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"), 101 subsidiaries and 16 affiliates, as of March 31, 2010. 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 2010, the year ended March 31, 2010, Asian economies began to recover, centered on China, even as the economic slump stemming from the financial crisis continued. However, conditions remained serious overall, including high unemployment rates in Europe and North America. Despite recovery in exports and manufacturing, the situation also remained severe in the Japanese economy due to sluggish capital expenditures and consumer spending.

Under these circumstances, the Shin-Etsu Group worked to strengthen relationships with its customers worldwide and expand sales. At the same time, we endeavored to carry out business rationalization and streamlining measures, developed and commercialized new products, and continued to place the utmost priority on safety and environmental conservation in our operations.

Net Sales

Net sales for fiscal 2010 decreased 23.6% (¥284.0 billion) compared with the previous fiscal year to ¥916.8 billion. The main factor in the decrease was lower prices for semiconductor silicon products.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales decreased 17.9% (¥152.5 billion) compared with the previous fiscal year to ¥700.9 billion. The ratio of cost of sales to net sales increased 5.3 percentage points to 76.4% due to factors including higher raw material prices. Selling, general and administrative (SG&A) expenses decreased 13.7% (¥15.7 billion) to ¥98.7 billion, but the ratio of SG&A expenses to net sales increased 1.3 percentage points to 10.8%.

Research and development costs, which are included in manufacturing costs and SG&A expenses, decreased 10.4% (¥3.9 billion) to ¥33.6 billion, and the ratio of research and development costs to net sales was 3.7%.

Operating Income

Operating income decreased 49.7% (¥115.7 billion) compared with the previous fiscal year to ¥117.2 billion. The operating margin decreased 6.6 percentage points to 12.8%.

Business Segment Overview

Organic and Inorganic Chemicals

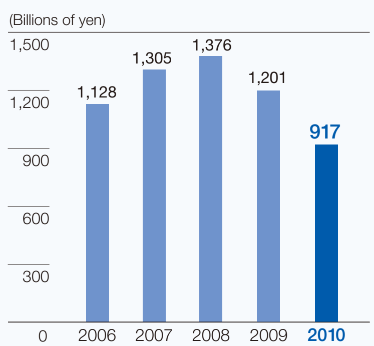
PVC

Although it was affected by sluggish demand resulting from the long period of stagnation in the U.S. housing market, Shintech Inc. of the United States strove to expand its sales to

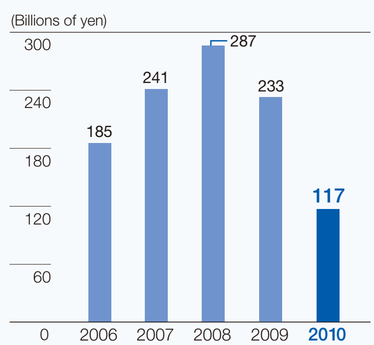
Summary of Net Sales, Operating Costs and Income

	Millions of yen			% Change
Years ended March 31,	**2010**	2009	2008	**2010**/2009
Net Sales	**916,838**	1,200,814	1,376,365	(23.6)
Cost of Sales	**700,903**	853,434	946,941	(17.9)
SG&A Expenses	**98,719**	114,453	142,278	(13.7)
Operating Income	**117,216**	232,927	287,146	(49.7)

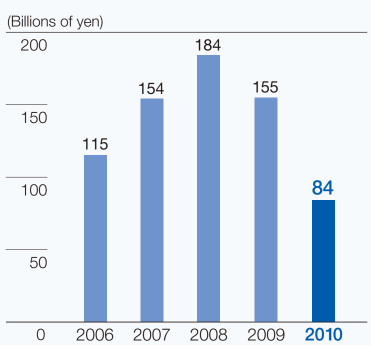
Net Sales



Operating Income



Net Income



customers worldwide and maintained a high level of shipments. The performance of Shin-Etsu PVC in the Netherlands was weak due to a decline in demand in Europe. Challenging conditions continued for the PVC business in Japan due to factors including higher raw material prices and sluggish domestic demand.

Silicones

The silicone business remained weak in the first half of fiscal 2010, affected by sluggish demand across the board. However, demand began to recover from the second half, centered on Asia, and domestic sales were firm in a wide range of areas such as electrical, electronics and automotive. Although demand partially recovered for mobile phone keypads supplied by Shin-Etsu Polymer Co., Ltd., this business remained weak due to intensifying price competition.

Other Products

Sales of cellulose derivatives in Japan were stagnant overall, with the exception of pharmaceutical-use products. In addition, sales of SE Tylose GmbH & Co. KG in Germany remained weak, affected by slack demand for construction materials in Europe.

As a result, net sales of this business segment decreased 19.1% (¥120.2 billion) compared with the previous fiscal year to ¥509.0 billion. Operating income decreased 35.8% (¥34.1 billion) to ¥61.1 billion.

Electronics Materials

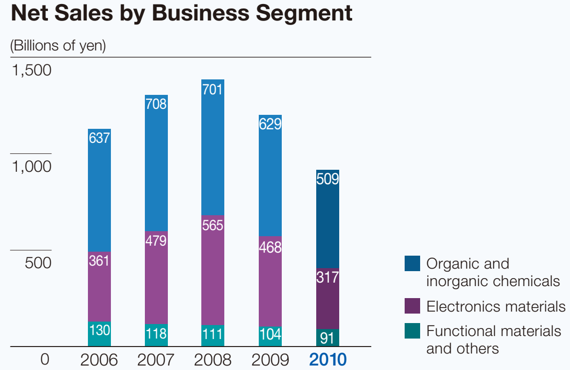
Semiconductor Silicon

Shipments of silicon wafers began to recover, led by 300mm wafers, but challenging conditions continued due to low product prices.

Other Products

Sales of rare-earth magnets for the electronics industry were firm due to recovery in demand for applications in hard disk drives for PCs and servers. Sales of photoresists were brisk because of the progress in miniaturization of semiconductor devices. In organic materials for the electronics industry, sales of coating materials for high-luminance LEDs were firm.

Net Sales by Business Segment



As a result, net sales of this business segment decreased 32.2% (¥150.3 billion) compared with the previous fiscal year to ¥317.2 billion. Operating income decreased 64.8% (¥72.7 billion) to ¥39.5 billion.

Functional Materials and Others

Synthetic Quartz

In synthetic quartz products, sales of optical fiber preforms were strong due to a worldwide increase in demand. However, although shipments of large-size photomask substrates for LCDs were firm, sales were significantly affected by intensifying price competition.

Rare-Earth Magnets and Other Functional Materials

Sales of rare-earth magnets for general applications were firm for applications including motors for hybrid vehicle drive trains and energy-saving air-conditioners. However, sales were weak overall due to slack demand for other applications such as in motors for factory automation. Sales of pellicles began to recover and were firm. Although sales of liquid fluoroelastomers in Japan were good, exports were weak.

As a result, net sales of this business segment decreased 12.9% (¥13.4 billion) compared with the previous fiscal year to ¥90.7 billion. Operating income decreased 29.9% (¥7.7 billion) to ¥18.0 billion.

Other Income and Extraordinary Income

Net other income decreased 44.3% (¥7.8 billion) compared with the previous fiscal year to ¥9.8 billion. Interest and dividend income, equity in earnings of affiliates and interest expenses decreased. In addition, loss on disposal of property, plant and equipment increased.

There was no extraordinary income or losses for the fiscal year, compared with net extraordinary losses of ¥6.0 billion, which included loss on impairment of fixed assets of a consolidated subsidiary, for the previous fiscal year. As a result, income before income taxes decreased 48% (¥117.5 billion) to ¥127.0 billion.

Net Income

Income taxes decreased by ¥46.2 billion compared with the previous fiscal year to ¥42.4 billion due to the decrease in income before income taxes. After tax-effect accounting, the effective tax rate was 33.4%.

As a result, net income decreased 45.8% (¥70.9 billion) to ¥83.9 billion. Net income per share was ¥197.53, compared with ¥362.39 in the previous fiscal year. Diluted net income per share was ¥197.50, compared with ¥362.35 in the previous fiscal year.

Analysis of Financial Position

Assets, Liabilities and Net Assets

Total assets as of March 31, 2010 were ¥1,769.1 billion, an increase of ¥84.2 billion from the end of the previous fiscal year. This was due to an increase in notes and accounts receivable – trade that resulted from the recovery in sales and a net increase in property, plant and equipment after accumulated depreciation due to investments in facilities.

Total liabilities increased ¥17.3 billion to ¥294.9 billion. This was mainly due to an increase in notes and accounts payable – trade.

Total net assets increased ¥66.9 billion to ¥1,474.2 billion. This was due to an increase in retained earning resulting from net income of ¥83.9 million and smaller negative valuation and translation adjustments because of the weak yen.

The stockholders' equity ratio decreased by 0.2 percentage points to 80.9% from 81.1% at the end of the previous fiscal year.

Cash Flows

The balance of cash and cash equivalents (hereinafter, "cash") at the end of fiscal 2010 increased by 7.7% (¥19.4 billion) compared with the end of the previous fiscal year to ¥270.4 billion.

Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥85.0 billion compared with the previous fiscal year to ¥171.5 billion. Income before income taxes provided cash of ¥127.0 billion, depreciation and amortization totaled ¥87.7 billion, and decrease in inventories provided cash of ¥27.7 billion. Increase in notes and accounts receivable used cash of ¥52.3 billion.

Cash Flows from Investing Activities

Net cash used for investing activities decreased ¥98.0 billion compared with the previous fiscal year to ¥102.8 billion. The main use of cash was for purchases of property, plant and equipment totaling ¥131.6 billion.

Cash Flows from Financing Activities

Net cash used for financing activities decreased ¥29.1 billion to ¥51.0 billion. Main uses of cash included cash dividends paid of ¥42.4 billion and repayment of long-term debt totaling ¥8.1 billion.

Capital Expenditures

Capital expenditures in fiscal 2010 totaled ¥123.7 billion. Expenditures in the Organic and Inorganic Chemicals segment totaled ¥92.0 billion, and were mainly for expanding Shintech Inc.'s PVC production facilities. Expenditures in the Electronics Materials business totaled ¥22.0 billion, and were primarily for rationalization measures that included automation of semiconductor silicon wafer production processes at Shin-Etsu Handotai Co., Ltd. and Shin-Etsu Handotai America Inc. Expenditures in the Functional Materials and Others segment totaled ¥8.7 billion. All these investments were largely funded internally.

Basic Policy Concerning Profit-Sharing

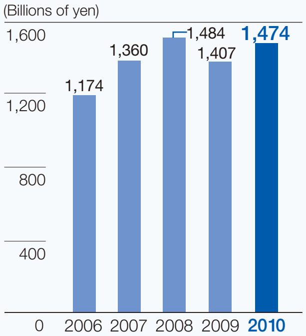
Taking a long-term perspective, Shin-Etsu focuses on expanding earnings and strengthening the Group's structure. It is our basic policy to appropriately return the results of these management efforts to our shareholders by distributing dividends. We use our internal reserves to increase corporate value through initiatives including capital expenditures, investment in research and development, business acquisitions, and aggressive investment to enhance global competitiveness and develop future businesses. In accordance with this policy, the fiscal 2010 year-end dividend is ¥50.0 per share, the same as the interim dividend, for total annual dividends of ¥100.0 per share and a consolidated payout ratio of 50.6%.

Fiscal 2011 Outlook

With regard to the outlook for fiscal 2011, although recovery is apparent in parts of the global economy, the situation warrants caution. In Japan, the challenging conditions are expected to continue, with concerns for worsening employment and deflation.

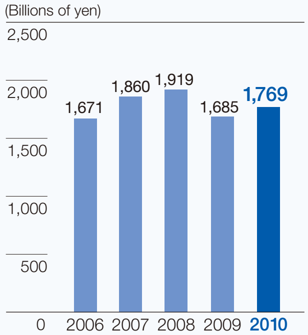
Under these circumstances, the Shin-Etsu Group will navigate the challenging operating environment that lies ahead through aggressive sales activities targeting its wide range of customers around the world. We will also cultivate new demand by developing products with special characteristics. Further, we aim to build a solid business foundation by intensifying our focus on improving technologies and product quality and striving to secure a stable supply of raw materials.

Total Net Assets*

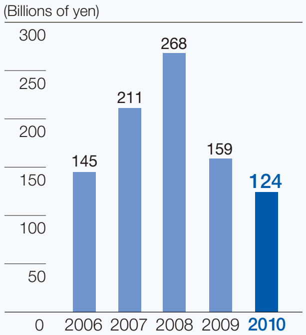


* The figure for 2006 represents stockholders' equity as reported under the former accounting standard.

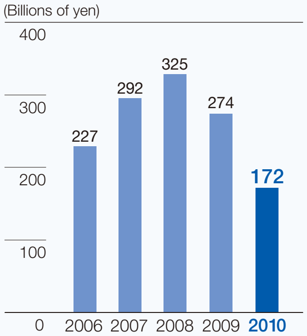
Total Assets



Capital Expenditures



Net Cash Flow*



* Net cash flow = Net income + Depreciation and amortization

Business Risk

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

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

As of the end of the fiscal year under review (the year ended March 31, 2010), the types of risks listed below are those that the Group considers most significant. This list does not represent an attempt to discuss all possible risks that could impact the Group.

1) Influence of Economic Trends and Product Markets

Trends in the economic situation of a country or in local areas where the Group's key products are marketed can have an impact on the results of the Group's business operations. In addition, among the Group's key products, some products could be affected by large price fluctuations due to the global supply and demand environment. Although the Group is hedging its risks by such strategies as diversifying and globalizing its business, demand for certain of its products could decrease and price competition could escalate. Such a pattern of events could have huge consequences for the results of the Group's business operations.

2) Influence of Fluctuations in Foreign Exchange Rates

Overseas sales accounted for 61.3% of the total consolidated sales of the Group in fiscal 2010. It is expected that this ratio will remain at a high level. The yen-translated amounts of such items included in the Group's consolidated financial statements related to the results of the Group's consolidated subsidiary companies are influenced by the exchange rate. In case of a large fluctuation in exchange rates, there is a possibility of a major impact on the business operations results of the whole Group. In addition, for transactions in foreign currencies, the Company is taking such measures as making forward-exchange contracts in order to reduce risks. However, a similar major impact might occur.

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

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

4) Influence of Public Regulatory Requirements and Law

In the countries or local areas where the Group is carrying out business activities, in addition to approvals and licensing requirements regarding investment and import/export regulations, various laws, particularly those concerning commercial transactions, labor, patents, taxes and exchange rates, apply to the Group's business activities. Any changes in these regulations or laws could have a major impact on the Group's business operations results.

5) Influence of Supply Factors on Procurement of Materials

The Group uses various raw materials in its production activities, and strives to assure steady procurement of these materials by diversifying raw material supply sources. However, in cases where tightening or delays in the supply of these materials occurs, resulting in price increases, there is a possibility of a major impact on the Group's business operations results.

6) Influence of 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, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	2009	2010
ASSETS			
Current assets:			
Cash and time deposits (Note 17)	¥ 209,046	¥ 209,542	$ 2,247,806
Securities (Notes 5 and 17)	109,762	111,878	1,180,237
Notes and accounts receivable:			
Trade	265,396	209,072	2,853,720
Unconsolidated subsidiaries and affiliates	17,641	13,026	189,688
Other	8,837	10,351	95,022
Less: Allowance for doubtful accounts (Note 2 (5))	(2,943)	(2,628)	(31,645)
	288,931	229,821	3,106,785
Merchandise and finished goods	95,608	117,470	1,028,043
Work in process	11,232	10,313	120,774
Raw materials and supplies	76,714	80,327	824,882
Deferred taxes, current (Note 16)	25,962	36,098	279,161
Other	25,317	20,478	272,226
Total current assets	842,572	815,927	9,059,914
Property, Plant and Equipment (Note 2 (8))**:**			
Buildings and structures	373,191	353,675	4,012,806
Machinery and equipment	1,378,616	1,358,899	14,823,828
Less: Accumulated depreciation	(1,313,406)	(1,248,324)	(14,122,645)
	438,401	464,250	4,713,989
Land	65,863	62,574	708,204
Construction in progress	141,870	82,854	1,525,484
Total property, plant and equipment	646,134	609,678	6,947,677
Intangible Fixed Assets:			
Goodwill	13,920	15,091	149,677
Other	3,136	3,163	33,721
Total intangible fixed assets	17,056	18,254	183,398
Investments and Other Assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 7)	75,130	71,577	807,849
Investments in securities (Note 5)	88,840	76,746	955,269
Long-term loans	3,957	4,639	42,548
Deferred taxes, non-current (Note 16)	22,057	34,868	237,172
Other	73,407	53,296	789,324
Less: Allowance for doubtful accounts (Note 2 (5))	(13)	(40)	(140)
Total investments and other assets	263,378	241,086	2,832,022
Total assets	¥ 1,769,140	¥ 1,684,945	$ 19,023,011

The accompanying notes are an integral part of the statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	2009	2010
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Short-term borrowings (Note 8)	¥ 6,697	¥ 5,190	$ 72,011
Current portion of long-term debt (Note 8)	5,169	5,683	55,581
Notes and accounts payable:			
Trade	71,640	58,850	770,323
Unconsolidated subsidiaries and affiliates	23,357	18,823	251,151
Other	59,050	57,538	634,945
	154,047	135,211	1,656,419
Accrued income taxes	18,214	11,633	195,849
Accrued expenses	41,365	46,772	444,785
Accrued bonuses for directors	561	735	6,032
Advances received	1,645	1,000	17,688
Other (Note 16)	2,427	3,071	26,097
Total current liabilities	230,125	209,295	2,474,462
Long-Term Liabilities:			
Long-term debt (Note 8)	7,885	12,818	84,785
Accrued retirement benefits (Note 9)	12,678	11,406	136,323
Accrued retirement bonuses for directors	369	399	3,968
Deferred taxes, non-current (Note 16)	38,108	37,385	409,763
Other	5,762	6,288	61,957
Total long-term liabilities	64,802	68,296	696,796
Total liabilities	294,927	277,591	3,171,258
Commitment and Contingent Liabilities (Note 10)			
Net Assets			
Stockholders' Equity:			
Common stock:	119,420	119,420	1,284,086
Authorized: 1,720,000,000 shares			
Issued: 432,106,693 shares as of March 31, 2010 and 2009, respectively			
Additional paid-in capital	128,178	128,178	1,378,258
Retained earnings (Note 11)	1,318,414	1,277,056	14,176,495
Less: Treasury stock, at cost (Note 11)	(40,893)	(41,614)	(439,710)
Total stockholders' equity	1,525,119	1,483,040	16,399,129
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities (Note 2 (7))	6,718	(1,777)	72,237
Deferred gains (losses) on derivatives under hedge accounting	518	(42)	5,570
Foreign currency translation adjustments	(101,208)	(115,160)	(1,088,259)
Total valuation and translation adjustments	(93,972)	(116,979)	(1,010,452)
Share subscription rights	3,649	2,446	39,237
Minority interests in consolidated subsidiaries	39,417	38,847	423,839
Total net assets	1,474,213	1,407,354	15,851,753
Total liabilities and net assets	¥1,769,140	¥1,684,945	$19,023,011

Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2010	2009	2008	**2010**
Net Sales (Notes 14 and 18)	**¥916,838**	¥1,200,814	¥1,376,365	**$9,858,473**
Cost of Sales (Notes 9, 12 and 14)	**700,903**	853,434	946,941	**7,536,591**
Gross profit	**215,935**	347,380	429,424	**2,321,882**
Selling, General and Administrative Expenses (Notes 9 and 12)	**98,719**	114,453	142,278	**1,061,495**
Operating income (Note 18)	**117,216**	232,927	287,146	**1,260,387**
Other Income (Expenses):				
Interest and dividend income	**5,033**	8,642	10,473	**54,118**
Equity in earnings of affiliates	**9,994**	12,442	14,117	**107,462**
Interest expenses	**(767)**	(1,706)	(2,323)	**(8,247)**
Loss on disposal of property, plant and equipment	**(1,405)**	(726)	(1,432)	**(15,108)**
Loss on disposal of inventories	**—**	(1,851)	(1,974)	**—**
Foreign exchange gain (loss)	**(846)**	(686)	(3,644)	**(9,097)**
Cost of inactive facilities	**(2,360)**	—	—	**(25,376)**
Other, net	**154**	1,491	(2,323)	**1,657**
Ordinary income	**127,019**	250,533	300,040	**1,365,796**
Extraordinary Income (Losses):				
Net gain on insurance	**—**	—	2,860	**—**
Cumulative effect of foreign subsidiary's accounting change	**—**	—	2,554	**—**
Gain on sales of land	**—**	—	1,576	**—**
Reversal of allowance for doubtful accents	**—**	—	1,238	**—**
Loss on impairment of fixed assets (Note 15)	**—**	(4,364)	(7,198)	**—**
Loss on write-down of investment securities	**—**	(1,684)	—	**—**
Income before income taxes	**127,019**	244,485	301,070	**1,365,796**
Income Taxes (Note 16):				
Current	**23,679**	60,130	100,600	**254,613**
Prior years	**—**	—	10,878	**—**
Deferred	**18,711**	28,478	1,191	**201,194**
	42,390	88,608	112,669	**455,807**
Income after income taxes	**84,629**	155,877	188,401	**909,989**
Minority Interests in Earnings of Consolidated Subsidiaries	**(776)**	(1,145)	(4,821)	**(8,344)**
Net Income	**¥ 83,853**	¥ 154,732	¥ 183,580	**$ 901,645**
	Yen			U.S. dollars (Note 3)
Per Share (Note 2 (14)):				
Net income—primary	**¥197.53**	¥362.39	¥426.63	**$2.124**
Net income—fully diluted	**197.50**	362.35	426.35	**2.124**
Cash dividends	**100.00**	100.00	90.00	**1.075**
Weighted-Average Number of Shares Outstanding (Thousands)	**424,514**	426,973	430,304	**424,514**

The accompanying notes are an integral part of the statements.

Consolidated Statements of Changes in Net Assets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

	Thousands	Millions of yen											
		Stockholders' Equity					Valuation and Translation Adjustments						
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Deferred Gains (Losses) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Share Subscription Rights	Minority Interests in Consolidated Subsidiaries	Total Net Assets
Balance at March 31, 2007	432,107	¥119,420	¥128,178	¥1,017,259	¥ (7,560)	¥1,257,297	¥ 29,174	¥ –	¥ 33,773	¥ 62,947	¥ 664	¥39,407	¥1,360,315
Net income				183,580		183,580				–			183,580
Cash dividends (Note 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)
Balance at March 31, 2008	432,107	119,420	128,178	1,163,680	(12,218)	1,399,060	10,696	3,231	25,810	39,737	1,614	43,258	1,483,669
Effect of changes in accounting policies applied to foreign subsidiaries				1,689		1,689				–			1,689
Net income				154,732		154,732				–			154,732
Cash dividends (Note 11)				(42,884)		(42,884)				–			(42,884)
Purchases of treasury stock					(29,938)	(29,938)				–			(29,938)
Disposal of treasury stock				(161)	542	381				–			381
Net change during the year							(12,473)	(3,273)	(140,970)	(156,716)	832	(4,411)	(160,295)
Balance at March 31, 2009	432,107	119,420	128,178	1,277,056	(41,614)	1,483,040	(1,777)	(42)	(115,160)	(116,979)	2,446	38,847	1,407,354
Net income				83,853		83,853							83,853
Cash dividends (Note 11)				(42,449)		(42,449)							(42,449)
Purchases of treasury stock					(31)	(31)							(31)
Disposal of treasury stock				(166)	752	586							586
Change of scope of consolidation				120		120							120
Net change during the year							8,495	560	13,952	23,007	1,203	570	24,780
Balance at March 31, 2010	432,107	¥119,420	¥128,178	¥1,318,414	¥(40,893)	¥1,525,119	¥ 6,718	¥ 518	¥(101,208)	¥(93,972)	¥3,649	¥39,417	¥1,474,213

	Thousands	Thousands of U.S. dollars (Note 3)											
		Stockholders' Equity					Valuation and Translation Adjustments						
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Deferred Gains (Losses) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Share Subscription Rights	Minority Interests in Consolidated Subsidiaries	Total Net Assets
Balance at March 31, 2009	432,107	$1,284,086	$1,378,258	$13,731,785	$(447,462)	$15,946,667	$(19,108)	$ (452)	$(1,238,279)	$(1,257,839)	$26,301	$417,710	$15,132,839
Net income				901,645		901,645							901,645
Cash dividends (Note 11)				(456,441)		(456,441)							(456,441)
Purchases of treasury stock					(333)	(333)							(333)
Disposal of treasury stock				(1,784)	8,085	6,301							6,301
Change of scope of consolidation				1,290		1,290							1,290
Net change during the year							91,345	6,022	150,020	247,387	12,936	6,129	266,452
Balance at March 31, 2010	432,107	$1,284,086	$1,378,258	$14,176,495	$(439,710)	$16,399,129	$ 72,237	$5,570	$(1,088,259)	$(1,010,452)	$39,237	$423,839	$15,851,753

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, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2010	2009	2008	2010
Cash Flows from Operating Activities:				
Income before income taxes	**¥ 127,019**	¥ 244,485	¥ 301,070	**$ 1,365,796**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	**87,723**	119,457	141,270	**943,258**
Loss on impairment of fixed assets	**—**	4,364	7,198	**—**
Increase in accrued retirement benefits	**1,165**	794	557	**12,527**
(Gain) loss on sales of investment securities	**(165)**	(377)	—	**(1,774)**
Loss on write-down of investment securities	**404**	1,684	274	**4,344**
Interest and dividend income	**(5,033)**	(8,642)	(10,473)	**(54,118)**
Interest expenses	**767**	1,706	2,323	**8,247**
Exchange gain (loss)	**(1,492)**	10,257	5,563	**(16,043)**
Equity in earnings of affiliates	**(9,994)**	(12,442)	(14,117)	**(107,462)**
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	**(52,339)**	69,103	(679)	**(562,785)**
(Increase) decrease in inventories	**27,710**	(20,783)	(36,643)	**297,957**
Increase in long-term advance payment	**(16,595)**	(21,221)	(15,886)	**(178,441)**
Increase (decrease) in notes and accounts payable	**15,855**	(61,390)	(11,598)	**170,484**
Other, net	**2,159**	6,743	(48,835)	**23,215**
Subtotal	**177,184**	333,738	320,024	**1,905,205**
Proceeds from interest and dividends	**13,330**	16,229	17,129	**143,333**
Payment of interest	**(793)**	(1,731)	(2,352)	**(8,527)**
Payment of income taxes	**(18,182)**	(91,657)	(132,388)	**(195,505)**
Net cash provided by operating activities	**171,539**	256,579	202,413	**1,844,506**
Cash Flows from Investing Activities:				
Purchase of marketable securities	**(21,970)**	(47,538)	(32,973)	**(236,237)**
Proceeds from the redemption of marketable securities	**52,612**	30,655	54,642	**565,720**
Purchases of property, plant and equipment	**(131,626)**	(189,697)	(254,586)	**(1,415,333)**
Proceeds from sales of property, plant and equipment	**9,227**	857	2,979	**99,215**
Purchases of intangible fixed assets	**(1,007)**	(1,392)	(1,464)	**(10,828)**
Purchases of investment securities	**(6,170)**	(34,514)	(32,484)	**(66,344)**
Proceeds from sales of investment securities	**1,142**	6,838	104	**12,280**
Proceeds from redemption of investment securities	**2,018**	36,666	35,905	**21,699**
Purchase of investments in subsidiaries resulting in changes in scope of consolidation	**(2,044)**	—	—	**(21,978)**
Payments of loans	**(242)**	(5,636)	(598)	**(2,602)**
Proceeds from collection of loans	**79**	915	71	**849**
Other, net	**(4,854)**	2,056	(20,223)	**(52,194)**
Net cash used for investing activities	**(102,835)**	(200,790)	(248,627)	**(1,105,753)**
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt	**91**	(3,460)	(704)	**978**
Proceeds from long-term debt	**—**	—	5,000	**—**
Repayment of long-term debt	**(8,084)**	(3,318)	(15,136)	**(86,925)**
Purchase of treasury stock	**(31)**	(29,938)	(7,896)	**(333)**
Proceeds from sales of treasury stock	**586**	382	2,554	**6,301**
Cash dividends paid	**(42,449)**	(42,884)	(36,580)	**(456,441)**
Cash dividends paid to minority shareholders	**(1,007)**	(827)	(824)	**(10,828)**
Other, net	**(66)**	(39)	52	**(709)**
Net cash used for financing activities	**(50,960)**	(80,084)	(53,534)	**(547,957)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**1,762**	(26,279)	(3,166)	**18,946**
Net Increase (Decrease) in Cash and Cash Equivalents	**19,506**	(50,574)	(102,914)	**209,742**
Cash and Cash Equivalents at Beginning of Year	**251,045**	301,619	404,533	**2,699,409**
Increase (Decrease) in Cash and Cash Equivalents Resulting from Changes in Scope of Consolidation	**(107)**	—	—	**(1,151)**
Cash and Cash Equivalents at End of Year (Note 17)	**¥ 270,444**	¥ 251,045	¥ 301,619	**$ 2,908,000**

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, 2010, 2009 and 2008

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of consolidation

The Company had 101 majority-owned subsidiaries as of March 31, 2010 (97 and 96 as of March 31, 2009 and 2008, respectively). The consolidated financial statements include the accounts of the Company and 70 (68 and 68 for 2009 and 2008, respectively) majority-owned subsidiaries (the Companies), of which the principal firms are listed on page 49 with their respective fiscal year-ends.

The remaining 31 (29 and 28 for 2009 and 2008, respectively) unconsolidated subsidiaries whose total assets, net sales, net income and retained earnings in the aggregate are not significant compared with those of the consolidated financial statements of the Companies, therefore, have not been consolidated with the Company. For consolidation of subsidiaries whose fiscal year-ends are not in agreement with that of the Company, necessary adjustments are made on significant intercompany transactions which took place during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

Unrealized intercompany profits and losses among the Companies are entirely eliminated, and the portion thereof attributable to minority interests is charged to the minority interests.

Valuation of assets and liabilities of consolidated subsidiaries is based on full fair value accounting method.

Goodwill is amortized within 20 years on a straight-line basis.

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

During the fiscal year ended March 31, 2010, the Company acquired additional shares of CIRES, S.A., which was an affiliate under the equity method. As a result, CIRES, S.A. and its 3 subsidiaries became consolidated subsidiaries. Shin-Etsu Sealant Co., Ltd. and Shin-Etsu Polymer Mexico, S.A. de C.V., which were consolidated in the previous fiscal year were excluded from the scope of consolidation due to liquidation and for other reasons.

(2) Accounting for investments in unconsolidated subsidiaries and affiliates

The Company had 31 (29 and 28 for 2009 and 2008, respectively) unconsolidated subsidiaries (majority-owned) and 16 (16 and 16 for 2009 and 2008, respectively) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 7 (8 and 7 for 2009 and 2008, respectively) major affiliates and the cost method is applied to investments in the remaining unconsolidated subsidiaries and affiliates since they are not material for the consolidated financial statements.

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

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

(3) Translation of foreign currency transactions

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

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

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

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

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

Under the BAC method, all assets and liabilities are translated into yen at current exchange rates while capital accounts and retained earnings are translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year. The resulting translation adjustments are, as before, shown as “Foreign currency translation adjustments” in the accompanying balance sheets as of March 31, 2010 and 2009.

(5) Allowance for doubtful accounts

The Company and consolidated subsidiaries provide an allowance for doubtful accounts using the historic percentage of bad debt loss against the balance of general receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.

(6) Inventories

The Company mainly applies the cost method based on the weighted-average method, which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability.

Until the fiscal year ended March 31, 2008, the cost method mainly based on the weighted-average method was adopted for measuring inventories held for sale in the ordinary course of business. However, the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, issued on July 5, 2006) has been applied from the fiscal year ended March 31, 2009, and now these inventories are mainly measured by means of the cost method based on the weighted-average method, which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability.

(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 and foreign currency fluctuation. Thus, the Company’s purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items and not for speculation or dealing purposes.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(8) Property, plant and equipment

Depreciation of the Company and its domestic subsidiaries is principally computed by the declining-balance method, based on the estimated useful lives of assets. Depreciation of foreign subsidiaries is principally computed by the straight-line method over the estimated useful lives of the assets. The cost of property, plant and equipment retired or otherwise disposed of and accumulated depreciation are eliminated from the related accounts, and the resulting profit or loss is reflected in income.

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

Effective from the fiscal year ended March 31, 2008, in accordance with the revised Japanese Corporation Tax Law, the Company and its domestic subsidiaries depreciate the residual value of tangible fixed assets acquired on or before March 31, 2007, which was depreciated in accordance with former Japanese Corporation Tax Law, to memorandum value in five years using straight-line method.

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

Effective from the fiscal year ended March 31, 2009, the Company and its domestic subsidiaries reexamined the period of depreciation for tangible fixed assets, and consequently changed the period of depreciation for tangible fixed assets (except for semiconductor silicon manufacturing facilities/equipment) in accordance with the revised Japanese Corporation Tax Law.

(9) Repairs and maintenance

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

(10) Accounting for leases

Until the fiscal year ended March 31, 2008, finance lease transactions that do not transfer ownership of the leased property to the lessee followed methods applicable to ordinary rental transactions. However, effective from the fiscal year ended on March 31, 2009, the “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13, issued on June 17, 1993 (The 1st Committee of Business Accounting Council), revised on March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16, issued on January 18, 1994 (Accounting System Committee of Japanese Institute of Certificated Public

Accountants), revised on March 30, 2007) have been applied, and such transactions are now accounted for as ordinary sale and purchase transactions. Finance lease transactions starting before the fiscal year ended March 31, 2009 that do not transfer ownership of the leased property to the lessee are accounted for as operating leases. The impact of this change on income is immaterial.

(11) Accrued retirement benefits

Pension and severance costs for employees are accrued based on the estimates of the pension obligations and the plan assets at the end of the fiscal year. The actuarial difference is amortized primarily over a five-year period, which is within the average remaining service period, using the straight-line method from the fiscal year when the difference was generated. The prior service cost is amortized primarily over a ten-year period, which is within the average remaining service period, using the straight-line method from the time when the difference was generated (see Note 9).

Effective from the fiscal year ended March 31, 2010, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19 issued on July 31, 2008) has been applied. This change has no impact on operating income, ordinary income and income before income taxes for the fiscal year ended March 31, 2010.

(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) Accrued retirement bonuses for directors

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

The Company and certain domestic subsidiaries had accrued the required amount of directors' retirement bonuses in Accrued retirement bonuses for directors which was calculated on the basis of an internal standard at the end of the fiscal year. However, the Company and certain domestic subsidiaries decided to issue a retirement bonus only for the tenure until the close of the General Meeting of Shareholders held in 2008 due to the abolishment of the Retirement Benefits Program.

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

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

(18) 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.

(19) Reclassifications

Certain reclassifications have been made in the 2009 and 2008 financial statements to conform to the presentation for 2010.

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 ¥93 to US$1, the approximate effective rate of exchange on March 31, 2010. 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 ¥93 to US$1 or at any other rate.

4. FINANCIAL INSTRUMENTS

(1) Overview of financial instruments

Management policy

In principle, our fund management methods are limited to deposits with financial institutions with high credit ratings and risk-free bonds, and our financing is implemented primarily through borrowings from banks.

Financial instruments, risks and risk management

Notes and accounts receivable-trade are exposed to credit risk of customers. With regard to credit risk generated by notes and accounts receivable-trade, each of our business departments not only controls and manages account due dates and balances, but also confirms credit standing of major customers periodically, making efforts to identify doubtful accounts as soon as possible.

Securities and investment securities are stocks in companies with business relationships, bonds held to maturity and also a certificate of deposit. Regarding securities and investment securities, we update regularly their fair value and the financial situation of the issuing companies. For stocks, we are also continually reviewing our stock holding status, considering the relationship with the issuing companies.

In order to hedge the foreign currency exchange risk associated with assets and liabilities denominated in foreign currencies and interest rate risk associated with financial assets and liabilities, derivative transactions such as interest rate swap transactions, currency swap transactions and foreign exchange forward contracts are utilized. All of our derivative transactions are implemented for the purpose of hedging risks generated in the ordinary course of business, and there are no derivative transactions entered into for trading or speculative purposes.

Supplementary explanation on the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair values.

(2) Fair value of financial instruments

As of March 31, 2010, book value, fair value and the difference between the two are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
(1) Cash and time deposits	¥209,046	¥209,046	¥ –	$2,247,806	$2,247,806	$ –
(2) Notes and accounts receivable	288,931	288,931	–	3,106,785	3,106,785	–
(3) Securities and investments in securities						
i) Bonds held to maturity	18,651	18,788	137	200,549	202,022	1,473
ii) Investments in and advances to unconsolidated subsidiaries and affiliates	22,975	19,853	(3,122)	247,044	213,473	(33,571)
iii) Investment securities	152,878	152,878	–	1,643,849	1,643,849	–
(4) Long-term loans	3,957	4,420	463	42,548	47,527	4,979
Total	¥696,438	¥693,916	¥(2,522)	$7,488,581	$7,461,462	$(27,119)
Liabilities:						
(1) Short-term borrowings	¥ 11,866	¥ 11,866	¥ –	$ 127,592	$ 127,592	$ –
(2) Notes and accounts payable	154,047	154,047	–	1,656,419	1,656,419	–
(3) Accrued income taxes	18,214	18,214	–	195,849	195,849	–
(4) Accrued expenses	41,365	41,365	–	444,785	444,785	–
(5) Long-term debt	7,885	7,983	98	84,785	85,839	1,054
Total	¥233,377	¥233,475	¥ 98	$2,509,430	$2,510,484	$ 1,054
Derivative transactions:						
Hedge accounting not applied	¥ 2,238	¥ 2,238	¥ –	$ 24,064	$ 24,064	$ –
Hedge accounting applied	(476)	(476)	–	(5,118)	(5,118)	–
Total	¥ 1,762	¥ 1,762	¥ –	$ 18,946	$ 18,946	$ –

Notes: 1. Method for calculating fair value of financial instruments, and notes regarding securities and derivative transactions

Assets

(1) Cash and time deposits and (2) Notes and accounts receivable

All of these are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as fair value in the table above.

(3) Securities and investments in securities

These mainly consist of stocks and bonds. Fair value for stocks is based on a price settled on stock exchanges, while fair value for bonds is based on either a price settled on the exchanges or one offered from financial institutions that we have transactions with.

(4) Long-term loans

Fair value for long-term loans is calculated based on a future cash flow discounted at an appropriate rate such as mid-term and long-term interest rates with credit spreads, for all loans grouped by a certain period of time and credit rating under the credit exposure management.

Liabilities

(1) Short-term borrowings, (2) Notes and accounts payable, (3) Accrued income taxes and (4) Accrued expenses

All of these are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as fair value in the table above.

(5) Long-term debts

Fair value for long-term debts is calculated based on a present value of principal with interest added, discounted at an expected rate for new borrowings with the same terms.

Derivative transactions

Net receivables (payables) derived from derivative transactions are displayed in the table above. Total net payables are showed in parenthesis.

2. The following table summarizes financial instruments whose fair value is extremely difficult to estimate.

Description	Millions of yen	Thousands of U.S. dollars
Non-listed equity securities	¥72,139	$775,688
Investment securities, etc.	5,697	61,258
Total	¥77,836	$836,946

These securities do not carry quoted market prices. Since it is extremely difficult to estimate the fair value of these securities, their fair value is not disclosed.

3. Repayment schedule of monetary claims, available-for-sale securities with maturity and bond helds to maturity.

	Millions of yen			
Description	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Time deposits	¥209,001	¥ —	¥ —	¥ —
Notes and accounts receivable	273,950	—	—	—
Securities and investments in securities	109,817	12,758	571	—
Long-term loans	—	1,890	1,947	300
Total	¥592,768	¥14,648	¥2,518	¥300

	Thousands of U.S. dollars			
Description	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Time deposits	$2,247,322	$ —	$ —	$ —
Notes and accounts receivable	2,945,699	—	—	—
Securities and investments in securities	1,180,828	137,182	6,140	—
Long-term loans	—	20,323	20,935	3,226
Total	$6,373,849	$157,505	$27,075	$3,226

See Note 8 for repayment schedule of long-term debt.

5. SECURITIES

Securities as of March 31, 2010 and 2009 consisted of the following:

(1) Market value of bonds held to maturity

	Millions of yen						Thousands of U.S. dollars		
	2010			2009			2010		
Description	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with fair value that exceeds book value	¥ 8,097	¥ 8,287	¥190	¥21,766	¥21,780	¥ 14	$ 87,065	$ 89,108	$2,043
Securities with fair value that does not exceed book value	10,555	10,501	(54)	31,577	30,824	(753)	113,495	112,914	(581)
Total	¥18,652	¥18,788	¥136	¥53,343	¥52,604	¥(739)	$200,560	$202,022	$1,462

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

	Millions of yen						Thousands of U.S. dollars		
	2010			2009			2010		
Description	Book value	Acquisition cost	Unrealized gain (loss)	Book value	Acquisition cost	Unrealized gain (loss)	Book value	Acquisition cost	Unrealized gain (loss)
Securities with book value that exceeds acquisition cost: Stocks	¥ 34,590	¥ 18,535	¥16,055	¥20,756	¥15,424	¥ 5,332	$ 371,935	$ 199,301	$172,634
Securities with book value that does not exceed acquisition cost: Stocks	118,288	122,232	(3,944)	16,356	21,904	(5,548)	1,271,914	1,314,323	(42,409)
Total	¥152,878	¥140,767	¥12,111	¥37,112	¥37,328	¥ (216)	$1,643,849	$1,513,624	$130,225

(3) Available-for-sale securities sold during the fiscal year ended March 31, 2010 and 2009

Available-for-sale securities sold during the fiscal years ended March 31, 2010 and 2009 are assumed insignificant.

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

	Millions of yen
	2009
	Book value
Bonds held to maturity	¥ 592
Investments in unconsolidated subsidiaries and affiliates	70,147
Available-for-sale securities	97,577

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

	Millions of yen
	2009
Within one year	¥111,924
Over one year within five years	17,366
Over five years within ten years	632

6. DERIVATIVE TRANSACTIONS

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

Currency related:

As of March 31, 2010

	Millions of yen			Thousands of U.S. dollars		
Description	Contract amounts	Fair value	Unrealized gain (loss)	Contract amounts	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts						
Sales Contracts:						
US$	**¥ 9,598**	**¥ 580**	**¥ 580**	**$103,204**	**$ 6,236**	**$ 6,236**
EUR	**8,595**	**281**	**281**	**92,420**	**3,021**	**3,021**
Other	**204**	**8**	**8**	**2,194**	**86**	**86**
Buys Contracts:						
US$	**152**	**6**	**6**	**1,634**	**65**	**65**
EUR	**11**	**0**	**0**	**118**	**0**	**0**
Other	**766**	**(-)23**	**(-)23**	**8,237**	**(-)247**	**(-)247**
Foreign currency swap contracts						
Receive Japanese Yen, pay British Pound	**6,287**	**1,387**	**1,387**	**67,602**	**14,914**	**14,914**
Total	**¥25,613**	**¥2,239**	**¥2,239**	**$275,409**	**$24,075**	**$24,075**

Notes: 1. Market rate represents the foreign exchange rate prevailing as of March 31, 2010.
2. The fair 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.

Currency related:

As of March 31, 2009

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

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

(2) Derivative transactions to which hedge accounting is applied:
1) Currency related:
As of March 31, 2010

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen Contract amounts	Millions of yen Contract amounts over one year	Millions of yen Fair value	Thousands of U.S. dollars Contract amounts	Thousands of U.S. dollars Contract amounts over one year	Thousands of U.S. dollars Fair value
Deferral hedge accounting	Forward foreign exchange contracts: Buy contracts							
	Euro	Other current assets	¥ 499	¥ —	¥ 15	$ 5,365	$ —	$ 161
	U.S. Dollars	Accounts payable-trade Accrued payable-other	2,973	—	163	31,968	—	1,753
Deferral hedge accounting	Foreign currency swap contracts: Receive U.S. Dollars Pay Thai Baht	Long-term debt	¥4,775	¥2,839	¥(654)	$51,344	$30,527	$(7,032)
Total			¥8,247	¥2,839	¥(476)	$88,677	$30,527	$(5,118)

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

2) Interest related:
As of March 31, 2010

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen Contract amounts	Millions of yen Contract amounts over one year	Millions of yen Fair value	Thousands of U.S. dollars Contract amounts	Thousands of U.S. dollars Contract amounts over one year	Thousands of U.S. dollars Fair value
Special hedge accounting treatment of interest rate swaps under JGAAP	Interest rate swap contracts: Receive fixed, pay floating	Interest of investment securities	¥ 5,000	¥ 5,000	¥ 103	$ 53,763	$ 53,763	$ 1,108
Special hedge accounting treatment of interest rate swaps under JGAAP	Interest rate swap contracts: Receive floating, pay fixed	Interest of investment securities	¥ 5,000	¥ 5,000	¥(220)	$ 53,763	$ 53,763	$(2,366)
Total			¥10,000	¥10,000	¥(117)	$107,526	$107,526	$(1,258)

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

7. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in and advances to unconsolidated subsidiaries and affiliates as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Held Directly by the Company:			
Affiliates:			
Four affiliates accounted for by the equity method (See Note 2 (2))*	¥40,269	¥41,618	$433,000
Other	1,032	1,028	11,097
	¥41,301	¥42,646	$444,097
Unconsolidated subsidiaries:			
Shin-Etsu Electronics Malaysia Sdn. Bhd.	¥ 1,400	¥ 1,400	$ 15,054
Other	1,856	2,061	19,957
	¥ 3,256	¥ 3,461	$ 35,011
Held Indirectly through Subsidiaries:			
Unconsolidated subsidiaries and affiliates:			
Two affiliates accounted for by the equity method (See Note 2 (2))*	¥27,409	¥22,701	$294,720
Other	2,984	2,729	32,086
	¥30,393	¥25,430	$326,806
Advances:	180	40	1,935
	¥75,130	¥71,577	$807,849

*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, 2010 and 2009 are represented generally by overdrafts contracted between the Companies and banks.

Long-term debt as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Loans with Banks and Other Financial Institutions:			
Secured	¥ 29	¥ 74	$ 312
Unsecured	13,025	18,427	140,054
	13,054	18,501	140,366
Less Portion Due within One Year	(5,169)	(5,683)	(55,581)
	¥ 7,885	¥12,818	$ 84,785

Lease obligations as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current	¥ 80	¥ 49	$ 860
Non-current	221	88	2,376
Total	¥301	¥137	$3,236

As of March 31, 2010, 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	¥—	$—

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

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,		
2011	¥2,268	$24,387
2012	5,537	59,538
2013 and thereafter	80	860
	¥7,885	$84,785

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, 2010 and 2009 are analyzed as follows:

Benefit Obligations

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
(a) Benefit obligations	¥(28,107)	¥(26,018)	$(302,226)
(b) Pension assets	14,477	12,005	155,667
(c) Unfunded benefit obligations [(a)+(b)]	(13,630)	(14,013)	(146,559)
(d) Unrecognized actuarial differences	2,737	5,268	29,430
(e) Unrecognized prior service cost (negative) (Note 1)	(146)	(333)	(1,570)
(f) Net retirement benefit obligations [(c)+(d)+(e)]	(11,039)	(9,078)	(118,699)
(g) Prepaid pension expenses	1,639	2,328	17,624
(h) Accrued retirement benefits [(f)-(g)]	¥(12,678)	¥(11,406)	$(136,323)

Notes: 1. The Company and certain consolidated subsidiaries changed system from tax-qualified pension plans to defined contribution pension plans before prior fiscal year, so that prior service cost is generated.

2. Some subsidiaries adopt a simplified method for the calculation of benefit obligations.

Retirement Benefit Costs

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
(a) Service costs (Note 1)	¥2,562	¥2,481	$27,548
(b) Interest costs	874	908	9,398
(c) Expected return on plan assets	(496)	(721)	(5,333)
(d) Recognized actuarial loss	633	536	6,806
(e) Amortization of prior service cost	(124)	(128)	(1,333)
(f) Other (Note 2)	1,541	1,614	16,570
(g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)]	¥4,990	¥4,690	$53,656

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, 2010, 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 ¥52 million ($559 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 Company paid interim dividends during the years ended March 31, 2010, 2009 and 2008 in the amounts of ¥21,225 million ($228,226 thousand) (¥50.0 per share), ¥21,372 million and ¥17,201 million, respectively, which were actually paid to stockholders on November 18, 2009, November 18, 2008 and November 19, 2007, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended March 31, 2010, 2009 and 2008, respectively.

There were 7,505,054 shares and 7,636,973 shares of treasury stock as at March 31, 2010 and 2009, respectively.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred and charged to income for the years ended March 31, 2010, 2009 and 2008 were ¥33,575 million ($361,022 thousand), ¥37,470 million and ¥47,945 million, respectively.

13. LEASE TRANSACTIONS

Lease expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2010 and 2009 amounted to ¥237 million ($2,548 thousand) and ¥271 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2010, 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 ¥237 million ($2,548 thousand).

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

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Acquisition cost	¥1,080	¥1,241	$11,613
Accumulated depreciation	813	737	8,742
Net book value	¥ 267	¥ 504	$ 2,871

The amounts of outstanding future lease payments due in respect of finance lease contracts at March 31, 2010 and 2009, which included the portion of interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Future Lease Payments:			
Within one year	¥170	¥240	$1,828
Over one year	97	264	1,043
	¥267	¥504	$2,871

The amounts of outstanding future lease payments due in respect of operating lease contracts at March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Future Lease Payments:			
Within one year	¥4,454	¥1,200	$47,892
Over one year	3,164	1,879	34,022
	¥7,618	¥3,079	$81,914

14. RELATED PARTY TRANSACTIONS

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2010, 2009 and 2008 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Sales	¥15,183	¥16,427	¥13,323	$163,258
Purchases	69,861	61,431	88,961	751,194

15. LOSS ON IMPAIRMENT OF FIXED ASSETS

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

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

			Millions of yen
Location	Use	Asset category	2009
Saigata Plant (Joetsu-shi, Niigata-Prefecture) and others	Semiconductor silicon manufacturing facilities/equipment for small-diameter wafers	Machinery and equipment	¥4,086
		Others	278
		Total	¥4,364

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

16. INCOME TAXES

The Company and its domestic subsidiaries are subject to a number of Japanese income taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 40.4% for the years ended March 31, 2010, 2009 and 2008.

Tax effects of material temporary differences and loss carry forwards which resulted in deferred tax assets or liabilities at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred Tax Assets:			
Depreciation	**¥19,661**	¥25,386	**$211,409**
Maintenance cost	**5,310**	4,529	**57,097**
Accrued retirement benefits	**4,780**	4,204	**51,398**
Unrealized profit	**4,218**	4,162	**45,355**
Tax loss carry forwards	**4,110**	12,843	**44,194**
Accrued bonus allowance	**3,667**	3,690	**39,430**
Accrued enterprise taxes	**2,085**	1,111	**22,419**
Unsettled accounts receivable and payable	**1,333**	3,092	**14,333**
Unrealized gains/losses on available-for-sale securities	**3**	240	**32**
Other	**14,501**	18,938	**155,925**
Valuation allowance	**(4,631)**	(3,918)	**(49,796)**
Total	**¥55,037**	¥74,277	**$591,796**
Deferred Tax Liabilities:			
Depreciation	**¥36,923**	¥37,246	**$397,022**
Unrealized gains/losses on available-for-sale securities	**4,844**	146	**52,086**
Reserve for special depreciation	**73**	139	**785**
Other	**3,781**	3,429	**40,655**
Total	**¥45,621**	¥40,960	**$490,549**
Net deferred tax assets	**¥ 9,416**	¥33,317	**$101,247**

Net Deferred Tax Assets are included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Current assets: Deferred taxes, current	**¥ 25,962**	¥ 36,098	**$ 279,161**
Non-current assets: Deferred taxes, non-current	**22,057**	34,868	**237,172**
Current liabilities: Other	**(495)**	(264)	**(5,323)**
Non-current liabilities: Deferred taxes, non-current	**(38,108)**	(37,385)	**(409,763)**

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

	2010	2009
Statutory tax rate	**40.4%**	40.4%
Dividend income and other not taxable	**(5.7)**	(2.4)
Elimination of intercompany dividend income	**5.5**	2.3
Equity in earnings of affiliates	**(3.2)**	(2.1)
Rate difference from foreign subsidiaries	**(1.7)**	(2.7)
Tax deduction for research expenses	**(1.2)**	(0.9)
Entertainment and other non-deductible expenses	**0.4**	0.2
Other, net	**(1.1)**	1.4
Effective tax rate	**33.4**	36.2

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

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, 2010, 2009 and 2008 are presented below:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Cash and time deposits	**¥209,046**	¥209,542	¥217,266	**$2,247,806**
Marketable securities	**109,762**	111,878	184,520	**1,180,237**
Time deposits for which maturities are approximately over three months	**(37,434)**	(31,829)	(44,405)	**(402,516)**
Marketable securities (maturities approximately over three months)	**(10,930)**	(38,546)	(55,762)	**(117,527)**
Cash and cash equivalents	**¥270,444**	¥251,045	¥301,619	**$2,908,000**

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 and Poval

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, Rare earths and rare earth magnets for general applications, Liquid fluoroelastomers, Pelicles, 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, 2010, 2009 and 2008 and for the years then ended, classified by business segment, are presented as follows:

	Millions of yen				
	2010				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[2]	Consolidated Total
Sales:					
Sales to outside customers	**¥508,979**	**¥317,172**	**¥ 90,687**	**¥ —**	**¥ 916,838**
Intersegment sales	**6,877**	**81**	**88,544**	**(95,502)**	**—**
Total	**515,856**	**317,253**	**179,231**	**(95,502)**	**916,838**
Operating costs and expenses	**454,764**	**277,735**	**161,208**	**(94,085)**	**799,622**
Operating income	**¥ 61,092**	**¥ 39,518**	**¥ 18,023**	**¥ (1,417)**	**¥ 117,216**
Assets	**¥754,019**	**¥624,934**	**¥183,102**	**¥207,085**	**¥1,769,140**
Depreciation	**33,390**	**47,392**	**7,133**	**(192)**	**87,723**
Capital expenditures[1]	**91,994**	**22,022**	**8,690**	**(1,470)**	**121,236**

	Millions of yen				
	2009				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[2]	Consolidated Total
Sales:					
Sales to outside customers	¥629,174	¥467,521	¥104,119	¥ —	¥1,200,814
Intersegment sales	9,474	2,349	99,862	(111,685)	—
Total	638,648	469,870	203,981	(111,685)	1,200,814
Operating costs and expenses[3,5]	543,506	357,635	178,257	(111,511)	967,887
Operating income	¥ 95,142	¥112,235	¥ 25,724	¥ (174)	¥ 232,927
Assets	¥698,063	¥607,213	¥172,493	¥ 207,176	¥1,684,945
Depreciation[4]	34,719	75,759	9,215	(236)	119,457
Loss on impairment	—	4,364	—	—	4,364
Capital expenditures	81,981	71,323	6,580	(477)	159,407

	Millions of yen				
	2008				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[2]	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[6]	31,651	100,983	8,896	(260)	141,270
Loss on impairment	7,198	—	—	—	7,198
Capital expenditures	116,417	144,141	8,617	(696)	268,479

	Thousands of U.S. dollars				
	2010				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[2]	Consolidated Total
Sales:					
Sales to outside customers	**$5,472,892**	**$3,410,452**	**$ 975,129**	**$ —**	**$ 9,858,473**
Intersegment sales	**73,946**	**871**	**952,086**	**(1,026,903)**	**—**
Total	**5,546,838**	**3,411,323**	**1,927,215**	**(1,026,903)**	**9,858,473**
Operating costs and expenses	**4,889,935**	**2,986,398**	**1,733,419**	**(1,011,666)**	**8,598,086**
Operating income	**$ 656,903**	**$ 424,925**	**$ 193,796**	**$ (15,237)**	**$ 1,260,387**
Assets	**$8,107,731**	**$6,719,720**	**$1,968,839**	**$ 2,226,721**	**$19,023,011**
Depreciation	**359,032**	**509,591**	**76,699**	**(2,064)**	**943,258**
Capital expenditures[1]	**989,183**	**236,796**	**93,441**	**(15,807)**	**1,303,613**

Notes: 1. During the fiscal year ended March 31, 2010, the Company acquired additional shares of CIRES, S.A., which was an affiliate under the equity method belonging to organic and inorganic chemicals business. As a result, CIRES, S.A. and its 3 subsidiaries became consolidated subsidiaries. The expenditure of ¥2,558 million ($27,505 thousand) for acquiring the additional shares is not included in the capital expenditure above. When this expenditure is included, the amount of capital expenditure in the fiscal year ended March 31, 2010 amounts to ¥123,794 million ($1,331,118 thousand).

2. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2010, 2009, and 2008 were ¥246,076 million ($2,645,978 thousand), ¥246,636 million and ¥274,993 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 (6) Inventories in Note 2., the Company and its domestic subsidiaries adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9) and changed the evaluation standard and the evaluation method for inventories from the fiscal year ended March 31, 2009.

As a result, for the fiscal year ended March 31, 2009, the operating expenses under Organic and Inorganic Chemicals business segment, Electronics Materials business segment and Functional Materials and Others business segment increased by ¥1,474 million, ¥1,597 million and ¥326 million, respectively. Accordingly, the operating income of each segment decreased by the same amounts.

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

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

5. As previously mentioned in (17) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements in Note 2., effective from the fiscal year ended March 31, 2009, the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical issues Task Force No.18, issued on May 17, 2006) has been applied and accordingly some revisions was made to the consolidated accounts as necessary.

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

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

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

(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, 2010, 2009 and 2008 and for the years then ended are presented below:

	Millions of yen					
	2010					
	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets[2]	Consolidated Total
Sales:						
Sales to outside customers	**¥507,715**	**¥186,114**	**¥111,253**	**¥111,756**	**¥ —**	**¥ 916,838**
Intersegment sales	**177,938**	**44,851**	**32,944**	**545**	**(256,278)**	**—**
Total	**685,653**	**230,965**	**144,197**	**112,301**	**(256,278)**	**916,838**
Operating costs and expenses	**582,834**	**221,188**	**142,769**	**109,253**	**(256,422)**	**799,622**
Operating income	**¥102,819**	**¥ 9,777**	**¥ 1,428**	**¥ 3,048**	**¥ 144**	**¥ 117,216**
Assets	**¥955,617**	**¥407,520**	**¥154,708**	**¥141,348**	**¥ 109,947**	**¥1,769,140**

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

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

	Thousands of U.S. dollars					
	2010					
	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets[2]	Consolidated Total
Sales:						
Sales to outside customers	**$ 5,459,301**	**$2,001,226**	**$1,196,269**	**$1,201,677**	**$ —**	**$ 9,858,473**
Intersegment sales	**1,913,312**	**482,269**	**354,237**	**5,860**	**(2,755,678)**	**—**
Total	**7,372,613**	**2,483,495**	**1,550,506**	**1,207,537**	**(2,755,678)**	**9,858,473**
Operating costs and expenses	**6,267,032**	**2,378,366**	**1,535,151**	**1,174,763**	**(2,757,226)**	**8,598,086**
Operating income	**$ 1,105,581**	**$ 105,129**	**$ 15,355**	**$ 32,774**	**$ 1,548**	**$ 1,260,387**
Assets	**$10,275,452**	**$4,381,935**	**$1,663,527**	**$1,519,871**	**$ 1,182,226**	**$19,023,011**

Notes: 1. Main countries or other areas other than Japan:
North America........................ U.S.
Asia/Oceania .... Malaysia, Singapore, South Korea, Taiwan, Thailand, China, Australia
Europe................................... U.K., Netherlands, Germany, Portugal

2. The amounts of the common assets included in the column “Elimination or Common Assets” for the years ended March 31, 2010, 2009, and 2008 were ¥246,076 million ($2,645,978 thousand), ¥246,636 million and ¥274,993 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 (6) Inventories in Note 2., the Company and its domestic subsidiaries adopted “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9) and changed the evaluation standard and the evaluation method for inventories from the fiscal year ended March 31, 2009.
As a result, for the fiscal year ended March 31, 2009, the operating expenses for Japan geographic segment increased by ¥3,398 million. Accordingly, the operating income decreased by the same amount.

4. As previously mentioned in (8) Property, plant and equipment in Note 2., effective from the fiscal year ended March 31, 2009, the Company and its domestic subsidiaries changed the period of depreciation for tangible fixed assets (except for semiconductor silicon manufacturing facilities/equipment) in accordance with the revised Japanese Corporation Tax Law.
   As a result, the operating expenses for Japan geographic segment decreased by ¥165 million compared with the amount under the formerly applied method. Accordingly, the operating income increased by the same amount.
5. As previously mentioned in (17) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements in Note 2., effective from the fiscal year ended March 31, 2009, the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical issues Task Force No.18, issued on May 17, 2006) has been applied and accordingly some revisions was made to the consolidated accounts as necessary.
   As a result, for the fiscal year ended March 31, 2009, operating expenses for Asia/Oceania and Europe increased by ¥314 million and ¥146 million, respectively.
6. As previously mentioned in (8) Property, plant and equipment in Note 2., in the fiscal year ended March 31, 2008 the Company and its domestic subsidiaries changed the depreciation method of tangible fixed assets in accordance with the revised Japanese Corporation Tax Law.
   As a result, the operating expenses for Japan geographic segment increased by ¥2,803 million compared with the amount under the formerly applied method. Accordingly, the operating income decreased by the same amount.

(3) Overseas sales information

Overseas sales of the Companies for the years ended March 31, 2010, 2009 and 2008 are summarized as follows:

	Millions of yen				
	2010				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	**¥137,280**	**¥259,160**	**¥98,473**	**¥67,152**	**¥ 562,065**
Consolidated sales	**—**	**—**	**—**	**—**	**916,838**
Percentage of overseas sales over consolidated sales	**15.0%**	**28.3%**	**10.7%**	**7.3%**	**61.3%**

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

	Millions of yen				
	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%

	Thousands of U.S. dollars				
	2010				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	**$1,476,129**	**$2,786,667**	**$1,058,849**	**$722,065**	**$6,043,710**
Consolidated sales	**—**	**—**	**—**	**—**	**9,858,473**
Percentage of overseas sales over consolidated sales	**15.0%**	**28.3%**	**10.7%**	**7.3%**	**61.3%**

Notes: 1. Main countries or areas
North America........................ U.S., Canada
Asia/Oceania .... China, Taiwan, South Korea, Singapore, Thailand, Malaysia
Europe.................................. Germany, France
Other Areas .... Latin America, Middle East
2. "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, 2010, the Company's Board of Directors, with the approval of stockholders on June 29, 2010 declared a cash dividend of ¥21,230 million ($228,280 thousand) equal to ¥50.00 ($0.54) per share, applicable to earnings of the year ended March 31, 2010 and payable to stockholders on the stockholders' register on March 31, 2010.

Agreement under Mutual Agreement Procedure between Japan and the U.S. relating to Transfer Pricing Taxation

In June 2010, the Company received a notice from Japan National Tax Agency ("NTA") informing that an agreement has been reached through the Mutual Agreement Procedure between Japan and the U.S. ("MAP") concerning the transfer pricing taxation relating to profit derived from transactions between the Company and its U.S. subsidiary Shintech Incorporated for five fiscal years from April 2001 to March 2006.

In February 2008, following an audit conducted by the Tokyo Regional Taxation Bureau ("TRTB") the Company received an amended assessment from the TRTB for the above-mentioned transactions. The amount of income deemed to have been transferred to the U.S. was approximately ¥23.3 billion and the total additional tax including interest was approximately ¥11 billion. The amount was paid and expensed in the same month. The Company subsequently filed a request to the NTA to implement a MAP proceeding.

As a result of this mutual agreement, double taxation will be eliminated and the amount of income deemed to have been transferred to the U.S. has been reduced to approximately ¥3.9 billion. The Company received a correction decision from the TRTB and Shintech will also receive a correction decision from the tax authorities in the U.S. The total tax refund amount, including interest, in both Japan and the U.S. is estimated at approximately ¥11.9 billion.

20. CHANGES IN THE METHOD OF PRESENTATION (CONSOLIDATED STATEMENTS OF INCOME)

Expense item "Cost of inactive facilities" of other expenses was included in "Other, net" in the previous fiscal year. It is disclosed as an independent item for the current fiscal year ended March 31, 2010 as it is greater than ten percent of the total other expenses. The amount of this expense for the fiscal year ended March 31, 2009 was ¥216 million ($2,323 thousand).

Consolidated Subsidiaries

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 2010

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shintech Inc.(1)	100.0	December 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31
Shin-Etsu Handotai America, Inc.(1)	100.0	December 31
Shin-Etsu Polymer Co., Ltd.	53.1	March 31
S.E.H. Malaysia Sdn. Bhd.(1)(2)	100.0	December 31
Shin-Etsu PVC B.V.(1)	100.0	December 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31
SE Tylose GmbH & Co. KG(1)	100.0	December 31
Shin-Etsu Handotai Europe, Ltd.(1)	100.0	December 31
Nagano Electronics Industrial Co., Ltd.	90.0	February 28
Shin-Etsu Handotai Taiwan Co., Ltd.(1)	70.0	December 31
Naoetsu Electronics Co., Ltd.	100.0	February 28
Shin-Etsu Astech Co., Ltd.	99.6	March 31
S-E, Inc.(1)	100.0	December 31
Shin-Etsu Electronics Materials Singapore Pte. Ltd.(1)	100.0	December 31
Shin-Etsu Fintech Co., Ltd.	100.0	March 31
JAPAN VAM & POVAL Co., Ltd.	100.0	March 31
CIRES, S.A.(1)	100.0	December 31
Shin-Etsu Singapore Pte. Ltd.(1)	100.0	December 31
Shin-Etsu Silicone Korea Co., Ltd.(1)	100.0	December 31
Shinano Polymer Co., Ltd.	100.0	March 31
Shin-Etsu Silicones Thailand Ltd.(1)	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd.(1)	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 28
Shin-Etsu MicroSi, Inc.(1)	100.0	December 31
Shin-Etsu Silicone Taiwan Co., Ltd.(1)	93.3	December 31
Shin-Etsu Silicones of America, Inc.(1)	100.0	December 31
Shin-Etsu Silicones Europe B.V.(1)	100.0	December 31
Shin-Etsu Unit Co., Ltd.	100.0	March 31
Shin-Etsu Opto Electronics Co., Ltd.(1)	80.0	December 31
Shin-Etsu Polymer (Malaysia) Sdn. Bhd.(1)	100.0	December 31

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shin-Etsu Polymer Europe B.V.(1)	100.0	December 31
Shin-Etsu International Europe B.V.(1)	100.0	December 31
Nihon Resin Co., Ltd.	100.0	December 31
Naoetsu Precision Co., Ltd.	100.0	February 28
Skyward Information Systems Co., Ltd.	100.0	March 31
Shinano Electric Refining Co., Ltd.	77.4	March 31
Fukui Environmental Analysis Center Co., Ltd.	100.0	February 28
Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu Technology Service Co., Ltd.	76.9	February 28
Urawa Polymer Co., Ltd.	100.0	March 31
Niigata Polymer Company Limited	100.0	March 31
Shin-Etsu Polymer America, Inc.(1)	100.0	December 31
Naoetsu Sangyo Limited	100.0	March 31
San-Ace Co., Ltd.	100.0	March 31
Shinken Total Plant Co., Ltd.	100.0	February 28
Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Magnet Co., Ltd.	100.0	March 31
PT. Shin-Etsu Polymer Indonesia(1)	100.0	December 31
Shin-Etsu Polymer Singapore Pte. Ltd.(1)	100.0	December 31
Shin-Etsu Polymer Shanghai Co., Ltd.(1)	100.0	December 31
Shin-Etsu Polymer Hong Kong Co., Ltd.(1)	100.0	December 31
Shin-Etsu Polymer Hungary Kft.(1)	100.0	December 31
Human Create Co., Ltd.	100.0	March 31
Suzhou Shin-Etsu Polymer Co., Ltd.(1)	71.4	December 31
S.E.H. (Shah Alam) Sdn. Bhd.(1)	100.0	December 31
Simcoa Operations Pty. Ltd.(1)	100.0	December 31
Shincor Silicones, Inc.(1)	100.0	December 31
K-Bin, Inc.(1)	100.0	December 31

10 other consolidated subsidiaries

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

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Shin-Etsu Chemical Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin-Etsu Chemical Co., Ltd. and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon LLC

Ernst & Young ShinNihon
Tokyo, Japan

June 29, 2010