operating income increased by the same amount.
 - As previously mentioned in (20) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements in Note 2., 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" (ASBJ Practical issues Task Force No.18, issued on May 17, 2006) has been applied and accordingly some revisions was made to the consolidated accounts as necessary.

As a result, for the fiscal year ended March 31, 2009, operating expenses for Asia/Oceania and Europe increased by ¥314 million (\$3,204 thousand) and ¥146 million (\$1,490 thousand), respectively.
 - The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2009, 2008, and 2007 were ¥246,636 million (\$2,516,694 thousand), ¥274,993 million and ¥309,306 million, respectively, which mainly consisted of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.
 - As previously mentioned in (8) Property, plant and equipment in Note 2., in the fiscal year ended March 31, 2008 the Company and its domestic subsidiaries changed the depreciation method of tangible fixed assets in accordance with the revised Japanese Corporation Tax Law.

As a result, the operating expenses for Japan geographic segment increased by ¥2,803 million compared with the amount under the formerly applied method. Accordingly, the operating income decreased by the same amount.
 - As previously mentioned in (8) Property, plant and equipment in Note 2., the period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the fiscal year ended March 31, 2007.

As a result, operating expenses for Japan, North America, Asia/Oceania and Europe for the fiscal year ended March 31, 2007 increased by ¥13,321 million, ¥4,029 million, ¥2,955 million and ¥2,099 million, respectively, compared with the figures calculated for the previous depreciable years. Accordingly, operating income decreased by the same amount.

(3) Overseas sales information

Overseas sales of the Companies for the years ended March 31, 2009, 2008 and 2007 are summarized as follows:

	Millions of yen				
	North America	Asia/Oceania	Europe	Other Areas	Total
2009					
Overseas sales	¥241,462	¥288,108	¥150,563	¥68,678	¥ 748,811
Consolidated sales	-	-	-	-	1,200,814
Percentage of overseas sales over consolidated sales	20.1%	24.0%	12.6%	5.7%	62.4%

	Millions of yen				
	North America	Asia/Oceania	Europe	Other Areas	Total
2008					
Overseas sales	¥278,020	¥411,760	¥177,958	¥72,683	¥ 940,421
Consolidated sales	-	-	-	-	1,376,365
Percentage of overseas sales over consolidated sales	20.2%	29.9%	12.9%	5.3%	68.3%

	Millions of yen				
	North America	Asia/Oceania	Europe	Other Areas	Total
2007					
Overseas sales	¥295,093	¥393,314	¥164,006	¥47,926	¥ 900,339
Consolidated sales	-	-	-	-	1,304,696
Percentage of overseas sales over consolidated sales	22.6%	30.1%	12.6%	3.7%	69.0%

	Thousands of U.S. dollars				
	North America	Asia/Oceania	Europe	Other Areas	Total
2009					
Overseas sales	\$2,463,898	\$2,939,878	\$1,536,357	\$700,796	\$ 7,640,929
Consolidated sales	-	-	-	-	12,253,204
Percentage of overseas sales over consolidated sales	20.1%	24.0%	12.6%	5.7%	62.4%

- Notes:
- Main countries or areas
 - North America U.S., Canada
 - Asia/Oceania China, Taiwan, South Korea, Singapore, Thailand, Malaysia
 - Europe Germany, France, Portugal
 - Other Areas Latin America, Middle East
 - "Overseas sales" means sales to outside Japan by the Company and its consolidated subsidiaries.

18. Subsequent event

Appropriation of retained earnings

Subsequent to March 31, 2009, the Company's Board of Directors, with the approval of stockholders on June 26, 2009 declared a cash dividend of ¥21,223 million (\$216,561 thousand) equal to ¥50.00 (\$0.51) per share, applicable to earnings of the year ended March 31, 2009 and payable to stockholders on the stockholders' register on March 31, 2009.

Consolidated Subsidiaries

As of March 31, 2009

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

7 other consolidated subsidiaries

(1) Overseas subsidiary

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

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Shin-Etsu Chemical Co., Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin-Etsu Chemical Co., Ltd. and consolidated subsidiaries at March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon LLC

Ernst & Young ShinNihon
Tokyo, Japan

June 26, 2009