

# Eleven-year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 1998 through 2008

| (Millions of Yen, except per share) | 2008       | 2007       | 2006       | 2005       |
|-------------------------------------|------------|------------|------------|------------|
| <b>For the Year:</b>                |            |            |            |            |
| Net sales                           | ¥1,376,365 | ¥1,304,696 | ¥1,127,916 | ¥ 967,486  |
| Operating income                    | 287,146    | 241,029    | 185,320    | 151,734    |
| Net income                          | 183,580    | 154,010    | 115,045    | 93,161     |
| <b>Per Share (Yen):</b>             |            |            |            |            |
| Net income—primary                  | 426.63     | 357.78     | 266.63     | 219.10     |
| Net income—fully diluted            | 426.35     | 357.32     | 266.07     | 216.11     |
| Cash dividends                      | 90.00      | 70.00      | 35.00      | 20.00      |
| Capital expenditures                | 268,479    | 210,613    | 145,330    | 110,278    |
| Depreciation and amortization       | 141,270    | 138,462    | 111,637    | 90,875     |
| <b>At Year-End:</b>                 |            |            |            |            |
| Total assets                        | ¥1,918,545 | ¥1,859,996 | ¥1,671,281 | ¥1,476,249 |
| Working capital                     | 638,807    | 628,986    | 572,206    | 444,935    |
| Common stock                        | 119,420    | 119,420    | 119,420    | 117,513    |
| Net assets                          | 1,483,669  | 1,360,315  | —          | —          |
| Stockholders' equity                | —          | —          | 1,173,680  | 996,307    |
| Net assets per share (Yen)          | 3,344.17   | 3,065.80   | 2,730.94   | 2,329.47   |
| <b>General:</b>                     |            |            |            |            |
| Number of employees                 | 20,241     | 19,177     | 18,888     | 18,151     |
| Number of shares issued (Thousands) | 432,107    | 432,107    | 432,107    | 430,119    |

| (Thousands of U.S. Dollars, except per share) | 2008         | 2007         | 2006         | 2005         |
|-----------------------------------------------|--------------|--------------|--------------|--------------|
| <b>For the Year:</b>                          |              |              |              |              |
| Net sales                                     | \$13,763,650 | \$13,046,960 | \$11,279,160 | \$ 9,674,860 |
| Operating income                              | 2,871,460    | 2,410,290    | 1,853,200    | 1,517,340    |
| Net income                                    | 1,835,800    | 1,540,100    | 1,150,450    | 931,610      |
| <b>Per Share (U.S. Dollars):</b>              |              |              |              |              |
| Net income—primary                            | 4.266        | 3.578        | 2.666        | 2.191        |
| Net income—fully diluted                      | 4.264        | 3.573        | 2.661        | 2.161        |
| Cash dividends                                | 0.900        | 0.700        | 0.350        | 0.200        |
| Capital expenditures                          | 2,684,790    | 2,106,130    | 1,453,300    | 1,102,780    |
| Depreciation and amortization                 | 1,412,700    | 1,384,620    | 1,116,370    | 908,750      |
| <b>At Year-End:</b>                           |              |              |              |              |
| Total assets                                  | \$19,185,450 | \$18,599,960 | \$16,712,810 | \$14,762,490 |
| Working capital                               | 6,388,070    | 6,289,860    | 5,722,060    | 4,449,350    |
| Common stock                                  | 1,194,200    | 1,194,200    | 1,194,200    | 1,175,130    |
| Net assets                                    | 14,836,690   | 13,603,150   | —            | —            |
| Stockholders' equity                          | —            | —            | 11,736,800   | 9,963,070    |
| Net assets per share (U.S. Dollars)           | 33.442       | 30.658       | 27.309       | 23.295       |
| <b>General:</b>                               |              |              |              |              |
| Number of employees                           | 20,241       | 19,177       | 18,888       | 18,151       |
| Number of shares issued (Thousands)           | 432,107      | 432,107      | 432,107      | 430,119      |

Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥100=US\$1, the approximate rate of exchange on March 31, 2008.

2. Stockholders' equity used for calculation of indices for the fiscal years ended March 31, 2007 and 2008 consists of "stockholders' equity" and "valuation and translation adjustments."

| 2004         | 2003         | 2002         | 2001         | 2000         | 1999         | 1998         |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| ¥ 832,805    | ¥ 797,523    | ¥ 775,097    | ¥ 807,485    | ¥ 678,859    | ¥ 642,796    | ¥ 693,275    |
| 125,626      | 122,150      | 114,724      | 112,677      | 87,465       | 86,323       | 90,860       |
| 74,806       | 73,016       | 68,519       | 64,505       | 48,229       | 43,363       | 42,027       |
| 177.25       | 173.13       | 162.93       | 153.58       | 116.56       | 109.36       | 110.73       |
| 173.52       | 169.36       | 159.38       | 150.24       | 113.46       | 103.17       | 101.69       |
| 16.00        | 14.00        | 12.00        | 12.00        | 10.00        | 9.00         | 8.50         |
| 113,591      | 75,211       | 81,543       | 96,770       | 80,003       | 73,641       | 136,384      |
| 73,582       | 66,566       | 70,878       | 70,767       | 61,384       | 56,196       | 62,144       |
| ¥1,386,216   | ¥1,310,875   | ¥1,288,432   | ¥1,265,799   | ¥1,168,729   | ¥1,060,973   | ¥1,083,780   |
| 401,879      | 409,262      | 363,677      | 350,273      | 273,193      | 261,691      | 221,869      |
| 110,493      | 110,272      | 110,260      | 110,247      | 107,664      | 98,243       | 83,957       |
| –            | –            | –            | –            | –            | –            | –            |
| 900,724      | 846,962      | 812,068      | 714,996      | 651,261      | 564,067      | 497,312      |
| 2,140.23     | 2,014.11     | 1,930.30     | 1,699.74     | 1,557.48     | 1,380.43     | 1,265.39     |
| 17,384       | 16,573       | 16,456       | 19,398       | 18,754       | 18,384       | 19,238       |
| 422,798      | 422,568      | 422,555      | 422,542      | 419,848      | 410,015      | 393,722      |
| 2004         | 2003         | 2002         | 2001         | 2000         | 1999         | 1998         |
| \$ 8,328,050 | \$ 7,975,230 | \$ 7,750,970 | \$ 8,074,850 | \$ 6,788,590 | \$ 6,427,960 | \$6,932,750  |
| 1,256,260    | 1,221,500    | 1,147,240    | 1,126,770    | 874,650      | 863,230      | 908,600      |
| 748,060      | 730,160      | 685,190      | 645,050      | 482,290      | 433,630      | 420,270      |
| 1.773        | 1.731        | 1.629        | 1.536        | 1.166        | 1.094        | 1.107        |
| 1.735        | 1.694        | 1.594        | 1.502        | 1.135        | 1.032        | 1.017        |
| 0.160        | 0.140        | 0.120        | 0.120        | 0.100        | 0.090        | 0.085        |
| 1,135,910    | 752,110      | 815,430      | 967,700      | 800,030      | 736,410      | 1,363,840    |
| 735,820      | 665,660      | 708,780      | 707,670      | 613,840      | 561,960      | 621,440      |
| \$13,862,160 | \$13,108,750 | \$12,884,320 | \$12,657,990 | \$11,687,290 | \$10,609,730 | \$10,837,800 |
| 4,018,790    | 4,092,620    | 3,636,770    | 3,502,730    | 2,731,930    | 2,616,910    | 2,218,690    |
| 1,104,930    | 1,102,720    | 1,102,600    | 1,102,470    | 1,076,640    | 982,430      | 839,570      |
| –            | –            | –            | –            | –            | –            | –            |
| 9,007,240    | 8,469,620    | 8,120,680    | 7,149,960    | 6,512,610    | 5,640,670    | 4,973,120    |
| 21.402       | 20.141       | 19.303       | 16.997       | 15.575       | 13.804       | 12.654       |
| 17,384       | 16,573       | 16,456       | 19,398       | 18,754       | 18,384       | 19,238       |
| 422,798      | 422,568      | 422,555      | 422,542      | 419,848      | 410,015      | 393,722      |

# Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

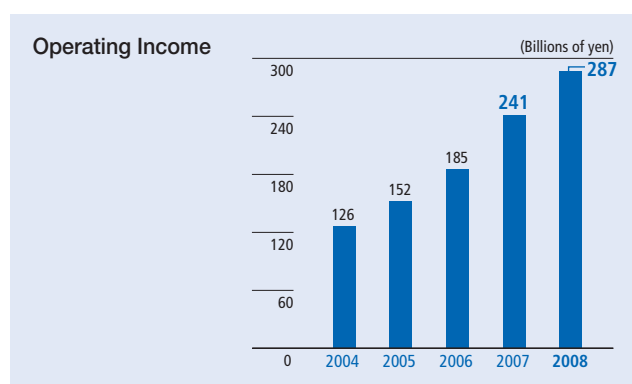
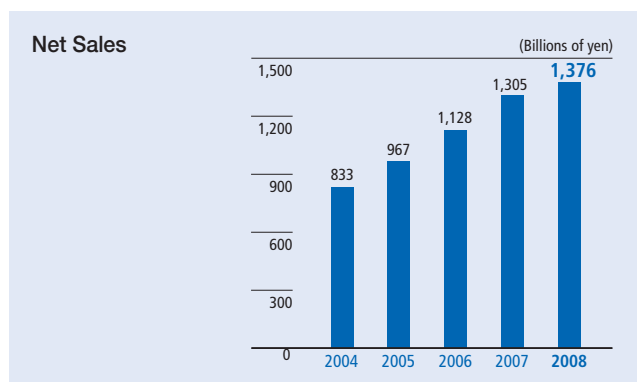
## Overview of the Shin-Etsu Group

The Shin-Etsu Group (the "Group") is composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 96 subsidiaries and 16 affiliates, as of March 31, 2008. 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.

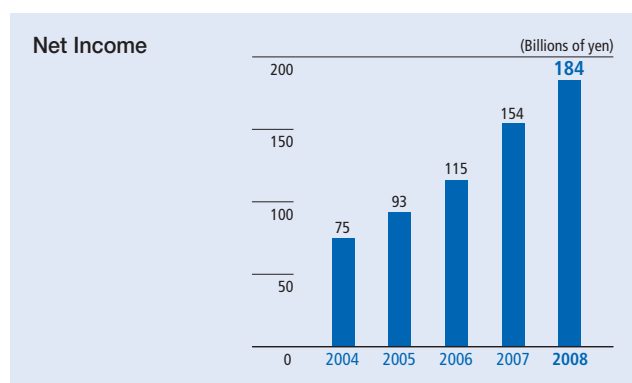
## Consolidated Operating Performance

During fiscal 2008, the year ended March 31, 2008, the Japanese economy was on a moderate recovery track despite rapidly growing concern from January 2008 about a slowdown, as areas such as private sector capital investment and exports were firm. In the U.S. economy, the effects of the subprime mortgage crisis included a sharp decrease in housing construction, causing concerns about a recession. However, the economies of Southeast Asia and China continued to expand.

Under these conditions, the Group carried out positive sales efforts directed at a wide range of customers worldwide, increased production capacity and strenuously worked to develop and commercialize new products. The Group also made thorough efforts in the areas of safety management and environmental control. As a result, net sales for fiscal 2008 increased by 5.5% (¥71.7 billion) compared with the previous fiscal year to ¥1,376.4 billion. Operating income increased 19.1% (¥46.1 billion) to ¥287.1 billion, ordinary income increased 21.5% (¥53.0 billion) to ¥300.0 billion and net income increased 19.2% (¥29.6 billion) to ¥183.6 billion.



Net sales and operating income increased due to factors including the expansion of earnings in the semiconductor silicon business both inside and outside Japan.



## Summary of Net Sales, Operating Costs and Income

| Years ended March 31, | Millions of yen |           |           | % Change  |
|-----------------------|-----------------|-----------|-----------|-----------|
|                       | 2008            | 2007      | 2006      | 2008/2007 |
| Net Sales             | 1,376,365       | 1,304,696 | 1,127,916 | 5.5%      |
| Cost of Sales         | 946,941         | 933,199   | 831,334   | 1.5%      |
| SG&A Expenses         | 142,278         | 130,468   | 111,262   | 9.1%      |
| Operating Income      | 287,146         | 241,029   | 185,320   | 19.1%     |

Net other income was ¥12.9 billion, due to factors including a substantial increase in equity in the earnings of affiliates. Net extraordinary income was ¥1.0 billion. Factors included net gain on insurance, cumulative effect of foreign subsidiary's accounting change and loss on impairment of fixed assets.

Income taxes included income taxes from prior years totaling ¥10.9 billion based on the tax effect of the Company's transfer pricing structure.

Operating performance by business segment was as follows.

### Organic and Inorganic Chemicals

In the PVC business, while other companies in this industry in the United States operated at lower capacity and experienced substantial decreases in income or losses, Shintech Inc. (the Company's U.S. PVC base) expanded sales by using the network of U.S. and overseas customers it has built over many years and continued to operate at full capacity. As a result, Shintech achieved a high level of profit. In addition, Shin-Etsu PVC B.V. in the Netherlands achieved performance gains through strong sales in Europe. On the other hand, in Japan challenging conditions continued due to weak demand.

The silicone business grew, despite the sharp increase in the price of raw materials, as a result of concentrated efforts to expand sales, mainly for specialized product applications in fields such as automobiles, information technology equipment and cosmetics. On the other hand, sales of keypads for mobile phones supplied by Shin-Etsu Polymer Co., Ltd. were weak due to lower prices resulting from intensifying competition.

The sales volume of cellulose derivatives in Japan decreased compared with the previous fiscal year because this business is still recovering from a plant explosion and fire in March 2007. However, results improved substantially at SE Tylose GmbH & Co. KG in Germany, with the contribution of a production capacity expansion carried out in 2006. In addition, shipments were strong at JAPAN VAM & POVAL Co., Ltd.

As a result, the net sales of this business segment decreased 1.0% (¥7.4 billion) compared with the previous fiscal year to ¥701.0 billion. Operating income also decreased 6.8% (¥7.2 billion) to ¥99.5 billion.

### Electronics Materials

In the semiconductor silicon business, demand for semiconductor devices was strong and results increased substantially. While demand for 200mm wafers decreased due to progress in the shift to 300mm wafers, mainly for memory device applications, shipments of 300mm wafers increased.

Sales of rare earth magnets for hard disk drive applications in the electronics industry were firm, supported by increased

demand for personal computers, servers and other products. Sales of photoresists increased substantially, due to factors including strong sales of ArF resists resulting from the ongoing miniaturization of semiconductor devices.

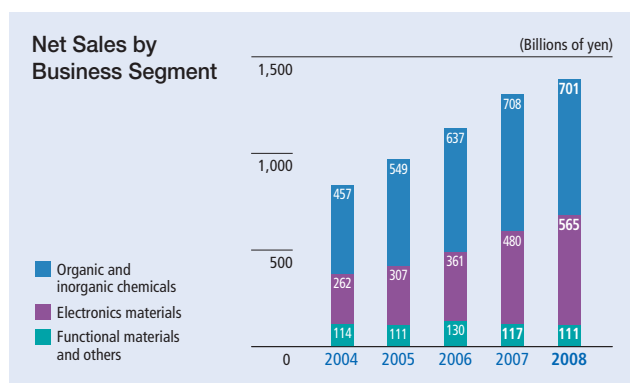
As a result, the net sales of this business segment increased 17.8% (¥85.3 billion) compared with the previous fiscal year to ¥564.7 billion. Operating income increased 52.0% (¥55.5 billion) to ¥162.1 billion.

### Functional Materials and Others

Results in the synthetic quartz business were firm because demand for preforms for optical fiber steadily recovered due to the worldwide increase in the volume of data communications. Challenging conditions continued for large-size photomask substrates used for LCDs because of the sluggish market.

Sales of rare earth magnets for general applications increased due to strong demand in such applications as energy-saving motors for air conditioners and automobiles. Furthermore, shipments of liquid fluoroelastomers and pellicles were strong.

As a result, the net sales of this business segment decreased 5.3% (¥6.2 billion) compared with the previous fiscal year to ¥110.7 billion. Operating income decreased 5.8% (¥1.6 billion) to ¥26.0 billion.



## Analysis of Financial Position

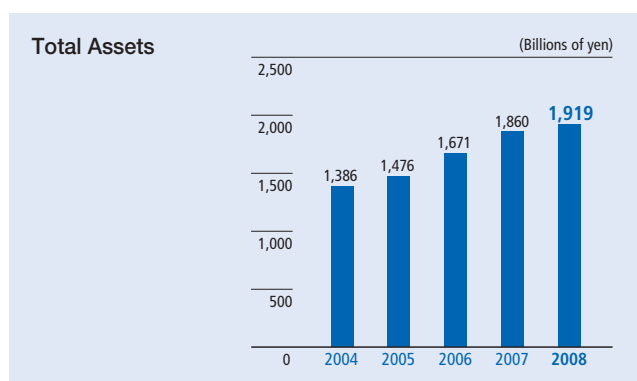
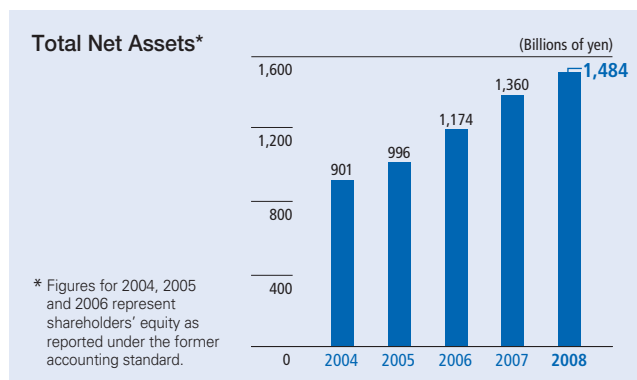
### Assets, Liabilities and Net Assets

As of March 31, 2008, total assets increased ¥58.5 billion from a year earlier to ¥1,918.5 billion. The total of cash, time deposits and securities decreased as a result of vigorous investment in property, plant and equipment. Certificates of deposit were included in cash and time deposits as of March 31, 2007, but as of March 31, 2008 are included in securities.

As of March 31, 2008, total liabilities decreased ¥64.9 billion from a year earlier to ¥434.9 billion. The main reasons for this decrease were the repayment of borrowings and a decrease in

accrued income taxes.

Total net assets as of March 31, 2008 were ¥1,483.7 billion due to an increase in retained earnings from net income of ¥183.6 billion and other factors. As a result, the stockholders' equity ratio was 75.0% as of March 31, 2008, an increase of 4.0 percentage points from 71.0% a year earlier. Net assets per share totaled ¥3,344.17, an increase of ¥278.37 from a year earlier.



## Cash Flows

The balance of cash and cash equivalents at the end of fiscal 2008 decreased by 25.4% (¥102.9 billion) compared with the end of the previous fiscal year to ¥301.6 billion.

### Cash Flows from Operating Activities

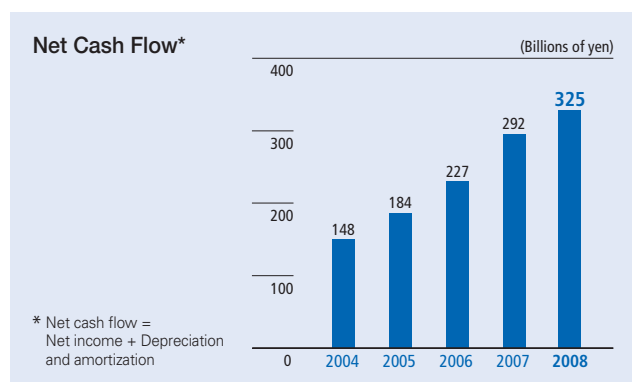
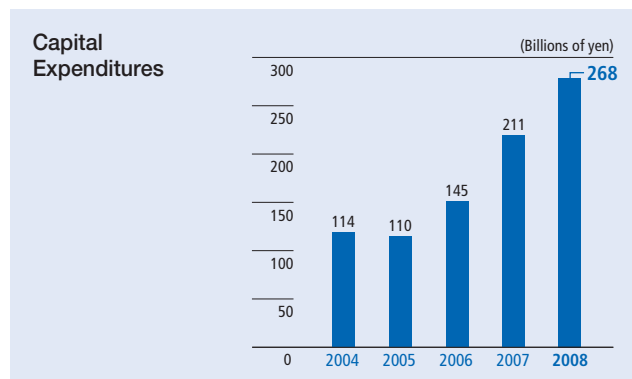
Net cash provided by operating activities decreased ¥70.1 billion compared with the previous fiscal year to ¥202.4 billion. Income before income taxes provided cash of ¥301.1 billion, and depreciation and amortization totaled ¥141.3 billion. Payment of income taxes used cash of ¥132.4 billion, and increase in inventories used cash of ¥36.6 billion.

### Cash Flows from Investing Activities

Net cash used for investing activities increased ¥63.4 billion compared with the previous fiscal year to ¥248.6 billion. The main use of cash was for purchases of property, plant and equipment totaling ¥254.6 billion.

## Cash Flows from Financing Activities

Net cash used for financing activities decreased ¥8.3 billion compared with the previous fiscal year to ¥53.5 billion. Main uses of cash included cash dividends paid of ¥36.6 billion and repayment of long-term debt totaling ¥15.1 billion.



## 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, 2008), 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 68.3% of the total consolidated sales of the Group in fiscal 2008. It is expected that this ratio will remain at a high level. The yen conversion 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, 2008 and 2007                                                               | Millions of yen    |                    | Thousands of<br>U.S. dollars<br>(Note 3) |
|---------------------------------------------------------------------------------------------|--------------------|--------------------|------------------------------------------|
| <b>Assets</b>                                                                               | <b>2008</b>        | <b>2007</b>        | <b>2008</b>                              |
| <b>Current Assets:</b>                                                                      |                    |                    |                                          |
| Cash and time deposits (Note 17).....                                                       | ¥ 217,266          | ¥ 296,852          | \$ 2,172,660                             |
| Securities (Notes 5 and 17) .....                                                           | 184,520            | 207,178            | 1,845,200                                |
| Notes and accounts receivable:                                                              |                    |                    |                                          |
| Trade .....                                                                                 | 308,026            | 310,416            | 3,080,260                                |
| Unconsolidated subsidiaries and affiliates .....                                            | 15,886             | 18,068             | 158,860                                  |
| Other .....                                                                                 | 16,498             | 6,457              | 164,980                                  |
| Less: Allowance for doubtful accounts (Note 2 (5)).....                                     | (4,726)            | (5,988)            | (47,260)                                 |
|                                                                                             | <b>335,684</b>     | <b>328,953</b>     | <b>3,356,840</b>                         |
| Inventories (Note 4) .....                                                                  | 204,337            | 169,177            | 2,043,370                                |
| Deferred taxes, current (Note 16) .....                                                     | 30,188             | 40,694             | 301,880                                  |
| Other.....                                                                                  | 45,331             | 19,026             | 453,310                                  |
| Total current assets.....                                                                   | <b>1,017,326</b>   | <b>1,061,880</b>   | <b>10,173,260</b>                        |
| <b>Property, Plant and Equipment (Note 2 (8)):</b>                                          |                    |                    |                                          |
| Buildings and structures.....                                                               | 380,623            | 359,058            | 3,806,230                                |
| Machinery and equipment .....                                                               | 1,296,007          | 1,171,300          | 12,960,070                               |
| Less: Accumulated depreciation.....                                                         | (1,243,923)        | (1,126,524)        | (12,439,230)                             |
|                                                                                             | <b>432,707</b>     | <b>403,834</b>     | <b>4,327,070</b>                         |
| Land .....                                                                                  | 62,920             | 62,222             | 629,200                                  |
| Construction in progress .....                                                              | 159,016            | 79,352             | 1,590,160                                |
| Total property, plant and equipment.....                                                    | <b>654,643</b>     | <b>545,408</b>     | <b>6,546,430</b>                         |
| <b>Intangible Fixed Assets</b> .....                                                        | <b>25,859</b>      | <b>25,965</b>      | <b>258,590</b>                           |
| <b>Investments and Other Assets:</b>                                                        |                    |                    |                                          |
| Investments in and advances to unconsolidated subsidiaries<br>and affiliates (Note 7) ..... | 78,908             | 69,541             | 789,080                                  |
| Investments in securities (Note 5) .....                                                    | 73,033             | 108,698            | 730,330                                  |
| Long-term loans .....                                                                       | 881                | 983                | 8,810                                    |
| Deferred taxes, non-current (Note 16) .....                                                 | 35,011             | 26,259             | 350,110                                  |
| Other.....                                                                                  | 32,904             | 21,284             | 329,040                                  |
| Less: Allowance for doubtful accounts (Note 2 (5)).....                                     | (20)               | (22)               | (200)                                    |
| Total investments and other assets.....                                                     | <b>220,717</b>     | <b>226,743</b>     | <b>2,207,170</b>                         |
| <b>Total assets</b> .....                                                                   | <b>¥ 1,918,545</b> | <b>¥ 1,859,996</b> | <b>\$ 19,185,450</b>                     |

The accompanying notes are an integral part of the statements.

| Liabilities and Net Assets                                          | Millions of yen   |                    | Thousands of<br>U.S. dollars<br>(Note 3) |
|---------------------------------------------------------------------|-------------------|--------------------|------------------------------------------|
|                                                                     | 2008              | 2007               | 2008                                     |
| <b>Current Liabilities:</b>                                         |                   |                    |                                          |
| Short-term borrowings (Note 8) .....                                | ¥ 8,460           | ¥ 9,564            | \$ 84,600                                |
| Current portion of long-term debt (Note 8) .....                    | 3,366             | 14,926             | 33,660                                   |
| Notes and accounts payable:                                         |                   |                    |                                          |
| Trade .....                                                         | 124,139           | 130,970            | 1,241,390                                |
| Unconsolidated subsidiaries and affiliates .....                    | 29,381            | 35,934             | 293,810                                  |
| Other .....                                                         | 95,559            | 83,635             | 955,590                                  |
|                                                                     | 249,079           | 250,539            | 2,490,790                                |
| Accrued income taxes .....                                          | 39,464            | 59,962             | 394,640                                  |
| Accrued expenses .....                                              | 65,902            | 89,510             | 659,020                                  |
| Accrued bonuses for directors .....                                 | 909               | –                  | 9,090                                    |
| Advances received .....                                             | 1,594             | 796                | 15,940                                   |
| Other (Note 16) .....                                               | 7,875             | 7,597              | 78,750                                   |
| Total current liabilities .....                                     | 376,649           | 432,894            | 3,766,490                                |
| <b>Long-Term Liabilities:</b>                                       |                   |                    |                                          |
| Long-term debt (Note 8) .....                                       | 22,133            | 20,653             | 221,330                                  |
| Accrued retirement benefits (Note 9) .....                          | 11,523            | 10,943             | 115,230                                  |
| Accrued retirement bonuses for directors .....                      | 2,261             | –                  | 22,610                                   |
| Deferred taxes, non-current (Note 16) .....                         | 16,974            | 28,817             | 169,740                                  |
| Lease obligations .....                                             | 55                | 99                 | 550                                      |
| Other .....                                                         | 5,281             | 6,275              | 52,810                                   |
| <b>Commitment and Contingent Liabilities (Note 10)</b>              |                   |                    |                                          |
| Total long-term liabilities .....                                   | 58,227            | 66,787             | 582,270                                  |
| <b>Total liabilities</b> .....                                      | <b>434,876</b>    | <b>499,681</b>     | <b>4,348,760</b>                         |
| <b>Net Assets</b>                                                   |                   |                    |                                          |
| <b>Stockholders' Equity:</b>                                        |                   |                    |                                          |
| Common stock: .....                                                 | 119,420           | 119,420            | 1,194,200                                |
| Authorized: 1,720,000,000 shares                                    |                   |                    |                                          |
| Issued: 432,106,693 shares as of March 31, 2008                     |                   |                    |                                          |
| and 2007, respectively                                              |                   |                    |                                          |
| Additional paid-in capital .....                                    | 128,178           | 128,178            | 1,281,780                                |
| Retained earnings (Note 11) .....                                   | 1,163,680         | 1,017,259          | 11,636,800                               |
| Less: Treasury stock, at cost (Note 11) .....                       | (12,218)          | (7,560)            | (122,180)                                |
| Total stockholders' equity .....                                    | 1,399,060         | 1,257,297          | 13,990,600                               |
| <b>Valuation and translation adjustments:</b>                       |                   |                    |                                          |
| Unrealized gain on available-for-sale securities (Note 2 (7)) ..... | 10,696            | 29,174             | 106,960                                  |
| Deferred gain on derivatives under hedge accounting .....           | 3,231             | –                  | 32,310                                   |
| Foreign currency translation adjustments .....                      | 25,810            | 33,773             | 258,100                                  |
| Total valuation and translation adjustments .....                   | 39,737            | 62,947             | 397,370                                  |
| <b>Share subscription rights</b> .....                              | <b>1,614</b>      | <b>664</b>         | <b>16,140</b>                            |
| <b>Minority interests in consolidated subsidiaries</b> .....        | <b>43,258</b>     | <b>39,407</b>      | <b>432,580</b>                           |
| Total net assets .....                                              | 1,483,669         | 1,360,315          | 14,836,690                               |
| <b>Total liabilities and net assets</b> .....                       | <b>¥1,918,545</b> | <b>¥ 1,859,996</b> | <b>\$19,185,450</b>                      |



# Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

| For the years ended March 31, 2008, 2007 and 2006                         | Millions of yen   |            |            | Thousands of<br>U.S. dollars<br>(Note 3) |
|---------------------------------------------------------------------------|-------------------|------------|------------|------------------------------------------|
|                                                                           | 2008              | 2007       | 2006       | 2008                                     |
| <b>Net Sales</b> (Notes 14 and 18).....                                   | <b>¥1,376,365</b> | ¥1,304,696 | ¥1,127,916 | <b>\$13,763,650</b>                      |
| <b>Cost of Sales</b> (Notes 9, 12 and 14).....                            | <b>946,941</b>    | 933,199    | 831,334    | <b>9,469,410</b>                         |
| Gross profit .....                                                        | <b>429,424</b>    | 371,497    | 296,582    | <b>4,294,240</b>                         |
| <b>Selling, General and Administrative Expenses</b> (Notes 9 and 12)..... | <b>142,278</b>    | 130,468    | 111,262    | <b>1,422,780</b>                         |
| Operating income (Note 18) .....                                          | <b>287,146</b>    | 241,029    | 185,320    | <b>2,871,460</b>                         |
| <b>Other Income (Expenses):</b>                                           |                   |            |            |                                          |
| Interest and dividend income .....                                        | <b>10,473</b>     | 9,658      | 6,771      | <b>104,730</b>                           |
| Gain on sales of property, plant and equipment .....                      | –                 | 27         | 21         | –                                        |
| Equity in earnings of affiliates .....                                    | <b>14,117</b>     | 8,085      | 3,996      | <b>141,170</b>                           |
| Interest expenses .....                                                   | <b>(2,323)</b>    | (2,572)    | (2,706)    | <b>(23,230)</b>                          |
| Loss on disposal of property, plant and equipment .....                   | <b>(1,432)</b>    | (2,904)    | (1,226)    | <b>(14,320)</b>                          |
| Foreign exchange gain (loss).....                                         | <b>(3,644)</b>    | (4,689)    | (6,055)    | <b>(36,440)</b>                          |
| Other, net.....                                                           | <b>(4,297)</b>    | (1,616)    | (1,081)    | <b>(42,970)</b>                          |
| Ordinary income .....                                                     | <b>300,040</b>    | 247,018    | 185,040    | <b>3,000,400</b>                         |
| <b>Extraordinary Income (Losses):</b>                                     |                   |            |            |                                          |
| Net gain on insurance.....                                                | <b>2,860</b>      | –          | –          | <b>28,600</b>                            |
| Cumulative effect of foreign subsidiary's accounting change .....         | <b>2,554</b>      | –          | –          | <b>25,540</b>                            |
| Gain on sales of land .....                                               | <b>1,576</b>      | –          | –          | <b>15,760</b>                            |
| Reversal of allowance for doubtful accents .....                          | <b>1,238</b>      | –          | –          | <b>12,380</b>                            |
| Loss on impairment of fixed assets (Note 15) .....                        | <b>(7,198)</b>    | –          | –          | <b>(71,980)</b>                          |
| Income before income taxes .....                                          | <b>301,070</b>    | 247,018    | 185,040    | <b>3,010,700</b>                         |
| <b>Income Taxes</b> (Note 16):                                            |                   |            |            |                                          |
| Current.....                                                              | <b>100,600</b>    | 113,214    | 82,639     | <b>1,006,000</b>                         |
| Prior years.....                                                          | <b>10,878</b>     | –          | –          | <b>108,780</b>                           |
| Deferred.....                                                             | <b>1,191</b>      | (25,286)   | (16,714)   | <b>11,910</b>                            |
|                                                                           | <b>112,669</b>    | 87,928     | 65,925     | <b>1,126,690</b>                         |
| Income after income taxes .....                                           | <b>188,401</b>    | 159,090    | 119,115    | <b>1,884,010</b>                         |
| <b>Minority Interests in Earnings of Consolidated Subsidiaries</b> .....  | <b>(4,821)</b>    | (5,080)    | (4,070)    | <b>(48,210)</b>                          |
| <b>Net Income</b> .....                                                   | <b>¥ 183,580</b>  | ¥ 154,010  | ¥115,045   | <b>\$1,835,800</b>                       |
|                                                                           |                   | Yen        |            | U.S. dollars<br>(Note 3)                 |
| <b>Per Share</b> (Note 2 (14)):                                           |                   |            |            |                                          |
| Net income—primary .....                                                  | <b>¥426.63</b>    | ¥357.78    | ¥266.63    | <b>\$4.266</b>                           |
| Net income—fully diluted .....                                            | <b>426.35</b>     | 357.32     | 266.07     | <b>4.264</b>                             |
| Cash dividends .....                                                      | <b>90.00</b>      | 70.00      | 35.00      | <b>0.900</b>                             |
| <b>Weighted-Average Number of Shares Outstanding</b> (Thousands).....     | <b>430,304</b>    | 430,466    | 429,587    | <b>430,304</b>                           |

The accompanying notes are an integral part of the statements.

# Consolidated Statements of Changes in Net Assets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

|                                                                                      | Thousands                        | Millions of yen      |                            |                   |                         |                   |                                                            |                         |                                          |                |                           |                                                 |                   |
|--------------------------------------------------------------------------------------|----------------------------------|----------------------|----------------------------|-------------------|-------------------------|-------------------|------------------------------------------------------------|-------------------------|------------------------------------------|----------------|---------------------------|-------------------------------------------------|-------------------|
|                                                                                      | Number of Shares of Common Stock | Stockholders' Equity |                            |                   |                         |                   | Valuation and Translation Adjustments                      |                         |                                          |                | Share Subscription Rights | Minority Interests in Consolidated Subsidiaries | Total Net Assets  |
|                                                                                      |                                  | Common Stock         | Additional Paid-in Capital | Retained Earnings | Treasury Stock, at Cost | Total             | Unrealized Gains (Losses) on Available-for-Sale Securities | Deferred Gain on Hedges | Foreign Currency Translation Adjustments | Total          |                           |                                                 |                   |
| <b>Balance at March 31, 2005</b> .....                                               | 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 11) .....                                                       |                                  |                      |                            | (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)             |
| Purchases 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            |
| <b>Balance at March 31, 2006</b> .....                                               | 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 11) .....                                                       |                                  |                      |                            | (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            |
| <b>Balance at March 31, 2007</b> .....                                               | 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 11) .....                                                       |                                  |                      |                            | (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)          |
| <b>Balance at March 31, 2008</b> .....                                               | <b>432,107</b>                   | <b>¥119,420</b>      | <b>¥128,178</b>            | <b>¥1,163,680</b> | <b>¥(12,218)</b>        | <b>¥1,399,060</b> | <b>¥10,696</b>                                             | <b>¥3,231</b>           | <b>¥25,810</b>                           | <b>¥39,737</b> | <b>¥1,614</b>             | <b>¥43,258</b>                                  | <b>¥1,483,669</b> |

|                                        | Thousands                        | Thousands of U.S. dollars (Note 3) |                            |                     |                         |                     |                                                            |                         |                                          |                  |                           |                                                 |                     |
|----------------------------------------|----------------------------------|------------------------------------|----------------------------|---------------------|-------------------------|---------------------|------------------------------------------------------------|-------------------------|------------------------------------------|------------------|---------------------------|-------------------------------------------------|---------------------|
|                                        | Number of Shares of Common Stock | Stockholders' Equity               |                            |                     |                         |                     | Valuation and Translation Adjustments                      |                         |                                          |                  | Share Subscription Rights | Minority Interests in Consolidated Subsidiaries | Total Net Assets    |
|                                        |                                  | Common Stock                       | Additional Paid-in Capital | Retained Earnings   | Treasury Stock, at Cost | Total               | Unrealized Gains (Losses) on Available-for-Sale Securities | Deferred Gain on Hedges | Foreign Currency Translation Adjustments | Total            |                           |                                                 |                     |
| <b>Balance at March 31, 2007</b> ..... | 432,107                          | \$1,194,200                        | \$1,281,780                | \$10,172,590        | \$ (75,600)             | \$12,572,970        | \$ 291,740                                                 | \$ -                    | \$337,730                                | \$629,470        | \$ 6,640                  | \$394,070                                       | \$13,603,150        |
| Net income .....                       |                                  |                                    |                            | 1,835,800           |                         | 1,835,800           |                                                            |                         |                                          | -                |                           |                                                 | 1,835,800           |
| Cash dividends (Note 11) .....         |                                  |                                    |                            | (365,790)           |                         | (365,790)           |                                                            |                         |                                          | -                |                           |                                                 | (365,790)           |
| Purchases of treasury stock .....      |                                  |                                    |                            |                     | (78,960)                | (78,960)            |                                                            |                         |                                          | -                |                           |                                                 | (78,960)            |
| Disposal of treasury stock .....       |                                  |                                    |                            | (5,800)             | 32,380                  | 26,580              |                                                            |                         |                                          | -                |                           |                                                 | 26,580              |
| Net change during the year .....       |                                  |                                    |                            |                     |                         | -                   | (184,780)                                                  | 32,310                  | (79,630)                                 | (232,100)        | 9,500                     | 38,510                                          | (184,090)           |
| <b>Balance at March 31, 2008</b> ..... | <b>432,107</b>                   | <b>\$1,194,200</b>                 | <b>\$1,281,780</b>         | <b>\$11,636,800</b> | <b>\$(122,180)</b>      | <b>\$13,990,600</b> | <b>\$ 106,960</b>                                          | <b>\$32,310</b>         | <b>\$258,100</b>                         | <b>\$397,370</b> | <b>\$16,140</b>           | <b>\$432,580</b>                                | <b>\$14,836,690</b> |

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, 2008, 2007 and 2006                                                 | Millions of yen  |                  |                  | Thousands of<br>U.S. dollars<br>(Note 3) |
|---------------------------------------------------------------------------------------------------|------------------|------------------|------------------|------------------------------------------|
|                                                                                                   | 2008             | 2007             | 2006             | 2008                                     |
| <b>Cash Flows from Operating Activities:</b>                                                      |                  |                  |                  |                                          |
| Income before income taxes .....                                                                  | ¥ 301,070        | ¥ 247,018        | ¥ 185,040        | \$ 3,010,700                             |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: |                  |                  |                  |                                          |
| Depreciation and amortization .....                                                               | 141,270          | 138,462          | 111,637          | 1,412,700                                |
| Loss on impairment of fixed assets.....                                                           | 7,198            | —                | —                | 71,980                                   |
| Increase in accrued retirement benefits .....                                                     | 557              | 275              | 1,948            | 5,570                                    |
| Loss on write-down of investment securities .....                                                 | 274              | 333              | 119              | 2,740                                    |
| Interest and dividend income .....                                                                | (10,473)         | (9,658)          | (6,771)          | (104,730)                                |
| Interest expenses .....                                                                           | 2,323            | 2,572            | 2,706            | 23,230                                   |
| Exchange gain (loss) .....                                                                        | 5,563            | 1,062            | (27)             | 55,630                                   |
| Equity in earnings of affiliates.....                                                             | (14,117)         | (8,085)          | (3,996)          | (141,170)                                |
| Changes in assets and liabilities:                                                                |                  |                  |                  |                                          |
| Increase in notes and accounts receivable.....                                                    | (679)            | (31,018)         | (30,505)         | (6,790)                                  |
| Increase in inventories .....                                                                     | (36,643)         | (18,417)         | (7,798)          | (366,430)                                |
| Increase in long-term advance payment.....                                                        | (15,886)         | —                | —                | (158,860)                                |
| Increase (decrease) in notes and accounts payable .....                                           | (11,598)         | 30,805           | 21,672           | (115,980)                                |
| Other, net.....                                                                                   | (48,835)         | 9,222            | 14,364           | (488,350)                                |
| Subtotal.....                                                                                     | 320,024          | 362,571          | 288,389          | 3,200,240                                |
| Proceeds from interest and dividends .....                                                        | 17,129           | 13,323           | 6,613            | 171,290                                  |
| Payment of interest.....                                                                          | (2,352)          | (2,633)          | (2,809)          | (23,520)                                 |
| Payment of income taxes .....                                                                     | (132,388)        | (100,773)        | (71,600)         | (1,323,880)                              |
| <b>Net cash provided by operating activities .....</b>                                            | <b>202,413</b>   | <b>272,488</b>   | <b>220,593</b>   | <b>2,024,130</b>                         |
| <b>Cash Flows from Investing Activities:</b>                                                      |                  |                  |                  |                                          |
| Purchase of marketable securities.....                                                            | (32,973)         | (94,675)         | (5,266)          | (329,730)                                |
| Proceeds from the redemption of marketable securities .....                                       | 54,642           | 81,021           | 115              | 546,420                                  |
| Purchases of property, plant and equipment.....                                                   | (254,586)        | (185,593)        | (126,661)        | (2,545,860)                              |
| Proceeds from sales of property, plant and equipment.....                                         | 2,979            | 232              | 1,351            | 29,790                                   |
| Purchases of intangible fixed assets .....                                                        | (1,464)          | (1,999)          | (1,046)          | (14,640)                                 |
| Purchases of investment securities .....                                                          | (32,484)         | (5,656)          | (52,708)         | (324,840)                                |
| Proceeds from sales and redemption of investment securities .....                                 | 36,009           | 30,316           | 47,070           | 360,090                                  |
| Payments of loans .....                                                                           | (598)            | (104)            | (32)             | (5,980)                                  |
| Proceeds from collection of loans.....                                                            | 71               | 514              | 3,187            | 710                                      |
| Other, net.....                                                                                   | (20,223)         | (9,239)          | (4,823)          | (202,230)                                |
| <b>Net cash used for investing activities .....</b>                                               | <b>(248,627)</b> | <b>(185,183)</b> | <b>(138,813)</b> | <b>(2,486,270)</b>                       |
| <b>Cash Flows from Financing Activities:</b>                                                      |                  |                  |                  |                                          |
| Net decrease in short-term debt.....                                                              | (704)            | (3,614)          | (17,718)         | (7,040)                                  |
| Proceeds from long-term debt .....                                                                | 5,000            | 6,242            | 5,738            | 50,000                                   |
| Repayment of long-term debt .....                                                                 | (15,136)         | (27,803)         | (9,393)          | (151,360)                                |
| Payment of debentures on redemption.....                                                          | —                | (16,000)         | (13,209)         | —                                        |
| Cash dividends paid .....                                                                         | (36,580)         | (18,291)         | (11,793)         | (365,800)                                |
| Other, net.....                                                                                   | (6,114)          | (2,367)          | 3,878            | (61,140)                                 |
| <b>Net cash used for financing activities .....</b>                                               | <b>(53,534)</b>  | <b>(61,833)</b>  | <b>(42,497)</b>  | <b>(535,340)</b>                         |
| <b>Effect of Exchange Rate Changes on Cash and Cash Equivalents .....</b>                         | <b>(3,166)</b>   | <b>5,197</b>     | <b>16,608</b>    | <b>(31,660)</b>                          |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents .....</b>                                 | <b>(102,914)</b> | <b>30,669</b>    | <b>55,891</b>    | <b>(1,029,140)</b>                       |
| <b>Cash and Cash Equivalents at Beginning of Year .....</b>                                       | <b>404,533</b>   | <b>373,864</b>   | <b>317,733</b>   | <b>4,045,330</b>                         |
| <b>Cash and Cash Equivalents at End of Year (Note 17).....</b>                                    | <b>¥ 301,619</b> | <b>¥ 404,533</b> | <b>¥ 373,864</b> | <b>\$ 3,016,190</b>                      |

The accompanying notes are an integral part of the statements.

# Notes to Consolidated Financial Statements

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES  
For the years ended March 31, 2008, 2007 and 2006

## 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. 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 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 96 majority-owned subsidiaries as of March 31, 2008 (94 and 92 as of March 31, 2007 and 2006, respectively). The consolidated financial statements include the accounts of the Company and 68 (68 and 68 for 2007 and 2006, respectively) majority-owned subsidiaries (the Companies), of which the principal firms are listed on page 47 with their respective fiscal year-ends.

The remaining 28 (26 and 24 for 2007 and 2006, 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 28 (26 and 24 for 2007 and 2006, respectively) unconsolidated subsidiaries (majority-owned) and 16 (15 and 16 for 2007 and 2006, respectively) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 7 (7 and 7 for 2007 and 2006, 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 adjustments" in the accompanying balance sheets as of March 31, 2008 and 2007.

**(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."

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.

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 fiscal year ended March 31, 2007 the period of depreciation has been changed mainly to three years.

Effective in 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.

As a result, the depreciation expenses for the fiscal year ended March 31, 2008 increased by ¥2,229 million (\$22,290 thousand) and Operating income, Ordinary income and Income before income taxes each decreased by ¥1,933 million (\$19,330 thousand) compared with the amount under the formerly applied method.

Effective in 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.

As a result, the depreciation expenses for the fiscal year ended March 31, 2008 increased by ¥1,125 million (\$11,250 thousand). Operating income, Ordinary income and Income before income taxes each decreased by ¥870 million (\$8,700 thousand) compared with the amount under the formerly applied method.

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

### **(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 9).

### **(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 11).

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* (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005 by the Accounting Standard Board of Japan).

### **(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, November 29, 2005) stipulates to accrue and expense directors' bonuses. Due to this change, we recorded ¥216 million (\$2,160 thousand) which occurred in the current fiscal year and ¥1,404 million (\$14,040 thousand) which belongs to the previous fiscal year as Selling, general and administrative expenses and Non-operating expenses, respectively.

As a result, Operating income decreased by ¥166 million (\$1,660 thousand), and Ordinary income and Income before income taxes each decreased by ¥1,570 million (\$15,700 thousand) compared with the amounts under the formerly applied method.

### **(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* (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).

### **(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* (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).

### (20) Consumption tax

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

### (21) Reclassifications

Certain reclassifications have been made in the 2007 and 2006 financial statements to conform to the presentation for 2008.

## 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 ¥100 to US\$1, the approximate effective rate of exchange on March 31, 2008. 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 ¥100 to US\$1 or at any other rate.

## 4. Inventories

Inventories as of March 31, 2008 and 2007 consisted of the following:

| Description           | Millions of yen |                 | Thousands of U.S. dollars |
|-----------------------|-----------------|-----------------|---------------------------|
|                       | 2008            | 2007            | 2008                      |
| Merchandise           | ¥ 18,052        | ¥ 14,826        | \$ 180,520                |
| Finished products     | 71,100          | 66,090          | 711,000                   |
| Semifinished products | 33,638          | 28,792          | 336,380                   |
| Raw materials         | 57,789          | 44,130          | 577,890                   |
| Supplies              | 15,439          | 13,271          | 154,390                   |
| Other                 | 8,319           | 2,068           | 83,190                    |
| <b>Total</b>          | <b>¥204,337</b> | <b>¥169,177</b> | <b>\$2,043,370</b>        |

## 5. Securities

Securities as of March 31, 2008 and 2007 consisted of the following:

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

| 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)         |
| <b>Total</b>                                               | <b>¥54,157</b>  | <b>¥54,082</b> | <b>¥(75)</b> |

| Description                                                | Millions of yen |                |              |
|------------------------------------------------------------|-----------------|----------------|--------------|
|                                                            | 2007            |                |              |
|                                                            | 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)         |
| <b>Total</b>                                               | <b>¥79,723</b>  | <b>¥79,633</b> | <b>¥(90)</b> |

| Description                                                | Thousands of U.S. dollars |                  |                |
|------------------------------------------------------------|---------------------------|------------------|----------------|
|                                                            | 2008                      |                  |                |
|                                                            | Book value                | Market value     | Difference     |
| Securities with fair value that exceeds book value         | \$110,520                 | \$110,740        | \$ 220         |
| Securities with fair value that does not exceed book value | 431,050                   | 430,080          | (970)          |
| <b>Total</b>                                               | <b>\$541,570</b>          | <b>\$540,820</b> | <b>\$(750)</b> |

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

| 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)                  |
| <b>Total</b>                                                      | <b>¥35,595</b>   | <b>¥53,124</b> | <b>¥17,529</b>         |

| Description                                                       | Millions of yen  |                |                        |
|-------------------------------------------------------------------|------------------|----------------|------------------------|
|                                                                   | 2007             |                |                        |
|                                                                   | 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)                   |
| <b>Total</b>                                                      | <b>¥29,580</b>   | <b>¥78,192</b> | <b>¥48,612</b>         |

| Description                                                       | Thousands of U.S. dollars |                  |                        |
|-------------------------------------------------------------------|---------------------------|------------------|------------------------|
|                                                                   | 2008                      |                  |                        |
|                                                                   | Acquisition cost          | Book value       | Unrealized gain (loss) |
| Securities with book value that exceeds acquisition cost:         |                           |                  |                        |
| Stocks                                                            | \$289,930                 | \$474,630        | \$184,700              |
| Securities with book value that does not exceed acquisition cost: |                           |                  |                        |
| Stocks                                                            | 66,020                    | 56,610           | (9,410)                |
| <b>Total</b>                                                      | <b>\$355,950</b>          | <b>\$531,240</b> | <b>\$175,290</b>       |

## Notes to Consolidated Financial Statements

### (3) Available-for-sale securities sold during the fiscal year ended March 31, 2008 and 2007

Available-for-sale securities sold during the fiscal years ended March 31, 2008 and 2007 are assumed insignificant.

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

|                                                           | Book value      |          |                           |
|-----------------------------------------------------------|-----------------|----------|---------------------------|
|                                                           | Millions of yen |          | Thousands of U.S. dollars |
|                                                           | 2008            | 2007     | 2008                      |
| Bonds held to maturity                                    | ¥ 20,001        | ¥ 23,000 | \$ 200,010                |
| Investments in unconsolidated subsidiaries and affiliates | 77,459          | 67,453   | 774,590                   |
| Available-for-sale securities                             | 130,271         | 134,961  | 1,302,710                 |

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

|                                  | Millions of yen |          | Thousands of U.S. dollars |
|----------------------------------|-----------------|----------|---------------------------|
|                                  | 2008            | 2007     | 2008                      |
|                                  | Within one year | ¥184,541 | ¥206,840                  |
| Over one year within five years  | 13,350          | 26,260   | 133,500                   |
| Over five years within ten years | 678             | 740      | 6,780                     |

## 6. Derivative transactions

Derivative financial instruments were as follows:

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)                    |
| Buy 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                     |
| <b>Total</b>                            | ¥ -              | ¥ -          | ¥13,505                |

| Description                             | Thousands of U.S. dollars |              |                        |
|-----------------------------------------|---------------------------|--------------|------------------------|
|                                         | Contract amounts          | Market value | Unrealized gain (loss) |
| Forward foreign exchange contracts      |                           |              |                        |
| Sales Contracts:                        |                           |              |                        |
| US\$                                    | \$993,060                 | \$864,260    | \$128,790              |
| EUR                                     | 5,640                     | 5,670        | (40)                   |
| Buy Contracts:                          |                           |              |                        |
| US\$                                    | 52,340                    | 48,740       | (3,610)                |
| EUR                                     | 1,400                     | 1,410        | 10                     |
| Other                                   | 4,650                     | 4,240        | (410)                  |
| Foreign currency swap contracts         |                           |              |                        |
| Receive Japanese Yen, pay Thai Baht     | 12,930                    | (1,740)      | (1,740)                |
| Receive Japanese Yen, pay U.S. Dollars  | 3,860                     | 220          | 220                    |
| Receive Japanese Yen, pay British Pound | 124,320                   | 11,310       | 11,310                 |
| Receive Euro, pay Japanese Yen          | 7,850                     | 520          | 520                    |
| <b>Total</b>                            | \$ -                      | \$ -         | \$135,050              |

- 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                      |
| <b>Total</b>                  | ¥686             | ¥2           | ¥2                     |

| Description                   | Thousands of U.S. Dollars |              |                        |
|-------------------------------|---------------------------|--------------|------------------------|
|                               | Contract amounts          | Market value | Unrealized gain (loss) |
| Interest rate swap contracts: |                           |              |                        |
| Receive floating, pay fixed   | \$6,420                   | \$20         | \$20                   |
| Receive fixed, pay floating   | 440                       | 0            | 0                      |
| <b>Total</b>                  | \$6,860                   | \$20         | \$20                   |

- 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.



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            |                  |              |                        |
| Receive Japanese Yen,<br>pay Thai Baht     | 3,709            | (777)        | (777)                  |
| Receive Japanese Yen,<br>pay U.S. Dollars  | 577              | (41)         | (41)                   |
| Receive Japanese Yen,<br>pay British Pound | 13,764           | (735)        | (735)                  |
| <b>Total</b>                               | <b>¥ —</b>       | <b>¥ —</b>   | <b>¥(5,563)</b>        |

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 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   | ¥4,856           | ¥ 7          | ¥ 7                    |
| Receive fixed, pay floating   | 132              | (1)          | (1)                    |
| <b>Total</b>                  | <b>¥4,988</b>    | <b>¥ 6</b>   | <b>¥ 6</b>             |

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.

## 7. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates as of March 31, 2008 and 2007 consisted of the following:

|                                                                       | Millions of yen |                | Thousands of U.S. dollars |
|-----------------------------------------------------------------------|-----------------|----------------|---------------------------|
|                                                                       | 2008            | 2007           | 2008                      |
| <b>Held Directly by the Company:</b>                                  |                 |                |                           |
| Affiliates:                                                           |                 |                |                           |
| Four affiliates accounted for by the equity method (See Note 2 (2))*  | ¥42,630         | ¥41,018        | \$426,300                 |
| Other                                                                 | 1,251           | 1,028          | 12,510                    |
|                                                                       | <b>¥43,881</b>  | <b>¥42,046</b> | <b>\$438,810</b>          |
| Unconsolidated subsidiaries:                                          |                 |                |                           |
| Shin-Etsu Electronics Malaysia Sdn. Bhd.                              | ¥ 1,400         | ¥ 1,400        | \$ 14,000                 |
| Other                                                                 | 1,690           | 691            | 16,900                    |
|                                                                       | <b>¥ 3,090</b>  | <b>¥ 2,091</b> | <b>\$ 30,900</b>          |
| <b>Held Indirectly through Subsidiaries:</b>                          |                 |                |                           |
| Unconsolidated subsidiaries and affiliates:                           |                 |                |                           |
| Three affiliates accounted for by the equity method (See Note 2 (2))* | ¥28,788         | ¥21,208        | \$287,880                 |
| Other                                                                 | 3,089           | 2,497          | 30,890                    |
|                                                                       | <b>¥31,877</b>  | <b>¥23,705</b> | <b>\$318,770</b>          |
| <b>Advances:</b>                                                      | <b>60</b>       | <b>1,699</b>   | <b>600</b>                |
|                                                                       | <b>¥78,908</b>  | <b>¥69,541</b> | <b>\$789,080</b>          |

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

## 8. Short-term borrowing, long-term debt and lease obligations

Short-term borrowings outstanding as of March 31, 2008 and 2007 are represented generally by overdrafts contracted between the Companies and banks.

Long-term debt as of March 31, 2008 and 2007 consisted of the following:

|                                                           | Millions of yen |                 | Thousands of U.S. dollars |
|-----------------------------------------------------------|-----------------|-----------------|---------------------------|
|                                                           | 2008            | 2007            | 2008                      |
| <b>Loans with Banks and Other Financial Institutions:</b> |                 |                 |                           |
| Secured                                                   | ¥ 125           | ¥ 6,563         | \$ 1,250                  |
| Unsecured                                                 | 25,374          | 29,016          | 253,740                   |
|                                                           | <b>25,499</b>   | <b>35,579</b>   | <b>254,990</b>            |
| <b>Less Portion Due within One Year</b>                   | <b>(3,366)</b>  | <b>(14,926)</b> | <b>(33,660)</b>           |
|                                                           | <b>¥22,133</b>  | <b>¥ 20,653</b> | <b>\$221,330</b>          |

Lease obligations as of March 31, 2008 and 2007 consisted of the following:

|              | Millions of yen |            | Thousands of U.S. dollars |
|--------------|-----------------|------------|---------------------------|
|              | 2008            | 2007       | 2008                      |
| Current      | ¥30             | ¥ —        | \$300                     |
| Non-current  | 56              | —          | 560                       |
| <b>Total</b> | <b>¥86</b>      | <b>¥ —</b> | <b>\$860</b>              |

As of March 31, 2008, 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 | ¥3,538          | \$35,380                  |

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

|                        | Millions of yen | Thousands of U.S. dollars |
|------------------------|-----------------|---------------------------|
| Years ending March 31, |                 |                           |
| 2010                   | ¥ 7,235         | \$ 72,350                 |
| 2011                   | 6,496           | 64,960                    |
| 2012 and thereafter    | 8,402           | 84,020                    |
|                        | <b>¥22,133</b>  | <b>\$221,330</b>          |

## 9. 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, 2008 and 2007 are analyzed as follows:

### Benefit Obligations

|                                                            | Millions of yen |           | Thousands of<br>U.S. dollars |
|------------------------------------------------------------|-----------------|-----------|------------------------------|
|                                                            | 2008            | 2007      | 2008                         |
| (a) Benefit obligations                                    | ¥(32,826)       | ¥(31,910) | \$(328,260)                  |
| (b) Pension assets                                         | 22,522          | 23,886    | 225,220                      |
| (c) Unfunded benefit obligations [(a)+(b)]                 | (10,304)        | (8,024)   | (103,040)                    |
| (d) Unrecognized actuarial differences                     | 1,473           | (197)     | 14,730                       |
| (e) Unrecognized prior service cost<br>(negative) (Note 1) | (421)           | (614)     | (4,210)                      |
| (f) Amount shown on balance sheet<br>[(c)+(d)+(e)]         | (9,252)         | (8,835)   | (92,520)                     |
| (g) Prepaid pension expenses                               | 2,271           | 2,108     | 22,710                       |
| (h) Accrued retirement benefits [(f)-(g)]                  | ¥(11,523)       | ¥(10,943) | \$(115,230)                  |

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<br>U.S. dollars |
|-----------------------------------------------------------|-----------------|--------|------------------------------|
|                                                           | 2008            | 2007   | 2008                         |
| (a) Service costs (Note 1)                                | ¥2,533          | ¥2,481 | \$25,330                     |
| (b) Interest costs                                        | 1,128           | 1,009  | 11,280                       |
| (c) Expected return on plan assets                        | (950)           | (885)  | (9,500)                      |
| (d) Recognized actuarial loss                             | (695)           | (666)  | (6,950)                      |
| (e) Amortization of prior service cost                    | (68)            | (83)   | (680)                        |
| (f) Other (Note 2)                                        | 1,604           | 1,680  | 16,040                       |
| (g) Retirement benefit costs<br>[(a)+(b)+(c)+(d)+(e)+(f)] | ¥3,552          | ¥3,536 | \$35,520                     |

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               |

## 10. Commitment and contingent liabilities

As of March 31, 2008, 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 ¥90 million (\$900 thousand).

In addition, one of the Companies was contingently liable, as of March 31, 2008, in accordance with a contract of debt assumption with a bank for debentures issued by itself in the amounts of ¥5,000 million (\$50,000 thousand).

## 11. 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, 2008, 2007 and 2006 in the amounts of ¥17,201 million (\$172,010 thousand) (¥40.0 per share), ¥10,754 million and ¥7,517 million, respectively, which were actually paid to stockholders on November 19, 2007, November 20, 2006 and November 18, 2005, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended March 31, 2008, 2007 and 2006, respectively.

There were 1,865,726 shares and 1,470,973 shares of treasury stock as at March 31, 2008 and 2007, respectively.

## 12. Research and development costs

Research and development costs incurred and charged to income for the years ended March 31, 2008, 2007 and 2006 were ¥47,945 million (\$479,450 thousand), ¥41,737 million and ¥32,003 million, respectively.

## 13. Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2008 and 2007 amounted to ¥387 million (\$3,870 thousand) and ¥392 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2008, 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 ¥387 million (\$3,870 thousand).

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

|                          | Millions of yen |               | Thousands of<br>U.S. dollars |
|--------------------------|-----------------|---------------|------------------------------|
|                          | 2008            | 2007          | 2008                         |
| Acquisition cost         | ¥1,643          | ¥2,005        | \$16,430                     |
| Accumulated depreciation | 803             | 949           | 8,030                        |
| <b>Net book value</b>    | <b>¥ 840</b>    | <b>¥1,056</b> | <b>\$ 8,400</b>              |

The amounts of outstanding future lease payments due in respect of finance lease contracts at March 31, 2008 and 2007, which included the portion of interest thereon, are summarized as follows:

|                               | Millions of yen |        | Thousands of U.S. dollars |
|-------------------------------|-----------------|--------|---------------------------|
|                               | 2008            | 2007   | 2008                      |
| <b>Future Lease Payments:</b> |                 |        |                           |
| Within one year               | ¥334            | ¥ 360  | \$3,340                   |
| Over one year                 | 506             | 696    | 5,060                     |
|                               | ¥840            | ¥1,056 | \$8,400                   |

The amounts of outstanding future lease payments due in respect of operating lease contracts at March 31, 2008 and 2007 are summarized as follows:

|                               | Millions of yen |        | Thousands of U.S. dollars |
|-------------------------------|-----------------|--------|---------------------------|
|                               | 2008            | 2007   | 2008                      |
| <b>Future Lease Payments:</b> |                 |        |                           |
| Within one year               | ¥1,241          | ¥2,809 | \$12,410                  |
| Over one year                 | 1,430           | 2,337  | 14,300                    |
|                               | ¥2,671          | ¥5,146 | \$26,710                  |

## 14. Related party transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2008, 2007 and 2006 are summarized as follows:

|           | Millions of yen |          |         | Thousands of U.S. dollars |
|-----------|-----------------|----------|---------|---------------------------|
|           | 2008            | 2007     | 2006    | 2008                      |
| Sales     | ¥13,323         | ¥ 11,517 | ¥ 9,363 | \$133,230                 |
| Purchases | 88,961          | 101,942  | 86,659  | 889,610                   |

## 15. Loss on impairment of fixed assets

During the current fiscal year ended March 31, 2008, the Company and 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 consolidated subsidiaries' grouping of fixed assets is based on managerial accounting categories, which are regarded as the smallest units independently generating cash flows.

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

| Location                                              | Use                                                   | Asset category           | Millions of yen |      | Thousand of U.S. dollars |
|-------------------------------------------------------|-------------------------------------------------------|--------------------------|-----------------|------|--------------------------|
|                                                       |                                                       |                          | 2008            | 2007 | 2008                     |
| Kashima Plant<br>(Kamisu-City,<br>Ibaraki-Prefecture) | Manufacturing<br>facilities for<br>polyvinyl chloride | Buildings and structures | ¥2,040          | ¥ -  | \$20,400                 |
|                                                       |                                                       | Machinery and equipment  | 2,449           | -    | 24,490                   |
|                                                       |                                                       | Others                   | 1,272           | -    | 12,720                   |
|                                                       |                                                       | Total                    | ¥5,761          | ¥ -  | \$57,610                 |

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.)

| Location                                               | Use                                                                                                      | Asset category           | Millions of yen |      | Thousand of U.S. dollars |
|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------|--------------------------|-----------------|------|--------------------------|
|                                                        |                                                                                                          |                          | 2008            | 2007 | 2008                     |
| Tokyo Plant<br>(Saitama-City,<br>Saitama-Prefecture)   | Production equipment for packaging products and production equipment for construction materials products | Buildings and structures | ¥ 297           | ¥ -  | \$ 2,970                 |
|                                                        |                                                                                                          | Machinery and equipment  | 655             | -    | 6,550                    |
|                                                        |                                                                                                          | Others                   | 45              | -    | 450                      |
|                                                        |                                                                                                          | Subtotal                 | 997             | -    | 9,970                    |
| Nanyo Plant<br>(Shuunan-City,<br>Yamaguchi-Prefecture) | Production equipment for construction materials products                                                 | Buildings and structures | 272             | -    | 2,720                    |
|                                                        |                                                                                                          | Machinery and equipment  | 144             | -    | 1,440                    |
|                                                        |                                                                                                          | Others                   | 24              | -    | 240                      |
|                                                        |                                                                                                          | Subtotal                 | 440             | -    | 4,400                    |
|                                                        | <b>Total</b>                                                                                             |                          | ¥1,437          | ¥ -  | \$14,370                 |

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.

## 16. Income taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended March 31, 2008, 2007 and 2006 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

|                                                                                                                                                                                  | 2008  | 2007  | 2006  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|-------|
| 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, 2008 and 2007 were as follows:

|                                                  | Millions of yen |                | Thousands of U.S. dollars |
|--------------------------------------------------|-----------------|----------------|---------------------------|
|                                                  | 2008            | 2007           | 2008                      |
| <b>Deferred Tax Assets:</b>                      |                 |                |                           |
| Depreciation                                     | ¥33,816         | ¥28,542        | \$338,160                 |
| Maintenance cost                                 | 6,132           | 6,950          | 61,320                    |
| Unsettled accounts receivable and payable        | 5,760           | 7,451          | 57,600                    |
| Unrealized profit                                | 4,918           | 4,464          | 49,180                    |
| Accrued bonus allowance                          | 4,174           | 4,430          | 41,740                    |
| Accrued retirement benefits                      | 3,886           | 3,636          | 38,860                    |
| Accrued enterprise taxes                         | 3,066           | 3,678          | 30,660                    |
| Tax loss carry forwards                          | 253             | 1,231          | 2,530                     |
| Other                                            | 17,185          | 25,207         | 171,850                   |
| Valuation allowance                              | (3,752)         | (4,218)        | (37,520)                  |
| <b>Total</b>                                     | <b>¥75,438</b>  | <b>¥81,371</b> | <b>\$754,380</b>          |
| <b>Deferred Tax Liabilities:</b>                 |                 |                |                           |
| Depreciation                                     | ¥16,734         | ¥19,998        | \$167,340                 |
| Unrealized gain on available-for-sale securities | 7,068           | 19,546         | 70,680                    |
| Reserve for special depreciation                 | 397             | 810            | 3,970                     |
| Other                                            | 3,358           | 2,883          | 33,580                    |
| <b>Total</b>                                     | <b>¥27,557</b>  | <b>¥43,237</b> | <b>\$275,570</b>          |
| <b>Net deferred tax assets</b>                   | <b>¥47,881</b>  | <b>¥38,134</b> | <b>\$478,810</b>          |

Net Deferred Tax Assets are included in the following accounts:

|                                         | Millions of yen |          | Thousands of U.S. dollars |
|-----------------------------------------|-----------------|----------|---------------------------|
|                                         | 2008            | 2007     | 2008                      |
| Current assets: Deferred taxes, current | ¥ 30,188        | ¥ 40,694 | \$ 301,880                |
| Non-current assets:                     |                 |          |                           |
| Deferred taxes, non-current             | 35,011          | 26,259   | 350,110                   |
| Current liabilities: Other              | (344)           | (2)      | (3,440)                   |
| Non-current liabilities:                |                 |          |                           |
| Deferred taxes, non-current             | (16,974)        | (28,817) | (169,740)                 |

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

|                                                  | 2008        | 2007        |
|--------------------------------------------------|-------------|-------------|
| Statutory tax rate                               | 40.4%       | 40.4%       |
| Rate difference from foreign subsidiaries        | (4.4)       | (2.7)       |
| Equity in earnings of affiliates                 | (1.9)       | —           |
| Dividend income and other not taxable            | (1.7)       | (0.5)       |
| Elimination of intercompany dividend income      | 1.7         | —           |
| Tax deduction for research expenses              | (0.7)       | (1.0)       |
| Entertainment and other non-deductible expenses  | 0.1         | 0.1         |
| Correction of taxation based on transfer pricing | 3.6         | —           |
| Other, net                                       | 0.3         | (0.7)       |
| <b>Effective tax rate</b>                        | <b>37.4</b> | <b>35.6</b> |

### 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.

## 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, 2008, 2007 and 2006 are presented below:

|                                                                        | Millions of yen |                 |                 | Thousands of U.S. dollars |
|------------------------------------------------------------------------|-----------------|-----------------|-----------------|---------------------------|
|                                                                        | 2008            | 2007            | 2006            | 2008                      |
| Cash and time deposits                                                 | ¥217,266        | ¥296,852        | ¥262,145        | \$2,172,660               |
| Marketable securities                                                  | 184,520         | 207,178         | 178,555         | 1,845,200                 |
| Time deposits for which maturities are approximately over three months | (44,405)        | (20,821)        | (8,928)         | (444,050)                 |
| Marketable securities (maturities approximately over three months)     | (55,762)        | (78,676)        | (57,908)        | (557,620)                 |
| <b>Cash and cash equivalents</b>                                       | <b>¥301,619</b> | <b>¥404,533</b> | <b>¥373,864</b> | <b>\$3,016,190</b>        |

(2) Important non-cash transactions were as follows

|                                                                                | Millions of yen |      |        | Thousands of U.S. dollars |
|--------------------------------------------------------------------------------|-----------------|------|--------|---------------------------|
|                                                                                | 2008            | 2007 | 2006   | 2008                      |
| Increase of common stock by conversion of convertible debentures               | ¥ —             | ¥ —  | ¥1,907 | \$ —                      |
| Increase of additional paid-in capital by conversion of convertible debentures | —               | —    | 1,905  | —                         |
| Decrease of convertible debentures by conversion                               | ¥ —             | ¥ —  | ¥3,812 | \$ —                      |

## 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, 2008, 2007 and 2006 and for the years then ended, classified by business segment, are presented as follows:

|                              | Millions of yen                 |                       |                                 |                                           |                    |
|------------------------------|---------------------------------|-----------------------|---------------------------------|-------------------------------------------|--------------------|
|                              | 2008                            |                       |                                 |                                           |                    |
|                              | Organic and Inorganic Chemicals | Electronics Materials | Functional Materials and Others | Elimination or Common Assets <sup>2</sup> | 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 <sup>1</sup>    | 31,651                          | 100,983               | 8,896                           | (260)                                     | 141,270            |
| Capital expenditures         | 116,417                         | 144,141               | 8,617                           | (696)                                     | 268,479            |

|                              | Millions of yen                 |                       |                                 |                                           |                    |
|------------------------------|---------------------------------|-----------------------|---------------------------------|-------------------------------------------|--------------------|
|                              | 2007                            |                       |                                 |                                           |                    |
|                              | Organic and Inorganic Chemicals | Electronics Materials | Functional Materials and Others | Elimination or Common Assets <sup>2</sup> | 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 <sup>3</sup>    | 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 <sup>2</sup> | 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 <sup>4</sup>    | 27,667                          | 75,816                | 8,360                           | (206)                                     | 111,637            |
| Capital expenditures         | 46,241                          | 65,656                | 8,354                           | (443)                                     | 119,808            |

|                              | Thousands of U.S. dollars       |                       |                                 |                                           |                    |
|------------------------------|---------------------------------|-----------------------|---------------------------------|-------------------------------------------|--------------------|
|                              | 2008                            |                       |                                 |                                           |                    |
|                              | Organic and Inorganic Chemicals | Electronics Materials | Functional Materials and Others | Elimination or Common Assets <sup>2</sup> | Consolidated Total |
| Sales:                       |                                 |                       |                                 |                                           |                    |
| Sales to outside customers   | \$7,010,030                     | \$5,646,970           | \$1,106,650                     | \$ –                                      | \$13,763,650       |
| Intersegment sales           | 170,190                         | 33,590                | 828,350                         | (1,032,130)                               | –                  |
| Total                        | 7,180,220                       | 5,680,560             | 1,935,000                       | (1,032,130)                               | 13,763,650         |
| Operating costs and expenses | 6,185,400                       | 4,059,560             | 1,674,880                       | (1,027,650)                               | 10,892,190         |
| Operating income             | \$ 994,820                      | \$1,621,000           | \$ 260,120                      | \$ (4,480)                                | \$ 2,871,460       |
| Assets                       | \$7,828,780                     | \$7,130,470           | \$1,994,980                     | \$ 2,231,220                              | \$19,185,450       |
| Depreciation <sup>1</sup>    | 316,510                         | 1,009,830             | 88,960                          | (2,600)                                   | 1,412,700          |
| Capital expenditures         | 1,164,170                       | 1,441,410             | 86,170                          | (6,960)                                   | 2,684,790          |

Notes: 1. As previously mentioned in 8. Property, plant and equipment in Note 2., 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 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 (\$2,128 thousand), ¥559 million (\$5,590 thousand) and ¥668 million (\$6,680 thousand), respectively, compared with the amount under the formerly applied method. The operating expenses for Organic and Inorganic Chemicals business segment, Electronics Materials business segment and Functional Materials and Others business segment increased by ¥1,740 million (\$17,400 thousand), ¥502 million (\$5,020 thousand) and ¥561 million (\$5,610 thousand), respectively. Accordingly, the operating income of each segment decreased by the same amounts.

2. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2008, 2007, and 2006 were ¥274,993 million (\$2,749,930 thousand), ¥309,306 million and ¥360,148 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 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 (\$238,750 thousand). Operating expenses increased by ¥22,405 million, (\$224,050 thousand) and accordingly, operating income decreased by the same amount.

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. 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.

## Notes to Consolidated Financial Statements

### (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, 2008, 2007 and 2006 and for the years then ended are presented below:

|                                           | Millions of yen |               |              |          |                                           |                    |
|-------------------------------------------|-----------------|---------------|--------------|----------|-------------------------------------------|--------------------|
|                                           | 2008            |               |              |          |                                           |                    |
|                                           | Japan           | North America | Asia/Oceania | Europe   | Elimination or Common Assets <sup>3</sup> | 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 <sup>2</sup> | 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 <sup>3</sup> | 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 <sup>4</sup> | 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 <sup>3</sup> | 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 <sup>5</sup> | 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         |

|                                           | Thousands of U.S. dollars |               |              |             |                                           |                    |
|-------------------------------------------|---------------------------|---------------|--------------|-------------|-------------------------------------------|--------------------|
|                                           | 2008                      |               |              |             |                                           |                    |
|                                           | Japan                     | North America | Asia/Oceania | Europe      | Elimination or Common Assets <sup>3</sup> | Consolidated Total |
| Sales:                                    |                           |               |              |             |                                           |                    |
| Sales to outside customers                | \$ 6,450,070              | \$3,091,010   | \$2,411,460  | \$1,811,110 | \$ -                                      | \$13,763,650       |
| Intersegment sales                        | 2,801,160                 | 683,650       | 642,440      | 22,810      | (4,150,060)                               | -                  |
| Total                                     | 9,251,230                 | 3,774,660     | 3,053,900    | 1,833,920   | (4,150,060)                               | 13,763,650         |
| Operating costs and expenses <sup>2</sup> | 7,109,410                 | 3,431,400     | 2,823,170    | 1,682,350   | \$(4,154,140)                             | 10,892,190         |
| Operating income                          | \$ 2,141,820              | \$ 343,260    | \$ 230,730   | \$ 151,570  | \$ 4,080                                  | \$ 2,871,460       |
| Assets                                    | \$10,140,590              | \$4,426,800   | \$2,016,400  | \$1,691,820 | \$ 909,840                                | \$19,185,450       |

- 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. As previously mentioned in 8. Property, plant and equipment in Note 2, 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 (\$28,030 thousand), compared with the amount under the formerly applied method. Accordingly, the operating income decreased by the same amount.
3. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2008, 2007, and 2006 were ¥274,993 million (\$2,749,930 thousand), ¥309,306 million and ¥360,148 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 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 (\$133,210 thousand), ¥4,029 million (\$40,290 thousand), ¥2,955 million (\$29,550 thousand) and ¥2,099 million (\$20,990 thousand), respectively, compared with the figures calculated for the previous depreciable years. Accordingly, operating income decreased by the same amounts.
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. 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.

## Notes to Consolidated Financial Statements

### (3) Overseas sales information

Overseas sales of the Companies for the years ended March 31, 2008, 2007 and 2006 are summarized as follows:

|                                                      | Millions of yen |              |          |             |           |
|------------------------------------------------------|-----------------|--------------|----------|-------------|-----------|
|                                                      | 2008            |              |          |             |           |
|                                                      | North America   | Asia/Oceania | Europe   | Other Areas | Total     |
| 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 |              |          |             |           |
|------------------------------------------------------|-----------------|--------------|----------|-------------|-----------|
|                                                      | 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%     |

|                                                      | Thousands of U.S. dollars |              |             |             |              |
|------------------------------------------------------|---------------------------|--------------|-------------|-------------|--------------|
|                                                      | 2008                      |              |             |             |              |
|                                                      | North America             | Asia/Oceania | Europe      | Other Areas | Total        |
| Overseas sales                                       | \$2,780,200               | \$4,117,600  | \$1,779,580 | \$726,830   | \$ 9,404,210 |
| Consolidated sales                                   | —                         | —            | —           | —           | 13,763,650   |
| Percentage of overseas sales over consolidated sales | 20.2%                     | 29.9%        | 12.9%       | 5.3%        | 68.3%        |

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, 2008, the Company's Board of Directors, with the approval of stockholders on June 27, 2008 declared a cash dividend of ¥21,512 million (\$215,120 thousand) equal to ¥50.00 (\$0.5) per share, applicable to earnings of the year ended March 31, 2008 and payable to stockholders on the stockholders' register on March 31, 2008.

## 20. Changes in the method of presentation

### (Consolidated Balance Sheet)

i) Effective in the current fiscal year ended March 31, 2008, in accordance with the "Practice Guidelines on Accounting for Financial Instruments" (JICPA Accounting Committee Report No. 14, revised July 4, 2007), certificates of deposit were categorized as "Securities," though they had been included in "Cash and time deposits" for the previous fiscal year.

The amount of the certificates of deposit as of March 31, 2007 was ¥70,800 million (\$708,000 thousand) and that as of March 31, 2008 was ¥70,630 million (\$706,300 thousand).

ii) Effective in the current fiscal year ended March 31, 2008, "Accrued retirement bonus for directors" of Non-current liabilities was presented separately because of its greater importance as a result of the adoption of the new accounting policy.

The amount of "Accrued retirement bonus for directors" included in "Other" of Non-current liabilities as of March 31, 2007 was ¥598 million (\$5,980 thousand).

### (Consolidated Statements of Cash Flows)

"Increase in long-term advance payment" had been included in "Other, net" of Net cash provided by operating activities until the previous fiscal year. However, from the current fiscal year ended March 31, 2008, it was presented separately because of its greater importance.

The amount of "Increase in long-term advance payment" as of March 31, 2007 was ¥3,929 million (\$39,290 thousand).

# Consolidated Subsidiaries

As of March 31, 2008

| Principal Consolidated Subsidiaries                                | Percentage of Voting Rights | Fiscal Year-End | Principal Consolidated Subsidiaries                  | Percentage of Voting Rights | Fiscal Year-End |
|--------------------------------------------------------------------|-----------------------------|-----------------|------------------------------------------------------|-----------------------------|-----------------|
| Shintech Inc. <sup>(1)</sup>                                       | 100.0                       | December 31     | Shin-Etsu Polymer Europe B.V. <sup>(1)</sup>         | 100.0                       | December 31     |
| Shin-Etsu Handotai Co., Ltd.                                       | 100.0                       | March 31        | Shin-Etsu International Europe B.V. <sup>(1)</sup>   | 100.0                       | December 31     |
| Shin-Etsu Handotai America, Inc. <sup>(1)</sup>                    | 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 29     |
| S.E.H. Malaysia Sdn. Bhd. <sup>(1)(2)</sup>                        | 100.0                       | December 31     | Skyward Information Systems Co., Ltd.                | 100.0                       | March 31        |
| Shin-Etsu PVC B.V. <sup>(1)</sup>                                  | 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 29     |
| SE Tylose GmbH & Co. KG <sup>(1)</sup>                             | 100.0                       | December 31     | Shin-Etsu Film Co., Ltd.                             | 100.0                       | March 31        |
| Shin-Etsu-Handotai Europe, Ltd. <sup>(1)</sup>                     | 100.0                       | December 31     | Shin-Etsu Technology Service Co., Ltd.               | 76.9                        | February 29     |
| Nagano Electronics Industrial Co., Ltd.                            | 90.0                        | February 29     | Urawa Polymer Co., Ltd.                              | 100.0                       | March 31        |
| Shin-Etsu Handotai Taiwan Co., Ltd. <sup>(1)</sup>                 | 70.0                        | December 31     | Niigata Polymer Company Limited                      | 100.0                       | March 31        |
| Naoetsu Electronics Co., Ltd.                                      | 100.0                       | February 29     | Shin-Etsu Polymer America, Inc. <sup>(1)</sup>       | 100.0                       | December 31     |
| Shin-Etsu Astech Co., Ltd.                                         | 99.6                        | March 31        | Naoetsu Sangyo Limited                               | 100.0                       | March 31        |
| S-E, Inc. <sup>(1)</sup>                                           | 100.0                       | December 31     | San-Ace Co., Ltd.                                    | 100.0                       | March 31        |
| Shin-Etsu Electronics Materials Singapore Pte. Ltd. <sup>(1)</sup> | 100.0                       | December 31     | Shinken Total Plant Co., Ltd.                        | 100.0                       | February 29     |
| 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. <sup>(1)</sup>                       | 100.0                       | December 31     | Shin-Etsu Magnet Co., Ltd.                           | 100.0                       | March 31        |
| Shin-Etsu Silicone Korea Co., Ltd. <sup>(1)</sup>                  | 100.0                       | December 31     | Shin-Etsu Polymer Mexico S.A. de C.V. <sup>(1)</sup> | 100.0                       | December 31     |
| Shinano Polymer Co., Ltd.                                          | 100.0                       | March 31        | PT. Shin-Etsu Polymer Indonesia <sup>(1)</sup>       | 100.0                       | December 31     |
| Shin-Etsu Silicones Thailand Ltd. <sup>(1)</sup>                   | 100.0                       | December 31     | Shin-Etsu Polymer Singapore Pte. Ltd. <sup>(1)</sup> | 100.0                       | December 31     |
| Shin-Etsu (Malaysia) Sdn. Bhd. <sup>(1)</sup>                      | 100.0                       | December 31     | Shin-Etsu Polymer Shanghai Co., Ltd. <sup>(1)</sup>  | 100.0                       | December 31     |
| Nissin Chemical Industry Co., Ltd.                                 | 100.0                       | February 29     | Shin-Etsu Polymer Hong Kong Co., Ltd. <sup>(1)</sup> | 100.0                       | December 31     |
| Shin-Etsu MicroSi, Inc. <sup>(1)</sup>                             | 100.0                       | December 31     | Shin-Etsu Polymer Hungary Kft. <sup>(1)</sup>        | 100.0                       | December 31     |
| Shin-Etsu Silicone Taiwan Co., Ltd. <sup>(1)</sup>                 | 93.3                        | December 31     | Human Create Co., Ltd.                               | 100.0                       | March 31        |
| Shin-Etsu Silicones of America, Inc. <sup>(1)</sup>                | 100.0                       | December 31     | Suzhou Shin-Etsu Polymer Co., Ltd. <sup>(1)</sup>    | 71.4                        | December 31     |
| Shin-Etsu Silicones Europe B.V. <sup>(1)</sup>                     | 100.0                       | December 31     | S.E.H. (Shah Alam) Sdn. Bhd. <sup>(1)</sup>          | 100.0                       | December 31     |
| Shin-Etsu Sealant Co., Ltd.                                        | 100.0                       | March 31        | Simcoa Operations Pty. Ltd. <sup>(1)</sup>           | 100.0                       | December 31     |
| Shin-Etsu Unit Co., Ltd.                                           | 100.0                       | March 31        | Shincor Silicones, Inc. <sup>(1)</sup>               | 100.0                       | December 31     |
| Shin-Etsu Opto Electronics Co., Ltd. <sup>(1)</sup>                | 80.0                        | December 31     | K-Bin, Inc. <sup>(1)</sup>                           | 100.0                       | December 31     |
| Shin-Etsu Polymer (Malaysia) Sdn. Bhd. <sup>(1)</sup>              | 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

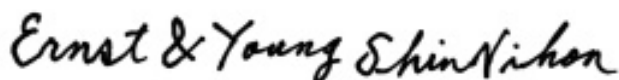
The Board of Directors  
Shin-Etsu Chemical Co., Ltd.

We have audited the accompanying consolidated balance sheet of Shin-Etsu Chemical Co., Ltd. and consolidated subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the year 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 audit. The consolidated balance sheet of Shin-Etsu Chemical Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and the related consolidated statements of income, changes in net assets, and cash flows for each of the two years in the period ended March 31, 2007 were audited by other auditors whose report dated June 28, 2007 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides 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, 2008, and the consolidated results of their operations and their cash flows for the year 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, 2008 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  
Tokyo, Japan

June 27, 2008