Eleven-year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 1997 through 2007

(Millions of Yen, except per share)	2007	2006	2005	2004
For the Year:				
Net sales	**¥1,304,696**	¥1,127,916	¥ 967,486	¥ 832,805
Operating income	**241,029**	185,320	151,734	125,626
Net income	**154,010**	115,045	93,161	74,806
Per Share (Yen):				
Net income—primary	**357.78**	266.63	219.10	177.25
Net income—fully diluted	**357.32**	266.07	216.11	173.52
Cash dividends	**70.00**	35.00	20.00	16.00
Capital expenditures	**210,613**	145,330	110,278	113,591
Depreciation and amortization	**138,462**	111,637	90,875	73,582
At Year-End:				
Total assets	**¥1,859,996**	¥1,671,281	¥1,476,249	¥1,386,216
Working capital	**628,986**	572,206	444,935	401,879
Common stock	**119,420**	119,420	117,513	110,493
Net assets	**1,360,315**	—	—	—
Stockholders' equity	—	1,173,680	996,307	900,724
Net assets per share (Yen)	**3,065.80**	2,730.94	2,329.47	2,140.23
General:				
Number of employees	**19,177**	18,888	18,151	17,384
Number of shares issued (Thousands)	**432,107**	432,107	430,119	422,798

(Thousands of U.S. Dollars, except per share)	2007	2006	2005	2004
For the Year:				
Net sales	**$11,056,746**	$ 9,558,610	$ 8,199,034	$ 7,057,669
Operating income	**2,042,619**	1,570,508	1,285,881	1,064,627
Net income	**1,305,169**	974,958	789,500	633,949
Per Share (U.S. Dollars):				
Net income—primary	**3.032**	2.260	1.857	1.502
Net income—fully diluted	**3.028**	2.255	1.831	1.471
Cash dividends	**0.593**	0.297	0.169	0.136
Capital expenditures	**1,784,856**	1,231,610	934,559	962,636
Depreciation and amortization	**1,173,407**	946,076	770,127	623,576
At Year-End:				
Total assets	**$15,762,678**	$14,163,398	$12,510,585	$11,747,593
Working capital	**5,330,390**	4,849,203	3,770,636	3,405,754
Common stock	**1,012,034**	1,012,034	995,873	936,381
Net assets	**11,528,093**	—	—	—
Stockholders' equity	—	9,946,441	8,443,280	7,633,254
Net assets per share (U.S. Dollars)	**25.981**	23.144	19.741	18.138
General:				
Number of employees	**19,177**	18,888	18,151	17,384
Number of shares issued (Thousands)	**432,107**	432,107	430,119	422,798

Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥118=US$1, the approximate rate of exchange on March 31, 2007.

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

	2003	2002	2001	2000	1999	1998	1997
	¥ 797,523	¥ 775,097	¥ 807,485	¥ 678,859	¥ 642,796	¥ 693,275	¥ 624,405
	122,150	114,724	112,677	87,465	86,323	90,860	82,024
	73,016	68,519	64,505	48,229	43,363	42,027	40,614
	173.13	162.93	153.58	116.56	109.36	110.73	118.24
	169.36	159.38	150.24	113.46	103.17	101.69	103.95
	14.00	12.00	12.00	10.00	9.00	8.50	7.50
	75,211	81,543	96,770	80,003	73,641	136,384	92,844
	66,566	70,878	70,767	61,384	56,196	62,144	52,191
	¥1,310,875	¥1,288,432	¥1,265,799	¥1,168,729	¥1,060,973	¥1,083,780	¥ 931,159
	409,262	363,677	350,273	273,193	261,691	221,869	195,729
	110,272	110,260	110,247	107,664	98,243	83,957	44,256
	—	—	—	—	—	—	—
	846,962	812,068	714,996	651,261	564,067	497,312	374,726
	2,014.11	1,930.30	1,699.74	1,557.48	1,380.43	1,265.39	1,071.97
	16,573	16,456	19,398	18,754	18,384	19,238	18,896
	422,568	422,555	422,542	419,848	410,015	393,722	349,569

	2003	2002	2001	2000	1999	1998	1997
	$ 6,758,669	$ 6,568,619	$ 6,843,093	$5,753,042	$5,447,424	$5,875,212	$5,291,568
	1,035,169	972,237	954,890	741,229	731,551	770,000	695,119
	618,780	580,669	546,653	408,720	367,483	356,161	344,186
	1.467	1.381	1.302	0.988	0.927	0.938	1.002
	1.435	1.351	1.273	0.962	0.874	0.862	0.881
	0.119	0.102	0.102	0.085	0.076	0.072	0.064
	637,381	691,042	820,085	677,992	624,076	1,155,797	786,814
	564,119	600,661	599,720	520,203	476,237	526,644	442,297
	$11,109,110	$10,918,915	$10,727,110	$9,904,483	$8,991,297	$9,184,576	$7,891,178
	3,468,322	3,082,008	2,968,415	2,315,195	2,217,720	1,880,246	1,658,720
	934,508	934,407	934,297	912,407	832,568	711,500	375,051
	—	—	—	—	—	—	—
	7,177,644	6,881,932	6,059,288	5,519,161	4,780,229	4,214,508	3,175,644
	17.069	16.358	14.405	13.199	11.699	10.724	9.084
	16,573	16,456	19,398	18,754	18,384	19,238	18,896
	422,568	422,555	422,542	419,848	410,015	393,722	349,569

Management's Discussion and Analysis

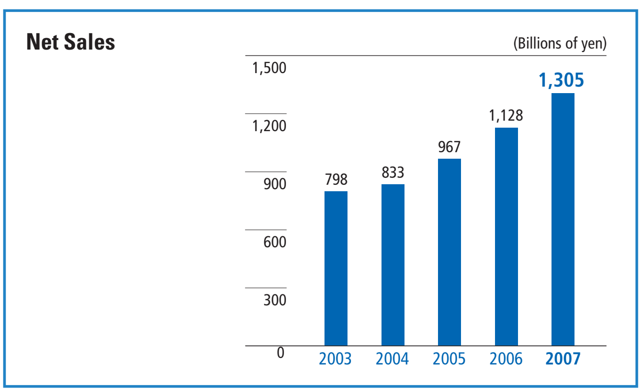
SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

Overview of the Shin-Etsu Group

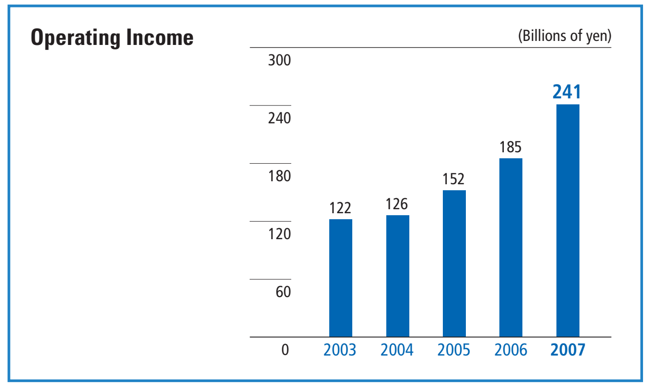
The Shin-Etsu Group (the "Group") is composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 94 subsidiaries and 15 affiliates, as of March 31, 2007. The Organic and Inorganic Chemicals segment focuses on the manufacture and sale of polyvinyl chloride (PVC), silicones and other products. The Electronics 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 2007, the Japanese economy was on a moderate recovery track. Despite lackluster consumer spending, improved corporate earnings led to strong facility investment. On the other hand, the U.S. economy was generally firm. While housing construction slowed, consumer spending and capital investment increased. In addition, the economies of Southeast Asia and China continued to expand.

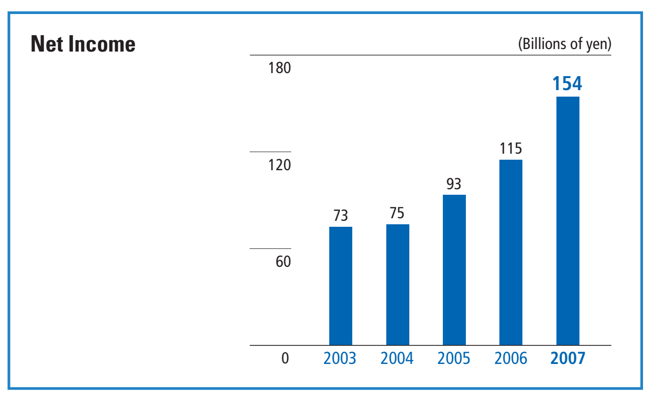


Under these conditions, the Group carried out positive sales efforts to a wide range of customers worldwide, and strenuously worked to develop and commercialize new products. As a result, net sales for fiscal 2007 increased by 15.7% (¥176.8 billion) compared with the previous fiscal year to ¥1,304.7 billion. Compared with the performance of the previous fiscal year, operating income increased 30.1% (¥55.7 billion) to ¥241.0 billion, and net income increased 33.9% (¥39.0 billion) to ¥154.0 billion.



Major factors in the growth in net sales and operating income included increases in the earnings of the PVC business overseas and the semiconductor silicon business both inside and outside Japan, together with continuing promotion of rationalization of manufacturing costs at all Shin-Etsu Group companies.

Net non-operating income was ¥6.0 billion, due mainly to substantial increases in interest income and equity in the earnings of affiliates.



Summary of Net Sales, Operating Costs and Income

(Millions of yen)

Years ended March 31,	2007	2006	2005	% Change 2007/2006
Net Sales	**1,304,696**	1,127,916	967,486	15.7%
Cost of Sales	**933,199**	831,334	715,143	12.3%
SG&A Expenses	**130,468**	111,262	100,609	17.3%
Operating Income	**241,029**	185,320	151,734	30.1%

Operating performance by business segment was as follows.

Organic and Inorganic Chemicals

In the PVC business, results at Shintech Inc. (the Company's U.S. PVC base) grew substantially despite the impact of the downturn in housing investment from October 2006, as the company continued sales through its global customer network. In addition, Shin-Etsu PVC B.V. in the Netherlands continued its solid sales performance, supported by demand throughout Europe, including Eastern Europe. On the other hand, in the Company's domestic PVC business, a slowdown in domestic demand and a downturn in prices of exports, mainly to China, continued.

With regard to the silicone business, in addition to increased domestic sales in a wide range of application fields including the electric, electronics, automobile and cosmetics industries, the Company was able to reflect higher crude oil and fuel prices in product prices and export sales volume increased. As a result, operating income rose. Moreover, sales of silicone-related products, such as mobile phone keypads made by Shin-Etsu Polymer Co., Ltd., were also firm.

Sales of cellulose derivatives continued to be firm in the domestic market, mainly in such application areas as pharmaceuticals. In addition, SE Tylose GmbH & Co. KG in Germany achieved strong sales for product applications in building materials, and its enhanced production capacity made a solid contribution to expanding results. In addition, shipments were strong at JAPAN VAM & POVAL Co., Ltd.

As a result, the net sales of this business segment increased 11.3% (¥71.9 billion) compared with the previous fiscal year to ¥708.4 billion. Operating income also increased 10.9% (¥10.5 billion) to ¥106.7 billion.

Electronics Materials

In the semiconductor silicon business, demand grew for devices in a wide range of application fields including mobile phones, PCs, digital home appliances and automobiles. Large-scale capital investment in production capacity for 300mm silicon wafers and steady demand for 200mm wafers resulted in substantial increases in net sales and operating income. Moreover, the Company shortened the depreciation period for semiconductor silicon manufacturing facilities in Japan and overseas from five years mainly to three years because of rising device performance.

Sales of rare earth magnets for the electronics industry did well in their various hard disk drive applications, including applications for PCs, servers and video recording equipment, and net sales increased substantially.

In addition, net sales and operating income for photoresist products grew significantly as the miniaturization of devices supported the full-scale adoption of ArF resists for semiconductor devices.

As a result, the net sales of this business segment increased 32.6% (¥117.9 billion) compared with the previous fiscal year to ¥479.4 billion. Operating income increased 63.4% (¥41.4 billion) compared with the previous fiscal year to reach ¥106.6 billion.

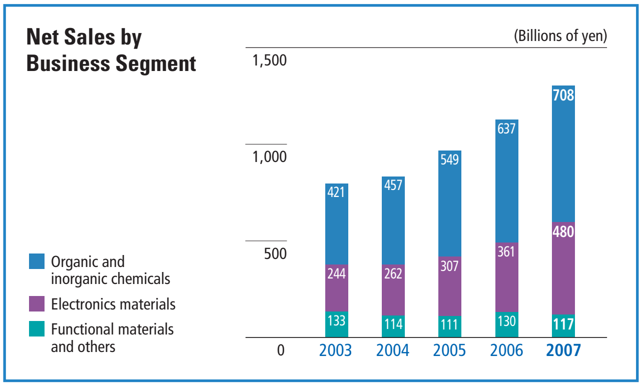
Functional Materials and Others

In the synthetic quartz products business, although demand for preforms for optical fibers was on a recovery track, weak conditions for large-size photomask substrates used for LCDs due to production adjustments at LCD panel manufacturers resulted in a decrease in net sales.

Sales of rare earth magnets remained strong, with increased demand for numerous applications. These included such home appliances as air conditioners, and automobiles that require light weight and reduced energy consumption. In addition, sales of liquid fluoroelastomers and pellicles also did well.

In other businesses, sales of general products decreased.

As a result, the net sales of this business segment decreased 10.1% (¥13.1 billion) compared with the previous fiscal year to ¥116.9 billion. Operating income increased 14.9% (¥3.6 billion) compared with the previous fiscal year to reach ¥27.6 billion.



Net Sales by Business Segment

Analysis of Financial Position

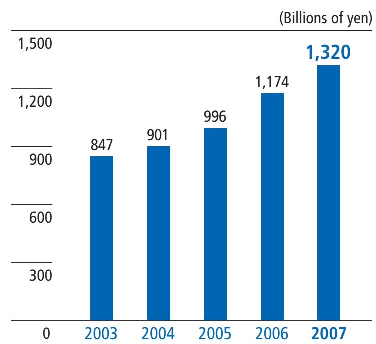
Assets, Liabilities and Net Assets

As of March 31, 2007, total assets increased ¥188.7 billion from a year earlier to ¥1,860.0 billion. Current assets increased ¥136.8 billion to ¥1,061.9 billion as a result of increases in cash and time deposits and notes and accounts receivable in connection with robust sales activities. Brisk capital expenditures resulted in a ¥76.6 billion increase in property, plant and equipment to ¥545.4 billion, while investments and other assets decrease ¥25.3 billion to ¥226.7 billion, due to a decrease in investments in securities and other factors.

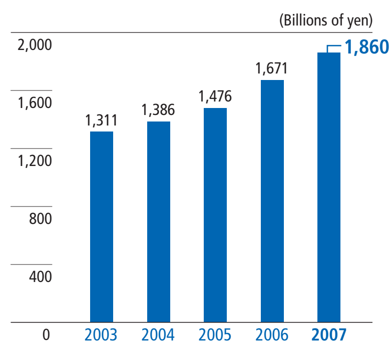
As of March 31, 2007, total liabilities increased ¥36.3 billion from a year earlier to ¥499.7 billion. Although the Group reduced short-term borrowings and long-term debt by repayment or redemption, accrued expenses increase with capital expenditures and notes and accounts payable rose in tandem with robust sales activities.

In addition, net assets as of March 31, 2007 were ¥1,360.3 billion due to an increase in retained earnings from net income of ¥154.0 billion and other factors. As a result, the stockholders' equity ratio was 71.0% as of March 31, 2007, an increase of 0.8 percentage points from 70.2% a year earlier. Net assets per share totaled ¥3,065.80, an increase of ¥334.86 from a year earlier.

Stockholders' Equity



Total Assets

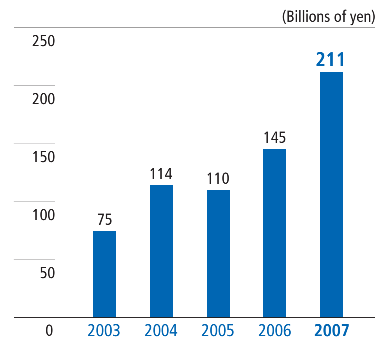


Cash Flows

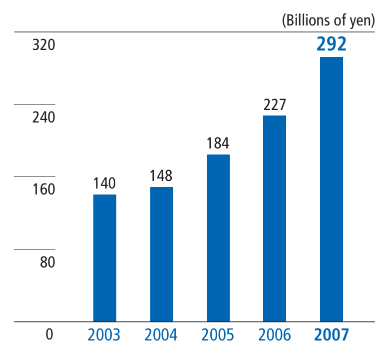
The balance of cash and cash equivalents at the end of fiscal 2007 increased ¥30.7 billion compared with the end of the previous fiscal year, to ¥404.5 billion.

Net cash provided by operating activities amounted to ¥272.5 billion due to increases in income before income taxes and depreciation and amortization compared with the end of the previous fiscal year. Due to factors including payments for the expansion of semiconductor silicon production facilities and other capital expenditures, net cash used for investing activities increased to ¥185.2 billion. Net cash used for financing activities amounted to ¥61.8 billion, due mainly to payment of debentures on redemption and repayment of long-term debt.

Capital Expenditures



Net Cash Flow*



* Net cash flow = Net income + Depreciation and amortization

Business Risk

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

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 operations results. As of the end of the fiscal year under review (March 31, 2007), 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 on 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 69% of the total consolidated sales of the Group in fiscal 2007. It is expected that this ratio will remain at a high level. The yen conversion amount 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 occur, 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, 2007 and 2006	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	**2007**	2006	**2007**
Current Assets:			
Cash and time deposits (Note 17)	**¥ 296,852**	¥ 262,145	**$ 2,515,695**
Securities (Notes 6 and 17)	**207,178**	178,555	**1,755,746**
Notes and accounts receivable (Note 4):			
Trade	**310,416**	272,173	**2,630,644**
Unconsolidated subsidiaries and affiliates	**18,068**	16,540	**153,119**
Other	**6,457**	5,778	**54,720**
Less: Allowance for doubtful accounts (Note 2 (5))	**(5,988)**	(5,233)	**(50,746)**
	328,953	289,258	**2,787,737**
Inventories (Note 5)	**169,177**	147,368	**1,433,703**
Deferred taxes, current (Note 16)	**40,694**	34,103	**344,864**
Other	**19,026**	13,667	**161,238**
Total current assets	**1,061,880**	925,096	**8,998,983**
Property, Plant and Equipment (Note 2 (8)):			
Buildings and structures	**359,058**	330,379	**3,042,864**
Machinery and equipment	**1,171,300**	1,056,500	**9,926,272**
Less: Accumulated depreciation	**(1,126,524)**	(1,009,857)	**(9,546,814)**
	403,834	377,022	**3,422,322**
Land	**62,222**	57,237	**527,305**
Construction in progress	**79,352**	34,524	**672,475**
Total property, plant and equipment	**545,408**	468,783	**4,622,102**
Intangible Fixed Assets	**25,965**	25,347	**220,042**
Investments and Other Assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 8)	**69,541**	61,237	**589,331**
Investments in securities (Note 6)	**108,698**	157,283	**921,169**
Long-term loans	**983**	1,030	**8,331**
Deferred taxes, non-current (Note 16)	**26,259**	13,268	**222,534**
Other	**21,284**	19,262	**180,372**
Less: Allowance for doubtful accounts (Note 2 (5))	**(22)**	(25)	**(186)**
Total investments and other assets	**226,743**	252,055	**1,921,551**
Total assets	**¥1,859,996**	¥ 1,671,281	**$15,762,678**

The accompanying notes are an integral part of the statements.

Liabilities and Stockholders' Equity	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2007
Current Liabilities:			
Short-term borrowings (Note 9)	**¥ 9,564**	¥ 12,906	**$ 81,051**
Current portion of long-term debt (Note 9)	**14,926**	13,262	**126,492**
Notes and accounts payable (Note 4):			
Trade	**130,970**	110,736	**1,109,915**
Unconsolidated subsidiaries and affiliates	**35,934**	24,397	**304,525**
Other	**83,635**	54,869	**708,771**
	250,539	190,002	**2,123,211**
Accrued income taxes	**59,962**	47,260	**508,153**
Accrued expenses	**89,510**	80,683	**758,559**
Advances received	**796**	1,039	**6,746**
Other (Note 16)	**7,597**	7,738	**64,381**
Total current liabilities	**432,894**	352,890	**3,668,593**
Long-Term Liabilities:			
Long-term debt (Note 9)	**20,653**	57,670	**175,025**
Accrued retirement benefits (Note 10)	**10,943**	10,398	**92,737**
Deferred taxes, non-current (Note 16)	**28,817**	40,735	**244,212**
Lease obligations	**99**	119	**839**
Other	**6,275**	1,570	**53,179**
Commitment and Contingent Liabilities (Note 11)			
Total long-term liabilities	**66,787**	110,492	**565,992**
Total liabilities	**499,681**	463,382	**4,234,585**
Net Assets			
Stockholders' Equity:			
Common stock:	**119,420**	119,420	**1,012,034**
Authorized: 1,720,000,000 shares			
Issued: 432,106,693 shares as of March 31, 2007 and 2006, respectively			
Additional paid-in capital	**128,178**	128,179	**1,086,254**
Retained earnings (Note 12)	**1,017,259**	882,413	**8,620,839**
Less: Treasury stock, at cost (Note 12)	**(7,560)**	(6,300)	**(64,068)**
Total stockholders' equity	**1,257,297**	1,123,712	**10,655,059**
Valuation and translation adjustments:			
Unrealized gain on available-for-sale securities (Note 2 (7))	**29,174**	38,599	**247,237**
Foreign currency translation adjustment	**33,773**	11,369	**286,212**
Total valuation and translation adjustments	**62,947**	49,968	**533,449**
Share subscription rights	**664**	—	**5,627**
Minority interests in consolidated subsidiaries	**39,407**	34,219	**333,958**
Total net assets	**1,360,315**	1,207,899	**11,528,093**
Total liabilities and net assets	**¥1,859,996**	¥ 1,671,281	**$15,762,678**

Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

	Millions of yen			Thousands of U.S. dollars (Note 3)
For the years ended March 31, 2007, 2006, and 2005	**2007**	2006	2005	**2007**
Net Sales (Notes 15 and 18)	**¥1,304,696**	¥1,127,916	¥967,486	**$11,056,746**
Cost of Sales (Notes 10, 13 and 15)	**933,199**	831,334	715,143	**7,908,466**
Gross profit	**371,497**	296,582	252,343	**3,148,280**
Selling, General and Administrative Expenses (Notes 10 and 13)	**130,468**	111,262	100,609	**1,105,661**
Operating income (Note 18)	**241,029**	185,320	151,734	**2,042,619**
Other Income (Expenses):				
Interest and dividend income	**9,658**	6,771	4,627	**81,847**
Gains on sales of property, plant and equipment	**27**	21	12	**229**
Equity in earnings of affiliates	**8,085**	3,996	1,616	**68,517**
Interest expenses	**(2,572)**	(2,706)	(3,014)	**(21,797)**
Loss on disposal of property, plant and equipment	**(2,904)**	(1,226)	(3,297)	**(24,610)**
Foreign exchange gain (loss)	**(4,689)**	(6,055)	934	**(39,737)**
Other, net	**(1,616)**	(1,081)	(1,109)	**(13,695)**
Income before income taxes	**247,018**	185,040	151,503	**2,093,373**
Income Taxes (Note 16):				
Current	**113,214**	82,639	63,754	**959,441**
Deferred	**(25,286)**	(16,714)	(8,535)	**(214,288)**
	87,928	65,925	55,219	**745,153**
Income after income taxes	**159,090**	119,115	96,284	**1,348,220**
Minority Interests in Earnings of Consolidated Subsidiaries	**(5,080)**	(4,070)	(3,123)	**(43,051)**
Net Income	**¥ 154,010**	¥115,045	¥ 93,161	**$1,305,169**
		Yen		U.S. dollars (Note 3)
Per Share (Note 2 (14)):				
Net income—primary	**¥357.78**	¥266.63	¥219.10	**$3.032**
Net income—fully diluted	**357.32**	266.07	216.11	**3.028**
Cash dividends	**70.00**	35.00	20.00	**0.593**
Weighted-Average Number of Shares Outstanding (Thousands)	**430,466**	429,587	423,519	**430,466**

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	Foreign Currency Translation Adjustment	Total	Share Subscription Rights	Minority Interests in Consolidated Subsidiaries	Total Net Assets
Balance at March 31, 2004	422,798	¥110,493	¥119,262	¥694,997	¥(9,219)	¥915,533	¥11,928	¥(26,737)	¥(14,809)	¥ —	¥26,509	¥927,233
Conversion of convertible debentures	7,321	7,020	7,012			14,032			—			14,032
Net income				93,161		93,161			—			93,161
Cash dividends (Note 12)				(7,600)		(7,600)			—			(7,600)
Directors' and statutory auditors' bonuses				(316)		(316)			—			(316)
Increase of treasury stock					(2,539)	(2,539)			—			(2,539)
Disposal of treasury stock				(43)	666	623			—			623
Net change during the year						—	1,760	(3,538)	(1,778)	—	2,556	778
Balance at March 31, 2005	430,119	117,513	126,274	780,199	(11,092)	1,012,894	13,688	(30,275)	(16,587)	—	29,065	1,025,372
Conversion of convertible debentures	1,988	1,907	1,905			3,812			—			3,812
Net income				115,045		115,045			—			115,045
Effect of increase in consolidated subsidiaries				9		9			—			9
Cash dividends (Note 12)				(11,793)		(11,793)			—			(11,793)
Directors' and statutory auditors' bonuses				(352)		(352)			—			(352)
Effect of change of accounting standard at an overseas consolidated subsidiary				(586)		(586)			—			(586)
Increase of treasury stock					(1,454)	(1,454)			—			(1,454)
Disposal of treasury stock				(109)	6,246	6,137			—			6,137
Net change during the year						—	24,911	41,644	66,555	—	5,154	71,709
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 12)				(18,291)		(18,291)			—			(18,291)
Directors' and statutory auditors' bonuses				(486)		(486)			—			(486)
Increase 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**

	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	Foreign Currency Translation Adjustment	Total	Share Subscription Rights	Minority Interests in Consolidated Subsidiaries	Total Net Assets
Balance at March 31, 2006	432,107	$1,012,034	$1,086,262	$7,478,076	$(53,390)	$9,522,982	$327,110	$96,347	$423,457	$ —	$289,992	$10,236,431
Net income				1,305,169		1,305,169			—			1,305,169
Cash dividends (Note 12)				(155,008)		(155,008)			—			(155,008)
Directors' and statutory auditors' bonuses				(4,119)		(4,119)			—			(4,119)
Increase of treasury stock					(43,136)	(43,136)			—			(43,136)
Disposal of treasury stock				(3,279)	32,458	29,179			—			29,179
Other			(8)			(8)						(8)
Net change during the year						—	(79,873)	189,865	109,992	5,627	43,966	159,585
Balance at March 31, 2007	**432,107**	**$1,012,034**	**$1,086,254**	**$8,620,839**	**$(64,068)**	**$10,655,059**	**$247,237**	**$286,212**	**$533,449**	**$5,627**	**$333,958**	**$11,528,093**

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

	Millions of yen			Thousands of U.S. dollars (Note 3)
For the years ended March 31, 2007, 2006, and 2005	**2007**	2006	2005	**2007**
Cash Flows from Operating Activities:				
Income before income taxes	**¥ 247,018**	¥ 185,040	¥ 151,503	**$ 2,093,373**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	**138,462**	111,637	90,875	**1,173,407**
Increase in accrued retirement benefits	**275**	1,948	1,385	**2,331**
Loss on write-down of investment securities	**333**	119	41	**2,822**
Interest and dividend income	**(9,658)**	(6,771)	(4,627)	**(81,847)**
Interest expenses	**2,572**	2,706	3,014	**21,797**
Exchange gain (loss)	**1,062**	(27)	(14)	**9,000**
Equity in earnings of affiliates	**(8,085)**	(3,996)	(1,616)	**(68,517)**
Changes in assets and liabilities:				
Increase in notes and accounts receivable	**(31,018)**	(30,505)	(11,647)	**(262,865)**
Decrease in inventories	**(18,417)**	(7,798)	(16,706)	**(156,076)**
Increase in notes and accounts payable	**30,805**	21,672	7,688	**261,059**
Other, net	**9,222**	14,364	13,384	**78,152**
Subtotal	**362,571**	288,389	233,280	**3,072,636**
Proceeds from interest and dividends	**13,323**	6,613	4,773	**112,906**
Payment of interest	**(2,633)**	(2,809)	(3,099)	**(22,314)**
Payment of income taxes	**(100,773)**	(71,600)	(57,577)	**(854,008)**
Net cash provided by operating activities	**272,488**	220,593	177,377	**2,309,220**
Cash Flows from Investing Activities:				
Net (increase) decrease in marketable securities	**(13,654)**	(5,151)	4,262	**(115,712)**
Purchases of property, plant and equipment	**(185,593)**	(126,661)	(95,501)	**(1,572,822)**
Proceeds from sales of property, plant and equipment	**232**	1,351	726	**1,966**
Purchases of intangible fixed assets	**(1,999)**	(1,046)	(1,270)	**(16,941)**
Purchases of investment securities	**(5,656)**	(52,708)	(45,291)	**(47,932)**
Proceeds from sales and redemption of investment securities	**30,316**	47,070	44,350	**256,915**
Payment for purchases of newly consolidated subsidiaries' shares and acquisition of business	**—**	—	(5,705)	**—**
Proceeds from sales of consolidated subsidiaries' shares	**—**	—	385	**—**
Payments of loans	**(104)**	(32)	(384)	**(881)**
Proceeds from collection of loans	**514**	3,187	2,100	**4,356**
Increase in long-term time deposits	**—**	—	(10,000)	**—**
Other, net	**(9,239)**	(4,823)	(2,428)	**(78,296)**
Net cash used for investing activities	**(185,183)**	(138,813)	(108,756)	**(1,569,347)**
Cash Flows from Financing Activities:				
Net decrease in short-term debt	**(3,614)**	(17,718)	(18,873)	**(30,627)**
Proceeds from long-term debt	**6,242**	5,738	2,426	**52,898**
Repayment of long-term debt	**(27,803)**	(9,393)	(13,133)	**(235,619)**
Proceeds from issuance of debentures	**—**	—	8,000	**—**
Payment of debentures on redemption	**(16,000)**	(13,209)	(10,165)	**(135,593)**
Cash dividends paid	**(18,291)**	(11,793)	(7,600)	**(155,008)**
Other, net	**(2,367)**	3,878	(2,566)	**(20,059)**
Net cash used for financing activities	**(61,833)**	(42,497)	(41,911)	**(524,008)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**5,197**	16,608	(1,955)	**44,042**
Net Increase in Cash and Cash Equivalents	**30,669**	55,891	24,755	**259,907**
Cash and Cash Equivalents at Beginning of Year	**373,864**	317,733	292,978	**3,168,339**
Net Increase in Cash and Cash Equivalents due to Change in Scope of Consolidation	**—**	240	—	**—**
Cash and Cash Equivalents at End of Year (Note 17)	**¥ 404,533**	¥ 373,864	¥ 317,733	**$ 3,428,246**

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, 2007, 2006 and 2005

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 Securities 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. In general, no adjustments to the accounts of overseas consolidated subsidiaries have been reflected in the accompanying consolidated financial statements to present them in compliance with Japanese accounting principles followed by the Company.

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 Securities 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 94 majority-owned subsidiaries as of March 31, 2007 (92 and 90 as of March 31, 2006 and 2005, respectively). The consolidated financial statements include the accounts of the Company and 68 (68 and 67 for 2006 and 2005, respectively) majority-owned subsidiaries (the Companies), of which the principal firms are listed on page 45 with their respective fiscal year-ends.

The remaining 26 (24 and 23 for 2006 and 2005, 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.

Elimination of the cost of investments in consolidated subsidiaries with underlying equity in the net assets of such subsidiaries has been made by the Company to include equity in the net income (loss) of subsidiaries earned subsequent to the acquisition of each block of shares. Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is treated as an asset or a liability, as the case may be, and 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 26 (24 and 23 for 2006 and 2005, respectively) unconsolidated subsidiaries (majority-owned) and 15 (16 and 15 for 2006 and 2005, respectively) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 7 (7 and 6 for 2006 and 2005, 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.

(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 adjustment" in the accompanying balance sheets as of March 31, 2007 and 2006.

(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

Inventories are valued principally at cost determined by the average-cost method.

(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."

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. The related hedged items are long-term bank loans, and debt securities issued by consolidated subsidiaries.

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.

The Company and its domestic subsidiaries adopted the accounting standard for impairment of fixed assets from the prior fiscal year.

In the prior fiscal year, the period of depreciation for semiconductor silicon manufacturing facilities was five years. However, in order to keep pace with rapid technology innovation resulting from strong market demand for higher-quality silicon wafers, from the current fiscal year the period of depreciation has been changed mainly to three years. Consequently, the depreciation expenses for the current fiscal year, when compared with the figures calculated for the previous depreciable years, increased by ¥23,875 million ($202,331 thousand) and operating income, ordinary income and income before income taxes each decreased by ¥22,405 million ($189,873 thousand).

(9) Repairs and maintenance

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

(10) Accounting for leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

However, all leases, whether they transfer ownership or not, relating to the overseas consolidated subsidiaries are recognized as sales/purchases of assets on installment payments.

(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 10).

(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 12).

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' bonus

Effective from the current fiscal year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the new "Accounting standard for directors' bonus" (Accounting Standard Board of Japan Statement No. 4 issued on November 29, 2005 by the Accounting Standard Board of Japan).

The effect of the adoption of the standard on operating income, ordinary income and income before income taxes decreased each by ¥520 million ($4,407 thousand).

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

Effective from the current 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" (Accounting Standards Board of Japan 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" (Accounting Standards of Japan Guidance No. 8 issued on December 9, 2005 by the Accounting Standards Board of Japan).

The amount corresponding to conventional "Stockholders' equity" in the balance sheet is ¥1,320,244 million ($11,188,508 thousand).

(18) Accounting standard for stock options

Effective from the current 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" (Accounting Standards Board of Japan Statement No. 8 issued on December 27, 2005) as well as "Implementation guidance for Accounting standards for share-based payment" (Accounting Standards of Japan Guidance No. 11 issued on May 31, 2006).

The effect of the adoption of the standard on operating income, ordinary income and income before income taxes decreased each by ¥704 million ($5,966 thousand).

(19) Consumption tax

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

(20) Reclassifications

Certain reclassifications have been made in the 2006 and 2005 financial statements to conform to the presentation for 2007.

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 ¥118 to US$1, the approximate effective rate of exchange on March 31, 2007. 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 ¥118 to US$1 or at any other rate.

4. Notes and accounts receivable and payable

The Companies recognize the settlements of trade notes receivable and trade notes payable when the bank clearance of the notes are actually made. The balance sheet date of March 31, 2007 was a holiday for financial institutions and, therefore, the following accounts include the balances of trade notes receivable and trade notes payable due on that date as unsettled in the relevant amount in the accompanying consolidated balance sheet as of March 31, 2007.

	Millions of yen	Thousands of U.S. dollars
Notes and accounts receivable:		
Trade notes receivable	**¥3,304**	**$28,000**
Notes and accounts payable:		
Trade notes payable	**2,510**	**21,271**
Other	**17**	**144**

5. Inventories

Inventories as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Merchandise	**¥ 14,826**	¥ 12,134	**$ 125,644**
Finished products	**66,090**	59,633	**560,085**
Semifinished products	**28,792**	22,131	**244,000**
Raw materials	**44,130**	39,484	**373,983**
Supplies	**13,271**	10,762	**112,466**
Other	**2,068**	3,224	**17,525**
Total	**¥169,177**	¥147,368	**$1,433,703**

6. Securities

Securities as of March 31, 2007 and 2006 consisted of the following:

(1) Market value of bonds held to maturity

	Millions of yen		
	2007		
Description	Book value	Market value	Difference
Securities with fair value that exceeds book value	**¥22,102**	**¥22,109**	**¥ 7**
Securities with fair value that does not exceed book value	**57,621**	**57,524**	**(97)**
Total	**¥79,723**	**¥79,633**	**¥(90)**

	Millions of yen		
	2006		
Description	Book value	Market value	Difference
Securities with fair value that exceeds book value	¥23,507	¥23,515	¥ 8
Securities with fair value that does not exceed book value	39,356	39,132	(224)
Total	¥62,863	¥62,647	¥(216)

	Thousands of U.S. dollars		
	2007		
Description	Book value	Market value	Difference
Securities with fair value that exceeds book value	**$187,305**	**$187,364**	**$ 59**
Securities with fair value that does not exceed book value	**488,314**	**487,492**	**(822)**
Total	**$675,619**	**$674,856**	**$(763)**

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

	Millions of yen		
	2007		
Description	Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value that exceeds acquisition cost:			
Stocks	**¥29,206**	**¥77,892**	**¥48,686**
Securities with book value that does not exceed acquisition cost:			
Stocks	**374**	**300**	**(74)**
Total	**¥29,580**	**¥78,192**	**¥48,612**

Description	Millions of yen 2006 Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value that exceeds acquisition cost:			
Stocks	¥29,345	¥93,904	¥64,559
Securities with book value that does not exceed acquisition cost:			
Stocks	248	236	(12)
Total	¥29,593	¥94,140	¥64,547

Description	Thousands of U.S. dollars 2007 Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value that exceeds acquisition cost:			
Stocks	**$247,509**	**$660,102**	**$412,593**
Securities with book value that does not exceed acquisition cost:			
Stocks	**3,169**	**2,542**	**(627)**
Total	**$250,678**	**$662,644**	**$411,966**

(3) Available-for-sale securities sold during the fiscal year ended March 31, 2007 and 2006

Available-for-sale securities sold during the fiscal years ended March 31, 2007 and 2006 are assumed insignificant.

(4) Bonds held to maturity sold in the fiscal year ended March 31, 2006

	Millions of yen Cost of sales	Sales amount	Realized gain (loss)
Non-listed overseas bonds	¥12,476	¥12,476	¥ —

Note: One consolidated subsidiary sold bonds after reviewing its surplus fund investment strategy.

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

	Book value: Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Bonds held to maturity	**¥ 23,000**	¥ 31,574	**$ 194,915**
Investments in unconsolidated subsidiaries and affiliates	**67,453**	58,944	**571,636**
Available-for-sale securities	**134,961**	147,261	**1,143,737**

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

	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Within one year	**¥206,840**	¥178,499	**$1,752,881**
Over one year within five years	**26,260**	59,636	**222,542**
Over five years within ten years	**740**	604	**6,271**

7. Derivative transactions

Derivative financial instruments were as follows:

As of March 31, 2007

Currency related:

Description	Millions of yen Contract amounts	Market value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sales Contracts:			
US$	**¥171,652**	**¥175,679**	**¥(4,027)**
EUR	**726**	**710**	**16**
Buys Contracts:			
US$	**4,189**	**4,190**	**1**
Foreign currency swap contracts			
Received Japanese Yen, pay Thai Baht	**3,709**	**(777)**	**(777)**
Received Japanese Yen, pay U.S. Dollars	**577**	**(41)**	**(41)**
Received Japanese Yen, pay British Pound	**13,764**	**(735)**	**(735)**
Total	**¥ —**	**¥ —**	**¥(5,563)**

Description	Thousands of U.S. dollars Contract amounts	Market value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sales Contracts:			
US$	**$1,454,678**	**$1,488,805**	**$(34,127)**
EUR	**6,153**	**6,017**	**136**
Buys Contracts:			
US$	**35,500**	**35,508**	**8**
Foreign currency swap contracts			
Received Japanese Yen, pay Thai Baht	**31,432**	**(6,585)**	**(6,585)**
Received Japanese Yen, pay U.S. Dollars	**4,890**	**(347)**	**(347)**
Received Japanese Yen, pay British Pound	**116,644**	**(6,229)**	**(6,229)**
Total	**$ —**	**$ —**	**$(47,144)**

Notes: 1. Market rate represents the foreign exchange rate prevailing as of March 31, 2007.
2. The market value is provided by financial institutions with which we 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	**¥4,856**	**¥7**	**¥7**
Receive fixed, pay floating	**132**	**(1)**	**(1)**
Total	**¥4,988**	**¥6**	**¥6**

Description	Thousands of U.S. Dollars Contract amounts	Market value	Unrealized gain (loss)
Interest rate swap contracts:			
Receive floating, pay fixed	**$41,153**	**$59**	**$59**
Receive fixed, pay floating	**1,118**	**(8)**	**(8)**
Total	**$42,271**	**$51**	**$51**

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

As of March 31, 2006

Currency related:

Description	Millions of yen Contract amounts	Market value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sales Contracts:			
US$	¥135,097	¥139,806	¥(4,709)
EUR	1,738	1,759	(21)
Buys Contracts:			
US$	2,720	2,672	(48)
Foreign currency option contracts			
Buys Contracts:			
US$	216	8	8
Foreign currency swaps			
Received Japanese Yen, pay Thai Baht	3,709	(186)	(186)
Received Japanese Yen, pay U.S. Dollars	780	(44)	(44)
Total	¥ —	¥ —	¥(5,000)

Notes: 1. Market rate represents the foreign exchange rate prevailing as of March 31, 2006.
2. The market value is provided by financial institutions with which we 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	¥11,856	¥(26)	¥(26)
Receive fixed, pay floating	10,224	12	12
Total	¥22,080	¥(14)	¥(14)

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

8. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen 2007	2006	Thousands of U.S. dollars 2007
Held Directly by the Company:			
Affiliates:			
Four affiliates accounted for by the equity method (See Note 2 (2))*	**¥41,018**	¥40,453	**$347,610**
Other	**1,028**	1,033	**8,712**
	¥42,046	¥41,486	**$356,322**
Unconsolidated subsidiaries:			
Shin-Etsu Electronics Malaysia Sdn. Bhd.	**¥ 1,400**	¥ 1,400	**$ 11,864**
Other	**691**	691	**5,856**
	¥ 2,091	¥ 2,091	**$ 17,720**
Held Indirectly through Subsidiaries:			
Unconsolidated subsidiaries and affiliates:			
Three affiliates accounted for by the equity method (See Note 2 (2))*	**¥21,208**	¥13,048	**$179,729**
Other	**2,497**	2,720	**21,162**
	¥23,705	¥15,768	**$200,891**
Advances:	**1,699**	1,892	**14,398**
	¥69,541	¥61,237	**$589,331**

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

9. Short-term borrowings and long-term debt

Short-term borrowings outstanding as of March 31, 2007 and 2006 are represented generally by overdrafts contracted between the Companies and banks.

Long-term debt as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans with Banks and Other Financial Institutions:			
Secured	¥ 6,563	¥ 9,479	$ 55,619
Unsecured	29,016	45,453	245,898
Unsecured Debentures:			
2.6% debentures issued by a consolidated subsidiary, due December 2007 (Note)	—	3,000	—
0.7% debentures issued by a consolidated subsidiary, due August 2009 (Note)	—	5,000	—
0.4% debentures issued by a consolidated subsidiary, due February 2007	—	8,000	—
	35,579	70,932	301,517
Less Portion Due within One Year	(14,926)	(13,262)	(126,492)
	¥ 20,653	¥ 57,670	$ 175,025

Note: These debentures are made off-balance sheet by debt assumption.

As of March 31, 2007, assets pledged as collateral for short-term loans, mortgage debentures and long-term loans were as follows:

	Millions of yen	Thousands of U.S. dollars
Net book value of property, plant and equipment	¥32,229	$273,127

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

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,		
2009	¥ 3,381	$ 28,653
2010	7,332	62,136
2011	6,641	56,280
2012 and thereafter	3,299	27,956
	¥20,653	$175,025

10. Retirement and pension plans

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

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

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

The reserves for retirement benefits as of March 31, 2007 and 2006 are analyzed as follows:

Benefit Obligations

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
(a) Benefit obligations	¥(31,910)	¥(30,131)	$(270,424)
(b) Pension assets	23,886	22,751	202,424
(c) Unfunded benefit obligations [(a)+(b)]	(8,024)	(7,380)	(68,000)
(d) Unrecognized actuarial differences	(197)	(581)	(1,669)
(e) Unrecognized prior service cost (negative) (Note 1)	(614)	(743)	(5,204)
(f) Amount shown on balance sheet [(c)+(d)+(e)]	(8,835)	(8,704)	(74,873)
(g) Prepaid pension expenses	2,108	1,694	17,864
(h) Accrued retirement benefits [(f)-(g)]	¥(10,943)	¥(10,398)	$ (92,737)

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
	2007	2006	2007
(a) Service costs (Note 1)	¥2,481	¥2,511	$21,025
(b) Interest costs	1,009	1,004	8,551
(c) Expected return on plan assets	(885)	(777)	(7,500)
(d) Recognized actuarial loss	(666)	(778)	(5,644)
(e) Amortization of prior service cost	(83)	(151)	(703)
(f) Other (Note 2)	1,680	1,580	14,237
(g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)]	¥3,536	¥3,389	$29,966

Notes: 1. Retirement benefit costs for subsidiaries adopting a simplified method are reported in "Service costs."
2. "Other" is contributions for defined contribution pension plans.

Basic Assumptions for Calculating Benefit Obligations

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

11. Commitment and contingent liabilities

As of March 31, 2007, 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 ¥119 million ($1,008 thousand).

In addition, one of the Companies was contingently liable, as of March 31, 2007, in accordance with a contract of debt assumption with a bank for debentures issued by itself in the amounts of ¥14,000 million ($118,644 thousand) and for loans in the amounts of ¥8,000 million ($67,797 thousand).

12. Retained earnings

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

The Corporation Law of Japan provides that interim cash dividends (payable to stockholders of record as of September 30 of each year in the case of the Company on a semiannual basis) may be distributed upon approval by the Board of Directors. The Company paid interim dividends during the years ended March 31, 2007, 2006 and 2005 in the amounts of ¥10,754 million ($91,136 thousand) (¥25.0 per share), ¥7,517 million and ¥4,234 million, respectively, which were actually paid to stockholders on November 18, 2006, November 18, 2005 and November 18, 2004, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended March 31, 2007, 2006 and 2005, respectively.

There were 1,470,973 shares and 1,465,968 shares of treasury stock as at March 31, 2007 and 2006, respectively.

13. Research and development costs

Research and development costs incurred and charged to income for the years ended March 31, 2007, 2006 and 2005 were ¥41,737 million ($353,703 thousand), ¥32,003 million and ¥27,925 million, respectively.

14. Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2007 and 2006 amounted to ¥392 million ($3,322 thousand) and ¥373 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2007, 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 ¥392 million ($3,322 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
	2007	2006	**2007**
Acquisition cost	**¥2,005**	¥1,905	**$16,992**
Accumulated depreciation	**949**	1,209	**8,043**
Net book value	**¥1,056**	¥ 696	**$ 8,949**

The amounts of outstanding future lease payments due in respect of finance lease contracts at March 31, 2007 and 2006, which included the portion of interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Future Lease Payments:			
Within one year	**¥ 360**	¥309	**$3,051**
Over one year	**696**	387	**5,898**
	¥1,056	¥696	**$8,949**

The amounts of outstanding future lease payments due in respect of operating lease contracts at March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Future Lease Payments:			
Within one year	**¥2,809**	¥4,436	**$23,805**
Over one year	**2,337**	3,912	**19,805**
	¥5,146	¥8,348	**$43,610**

15. Related party transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2007, 2006 and 2005 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Sales	**¥ 11,517**	¥ 9,363	¥16,224	**$ 97,602**
Purchases	**101,942**	86,659	64,110	**863,915**

16. Income taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended March 31, 2007, 2006 and 2005 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	2007	2006	2005
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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred Tax Assets:			
Depreciation	**¥28,542**	¥15,881	**$241,881**
Unsettled accounts receivable and payable	**7,451**	6,944	**63,144**
Maintenance cost	**6,950**	5,140	**58,898**
Unrealized profit	**4,464**	4,632	**37,831**
Accrued bonus allowance	**4,430**	3,944	**37,542**
Accrued enterprise taxes	**3,678**	3,248	**31,170**
Special provision for accrued retirement benefits	**3,636**	3,614	**30,814**
Tax loss carry forwards	**1,231**	1,668	**10,432**
Other	**25,207**	21,294	**213,619**
Valuation allowance	**(4,218)**	(4,339)	**(35,746)**
Total	**¥81,371**	¥62,026	**$689,585**
Deferred Tax Liabilities:			
Depreciation	**¥19,998**	¥24,249	**$169,475**
Unrealized gain on available-for-sale securities	**19,546**	25,939	**165,644**
Reserve for special depreciation	**810**	2,245	**6,864**
Other	**2,883**	2,966	**24,432**
Total	**¥43,237**	¥55,399	**$366,415**
Net deferred tax assets	**¥38,134**	¥ 6,627	**$323,170**

Net Deferred Tax Assets are included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Current assets: Deferred tax assets	**¥ 40,694**	¥ 34,103	**$ 344,864**
Non-current assets: Deferred tax assets	**26,259**	13,268	**222,534**
Current liabilities: Other	**(2)**	(9)	**(15)**
Non-current liabilities: Deferred tax liabilities	**(28,817)**	(40,735)	**(244,212)**

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

	2007	2006
Statutory tax rate	**40.4%**	40.4%
Rate difference from foreign subsidiaries	**(2.7)**	(3.4)
Tax deduction for research expenses	**(1.0)**	(0.9)
Dividend income and other not taxable	**(0.5)**	(0.5)
Entertainment and other non-deductible expenses	**0.1**	0.2
Other, net	**(0.7)**	(0.2)
Effective tax rate	**35.6**	35.6

17. Supplemental cash flow information

(1) 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, 2007, 2006, and 2005 are presented below:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Cash and time deposits	**¥296,852**	¥262,145	¥246,741	**$2,515,695**
Marketable securities	**207,178**	178,555	105,839	**1,755,746**
Time deposits for which maturities are approximately over three months	**(20,821)**	(8,928)	(2,205)	**(176,449)**
Marketable securities (maturities approximately over three months)	**(78,676)**	(57,908)	(32,642)	**(666,746)**
Cash and cash equivalents	**¥404,533**	¥373,864	¥317,733	**$3,428,246**

(2) Purchase of newly consolidated subsidiaries' shares and acquisition of business

During the fiscal year ended March 31, 2005, the Company acquired shares of JAPAN VAM & POVAL Co., Ltd.

Upon consolidation, a net cash flow of ¥5,705 million, representing the excess of the cash consideration of ¥6,999 million paid for acquisition over the "Cash and cash equivalents" of ¥1,294 million held by JAPAN VAM & POVAL Co., Ltd. as at the date of a commencement of consolidation, was disclosed as "Payment for purchase of newly consolidated subsidiaries' shares and acquisition of business" in the consolidated statements of cash flows for the fiscal year ended March 31, 2005.

The cash consideration of ¥6,999 million paid for the acquisition during the fiscal year ended March 31, 2005, respectively, was allocated as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Current assets	**¥ —**	¥ —	¥ 6,134	**$ —**
Non-current assets	**—**	—	5,617	**—**
Consolidation adjustments	**—**	—	2,943	**—**
Current liabilities	**¥ —**	¥ —	¥(5,622)	**$ —**
Non-current liabilities	**—**	—	(2,073)	**—**
Cash consideration	**—**	—	6,999	**—**
Cash and cash equivalents acquired	**—**	—	(1,294)	**—**
Net cash flow	**¥ —**	¥ —	¥ 5,705	**$ —**

(3) Important non-cash transactions were as follows

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Increase of common stock by conversion of convertible debentures	**¥ —**	¥ 1,907	¥ 7,020	**$ —**
Increase of additional paid-in capital by conversion of convertible debentures	**—**	1,905	7,012	**—**
Decrease of convertible debentures by conversion	**¥ —**	¥3,812	¥14,032	**$ —**

18. 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, 2007, 2006 and 2005 and for the years then ended, classified by business segment, are presented as follows:

	Millions of yen				
	2007				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[3]	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	**28,797**	**101,405**	**8,473**	**(213)**	**138,462**
Capital expenditures	**94,149**	**105,619**	**10,957**	**(112)**	**210,613**

	Millions of yen				
	2006				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[3]	Consolidated Total
Sales:					
Sales to outside customers	¥636,492	¥361,453	¥129,971	¥ —	¥1,127,916
Intersegment sales	9,503	3,567	59,692	(72,762)	—
Total	645,995	365,020	189,663	(72,762)	1,127,916
Operating costs and expenses	549,823	299,745	165,640	(72,612)	942,596
Operating income	¥ 96,172	¥ 65,275	¥ 24,023	¥ (150)	¥ 185,320
Assets	¥664,381	¥516,974	¥165,225	¥324,701	¥1,671,281
Depreciation	27,667	75,816	8,360	(206)	111,637
Capital expenditures[1]	46,241	65,656	8,354	(443)	119,808

	Millions of yen				
	2005				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[3]	Consolidated Total
Sales:					
Sales to outside customers	¥548,950	¥306,925	¥111,611	¥ —	¥ 967,486
Intersegment sales	8,476	2,472	66,552	(77,500)	—
Total	557,426	309,397	178,163	(77,500)	967,486
Operating costs and expenses	479,531	255,713	158,039	(77,531)	815,752
Operating income	¥ 77,895	¥ 53,684	¥ 20,124	¥ 31	¥ 151,734
Assets	¥631,467	¥448,725	¥167,822	¥228,235	¥1,476,249
Depreciation	26,076	55,031	9,998	(230)	90,875
Capital expenditures[2]	30,342	66,764	9,369	(253)	106,222

	Thousands of U.S. dollars				
	2007				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[3]	Consolidated Total
Sales:					
Sales to outside customers	**$6,003,678**	**$4,062,644**	**$990,424**	**$ —**	**$11,056,746**
Intersegment sales	**99,364**	**25,619**	**793,669**	**(918,652)**	**—**
Total	**6,103,042**	**4,088,263**	**1,784,093**	**(918,652)**	**11,056,746**
Operating costs and expenses	**5,198,915**	**3,184,475**	**1,550,161**	**(919,424)**	**9,014,127**
Operating income	**$ 904,127**	**$ 903,788**	**$ 233,932**	**$ 772**	**$ 2,042,619**
Assets	**$6,544,983**	**$5,332,169**	**$1,683,822**	**$2,201,704**	**$15,762,678**
Depreciation	**244,042**	**859,364**	**71,805**	**(1,804)**	**1,173,407**
Capital expenditures	**797,873**	**895,076**	**92,856**	**(949)**	**1,784,856**

Notes: 1. Mimasu Semiconductor Industry Co., Ltd., which substantially belongs to the Electronics Materials segment, is now included in the affiliates where the equity method accounting is applied during the fiscal year ended March 31, 2006, as a result of the additional acquisition of shares during the fiscal year. Payment for this acquisition was ¥25,521 million, which is not included in the "Capital expenditures" in the chart above. If this amount were included, capital expenditures for the fiscal year ended March 31, 2006 would be ¥145,330 million.

2. As a result of additional acquisition of shares at the end of the fiscal year ended March 31, 2005, JAPAN VAM & POVAL Co., Ltd., which is under the Organic and Inorganic Chemicals segment, became a wholly owned consolidated subsidiary. Previously, in the fiscal year ended March 31, 2004, as an affiliated company, it was included in the scope of the equity method of accounting. Payment for this acquisition was ¥6,999 million. Only ¥2,943 million, which is equivalent to the consolidated adjustment account, is included in the above Capital expenditures. If the remaining ¥4,056 million were included, the total amount of Capital expenditures would come to ¥110,278 million.

3. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2007, 2006, and 2005 were ¥309,306 million ($2,621,237 thousand), ¥360,148 million and ¥328,568 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.

4. 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 current fiscal year. With this change, the depreciation expenses under the Electronics Materials business segment for the current fiscal year, when compared with the figures calculated for the previous depreciable years, increased by ¥23,875 million ($202,331 thousand). Operating expenses increased by ¥22,405 million, ($189,873 thousand) and accordingly, operating income decreased by the same amount.

5. The period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the fiscal year ended March 31, 2006. With this change, the depreciation expenses under the Electronics Materials business segment for the fiscal year ended March 31, 2006, when compared with the figures calculated for the previous depreciable years, increased by ¥9,957 million. Operating expenses increased by ¥9,505 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, 2007, 2006 and 2005 and for the years then ended are presented below:

	Millions of yen					
	2007					
	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets[2]	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	**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**

	Millions of yen					
	2006					
	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets[2]	Consolidated Total
Sales:						
Sales to outside customers	¥574,448	¥287,478	¥130,027	¥135,963	¥ —	¥1,127,916
Intersegment sales	184,833	23,198	61,737	677	(270,445)	—
Total	759,281	310,676	191,764	136,640	(270,445)	1,127,916
Operating costs and expenses	620,502	284,079	182,164	126,768	(270,917)	942,596
Operating income	¥138,779	¥ 26,597	¥ 9,600	¥ 9,872	¥ 472	¥ 185,320
Assets	¥807,041	¥362,521	¥151,300	¥131,265	¥ 219,154	¥1,671,281

	Millions of yen					
	2005					
	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets[2]	Consolidated Total
Sales:						
Sales to outside customers	¥494,851	¥236,525	¥110,174	¥125,936	¥ —	¥ 967,486
Intersegment sales	147,772	31,253	45,902	913	(225,840)	—
Total	642,623	267,778	156,076	126,849	(225,840)	967,486
Operating costs and expenses	533,230	245,029	145,572	117,243	(225,322)	815,752
Operating income	¥109,393	¥ 22,749	¥ 10,504	¥ 9,606	¥ (518)	¥ 151,734
Assets	¥730,263	¥294,054	¥130,114	¥124,309	¥ 197,509	¥1,476,249

	Thousands of U.S. dollars					
	2007					
	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets[2]	Consolidated Total
Sales:						
Sales to outside customers	**$5,422,890**	**$2,655,110**	**$1,580,686**	**$1,398,060**	**$ —**	**$11,056,746**
Intersegment sales	**2,071,288**	**330,475**	**550,390**	**7,093**	**(2,959,246)**	**—**
Total	**7,494,178**	**2,985,585**	**2,131,076**	**1,405,153**	**(2,959,246)**	**11,056,746**
Operating costs and expenses	**6,009,805**	**2,661,144**	**2,001,805**	**1,312,356**	**(2,970,983)**	**9,014,127**
Operating income	**$1,484,373**	**$ 324,441**	**$ 129,271**	**$ 92,797**	**$ 11,737**	**$ 2,042,619**
Assets	**$8,153,788**	**$3,571,814**	**$1,544,551**	**$1,308,500**	**$ 1,184,025**	**$15,762,678**

Notes: 1. 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
2. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2007, 2006, and 2005 were ¥309,306 million ($2,621,237 thousand), ¥360,148 million and ¥328,568 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.
3. As 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 current fiscal year. As a result, operating expenses for Japan, North America, Asia/Oceania and Europe for the current fiscal year, increased by ¥13,321 million ($112,890 thousand), ¥4,029 million ($34,144 thousand), ¥2,955 million ($25,042 thousand) and ¥2,099 million ($17,788 thousand), respectively, compared with the figures calculated for the previous depreciable years. Accordingly, operating income decreased by the same amounts.
4. The period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the fiscal year ended March 31, 2006. As a result, operating expenses for Japan, North America, Asia/Oceania and Europe for the current fiscal year, increased by ¥1,316 million, ¥5,656 million, ¥1,381 million and ¥1,151 million, respectively, compared with the figures calculated for the previous depreciable years. Accordingly, operating income decreased by the same amounts.

(3) Overseas sales information

Overseas sales of the Companies for the years ended March 31, 2007, 2006 and 2005 are summarized as follows:

	Millions of yen				
	2007				
	North America	Asia/ Oceania	Europe	Other Areas	Total
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%**

	Millions of yen				
	2006				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	¥278,342	¥310,610	¥131,724	¥31,950	¥ 752,626
Consolidated sales	—	—	—	—	1,127,916
Percentage of overseas sales over consolidated sales	24.7%	27.5%	11.7%	2.8%	66.7%

	Millions of yen				
	2005				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	¥216,704	¥280,851	¥119,152	¥31,895	¥648,602
Consolidated sales	—	—	—	—	967,486
Percentage of overseas sales over consolidated sales	22.4%	29.0%	12.3%	3.3%	67.0%

	Thousands of U.S. dollars				
	2007				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	**$2,500,788**	**$3,333,169**	**$1,389,881**	**$406,154**	**$ 7,629,992**
Consolidated sales	**—**	**—**	**—**	**—**	**11,056,746**
Percentage of overseas sales over consolidated sales	**22.6%**	**30.1%**	**12.6%**	**3.7%**	**69.0%**

Notes: 1. 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
2. "Overseas sales" means sales to outside Japan by the Company and its consolidated subsidiaries.

19. Subsequent event

Appropriation of retained earnings

Subsequent to March 31, 2007, the Company's Board of Directors, with the approval of stockholders on June 28, 2007 declared a cash dividend of ¥19,379 million ($164,225 thousand) equal to ¥45.00 ($0.381) per share, applicable to earnings of the year ended March 31, 2007 and payable to stockholders on the stockholders' register on March 31, 2007.

Consolidated Subsidiaries

As of March 31, 2007

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shintech Inc.(1)	100.0	December 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31
Shin-Etsu Handotai America, Inc. (1)	100.0	December 31
Shin-Etsu Polymer Co., Ltd.	53.2	March 31
S.E.H. Malaysia Sdn. Bhd. (1)(2)	100.0	December 31
Shin-Etsu PVC B.V.(1)	100.0	December 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31
SE Tylose GmbH & Co. KG(1)	100.0	December 31
Shin-Etsu-Handotai Europe, Ltd.(1)	100.0	December 31
Nagano Electronics Industrial Co., Ltd.	90.0	February 28
Shin-Etsu Handotai Taiwan Co., Ltd.(1)	70.0	December 31
Naoetsu Electronics Co., Ltd.	100.0	February 28
Shin-Etsu Astech Co., Ltd.	99.6	March 31
S-E, Inc.(1)	100.0	December 31
Shin-Etsu Electronics Materials Singapore Pte. Ltd.(1)	100.0	December 31
Shin-Etsu Fintech Co., Ltd.	100.0	March 31
JAPAN VAM & POVAL Co., Ltd.	100.0	March 31
Shin-Etsu Singapore Pte. Ltd.(1)	100.0	December 31
Shin-Etsu Silicone Korea Co., Ltd.(1)	100.0	December 31
Shinano Polymer Co., Ltd.	100.0	March 31
Shin-Etsu Silicones Thailand Ltd.(1)	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd.(1)	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 28
Shin-Etsu MicroSi, Inc.(1)	100.0	December 31
Shin-Etsu Silicone Taiwan Co., Ltd.(1)	93.3	December 31
Shin-Etsu Silicones of America, Inc.(1)	100.0	December 31
Shin-Etsu Silicones Europe B.V.(1)	100.0	December 31
Shin-Etsu Sealant Co., Ltd.	100.0	March 31
Shin-Etsu Unit Co., Ltd.	100.0	March 31
Shin-Etsu Opto Electronics Co., Ltd.(1)	80.0	December 31
Shin-Etsu Polymer (Malaysia) Sdn. Bhd.(1)	100.0	December 31
Shin-Etsu Polymer Europe B.V.(1)	100.0	December 31
Shin-Etsu International Europe B.V.(1)	100.0	December 31
Nihon Resin Co., Ltd.	100.0	December 31
Naoetsu Precision Co., Ltd.	100.0	February 28
Skyward Information Systems Co., Ltd.	100.0	March 31
Shinano Electric Refining Co., Ltd.	75.3	March 31
Fukui Environmental Analysis Center Co., Ltd.	100.0	February 28
Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu Technology Service Co., Ltd.	76.9	February 28
Urawa Polymer Co., Ltd.	100.0	March 31
Niigata Polymer Company Limited	100.0	March 31
Shin-Etsu Polymer America, Inc.(1)	100.0	December 31
Naoetsu Sangyo Limited	100.0	March 31
San-Ace Co., Ltd.	100.0	March 31
Shinken Total Plant Co., Ltd.	100.0	February 28
Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Magnet Co., Ltd.	100.0	March 31
Shin-Etsu Polymer Mexico S.A. de. C.V.(1)	100.0	December 31
PT. Shin-Etsu Polymer Indonesia(1)	100.0	December 31
Shin-Etsu Polymer Singapore Pte. Ltd.(1)	100.0	December 31
Shin-Etsu Polymer Shanghai Co., Ltd.(1)	100.0	December 31
Shin-Etsu Polymer Hong Kong Co., Ltd.(1)	100.0	December 31
Shin-Etsu Polymer Hungary Kft.(1)	100.0	December 31
Human Create Co., Ltd.	100.0	March 31
Suzhou Shin-Etsu Polymer Co., Ltd.(1)	71.4	December 31
S.E.H. (Shah Alam) Sdn. Bhd.(1)	100.0	December 31
Simcoa Operations Pty. Ltd.(1)	100.0	December 31
Shincor Silicones, Inc.(1)	100.0	December 31
K-Bin, Inc.(1)	100.0	December 31

7 other consolidated subsidiaries

(1) Overseas subsidiary

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

Report of Independent Auditors

To the Board of Directors
Shin-Etsu Chemical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Shin-Etsu Chemical Co., Ltd. and its subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2007, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin-Etsu Chemical Co., Ltd. and its subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007 in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

Misuzu Audit Corporation

Misuzu Audit Corporation
Tokyo, Japan

June 28, 2007