

A wide-angle photograph taken from space, showing the Earth's horizon. The sun is a bright, glowing orb on the right side of the horizon, casting a lens flare. The sky transitions from a deep blue at the bottom to a lighter blue at the top. The Earth's surface is covered in a dense layer of white clouds, with some darker blue patches visible through the cloud cover.

*Invest to Serve, Innovate to Grow*

**Shin-Etsu Chemical Co., Ltd. | Annual Report 2007**

For the Year Ended March 31, 2007

# Profile

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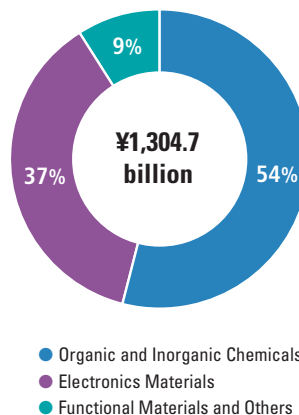
## Forward-looking Statements

This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication.

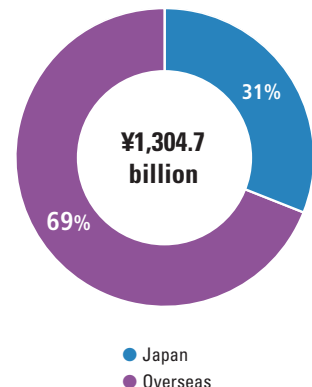
Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's businesses, competitive pressures, changes in related laws and regulations, status of product development programs, and changes in exchange rates.

The Shin-Etsu Group offers a broad array of market-leading products in its Organic and Inorganic Chemicals, Electronics Materials, and Functional Materials and Others businesses. The Group has also pursued a global strategy from its early days of selecting the optimal production sites near its main markets and raw materials procurement sources around the world. We focus on cultivating businesses with future growth potential that contribute to the advancement of society while achieving consistently favorable results in daily business. At the same time, the Group places priority on safety, the environment and corporate ethics in its operations around the world in order to be a trusted corporate citizen.

Net Sales by Business Segment



Net Sales in Japan and Overseas



# Financial Highlights

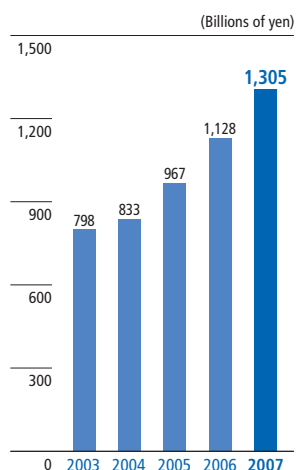
SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES  
For the years ended March 31, 2007, 2006 and 2005

	Millions of yen			% Change	Thousands of U.S. dollars <sup>1</sup>
	2007	2006	2005	2007/2006	2007
<b>For the year:</b>					
Net sales	¥1,304,696	¥1,127,916	¥ 967,486	15.7%	\$11,056,746
Operating income	241,029	185,320	151,734	30.1	2,042,619
Net income	154,010	115,045	93,161	33.9	1,305,169
Capital expenditures	210,613	145,330	110,278	44.9	1,784,856
<b>At year-end:</b>					
Total assets	¥1,859,996	¥1,671,281	¥1,476,249	11.3%	\$15,762,678
Working capital	628,986	572,206	444,935	9.9	5,330,390
Net assets	1,360,315	—	—	12.6	11,528,093
	Yen			% Change	U.S. dollars
<b>Per share data (yen and U.S. dollars):</b>					
Net income – primary	¥ 357.78	¥ 266.63	¥ 219.10	34.2%	\$ 3.03
Net assets	3,065.80	2,730.94	2,329.47	12.3	25.98
Cash dividends	70.00	35.00	20.00	100.0	0.59
Return on equity (ROE) <sup>2</sup>	12.4%	10.6%	9.8%		
Return on assets (ROA)	14.0%	11.8%	10.6%		
Number of employees	19,177	18,888	18,151		

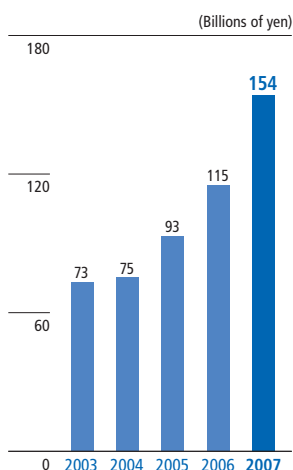
Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥118=US\$1, the approximate rate of exchange on March 31, 2007.

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

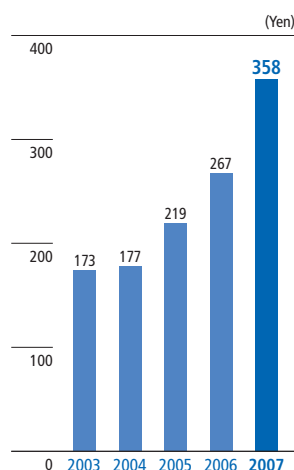
## Net Sales



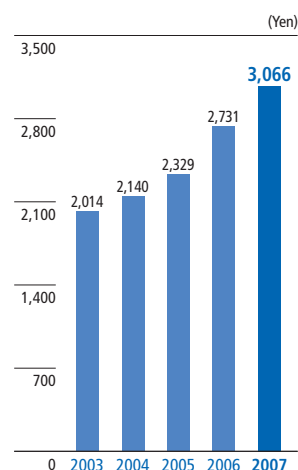
## Net Income



## Net Income per Share



## Net Assets per Share



Note: Graphs are based on fiscal years ended March 31.

## To Our Shareholders



**Chihiro Kanagawa**

President and CEO

In reaching its 80th anniversary in 2006, the Shin-Etsu Group also celebrated the start of a new era. Net sales, operating income, ordinary income and net income all increased substantially to set new records. With operating income and net income each rising by more than 30 percent, the Shin-Etsu Group attained year-on-year growth in profits for the 12th consecutive year in fiscal 2007, which ended on March 31, 2007. As a result, we have been able to double our profits over the past three years.

Our management has achieved these results by taking the offensive with intense aggressive sales and major capital investments in key markets, while assuming a defensive stance through the careful evaluation of every type of business risk and taking steps to control the risks.

To prepare for rapid technological progress and market changes in the semiconductor silicon wafer business, in fiscal 2007 we implemented an unprecedented depreciation system where all the equipment for this business will be depreciated over only three years.

We made another important decision with dividends to be paid to shareholders. The chemical industry is relatively affected by changing market conditions which require constant efforts to minimize their impact. The Shin-Etsu Group's continuous management efforts have included accurately understanding and analyzing current market conditions to forecast the coming market situation when making decisions for business growth, then steadily implementing capital investments and other measures. As a result, the Shin-Etsu Group has generated significant performance gains.

Consequently, for fiscal 2007 we doubled our cash dividends per share from ¥35 in fiscal year 2006 to ¥70 for fiscal year 2007. The per-share amount of cash dividends totaled ¥7.5 for fiscal 1997, meaning dividends are now nearly 10 times greater than they were a decade ago. Furthermore, the Shin-Etsu Group's dividend payments are significantly higher than those of its peer companies in Japan.

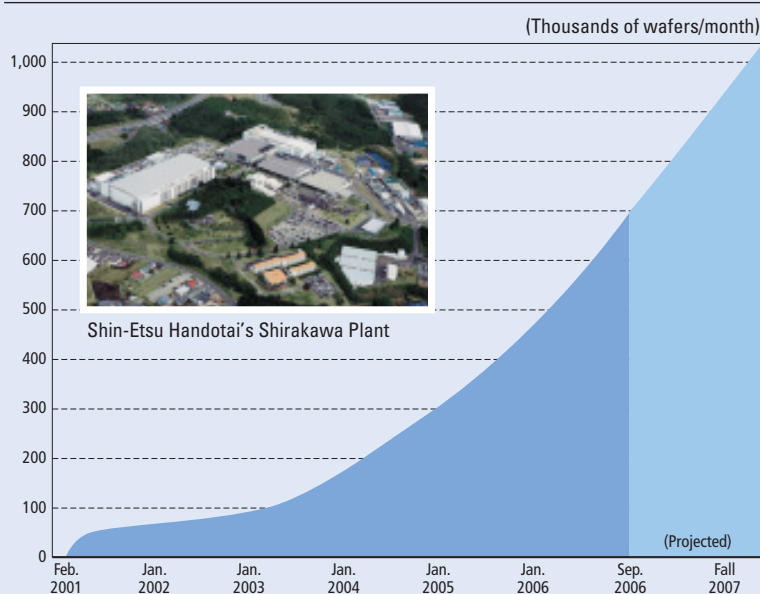
### Toward Further Development

Amid concerns about the U.S. economy and raw material price trends, the Shin-Etsu Group must strengthen its existing businesses and develop and commercialize new businesses in order to generate sustained growth. Moreover, we need to solidify both our offensive and defensive stances.

In our existing core businesses, we will further strengthen our world-class technologies, product

## Growth in the 300mm Silicon Wafer Business

### 300mm Wafer Production Capacity



In 2001, Shin-Etsu Handotai Co., Ltd. was the first company in the world to mass produce 300mm wafers. Shin-Etsu Handotai has continued to invest aggressively in this business since then, and expanded production capacity to 700 thousand wafers per month in fall 2006. After considering all the risks, Shin-Etsu Handotai's current plan calls for investing in capacity expansions at its primary Shirakawa Plant, Shin-Etsu Handotai America, Inc., and Group company Mimasu Semiconductor Industry Co., Ltd., in addition to a new investment at Nagano Electronics Industrial Co., Ltd. These investments will promote multiple production bases and help to ensure a stable supply of 300mm wafers to customers. In addition, we will work to disperse risk by increasing existing single-crystal ingot production capacity at the Shirakawa Plant and Shin-Etsu Handotai America, and by initiating production at Shin-Etsu Handotai's Takefu Plant in Fukui Prefecture Japan.

quality and cost competitiveness. While building stable business relationships with numerous customers worldwide, we will keep our organizational structure flexible in order to respond properly and in a timely manner to changing economic conditions.

The Shin-Etsu Group is the world's largest manufacturer of semiconductor silicon. We are rapidly increasing our production capability for 300mm silicon wafers to meet a fast-growing global demand. At the same time, we are increasing our security of supply by placing manufacturing facilities at five different sites in Japan and the United States. The capacity expansions we are implementing will raise our monthly production from 700,000 wafers as of September 2006 to 1 million in the autumn of

2007. In this way, we are fulfilling our duty to our customers as the world's leading supplier of semiconductor silicon.

The Shin-Etsu Group is also the world's largest manufacturer of polyvinyl chloride (PVC). To supply the growing demand in the United States and around the world, our U.S. subsidiary, Shintech Inc., is building a large-scale integrated PVC manufacturing facility that will encompass the entire manufacturing process, from salt electrolysis to PVC resin production. This new plant will further strengthen the Shin-Etsu Group's position as the world's largest PVC producer.

In our manufacturing businesses, it is important to maintain diligent quality control and assure a stable supply in order to deepen the trust of our all-important customers. By ensuring strict quality

## Intelligent Investment Drives A New Phase of Growth



### Europe

In the cellulose business, Shin-Etsu is investing in additional production facilities at SE Tylose GmbH & Co. KG in Germany as it works to create multiple production and supply bases for specialty cellulose products used in pharmaceuticals and other applications.



### Japan

In the semiconductor silicon business, Shin-Etsu is expanding production capacity for 300mm wafers at five production bases in Japan and the U.S. to respond to rising global demand.



### United States

In the PVC business, Shintech Inc. in the U.S. is constructing a large-scale plant that is integrated from electrolysis to PVC resin to respond to growing demand in the U.S. and elsewhere in the world.



control that does not let even a single defect slip through and by constantly adhering to delivery schedules, we will further strengthen our relationship of trust with our customers.

In addition, we are taking steps to effectively deal with crude oil prices and other energy costs, which remain at record-high levels. We are coping with this effect by adjusting the prices of our products when appropriate and by securing multiple suppliers of raw materials. At the same time, we are striving to mitigate the economic impact of a possible sharp rise in crude oil prices and energy costs.

For the Shin-Etsu Group to continue growing and prospering in the future, we will pursue business expansion from the medium- and long-term perspectives by making timely investments based on an accurate understanding of current and future customer needs and market trends. Shin-Etsu PVC B.V. in the Netherlands is one good example. We completed the expansion of our PVC production capacity there in 2006. Since then, we have sold out the increased capacity and are now studying the feasibility of a further business expansion.

In the cellulose business, we completed the expansion of our production capacity at SE Tylose GmbH & Co. KG in Germany in 2006 and are now moving forward with the expansion of our business there. Moreover, in view of an accident at the Naoetsu Plant's cellulose production facilities, we have committed ourselves to making an additional facility investment in SE Tylose to ensure multiple production and supply locations for specialty cellulose products used in pharmaceuticals and various other applications.

In the rare earth magnet business, demand is increasing not only for hard-disk drives but also for automobiles and such home appliances as air

conditioners. Since demand for rare earth magnets is growing for diverse applications where low energy consumption and light weight are required, we are carrying out a series of capacity expansions for this business.

When making major investment decisions, it goes without saying that we constantly collect relevant market information. We invest in manufacturing facilities only after fully considering the impact of the investment on profitability and cash flow, but we will not miss out on opportunities to capture growing long-term demand. In addition, we look to the M&A of businesses as another method of expanding our business. Throughout its history, the Shin-Etsu Group has employed mergers and acquisitions to expand its businesses. In 1976, for example, Shintech became a wholly owned subsidiary of Shin-Etsu. In recent years, the Shin-Etsu Group purchased its European PVC and cellulose operations. We will continue to carefully evaluate factors such as the earning potential of M&A candidates as well as their synergy with our existing businesses, and we will energetically execute mergers and acquisitions that can increase corporate value.

### Research and Development

R&D is a critical driving force for the Shin-Etsu Group's future business growth. Our R&D centers work tirelessly to develop new products for existing businesses and related peripheral businesses. In developing new products, we aim to create unique products that can set us apart from other companies and that have value customers will recognize. In addition, theme selection is critical to new product R&D. Selecting themes and focusing on them further enhances R&D efficiency, as we work to commercialize new products in the shortest possible time.

Intellectual property, including patents and know-how, is an important business asset. Since many of our research activities culminate in the acquisition of patents, we are working to acquire rights and thereby reinforce the Group's patent administration.

## Corporate Governance

In the Shin-Etsu Group, we consistently carry out our management activities with strict legal compliance. We disclose and publicize appropriate information to shareholders, investors and other concerned parties. As part of our efforts to strengthen corporate governance, we have appointed four external directors to Shin-Etsu's 20-member Board of Directors. External directors provide Shin-Etsu not only with independent monitoring and supervision, but also with extensive and valuable advice on overall corporate management. Moreover, three of Shin-Etsu's five statutory auditors are from outside the company. This system enhances and strengthens our auditing function.

One of our external directors chairs the officers' Remuneration Committee, which reviews and evaluates the remuneration for the board members. Shin-Etsu has also established a Risk Management Committee to pinpoint and take preventive measures on the potential risks that could occur during its business operations. Furthermore, the Auditing Department is responsible on a full-time basis for the internal audits of operations as well as the internal controls, and is working to further strengthen corporate governance. From the fiscal year starting April 2008, Japan will introduce its own version of the Sarbanes-Oxley Accounting Reform and Investor Protection Act that was passed in the U.S. To be prepared for this legal change, Shin-Etsu has begun to construct a Group-wide system of internal controls centered on the Auditing Department.

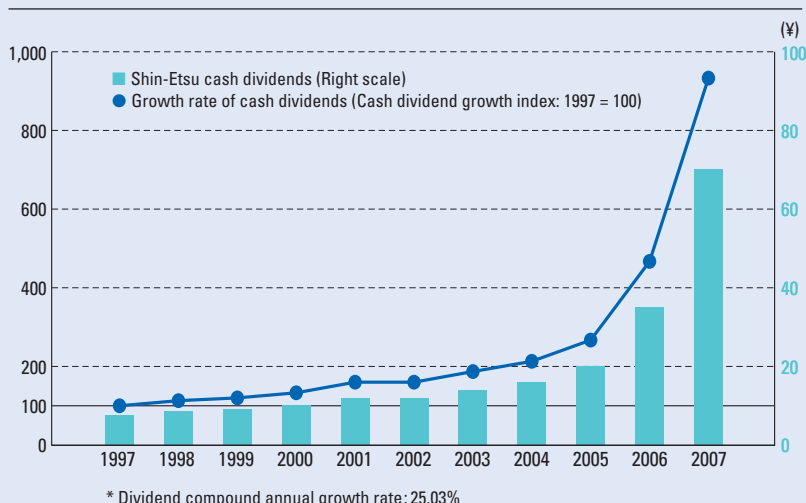
## Creating Value for Shareholders

A company belongs to its shareholders. As we continue our management aimed at increasing

## Striving to Create Value for Shareholders

Shin-Etsu has strived to create value for shareholders over the past decade. We have increased dividends per share from ¥7.50 for the year ended March 1998 to ¥70.00 for the year ended March 2007. Dividends therefore increased at a compound annual growth rate of over 25 percent. As shown in the chart, Shin-Etsu dividend growth has far outpaced inflation, and as of March 31, 2007, Shin-Etsu's stock price was nearly four times higher than on March 31, 1997.

Real Rate of Dividend Growth





shareholder value, the Shin-Etsu Group communicates with shareholders through such means as investor relations activities, and we also continually seek and listen to the opinions of our investors. We are working to enhance corporate value through the improvement of earnings and performance. The Shin-Etsu Group seeks the understanding and trust of its shareholders, and believes that it must defend corporate value and the profits that belong to shareholders in the event of an attempted acquisition that would not be beneficial to shareholders. The General Meeting of Shareholders held in 2007 approved specific rules in the event of a major acquisition attempt. The Shin-Etsu Group will provide relevant information regarding any such acquisition attempts to shareholders and seek their instructions.

### Corporate Social Responsibility (CSR)

We believe that one of the societal responsibilities that a company must fulfill is to make a profit from its operations and pay its taxes while observing each host nation's laws and regulations. In addition, an important task in fostering the sustainable growth of the company is to create a work environment in which employees can perform their jobs effectively and professionally. The Shin-Etsu Group listens carefully to the opinions of the people who work at its plants, research centers and sales divisions. Through dialogues with them we learn many of their ideas and concerns and help deepen their understanding of the Company's management policies. We have implemented a merit-based personnel system under which staff members can fully realize their professional potential. The Shin-Etsu Group has always proactively engaged in corporate social responsibility (CSR) activities. In 2005 we established a CSR Promotion Committee.

We are making strong efforts to promote CSR activities at each location where we have facilities.

On March 20, 2007, an explosion occurred at the Naoetsu Plant's cellulose production facilities. We sincerely apologize to all who were affected by the accident, including local residents, and for the trouble and anxiety it caused. To ensure that such an accident does not happen again, we are redoubling our efforts to prevent a recurrence of any accident and are implementing rigorous safety management measures throughout the Shin-Etsu Group. We will continue to do everything possible to restore trust in the Shin-Etsu Group.

### Toward Further Growth

The Shin-Etsu Group puts safety first in all situations and conducts all of its business activities in a fair and ethical manner. We aim to meet the expectations of our shareholders by increasing corporate value with materials and technologies that contribute to economies, industry and society.

In looking forward, we will further strengthen our existing businesses and steadily execute capital investments. Moreover, we will devote extensive resources to new businesses and to the promotion of their rapid development.

As we are challenged by rapidly changing markets, we are committed to managing with the aim of further enhancing corporate value. We would like to express our sincere appreciation for the continued support of and relationship with our stakeholders, our customers and our suppliers.



**Chihiro Kanagawa**  
President and CEO

# Corporate Social Responsibility (CSR)



The Shin-Etsu Group believes that the primary social responsibility a corporation must fulfill is to obey laws and regulations in conducting its corporate activities, make a profit and pay taxes. On the occasion of Shin-Etsu's 80th anniversary, we established our corporate mission statement, "To contribute to people's daily lives as well as to the advance of industry and society by providing key materials and technologies." This mission statement also forms the foundation of the Shin-Etsu Group's commitment to CSR. In conducting corporate activities, all employees focus on product development and quality control while considering their effects on the environment and society based on management systems such as Responsible Care and Total Quality Management. Moreover, they promote safety, environmental and social activities in accordance with the actual situation in each plant and each business office.

## Kiichi Habata

Managing Director  
In charge of Environmental Control & Safety and Auditing

### Report on the Accident at the Naoetsu Plant

- As a chemical manufacturer, Shin-Etsu has promoted business activities that place correspondence with safety and the environment as its foremost priority. Nevertheless, on March 20, 2007 a grave explosion and subsequent fire occurred at the cellulose derivatives manufacturing facility of the Naoetsu Plant, injuring 17 people. We deeply apologize for the serious trouble and anxiety that this accident has caused to those who were injured, their families, the local area's residents, our customers and everyone concerned.
- On the day of the accident, Shin-Etsu established an Accident Countermeasures Headquarters, and on March 23 set up an Accident Investigation and Safety Measure Committee within the Accident Countermeasures Headquarters made up of persons in charge of technology and environmental control and safety from each Shin-Etsu plant and the Head Office. The Accident Investigation and Safety Measure Committee enlisted the participation of experts from outside the company and worked to determine the cause or causes of the accident, set up preventative measures, and also to review and reinforce all safety measures.
- As a result of its investigation, Shin-Etsu assumes that the cause of the accident was a dust explosion. The Company has implemented safety measures in tangible areas such as introducing closed systems, using nitrogen blankets, removing static electricity, and preventing dust accumulation, in addition to a review of intangible areas, including a revision of the companywide hazard evaluation system and manuals, and strengthening safety training. We have submitted an accident report to governmental authorities.
- With these safety measures, we resumed partial operations at the cellulose manufacturing facilities on May 21 after receiving the permission of the governmental authorities and the understanding of the local residents in the areas surrounding the Naoetsu Plant.
- Moreover, so that a similar accident does not occur in the future, on March 26 we instructed all Shin-Etsu Group Companies to inspect and confirm safety and make any necessary improvements at all Group plants, and we are promoting such efforts at each company.
- Reflecting on this accident, we will position our safety control fundamentals at the point of view of every production site and work to improve safety technology as well as each employee's awareness. As one of these measures, we collected accounts of close calls from employees in order to remove even the smallest of hazardous factors that may lurk in the workplace as part of our ongoing promotion of zero accidents. In the future, we will promote the sharing of information about these incidents and improvement measures among Group businesses and companies.

- Looking forward, in order to prevent the occurrence of a similar accident, the entire Company will work toward thorough safety management, take all possible prevention measures and continue efforts to restore trust.

## Basic CSR Policy

As a good corporate citizen, the Shin-Etsu Group has always endeavored to contribute to society through positive activities in local communities. In April 2005, we established the CSR Promotion Committee, and are totally devoting our efforts to fulfilling our corporate social responsibilities.

## The Shin-Etsu Group CSR Promotion System



## The entire Shin-Etsu Group is working to implement the following basic CSR policies.

- The Shin-Etsu Group's corporate mission is, "To contribute to people's daily lives as well as to the advance of industry and society by providing key materials and technologies." To achieve this mission, the Group carries out fair and sound business practices, and strives to enhance the corporate value of the Group and become an ever-growing company.

- The Shin-Etsu Group makes it a fundamental management principle to pursue the goals of safety and environmental conservation. The Group promotes corporate activities that place primary importance on safety and environmental conservation and strives to maintain the trust of its stakeholders.

- Respecting the principles of human dignity and life fulfillment, the Shin-Etsu Group forbids any discrimination, any use of compulsory labor and any use of child labor. Furthermore, the Group endeavors to create a work environment where all employees can perform their jobs easily and effectively and fully realize their potential.

- The Shin-Etsu Group is committed to positively contributing to society and to disclosing accurate and timely information to the public about the business activities and position of the Group so as to continue to maintain the trust of society.

## Activities for Environment Control and Safety Management

The Shin-Etsu Group has made safety and the environment top management priorities and is committed to a culture of safety from concept to implementation. We decide upon aims and goals for environmental issues, management of chemical substances, management of facilities and prevention of work-related accidents, and we strive to achieve them all. The results are checked by means of various self-diagnosis and audit systems so as to allow Shin-Etsu to further develop its systems to attain the next level of objectives.

Furthermore, the Group is aggressively promoting measures for environmental control such as saving resources and energy and development of ecologically oriented products that are effective in reducing the environmental burden.

In 2005, Shin-Etsu revised its Environmental Charter, adopted in 1998, which sets forth the basic spirit of its environmental control measures. The Group is carrying out its business activities in strict conformity with the principles embodied in this Charter. Each plant and Group company conducts Responsible Care activities, a program for improvement



Environmental and Social Report 2006  
<http://www.shinetsu.co.jp/e/profile/kankyo.shtml>

of the environment, and safety improvement program. In addition, all plants and major subsidiaries have obtained ISO 14001 certification, the international standard for environmental management systems, and other Shin-Etsu Group companies are working to obtain certification. The Shin-Etsu Group's environmental targets for fiscal 2011 are to curb greenhouse gases by reducing unit energy consumption based on the amount of total sales to 66 percent of the fiscal 1991 level and to achieve zero emissions of waste.

Reflecting on the Naoetsu Plant explosion and subsequent fire in March 2007, Shin-Etsu uses a risk assessment method to repeatedly check and review the safety of its facilities, employees, chemical substances and control in order to ensure a higher level of safety. At the time of planning of new facilities or the start-up of manufacturing of new products, we examine environmental impact and safety measures in addition to conducting safety evaluations. Furthermore, at Shin-Etsu's existing facilities, we make continuous improvements by regularly reviewing work processes and safety measures.

### Activities to Support Local Communities

The Shin-Etsu Group is actively making a global contribution to society not only in Japan, but also in each region of the world where the Group has business operations, according to regional characteristics. These include friendship exchanges with local governments and residents near Shin-Etsu plants, such as support for clean-up projects and co-sponsorship of events in those areas. In addition, Group companies in the United States and Malaysia have established scholarship systems.

The following introduces the Shin-Etsu Group's programs in fiscal 2007 contributing to local communities in various regions around the world.

### Fundraising for World Refugee Day

In support of the Office of the United Nations High Commissioner for Refugees, Shin-Etsu and each company in the Shin-Etsu Group set up a fundraising box at each office for one month for World Refugee Day on June 20. The Vinyl Environmental Council (VEC) donated collection boxes made of PVC. The goods purchased with the funds raised were delivered to refugees in Africa, Asia, and around the world.



Employees made contributions to support the Office of the United Nations High Commissioner for Refugees at the recycled PVC fundraising box.

### Letter from Louisiana Senator (Addis Plant, Business Partner Award)

The Addis, Louisiana Plant of Shintech Inc. is highly evaluated for its social contribution activities. In January 2007, the plant received The Large Company Outstanding Business Partner Award from the Chamber of Commerce. Shintech Inc. received a letter from David Vitter, U.S. Senator from Louisiana, expressing his congratulations for the award.



David Vitter, U.S. Senator from Louisiana, sent Shintech a letter of congratulations for its award.

### Involvement with Employees

Based on the belief that it is "people" who create and support technology, the Shin-Etsu Group makes various efforts to respect the basic human rights of its employees by creating an environment in which they can work effectively and fully display their abilities. For example, we have a training system for employee self-actualization and career planning, and we have also adopted an impartial performance-based personnel system.

In addition, since the creation of the child-care leave system, all personnel eligible to take child-care leave have done so. In the entire Shin-Etsu Group, 102 employees have taken child-care leave (6 males, 96 females).

# Corporate Governance and Compliance

## Basic Policies concerning Corporate Governance

The Shin-Etsu Group's management appreciates the fundamental importance of its shareholders, placing top priority on continuously raising corporate value. To realize this policy, it is developing an efficient organizational structure and various systems that can respond swiftly to changes in the business environment. Moreover, from the standpoint of increasing transparency and strengthening supervisory functions, Shin-Etsu's basic policy concerning corporate governance is to actively disclose timely and accurate information to shareholders and investors, which is positioned as one of its most important management issues.

## Corporate Governance System

Four out of the twenty members of Shin-Etsu's Board of Directors are external directors. The Shin-Etsu Group is establishing a system to promote speedier decision-making and agile management.

Out of Shin-Etsu's five statutory auditors, including full-time auditors, three are external auditors. Statutory auditors attend meetings of the Board of Directors as well as other

important internal meetings, and carry out audits concerning Shin-Etsu's business operations.

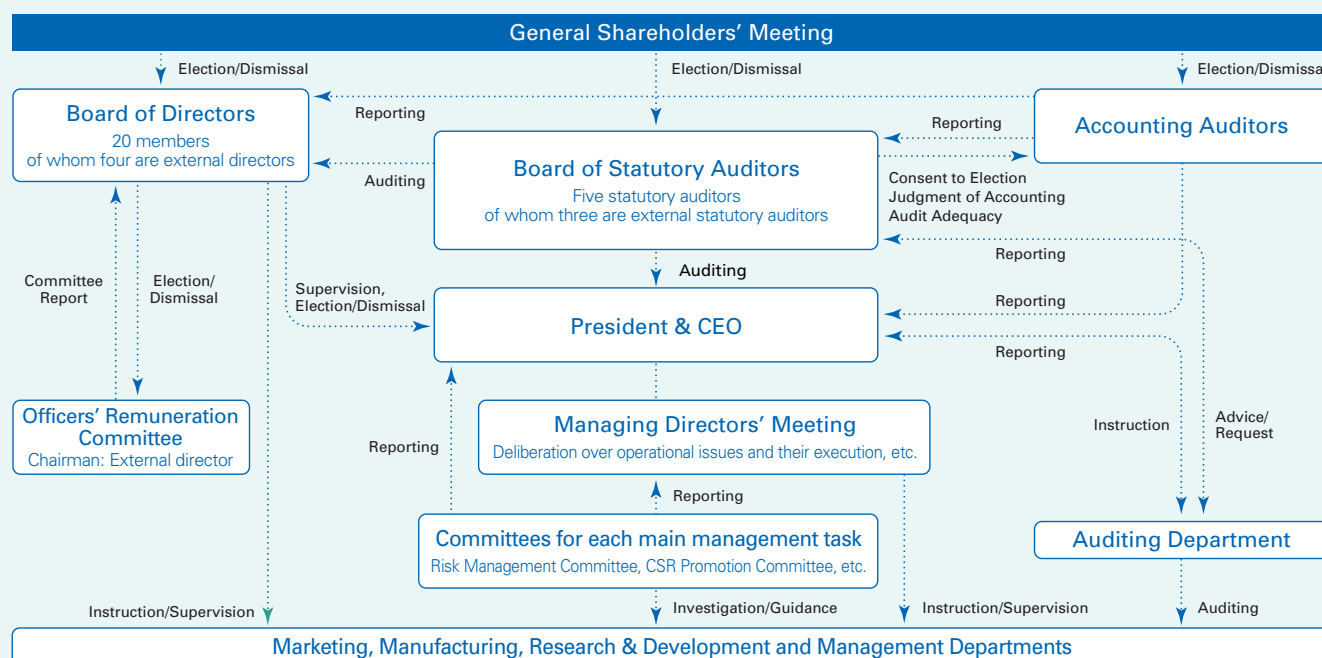
With regard to decisions about reviewing officers' remuneration, Shin-Etsu has an Officers' Remuneration Committee chaired by an outside director. The committee reports to the Board of Directors to increase management transparency and reliability. Total officers' remuneration was ¥805 million in fiscal 2007.

For internal audits of the Company, the Auditing Department maintains a standpoint of independence from other operational or management departments.

Regarding the risk management system, the Risk Management Committee promotes companywide activities and develops various related regulations in order to prevent and forestall risks that may occur in connection with business operations.

To respond to the Financial Instruments and Exchange Law that will go into effect in the fiscal year ending March 2009, Shin-Etsu has established an internal control promotion team within the Company to promote the building of a companywide internal control system.

## Shin-Etsu's Corporate Governance Structure



Shin-Etsu's former accounting auditors, ChuoAoyama PricewaterhouseCoopers (renamed MISUZU Audit Corporation) received an order from the Financial Services Agency (FSA) to suspend business activities, forfeiting its qualifications as Shin-Etsu's accounting auditors and resigning as of July 1, 2006. In order to maintain uninterrupted accounting operations, Shin-Etsu selected Hara Certified Public Accountants as its temporary accounting auditors, although it resigned as of September 29, 2006. To doubly ensure its accounting operations, Shin-Etsu additionally selected MISUZU Audit Corporation as its temporary accounting auditors on September 5, 2006, when suspension of its business activities ended. For fiscal 2007, Shin-Etsu selected Ernst & Young ShinNihon as its accounting auditors.

### Basic Policy concerning Compliance

The Shin-Etsu Group's corporate philosophy is to conduct fair business activities in a thoroughly law-abiding spirit. The Group has established various regulations regarding its compliance system, which all officers and employees follow in carrying out their duties. Internal audits of the operating status of this system are conducted by the Auditing Department and the other respective departments related to the contents of the audit.

### Towards Thorough Compliance Management

The Shin-Etsu Group is taking the following practical approaches to promote compliance management.

As part of its thorough compliance system, all officers and employees have signed a written Compliance Pledge. In this document they pledge to apply themselves to compliance-based activities in their daily duties.

Moreover, so that all officers and employees can conduct their business activities in strict compliance with laws, government regulations and in-company rules, we have set up the Compliance Consultation Office to establish a system that allows consultation and reporting as needed.

In consideration of the Act on the Protection of Personal Information, the Shin-Etsu Group established a personal information protection policy in March 2005 that is now posted on the Company website. Moreover, we hold meetings to explain the Act to employees and work to ensure appropriate handling and thorough protection of personal information.

### Handling Policy (Anti-takeover Defensive Plan) Toward Large-scale Purchase of our Company's Shares and Other Securities

With the understanding of the management, when faced with a large-scale corporate acquisition detrimental to our shareholders, Shin-Etsu must protect the corporate value and the common interests of its shareholders. When faced with such a purchase, hereinafter called a "Large-scale Purchase," Shin-Etsu will respond appropriately according to the Handling Policy (Anti-takeover Defensive Plan) approved at the annual meeting of shareholders.

Shin-Etsu has established "Large-scale Purchase Rules" and will demand compliance with the rules for such a purchase, toward the purchase of our company shares and other securities by a specific group of shareholders which would make the ratio of voting rights of the specific group of shareholders 20 percent or more.

1. The person making such a purchase, hereinafter called a "Large-scale Purchaser," shall provide necessary and sufficient information in advance to the Board of Directors.
2. A Large-scale Purchase can only be commenced after a certain period has elapsed while the Board of Directors evaluates and reviews it.

In the event that a Large-scale Purchaser does not comply with these rules, in order to protect the common interests of the shareholders and corporate value, certain countermeasures may be taken to resist the Large-scale Purchase. In the event that such countermeasures are taken, to enable fair and neutral judgment, the Board of Directors shall consult with a special committee composed of members who are independent of the managing directors, and shall respect the advice of this special committee to the maximum extent.



# Board of Directors and Auditors

(As of June 29, 2007)

## PRESIDENT AND CEO



**Chihiro Kanagawa**

## EXECUTIVE SENIOR MANAGING DIRECTORS



**Shunzo Mori**



**Fumio Akiya**



**Yasuhiko Saitoh**

## PRESIDENT AND CEO

**Chihiro Kanagawa**

## EXECUTIVE SENIOR MANAGING DIRECTORS

**Shunzo Mori**

*In charge of General Affairs and Personnel & Labor Relations  
General Manager, Electronics Materials Division*

**Fumio Akiya**

*In charge of Advanced Materials, Technologies and  
Purchasing*

**Yasuhiko Saitoh**

*In charge of Office of the President, Public Relations,  
Finance & Accounting and Legal Affairs*

## MANAGING DIRECTORS

**Ryoei Miki**

*General Manager, Business Development Department*

**Kiichi Habata**

*In charge of Environmental Control & Safety and Auditing*

**Yoshiaki Ono**

*General Manager, Silicone-Electronics Materials Research  
Center, R&D and Patent Department and New Products  
Department*

**Koji Takasugi**

*General Manager, Silicone Division and International Division*

## DIRECTORS

**Frank P. Popoff\***

*Former Chairman of US The Dow Chemical Company*

**Shunji Kono\***

*Adviser, Tokio Marine & Nichido Fire Insurance Co., Ltd.*

**Masashi Kaneko\***

*Former Director & Chairman, Nikko Cordial Corporation*

**Tsuyoshi Miyazaki\***

*Advisor, Mitsubishi Logistics Corporation*

**Toshinobu Ishihara**

*General Manager, New Functional Materials Research  
Center and New Functional Materials Department*

**Masaki Miyajima**

*General Manager, PVC Division*

**Atsushi Nakamura**

*General Manager, Organic Chemicals Division*

**Fumio Arai**

*Director & President, Shin-Etsu PVC B.V.  
Director & President, SE Tylose GmbH & Co. KG*

**Toshiyuki Kasahara**

*General Manager, Finance & Accounting Department*

**Hidenori Onezawa**

*In charge of Semiconductor Materials*

**Masahiko Todoroki**

*General Manager, Planning & Administrative Department,  
Semiconductor Materials Division*

**Ken Nakamura**

*General Manager, Office of the President and  
Public Relations Department*

## FULL-TIME STATUTORY AUDITOR

**Osamu Okada**

## STATUTORY AUDITORS

**Masahiko Watase**

**Taku Fukui\*\***

**Yoshihito Kosaka\*\***

**Kiyoshi Nagano\*\***

\* External director

\*\* External auditor

# Invest to Serve, Innovate to Grow



The Shin-Etsu Group builds relationships of trust with customers by humbly listening to their requests and opinions, and developing and launching products that meet their needs in a timely fashion. Shin-Etsu established a tripartite business structure incorporating sales, research and production early on. It now permeates throughout the Group as a kind of basic policy that serves as the engine of Shin-Etsu's success as a consistent market leader.

## Yoshiaki Ono

General Manager, Silicone-Electronics Materials Research Center  
R&D and Patent Department and New Products Department

The Shin-Etsu Group deploys its core of proprietary technologies and obtains cutting-edge technological information from customers so as to create new technologies and consistently maintain world-class technological competitiveness.

## Value-Added Product Development

In existing businesses, the Shin-Etsu Group promotes development of new applications and new products that meet customers' needs as the world's leading chemical company. The Group does so by rapidly sharing information with customers under its tripartite business structure. Sales and research staff work together as one team to build strong relationships with customers by following up on their needs. This enables the Shin-Etsu Group to develop and supply high-quality products. The Group's semiconductor silicon and its related materials, which have become indispensable for semiconductor manufacturing, constitute an excellent example of a business that has grown significantly from its beginnings as a research theme found in this manner. In the lithography process, another product developed through these efforts is ArF (argon fluoride) resists, a core product for next-generation lithography.

## Efficient, Creative Research

In production divisions, close cooperation with research divisions supports efforts to build commercial production while maintaining and enhancing product quality. All R&D bases are located within production facilities, which is a source of strength for the Shin-Etsu Group because it allows researchers to understand the requirements of commercial production and employ this knowledge in manufacturing.

New research themes can be proposed at any time from any of Shin-Etsu's divisions, but are done mainly by staff at the

research centers. These new themes are selected by the New Z Committee, chaired by the Company president, based on the standards of technology, market size, growth potential and expected profitability. A new research project will start after the most appropriate researchers are gathered together from throughout the Company. The New Z Committee regularly follows the progress of projects. Currently, more than 10 research themes are progressing with high expectations of commercialization.

## Intellectual Property Strategy

Research activities culminate in the intellectual property of patents. The Shin-Etsu Group recognizes that intellectual property, including patents and technological expertise, is an important management asset. The Group is enhancing its studies and administration regarding patent application issues in such areas as determining if the Group's technologies under development are ahead of other companies and how such technologies can best be managed with patents. At the end of March 2007, the Shin-Etsu Group as a whole held 4,389 domestic and 5,239 overseas patents. Moreover, the Group obtained 106 patents in the U.S. during 2006, ranking number one among Japanese chemical companies.

## Number of Patents by Region

	Number of patents acquired during 2006	Cumulative number of patents acquired as of the end of fiscal 2007
Japan	534	4,389
North America	139	2,120
Asia/Oceania	314	1,333
Europe	326	1,775
Other Areas	0	11
Total	1,313	9,628

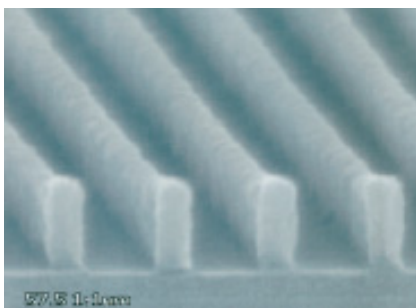


**Shigehiro Nagura**

Manager, New Functional  
Materials Research Center

## Sophisticated Technologies that Customers Trust

The Shin-Etsu Group entered the photoresist market in 1996, and has been developing leading-edge products while earning the trust of customers with high-quality and reliable production technology. We have focused on ArF 193nm wavelength excimer laser in addition to KrF 248nm applications to keep pace with the ongoing pattern pitch reduction of semiconductor devices. We worked to design new resins, additives and other materials for the 193nm wavelength while considering how to meet customer requests. The Shin-Etsu Group has a proprietary library of resin monomers and functional additives, which enables us to adjust the resin properties and total resist performance systematically. We are therefore able to enhance the resolution for ultrafine pitch patterning. In addition, we are working to reduce line width roughness and expand various process margins during pattern formation. To achieve high-level lithography performance in a timely manner, our R&D team is continuously creating new materials to respond to customer needs quickly and effectively. We are also preparing ArF-immersion and EUV resist lineups for sub-45-nanometer processes as we move forward with the development of future production technologies.



Used in cutting-edge 50nm lithography, the Shin-Etsu Group's argon fluoride (ArF) photo-resists support greater circuit density.

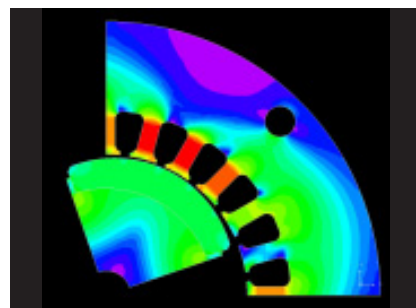


**Koji Miyata**

Group Leader, Magnetic  
Materials Research Center

## Environmentally Friendly Performance Gains

The Shin-Etsu Group produces rare earth magnets used in the magnetic head actuators of hard disk drives that other companies cannot match. We are now applying this technology to the motors and generators of hybrid cars. Rare earth magnets have about ten times the magnetic energy of ferrite magnets, so they can contribute to reduced size and increased fuel efficiency when used in automobile motors. Shin-Etsu's magnet business has inaugurated the MA Project, bringing together a group of experts in the application of magnets in automobiles, that will create close ties among the sales, research and production arms of business. The MA Project emphasizes the creation of stronger relationships with automobile manufacturers in countries worldwide. Using the comprehensive strengths and integrated manufacturing capabilities of the Shin-Etsu Group, it is developing new technologies such as a method for intergranular alloy diffusion that imparts both high magnetic flux density and excellent heat resistance. This will support improved automobile performance through fuel efficiency and reduced energy consumption. In addition, we are working closely with customers in ways such as using magnetic field analysis to propose the most appropriate methods for using the Shin-Etsu Group's magnets, including support in the design of magnetic circuits. Environmental protection is now global in scale, and the Shin-Etsu Group will deploy its high-level technology capabilities worldwide.



An example of Magnetic Field Analysis  
This image shows the density of a magnetic field.  
The red regions indicate high magnetic flux density.

# The Shin-Etsu Group at a Glance

## ORGANIC AND INORGANIC CHEMICALS



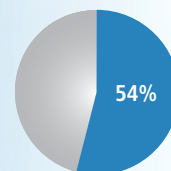
**No. 1** market share worldwide for polyvinyl chloride (PVC)



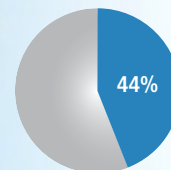
### Main Products

- Polyvinyl chloride (PVC)
- Silicones
- Methanol
- Caustic soda
- Cellulose derivatives
- Synthetic pheromones
- Silicon metal

### % of Net Sales



### % of Operating Income



## ELECTRONICS MATERIALS



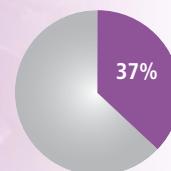
**No. 1** market share worldwide for semiconductor silicon



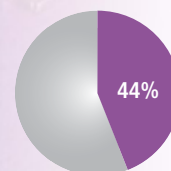
### Main Products

- Semiconductor silicon
- Rare earth magnets for the electronics industry
- Epoxy molding compounds
- Photoresists

### % of Net Sales



### % of Operating Income



## FUNCTIONAL MATERIALS AND OTHERS



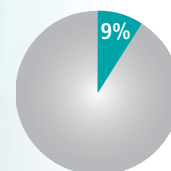
**No. 1** market share worldwide for photomask substrates



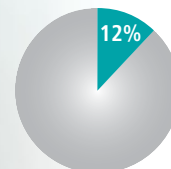
### Main Products

- Synthetic quartz products
- Rare earth magnets for general applications
- Rare earths
- Liquid fluoroeLASTOMERS
- Flexible copper-clad laminates
- Pellicles

### % of Net Sales

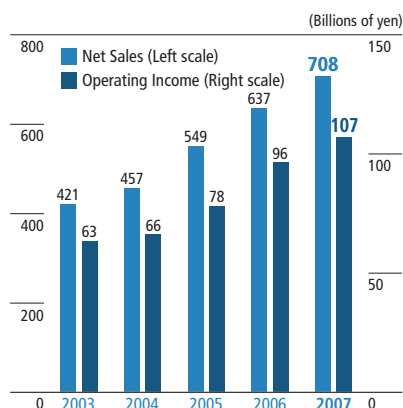


### % of Operating Income





## Net Sales and Operating Income



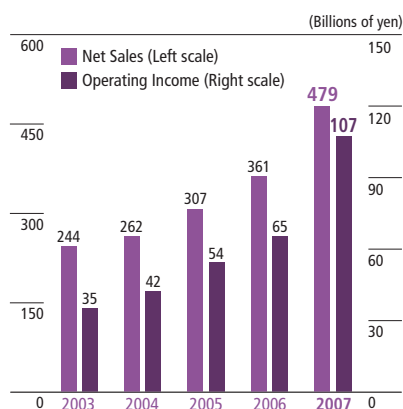
## Results for Fiscal 2007

The PVC business expanded substantially, due to excellent performance by Shintech Inc. (the Company's U.S. PVC base) and solid sales in Europe. In the silicones business, operating income grew due to higher domestic sales, together with price increases that reflected higher raw materials prices and increased export volume. The cellulose derivatives business was firm, with sales growth primarily for pharmaceutical applications and the contribution of the capacity expansion at SE Tylose GmbH & Co. KG in Germany.

## Fiscal 2008 Objectives

In the PVC business, Shin-Etsu is constructing large-scale integrated manufacturing facilities at Shintech Inc. The silicones business will aim to expand operations with production capacity increases at each plant worldwide. In the cellulose business, SE Tylose GmbH & Co. KG will invest in additional facilities to establish multiple production and supply bases for specialty cellulose for pharmaceutical and other applications.

## Net Sales and Operating Income



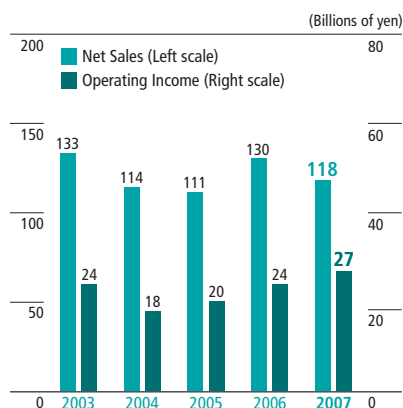
## Results for Fiscal 2007

In the semiconductor silicon business, sales of 300mm silicon wafers grew substantially as a result of higher demand from semiconductor device manufacturers and increased production capacity, while 200mm wafers also performed well. Sales of rare earth magnets for the electronics industry were strong, with net sales and income both increasing. Both sales and income for photoresists also increased substantially with the full-scale adoption of ArF resists.

## Fiscal 2008 Objectives

The semiconductor silicon business will increase production capacity in Japan and the U.S., building a stable supply system with several production bases to meet increased demand for 300mm wafers. As for 200mm and smaller wafers, efforts to enhance competitiveness will focus on further improving quality.

## Net Sales and Operating Income



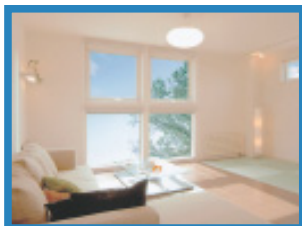
## Results for Fiscal 2007

In the synthetic quartz products business, although demand for preforms for optical fiber was on a recovery track, weak sales of large-size photomask substrates used in the manufacturing of LCDs led to a decrease in overall sales. Sales of rare earth magnets for general applications continued to be firm, and sales of liquid fluoroelastomers also grew. In other businesses, sales of general products decreased.

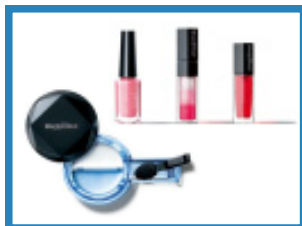
## Fiscal 2008 Objectives

The synthetic quartz business will focus on responding accurately to changes in demand for large-size photomask substrates for LCDs while differentiating its products. Successive expansion of production capacity for rare earth magnets will support expansion of the business for applications in home appliances and automobiles.

## ORGANIC AND INORGANIC CHEMICALS



PVC is used in window profiles due to its superior heat insulation capabilities.



Silicones are used in a wide variety of applications, from lipsticks to aquarium sealants.

### Net Sales of Main Products

(Billions of yen)

	2007	2006	2005
Polyvinyl chloride (PVC)	375.8	345.3	296.5
Silicones	198.8	176.5	155.9
Cellulose derivatives and others	133.8	114.7	96.6
Total	708.4	636.5	549.0

### Polyvinyl Chloride (PVC)

With 60% of its material being salt and only 40% petroleum, PVC is a general-purpose resin that has many advantageous properties. It is easy to process and economical as well. Compared with other plastics, the manufacturing of PVC involves far less dependency on petroleum resources, and coupled with the progress of recycling, PVC makes major contributions to the environment from the standpoint of life cycle assessment.

The superior properties of PVC have received high evaluations, marked by continuing growth in global demand of 5% annually. Demand for PVC is largely for applications in pipes and sidings in the U.S. and for pipes and window profiles in Europe and Asia. In particular, demand is growing strongly in China, mainly for construction materials and consumer goods. In addition, the use of PVC window profiles has started to spread in Japan recently. This is due to their superior insulating effects that help prevent condensation in winter and contribute to the reduction of global warming by cutting air conditioning costs in summer.

In its PVC business, the Shin-Etsu Group is expanding production capacity at Shintech Inc. in the U.S. as global demand increases. Expansion construction at Shin-Etsu PVC B.V. in the Netherlands was completed in 2006, and business operations there have been expanding.

The expansion of PVC production capacity in China has continued rapidly in recent years, causing concern about its effect on the global PVC market. The Shin-Etsu Group will continue as it has in the past, focusing on Shintech Inc. and strengthening business in the Netherlands while taking appropriate measures as a trilateral structure.

### Silicones

Shin-Etsu provides more than 4,000 different silicone products for applications in broad areas such as the electric, electronics, automotive, construction, cosmetics, toiletries and chemical industries.

Silicones combine organic and inorganic properties and can take different physical forms, including fluid, resin or rubber. Their numerous unique properties include electrical insulation, as well as heat, cold and weather resistance. In each market, we are striving to improve product functionality and to make production processes more efficient.

Among the wide range of different applications for silicones, one that has been steadily growing in recent years is that of automobiles, where high functionality is increasingly required and silicones are becoming an essential material in various applications such as electronics equipment, interior finishes, airbags and engine casings. Furthermore, in electrical and electronics uses, silicones serve application needs for an efficient heat transfer medium. In cosmetics applications, silicones have attracted a great deal of attention for their ability to help make products feel good on skin while giving them a better texture.

The Shin-Etsu Group is aggressively going forward on a global basis with the expansion of production and sales of silicones in the regions where demand is growing. In addition to its production bases in Japan, the U.S., the Netherlands, Korea, Taiwan and China, the Shin-Etsu Group has been working to achieve stable operations at its integrated silicone monomer and polymer manufacturing facilities in Thailand.

The Shin-Etsu Group will continue to develop new products and new applications of silicone while utilizing its features that are in demand in a wide range of fields. In addition, the Group will increase production capacity at plants in Japan, Thailand, the U.S. and other countries, and aims to expand overseas operations in tandem with those in Japan.

### Cellulose Derivatives

Cellulose derivatives are an environmentally friendly material made from a natural polymer. Shin-Etsu has developed a wide array of cellulose derivative products that are used in diverse fields.

Their broad range of applications includes pharmaceutical coatings and binders for tablets and granules, industrial uses such as in automobiles, as well as construction, civil engineering, agriculture, additives for fine ceramics, paper processing, foods and toiletries.

Shin-Etsu acquired the cellulose business of Clariant AG at the end of December 2003, establishing SE Tylose GmbH & Co. KG in Germany. In 2006, SE Tylose completed expansion of its facilities and is promoting business growth, as demand is



projected to increase steadily in the future. Also, in light of the accident at the Naoetsu Plant, the Group will set up a framework for supply of each product in both Japan and Germany.

## Organic and Inorganic Chemicals and Other Related Products

Female insects secrete a sex pheromone to attract males of the species. Shin-Etsu has developed a synthetic sex pheromone to disrupt mating behaviors and, as a result, to suppress the population of the next generation. In Europe and North America, they are widely used in fruit orchards, such as apple and peach. In Japan, they are used mainly in fruit orchards as well as in vegetable fields, such as cabbage, and in tea fields. Mating disruption is now expected as an alternative technique to insecticides. Shin-Etsu has the world's number-one market share in this field and will continue to expand sales worldwide. In addition, Shin-Etsu supplies acetylene derivatives as aroma chemicals for the flavor and fragrance in food, cosmetics and toiletries.

The Shin-Etsu Group also manufactures silicon metal, an essential raw material in such products as silicones, semiconductor silicon, and synthetic quartz, which are among the Group's

core businesses. Simcoa Operations Pty. Ltd., a wholly owned subsidiary in Western Australia, has long-term mining rights to high-quality silica, and produces 30,000 tons of silicon metal annually from this raw material. Simcoa contributes to securing a stable, long-term supply of quality silicon metal raw material.

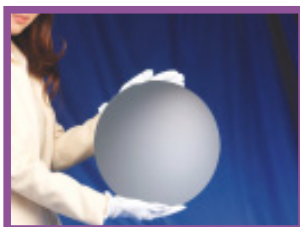
### Topics

## PVC Receives High Evaluation at Life Cycle Assessment Symposium in Japan

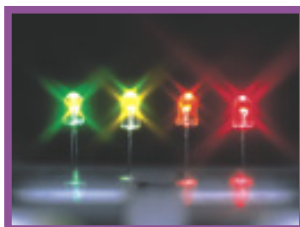


Prof. Nobuyuki Kimata of Tottori University of Environmental Studies explained the excellence of PVC compared to various other materials used for siding from a life cycle assessment (LCA) standpoint at the First Annual Symposium of ILCAJ (Institute of Life Cycle Assessment Japan). He reported that the results of LCA evaluation comparing various materials indicate that for housing-use siding, PVC's environmental loading in terms of CO<sub>2</sub> emissions and energy consumption is 34 to 41 percent of that of materials such as tile, metal or wood. He also estimated that using PVC to produce all the sidings currently manufactured in Japan would potentially reduce annual CO<sub>2</sub> emissions by approximately 1.4 million tons.

# ELECTRONICS MATERIALS



Silicon wafers boast a degree of evenness to within 100 nanometers.



Epoxy molding compounds, which are silicone variations, are necessary materials for high-intensity LEDs.

## Net Sales of Main Products

(Billions of yen)

	2007	2006	2005
Semiconductor silicon	406.7	305.7	256.6
Others	72.7	55.7	50.3
Total	479.4	361.4	306.9

## Semiconductor Silicon

The Shin-Etsu Group, as a world leader in the silicon wafer business, constantly works to achieve the world's highest quality products and highest level of customer satisfaction. The Group provides products that meet the needs of the world's most advanced technologies, such as larger-diameter, super-smooth silicon wafers with the lowest defect rate. Demand for semicon-

ductor devices has been expanding for a wide range of applications, including personal computers, mobile telephones, digital home appliances and automobiles. Amid significant growth in the silicon wafer market in recent years, the Shin-Etsu Group has been providing a stable supply to users from its silicon wafer production bases in Japan, Malaysia, the U.S., the U.K. and Taiwan.

The Shin-Etsu Group is the world's leading silicon wafer supplier with a world market share of approximately 32 percent, and is the undisputed leader in the steadily expanding 300mm wafer market. To meet growing global demand and disperse risk, the Group continues to expand capacity at its five production bases in Japan and the U.S. in order to rapidly increase production of 300mm wafers. In the future, the Group will apply its collective strength, and is structuring a stable supply system.

The Group is also focusing on expansion of sales of such special products as SOI wafers, used for applications in highly functional devices. For wafer products of up to 200mm, the Group will concentrate on greater competitiveness through increased productivity, product quality improvement efforts and product differentiation, and continue to strengthen its systems for meeting any and all requests by customers.

## Rare Earth Magnets for the Electronics Industry

Rare earth magnets are high-performance, permanent magnets that have about 10 times the magnetic force of ferrite mag-

nets. They have been contributing to the development of more compact and lightweight electric and magnetic components for products that are more energy efficient with highly specialized functions. The Shin-Etsu Group has the largest global market share for rare earth magnets for voice coil motors (VCM) for hard disk drives (HDD) used in computers, servers and video recording devices, for which demand is strong. The Shin-Etsu Group is the only manufacturer in the world to carry out integrated production of high-quality rare earth magnets starting from high-purity rare earth. Starting by developing materials with the characteristics that customers demand, the Shin-Etsu Group then uses its ability to quickly adapt in moving from prototype to commercial production and provide a stable supply of products, with product development to meet application requirements and thorough product quality control to respond to customer needs.

### Epoxy Molding Compounds

Demand for thinner and smaller devices in the semiconductor market is driving the development of chip-size packages and the system-in-package trend in which multiple large-scale integrated (LSI) chips are stacked and installed in a single package. Amid these trends, the Shin-Etsu Group is working aggressively to meet diversified needs for semiconductor packaging.

Employing cutting-edge technology accumulated through the development of various silicone products, the Shin-Etsu Group supplies a line-up of unique products that are differentiated from those of other companies. These include Green EMC products, which incorporate a new flame-retardant system that responds to recent environmental concerns, liquid epoxy encapsulating materials, and epoxy moldable compounds modified with silicones for high-luminosity LEDs, for which applications have rapidly broadened in recent years.

### Photoresists and Other Products

The Shin-Etsu Group is developing a system to supply the principal materials needed in the lithography process for manufacturing semiconductor devices. We have commercially produced and marketed photoresists compatible with KrF (krypton fluoride) excimer lasers as a photo-sensitive material used in imprinting semiconductor circuits, I-line resists for thin-film magnetic heads and wafer-level chip-size packaging (WLCSP), and pellicles, which are the protective dust covers used for photomasks with excimer laser lithography. In addition, ArF (argon fluoride) resists for advanced devices are demonstrating substantial growth with the progress of full-scale adoption.

The Group's efforts to prepare for the next generation of semiconductor devices include the development of advanced photomask blanks together with users.

#### Topics

#### Shin-Etsu and Toppan Printing Jointly Develop Leading-edge Photomask Blanks



Shin-Etsu and Toppan Printing Co., Ltd. conducted joint development of photo-mask blanks on leading-edge photo-mask substrates, which are essential for miniaturizing semiconductors, and succeeded in developing photomask blanks for 45nm and 32nm. The two companies have already started offering sample shipments of these new blanks as well as photomask samples using these new blanks. They have been highly evaluated by customers. Now that Shin-Etsu has entered the business of supplying advanced photomask blanks, it will further enhance its position in leading-edge sectors.

## FUNCTIONAL MATERIALS AND OTHERS



Applications for Shin-Etsu's rare earth magnets include motors for air conditioners, reducing energy consumption and environmental impact.



Shin-Etsu's rare earths are used in the observational equipment at the core of X-ray astronomy satellites.

### Synthetic Quartz Products

With silicon metal refined to a high degree of purification as a raw material, the Shin-Etsu Group established a manufacturing technology for super-high-purity synthetic quartz

#### Net Sales of Main Products

(Billions of yen)

	2007	2006	2005
Synthetic quartz products	32.9	34.5	26.5
Rare earths and rare earth magnets, etc.	34.8	30.6	28.2
Others	49.2	64.9	56.9
Total	116.9	130.0	111.6

that holds impurities to the level of 1 ppb (one part per billion). The Group is the first in the world to mass produce high-purity synthetic quartz, which is much higher in purity than natural quartz.

Synthetic quartz products such as preforms for optical fiber, LSI photomask substrates, stepper lenses for inscribing semiconductor circuitry, and large-size photomask substrates for LCDs, have become indispensable materials for the IT industry. The Shin-Etsu Group plans to expand production capacity for preforms at the Kashima Plant due to signs of recovery in demand for preforms for optical fiber.

The Shin-Etsu Group is committed to differentiation through quality and will ensure an accurate grasp of demand for preforms for optical fiber and large-size photomask substrates for LCDs to prepare for the further development of the high-level information society.

### Rare Earths and Rare Earth Magnets for General Industrial Use

The Shin-Etsu Group possesses its own original proprietary high-level separation and refining technologies and physical property control technologies. We use them for commercial production of various kinds of rare earths, which have a purity rate of 99.9999%, and spherical nanoparticles. The Group's rare earths are widely applied to such products as plasma display panels, LCD TVs and fluorescent lights, luminescence for medical equipment, oxygen sensors in automobile engines, catalytic converters, ceramics for electronic components such as capacitors, and semiconductor manufacturing equipment. In addition, applications in various other fields are expected to expand.

By maximizing strong magnetic force, the Group's rare earth magnets for general industrial use help to enable the introduction of products that are lighter in weight, smaller in size, and higher in output for equipment such as motors. With a wide range of applications, rare earth magnet uses are increasing in product areas such as home appliances, including energy-efficient air conditioners and washing machines, and various motors for automobiles. In addition, rare earth magnets have begun to be used in such energy-saving and environmentally friendly applications as motors for hybrid cars and wind-power generators.

The Shin-Etsu Group has developed high-performance technology for producing neodymium rare earth magnets which it has named the "new alloying process." As a result of the development of this new high-performance technology, the Group has realized the world's highest neodymium magnet performance characteristics for applications at higher temperatures. At the same time, the Group is able to provide products with both high heat-resistance and high-performance characteristics. Expected applications include motors for cars, air conditioners and other equipment that requires high heat-resistance.

### Liquid Fluoroelastomer SHIN-ETSU SIFEL®

SHIN-ETSU SIFEL® is a revolutionary liquid fluoroelastomer that Shin-Etsu was the first in the world to develop. Its form

before hardening is either a liquid or a paste, and after heat curing, it becomes a flexible synthetic rubber material. SHIN-ETSU SIFEL® is superior in resistance to cold, keeping its elasticity even at minus 50°C. In addition, it has such desirable characteristics as resistance to oils, solvents, chemicals and heat as well as excellent electrical insulation properties. Accordingly, it is used as rubber molding, adhesive sealant and filler in a wide range of application fields including the automotive, aircraft, electric, electronics, office equipment and petrochemical industries. It is contributing to the improvement of product reliability in many application areas.

### Other Products

Shin-Etsu's flexible copper-clad laminates (FCLs) are used as materials for printed circuit boards in such electronic products as mobile phones, digital cameras, video cameras and DVD recorders and players, and are contributing to making these products lighter and more compact. In addition to its existing three-layer FCLs, Shin-Etsu developed and started marketing two-layer FCLs and a halogen-free cover layer with excellent properties by using its proprietary technology.

Shin-Etsu Engineering Co., Ltd., a Shin-Etsu Group company, consists of the Plant Division, which mainly handles the integrated design and construction of various types of plants, and the Electro-Mechanics Division, which handles the development, planning and manufacturing of mechatronics equipment for electronics-related industries that manufacture such products as semiconductors and liquid crystal displays (LCDs). Both divisions also receive a large number of orders from companies outside of the Shin-Etsu Group. The System Equipment Division timely supplies alignment machines of LCDs and Plasma Display Panels (PDPs), which are essential for achieving larger panel sizes and the key to expanding demand for flat-panel TVs.

#### Topics

#### Successful Development of Optical Communications Parts that Comply with the European RoHS Directive



Shin-Etsu has developed a manufacturing technology for lead-free optical isolators that comply with the European RoHS Directive (Restriction of Hazardous Substances). Optical isolators are incorporated in such devices as laser modules because they block

return beams from the optical fiber. Until now, the manufacturing process for Faraday rotators, which are key components in optical isolators, contained lead oxide. Shin-Etsu developed its own original manufacturing method for Faraday rotators that does not use lead oxide at all, thus eliminating all lead. Shin-Etsu is steadily complying with the European RoHS Directive through the use of this technology, and broadening its response to environmental regulations in the future.

# Eleven-year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 1997 through 2007

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

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

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

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

2003	2002	2001	2000	1999	1998	1997
¥ 797,523	¥ 775,097	¥ 807,485	¥ 678,859	¥ 642,796	¥ 693,275	¥ 624,405
122,150	114,724	112,677	87,465	86,323	90,860	82,024
73,016	68,519	64,505	48,229	43,363	42,027	40,614
173.13	162.93	153.58	116.56	109.36	110.73	118.24
169.36	159.38	150.24	113.46	103.17	101.69	103.95
14.00	12.00	12.00	10.00	9.00	8.50	7.50
75,211	81,543	96,770	80,003	73,641	136,384	92,844
66,566	70,878	70,767	61,384	56,196	62,144	52,191
¥1,310,875	¥1,288,432	¥1,265,799	¥1,168,729	¥1,060,973	¥1,083,780	¥ 931,159
409,262	363,677	350,273	273,193	261,691	221,869	195,729
110,272	110,260	110,247	107,664	98,243	83,957	44,256
—	—	—	—	—	—	—
846,962	812,068	714,996	651,261	564,067	497,312	374,726
2,014.11	1,930.30	1,699.74	1,557.48	1,380.43	1,265.39	1,071.97
16,573	16,456	19,398	18,754	18,384	19,238	18,896
422,568	422,555	422,542	419,848	410,015	393,722	349,569
2003	2002	2001	2000	1999	1998	1997
\$ 6,758,669	\$ 6,568,619	\$ 6,843,093	\$5,753,042	\$5,447,424	\$5,875,212	\$5,291,568
1,035,169	972,237	954,890	741,229	731,551	770,000	695,119
618,780	580,669	546,653	408,720	367,483	356,161	344,186
1.467	1.381	1.302	0.988	0.927	0.938	1.002
1.435	1.351	1.273	0.962	0.874	0.862	0.881
0.119	0.102	0.102	0.085	0.076	0.072	0.064
637,381	691,042	820,085	677,992	624,076	1,155,797	786,814
564,119	600,661	599,720	520,203	476,237	526,644	442,297
\$11,109,110	\$10,918,915	\$10,727,110	\$9,904,483	\$8,991,297	\$9,184,576	\$7,891,178
3,468,322	3,082,008	2,968,415	2,315,195	2,217,720	1,880,246	1,658,720
934,508	934,407	934,297	912,407	832,568	711,500	375,051
—	—	—	—	—	—	—
7,177,644	6,881,932	6,059,288	5,519,161	4,780,229	4,214,508	3,175,644
17.069	16.358	14.405	13.199	11.699	10.724	9.084
16,573	16,456	19,398	18,754	18,384	19,238	18,896
422,568	422,555	422,542	419,848	410,015	393,722	349,569

# Management's Discussion and Analysis

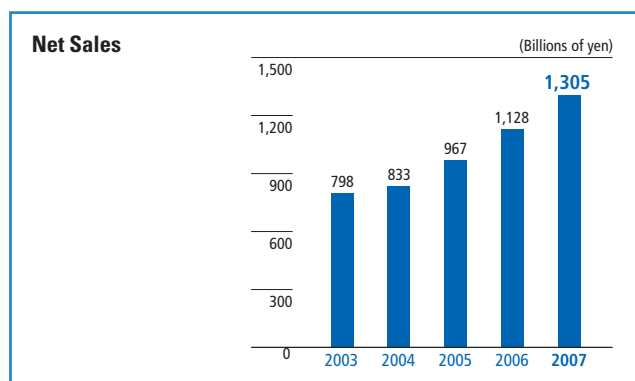
SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

## Overview of the Shin-Etsu Group

The Shin-Etsu Group (the "Group") is composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 94 subsidiaries and 15 affiliates, as of March 31, 2007. The Organic and Inorganic Chemicals segment focuses on the manufacture and sale of polyvinyl chloride (PVC), silicones and other products. The Electronics Materials segment mainly manufactures and sells semiconductor silicon, and the Functional Materials and Others segment focuses on the manufacture and sale of synthetic quartz and other products as well as providing various services including construction and repair. The Company conducts business activities in mutual cooperation with Group companies in the areas of manufacturing and sales.

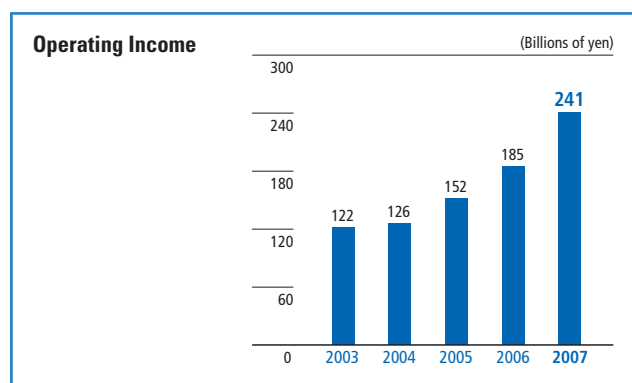
## Consolidated Operating Performance

During fiscal 2007, the Japanese economy was on a moderate recovery track. Despite lackluster consumer spending, improved corporate earnings led to strong facility investment. On the other hand, the U.S. economy was generally firm. While housing construction slowed, consumer spending and capital investment increased. In addition, the economies of Southeast Asia and China continued to expand.



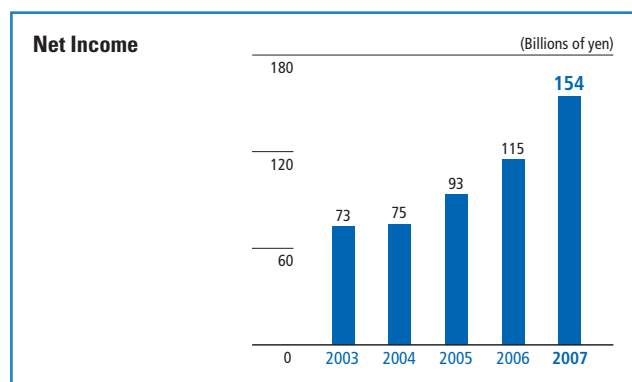
Under these conditions, the Group carried out positive sales efforts to a wide range of customers worldwide, and strenuously worked to develop and commercialize new prod-

ucts. As a result, net sales for fiscal 2007 increased by 15.7% (¥176.8 billion) compared with the previous fiscal year to ¥1,304.7 billion. Compared with the performance of the previous fiscal year, operating income increased 30.1% (¥55.7 billion) to ¥241.0 billion, and net income increased 33.9% (¥39.0 billion) to ¥154.0 billion.



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

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



## Summary of Net Sales, Operating Costs and Income

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



Operating performance by business segment was as follows.

### Organic and Inorganic Chemicals

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

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

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

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

### Electronics Materials

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

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

and net sales increased substantially.

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

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

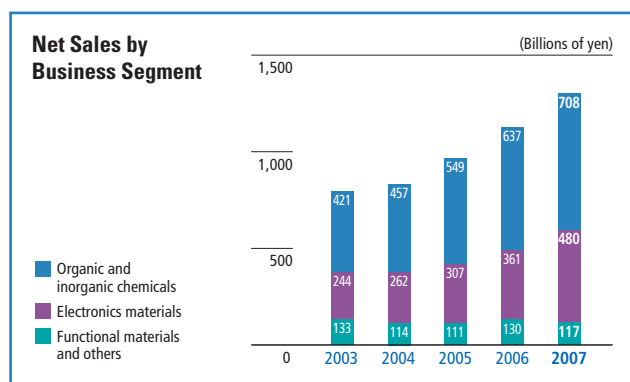
### Functional Materials and Others

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

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

In other businesses, sales of general products decreased.

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



### Analysis of Financial Position

#### Assets, Liabilities and Net Assets

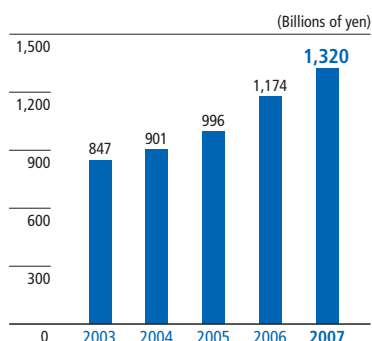
As of March 31, 2007, total assets increased ¥188.7 billion from a year earlier to ¥1,860.0 billion. Current assets increased ¥136.8 billion to ¥1,061.9 billion as a result of increases in

cash and time deposits and notes and accounts receivable in connection with robust sales activities. Brisk capital expenditures resulted in a ¥76.6 billion increase in property, plant and equipment to ¥545.4 billion, while investments and other assets decrease ¥25.3 billion to ¥226.7 billion, due to a decrease in investments in securities and other factors.

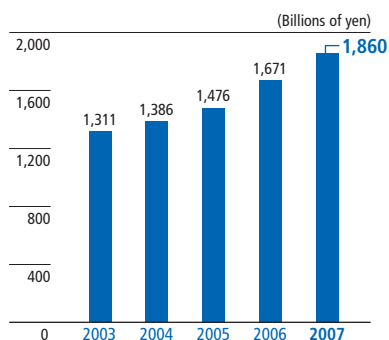
As of March 31, 2007, total liabilities increased ¥36.3 billion from a year earlier to ¥499.7 billion. Although the Group reduced short-term borrowings and long-term debt by repayment or redemption, accrued expenses increase with capital expenditures and notes and accounts payable rose in tandem with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

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

#### Stockholders' Equity



#### Total Assets

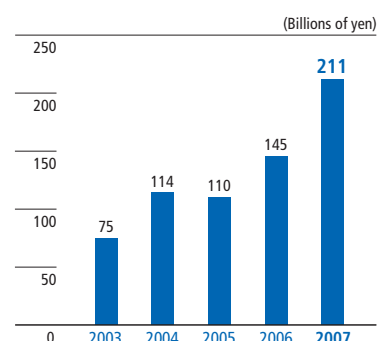


#### Cash Flows

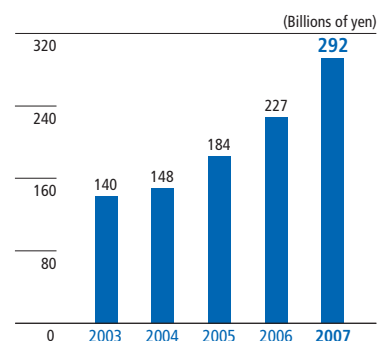
The balance of cash and cash equivalents at the end of fiscal 2007 increased ¥30.7 billion compared with the end of the previous fiscal year, to ¥404.5 billion.

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

#### Capital Expenditures



#### Net Cash Flow\*



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

#### Business Risk

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

The Group endeavors to reduce these risks by preventing, dispersing or hedging them. However, if any unforeseeable event occurs, there is a possibility that it could have serious consequences for the Group's business operations results. As of the end of the fiscal year under review (March 31, 2007), the types of risks listed below are those that the Group considers most significant. This list does not represent an attempt to discuss all possible risks that could impact on the Group.

### 1) Influence of Economic Trends and Product Markets

Trends in the economic situation of a country or in local areas where the Group's key products are marketed can have an impact on the results of the Group's business operations.

In addition, among the Group's key products, some products could be affected by large price fluctuations due to the global supply and demand environment. Although the Group is hedging its risks by such strategies as diversifying and globalizing its business, demand for certain of its products could decrease and price competition could escalate. Such a pattern of events can have huge consequences for the results of the Group's business operations.

### 2) Influence of Fluctuations in Foreign Exchange Rates

Overseas sales accounted for 69% of the total consolidated sales of the Group in fiscal 2007. It is expected that this ratio will remain at a high level. The yen conversion amount of such items included in the Group's consolidated financial statements related to the results of the Group's consolidated subsidiary companies are influenced by the exchange rate. In case of a large fluctuation in exchange rates, there is a possibility of a major impact on the business operations results of the whole Group. In addition, for transactions in foreign currencies, the Company is taking such measures as making forward-exchange contracts in order to reduce risks. However, a similar major impact might occur.

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

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

### 4) Influence of Public Regulatory Requirements and Law

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

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

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

### 6) Influence on Development of New Products and Technologies

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

### 7) Influence of Environmental Problems

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

### 8) Influence of Product Liability

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

# Consolidated Balance Sheets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

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

The accompanying notes are an integral part of the statements.

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

# Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

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

The accompanying notes are an integral part of the statements.



# Consolidated Statements of Changes in Net Assets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

	Thousands	Millions of yen										
	Number of Shares of Common Stock	Stockholders' Equity					Valuation and Translation Adjustments			Share Subscription Rights	Minority Interests in Consolidated Subsidiaries	Total Net Assets
		Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Adjustment	Total			
<b>Balance at March 31, 2004</b> .....	422,798	¥110,493	¥119,262	¥694,997	¥(9,219)	¥915,533	¥11,928	¥(26,737)	¥(14,809)	¥—	¥26,509	¥927,233
Conversion of convertible debentures..	7,321	7,020	7,012			14,032						14,032
Net income .....				93,161		93,161						93,161
Cash dividends (Note 12) .....				(7,600)		(7,600)						(7,600)
Directors' and statutory auditors' bonuses.....				(316)		(316)						(316)
Increase of treasury stock.....					(2,539)	(2,539)						(2,539)
Disposal of treasury stock.....				(43)	666	623						623
Net change during the year.....						—	1,760	(3,538)	(1,778)		2,556	778
<b>Balance at March 31, 2005</b> .....	430,119	117,513	126,274	780,199	(11,092)	1,012,894	13,688	(30,275)	(16,587)	—	29,065	1,025,372
Conversion of convertible debentures..	1,988	1,907	1,905			3,812						3,812
Net income .....				115,045		115,045						115,045
Effect of increase in consolidated subsidiaries.....				9		9						9
Cash dividends (Note 12) .....				(11,793)		(11,793)						(11,793)
Directors' and statutory auditors' bonuses.....				(352)		(352)						(352)
Effect of change of accounting standard at an overseas consolidated subsidiary.....				(586)		(586)						(586)
Increase of treasury stock.....					(1,454)	(1,454)						(1,454)
Disposal of treasury stock.....				(109)	6,246	6,137						6,137
Net change during the year.....						—	24,911	41,644	66,555		5,154	71,709
<b>Balance at March 31, 2006</b> .....	432,107	119,420	128,179	882,413	(6,300)	1,123,712	38,599	11,369	49,968	—	34,219	1,207,899
Net income .....				154,010		154,010						154,010
Cash dividends (Note 12) .....				(18,291)		(18,291)						(18,291)
Directors' and statutory auditors' bonuses.....				(486)		(486)						(486)
Increase of treasury stock.....					(5,090)	(5,090)						(5,090)
Disposal of treasury stock.....				(387)	3,830	3,443						3,443
Other.....			(1)			(1)						(1)
Net change during the year.....						—	(9,425)	22,404	12,979	664	5,188	18,831
<b>Balance at March 31, 2007</b> .....	<b>432,107</b>	<b>¥119,420</b>	<b>¥128,178</b>	<b>¥1,017,259</b>	<b>¥(7,560)</b>	<b>¥1,257,297</b>	<b>¥29,174</b>	<b>¥33,773</b>	<b>¥62,947</b>	<b>¥664</b>	<b>¥39,407</b>	<b>¥1,360,315</b>

	Thousands	Thousands of U.S. dollars (Note 3)										
	Number of Shares of Common Stock	Stockholders' Equity					Valuation and Translation Adjustments			Share Subscription Rights	Minority Interests in Consolidated Subsidiaries	Total Net Assets
		Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Adjustment	Total			
<b>Balance at March 31, 2006</b> .....	432,107	\$1,012,034	\$1,086,262	\$7,478,076	\$(53,390)	\$9,522,982	\$327,110	\$96,347	\$423,457	\$—	\$289,992	\$10,236,431
Net income .....				1,305,169		1,305,169						1,305,169
Cash dividends (Note 12) .....				(155,008)		(155,008)						(155,008)
Directors' and statutory auditors' bonuses.....				(4,119)		(4,119)						(4,119)
Increase of treasury stock .....					(43,136)	(43,136)						(43,136)
Disposal of treasury stock.....				(3,279)	32,458	29,179						29,179
Other.....			(8)			(8)						(8)
Net change during the year .....						—	(79,873)	189,865	109,992	5,627	43,966	159,585
<b>Balance at March 31, 2007</b> .....	<b>432,107</b>	<b>\$1,012,034</b>	<b>\$1,086,254</b>	<b>\$8,620,839</b>	<b>\$(64,068)</b>	<b>\$10,655,059</b>	<b>\$247,237</b>	<b>\$286,212</b>	<b>\$533,449</b>	<b>\$5,627</b>	<b>\$333,958</b>	<b>\$11,528,093</b>

The accompanying notes are an integral part of the statements.

# Consolidated Statements of Cash Flows

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

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

The accompanying notes are an integral part of the statements.

# Notes to Consolidated Financial Statements

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2007, 2006 and 2005

## 1. Basis of presenting financial statements

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

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

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

## 2. Summary of significant accounting policies

### *(1) Principles of consolidation*

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

The remaining 26 (24 and 23 for 2006 and 2005, respectively) unconsolidated subsidiaries whose combined assets, net sales, net income and retained earnings in the aggregate are not significant compared with those of the consolidated financial statements of the Companies, therefore, have not been consolidated with the Company. For consolidation of the accounts of subsidiaries whose fiscal year-ends are not in agreement with that of the Company, necessary adjustments are made on significant intercompany transactions which took place during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

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

Elimination of the cost of investments in consolidated subsidiaries with underlying equity in the net assets of such subsidiaries has been made by the Company to include equity in the net income (loss) of subsidiaries earned subsequent to the acquisition of each block of shares. Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is treated as an asset or a liability, as the case may be, and amortized within 20 years on a straight-line basis.

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

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

The Company had 26 (24 and 23 for 2006 and 2005, respectively) unconsolidated subsidiaries (majority-owned) and 15 (16 and 15 for 2006 and 2005, respectively) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 7 (7 and 6 for 2006 and 2005, respectively) major affiliates and the cost method is applied to investments in the remaining unconsolidated subsidiaries and affiliates since they are not material for the consolidated financial statements.

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

Mimasu Semiconductor Industry Co., Ltd.

Shin-Etsu Quartz Products Co., Ltd.

Kashima Vinyl Chloride Monomer Co., Ltd.

### ***(3) Translation of foreign currency transactions***

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

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

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

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

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

Under the BAC method, all assets and liabilities are translated into yen at current exchange rates while capital accounts and retained earnings are translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year. The resulting translation adjustments are, as before, shown as "Foreign currency translation adjustment" in the accompanying balance sheets as of March 31, 2007 and 2006.

### ***(5) Allowance for doubtful accounts***

The Company and consolidated subsidiaries provide an allowance for doubtful accounts by the method which uses the percentage of its own actual experience of bad debt loss written off against the balance of total receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.

### ***(6) Inventories***

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

### ***(7) Financial instruments***

Securities:

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

amounts. Other securities for which market quotations are unavailable are stated at cost, which is determined by the moving-average cost method.

Derivatives:

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

Hedge accounting:

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

The derivatives designated as hedging instruments by the Company are interest swaps. The related hedged items are long-term bank loans, and debt securities issued by consolidated subsidiaries.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of interest rate fluctuation. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items and not for speculation or dealing purposes.

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

### ***(8) Property, plant and equipment***

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

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

In the prior fiscal year, the period of depreciation for semiconductor silicon manufacturing facilities was five years. However, in order to keep pace with rapid technology innovation resulting from strong market demand for higher-quality silicon wafers, from the current fiscal year the period of depreciation has been changed mainly to three years. Consequently, the depreciation expenses for the current

fiscal year, when compared with the figures calculated for the previous depreciable years, increased by ¥23,875 million (\$202,331 thousand) and operating income, ordinary income and income before income taxes each decreased by ¥22,405 million (\$189,873 thousand).

## **(9) Repairs and maintenance**

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

## **(10) Accounting for leases**

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

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

## **(11) Accrued retirement benefits**

Pension and severance costs for employees are accrued based on the estimates of the pension obligations and the plan assets at the end of the fiscal year. The actuarial difference is amortized over a five-year period, which is within the average remaining service period, using the straight-line method from the fiscal year when the difference was generated. The prior service cost is amortized over a ten-year period, which is within the average remaining service period, using the straight-line method from the time when the difference was generated (see Note 10).

## **(12) Income taxes**

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

## **(13) Research and development costs**

Research and development costs are charged to income as incurred.

## **(14) Income and dividends per share**

Net income per share is based upon the weighted-average number of shares of common stock outstanding during each fiscal year. Net income per share adjusted for dilution represents net income per share assuming full conversion of all convertible debentures of the Company outstanding with related reduction in interest expenses.

## **(15) Dividends**

Dividends are proposed by the Board of Directors and approved by the stockholders at meetings held subsequent to the fiscal year to which the dividends are applicable, and registered stockholders as of the end of such fiscal year are entitled to the subsequently declared dividends. Interim cash dividends are also paid (see Note 12).

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

## **(16) Accounting standard for directors' bonus**

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

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

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

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

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

## **(18) Accounting standard for stock options**

Effective from the current fiscal year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the new "Accounting for subscription rights to shares and for bonds with subscription rights to shares" (Accounting Standards Board of Japan Statement No. 8 issued on December 27, 2005) as well as "Implementation guidance for Accounting standards for share-based payment" (Accounting Standards of Japan Guidance No. 11 issued on May 31, 2006).

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

#### (19) Consumption tax

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

#### (20) Reclassifications

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

### 3. United States dollar amounts

The Company prepares its consolidated financial statements in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥118 to US\$1, the approximate effective rate of exchange on March 31, 2007. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥118 to US\$1 or at any other rate.

### 4. Notes and accounts receivable and payable

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

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

### 5. Inventories

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

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

### 6. Securities

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

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

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

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

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

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

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



## Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

## 7. Derivative transactions

Derivative financial instruments were as follows:

As of March 31, 2007

Currency related:

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

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

Notes: 1. Market rate represents the foreign exchange rate prevailing as of March 31, 2007.

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

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

Interest related:

Description	Millions of yen		
	Contract amounts	Market value	Unrealized gain (loss)
Interest rate swap contracts:			
Receive floating, pay fixed	¥4,856	¥7	¥7
Receive fixed, pay floating	132	(1)	(1)
<b>Total</b>	<b>¥4,988</b>	<b>¥6</b>	<b>¥6</b>

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

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

As of March 31, 2006

Currency related:

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

Notes: 1. Market rate represents the foreign exchange rate prevailing as of March 31, 2006.  
2. The market value is provided by financial institutions with which we made the above contracts.  
3. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

Interest related:

Description	Millions of yen		
	Contract amounts	Market value	Unrealized gain (loss)
Interest rate swap contracts:			
Receive floating, pay fixed	¥11,856	¥(26)	¥(26)
Receive fixed, pay floating	10,224	12	12
<b>Total</b>	<b>¥22,080</b>	<b>¥(14)</b>	<b>¥(14)</b>

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

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

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

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

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

## 9. Short-term borrowings and long-term debt

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

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

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

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

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

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

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

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

## 10. Retirement and pension plans

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

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

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

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

### Benefit Obligations

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

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

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

### Retirement Benefit Costs

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

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

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

### Basic Assumptions for Calculating Benefit Obligations

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

## 11. Commitment and contingent liabilities

As of March 31, 2007, the Companies were contingently liable as a guarantor of housing loans for employees and loans to unconsolidated subsidiaries, affiliates and others in the aggregate amount of ¥119 million (\$1,008 thousand).

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

## 12. Retained earnings

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

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

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

## 13. Research and development costs

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

## 14. Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2007 and 2006 amounted to ¥392 million (\$3,322 thousand) and ¥373 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2007, which was computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value, amounted to ¥392 million (\$3,322 thousand).

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Acquisition cost	¥2,005	¥1,905	\$16,992
Accumulated depreciation	949	1,209	8,043
<b>Net book value</b>	<b>¥1,056</b>	<b>¥ 696</b>	<b>\$ 8,949</b>

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

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

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

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

## 15. Related party transactions

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

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

## Notes to Consolidated Financial Statements

### 16. Income taxes

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

	2007	2006	2005
Corporate income tax	30.0%	30.0%	30.0%
Enterprise tax	7.2	7.2	7.2
Resident income taxes	6.1	6.1	6.1
	43.3%	43.3%	43.3%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid (unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid)	40.4%	40.4%	40.4%

Tax effects of material temporary differences and loss carry forwards which resulted in deferred tax assets or liabilities at March 31, 2007 and 2006 were as follows:

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

Net Deferred Tax Assets are included in the following accounts:

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

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

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

### 17. Supplemental cash flow information

(1) Cash and cash equivalents on the consolidated statements of cash flows consist of cash in hand, deposits that can be withdrawn without limitation and liquid investments which are easily convertible into cash, and that mature within approximately three months from the acquisition date and have insignificant risk exposure in terms of fluctuation on value of the investments.

Reconciliation between cash and equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2007, 2006, and 2005 are presented below:

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



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

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

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

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

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

(3) Important non-cash transactions were as follows

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

## 18. Segment information

### (1) Business segment information

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

*Organic and inorganic chemicals business segments:*

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

*Electronics materials business segments:* Semiconductor

silicon, Organic materials for the electronics industry, Rare earth magnets for the electronics industry, Photoresists

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

Sales, related operating costs and expenses, operating income, assets, depreciation and capital expenditure of the Companies at March 31, 2007, 2006 and 2005 and for the years then ended, classified by business segment, are presented as follows:

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

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

## Notes to Consolidated Financial Statements

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

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

- Notes: 1. Mimasu Semiconductor Industry Co., Ltd., which substantially belongs to the Electronics Materials segment, is now included in the affiliates where the equity method accounting is applied during the fiscal year ended March 31, 2006, as a result of the additional acquisition of shares during the fiscal year. Payment for this acquisition was ¥25,521 million, which is not included in the "Capital expenditures" in the chart above. If this amount were included, capital expenditures for the fiscal year ended March 31, 2006 would be ¥145,330 million.
2. As a result of additional acquisition of shares at the end of the fiscal year ended March 31, 2005, JAPAN VAM & POVAL Co., Ltd., which is under the Organic and Inorganic Chemicals segment, became a wholly owned consolidated subsidiary. Previously, in the fiscal year ended March 31, 2004, as an affiliated company, it was included in the scope of the equity method of accounting. Payment for this acquisition was ¥6,999 million. Only ¥2,943 million, which is equivalent to the consolidated adjustment account, is included in the above Capital expenditures. If the remaining ¥4,056 million were included, the total amount of Capital expenditures would come to ¥110,278 million.
3. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2007, 2006, and 2005 were ¥309,306 million (\$2,621,237 thousand), ¥360,148 million and ¥328,568 million, respectively, which mainly consisted of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.
4. As previously mentioned in (8) Property, plant and equipment in Note 2, the period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the current fiscal year. With this change, the depreciation expenses under the Electronics Materials business segment for the current fiscal year, when compared with the figures calculated for the previous depreciable years, increased by ¥23,875 million (\$202,331 thousand). Operating expenses increased by ¥22,405 million, (\$189,873 thousand) and accordingly, operating income decreased by the same amount.
5. The period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the fiscal year ended March 31, 2006. With this change, the depreciation expenses under the Electronics Materials business segment for the fiscal year ended March 31, 2006, when compared with the figures calculated for the previous depreciable years, increased by ¥9,957 million. Operating expenses increased by ¥9,505 million, and accordingly, operating income decreased by the same amount.

### (2) Geographical segment information

The analysis of the sales, operating costs and expenses, operating income and assets of the Companies by geographical segments as of March 31, 2007, 2006 and 2005 and for the years then ended are presented below:

	Millions of yen					
	Japan	North America	Asia/Oceania	Europe	Elimination or Common Assets <sup>2</sup>	Consolidated Total
Sales:						
Sales to outside customers	¥639,901	¥313,303	¥186,521	¥164,971	¥ —	¥1,304,696
Intersegment sales	244,412	38,996	64,946	837	(349,191)	—
Total	884,313	352,299	251,467	165,808	(349,191)	1,304,696
Operating costs and expenses	709,157	314,015	236,213	154,858	(350,576)	1,063,667
Operating income	¥175,156	¥ 38,284	¥ 15,254	¥ 10,950	¥ 1,385	¥ 241,029
Assets	¥962,147	¥421,474	¥182,257	¥154,403	¥ 139,715	¥1,859,996

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

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

## Notes to Consolidated Financial Statements

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

Notes: 1. Main countries or other areas other than Japan:

North America ..... U.S.  
 Asia/Oceania ..... Malaysia, Singapore, South Korea, Taiwan, Thailand, Australia  
 Europe ..... U.K., Netherlands, Germany

2. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2007, 2006, and 2005 were ¥309,306 million (\$2,621,237 thousand), ¥360,148 million and ¥328,568 million, respectively, which mainly consisted of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

3. As mentioned in (B) Property, plant and equipment in Note 2, the period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the current fiscal year. As a result, operating expenses for Japan, North America, Asia/Oceania and Europe for the current fiscal year, increased by ¥13,321 million (\$112,890 thousand), ¥4,029 million (\$34,144 thousand), ¥2,955 million (\$25,042 thousand) and ¥2,099 million (\$17,788 thousand), respectively, compared with the figures calculated for the previous depreciable years. Accordingly, operating income decreased by the same amounts.

4. The period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the fiscal year ended March 31, 2006. As a result, operating expenses for Japan, North America, Asia/Oceania and Europe for the current fiscal year, increased by ¥1,316 million, ¥5,656 million, ¥1,381 million and ¥1,151 million, respectively, compared with the figures calculated for the previous depreciable years. Accordingly, operating income decreased by the same amounts.

### (3) Overseas sales information

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

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

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

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

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

Notes: 1. Main countries or areas

North America ..... U.S., Canada  
 Asia/Oceania ..... China, Taiwan, South Korea, Singapore, Thailand, Malaysia  
 Europe ..... Germany, France, Portugal  
 Other Areas ..... Latin America, Middle East

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

## 19. Subsequent event

### Appropriation of retained earnings

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

# Consolidated Subsidiaries

As of March 31, 2007

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

7 other consolidated subsidiaries

(1) Overseas subsidiary

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

# Report of Independent Auditors

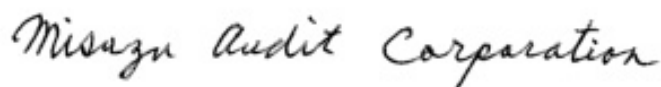
To the Board of Directors  
Shin-Etsu Chemical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Shin-Etsu Chemical Co., Ltd. and its subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2007, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

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

A handwritten signature in cursive script that reads "Misuzu Audit Corporation".

Misuzu Audit Corporation  
Tokyo, Japan

June 28, 2007

# Investor Information

As of March 31, 2007

## Shin-Etsu Chemical Co., Ltd.

Head Office: 6-1, Ohtemachi 2-chome,  
Chiyoda-ku, Tokyo 100-0004, Japan

### Date of Establishment:

September 16, 1926

### Capital:

¥119,420 million

### Number of Employees:

19,177 (including 69 consolidated subsidiaries)

### Number of Shares Authorized:

1,720,000,000

### Number of Shares Issued:

432,106,693

### Number of Shareholders:

51,672

### Fiscal Year-End:

March 31

### Shareholders' Meeting:

June

### Stock Listings:

Tokyo, Osaka, Nagoya (Ticker Code: 4063)

### Transfer Agent:

Mitsubishi UFJ Trust and Banking Corporation

### Auditor:

MISUZU Audit Corporation

Please visit our website:



<http://www.shinetsu.co.jp>  
(English, Japanese and Chinese)

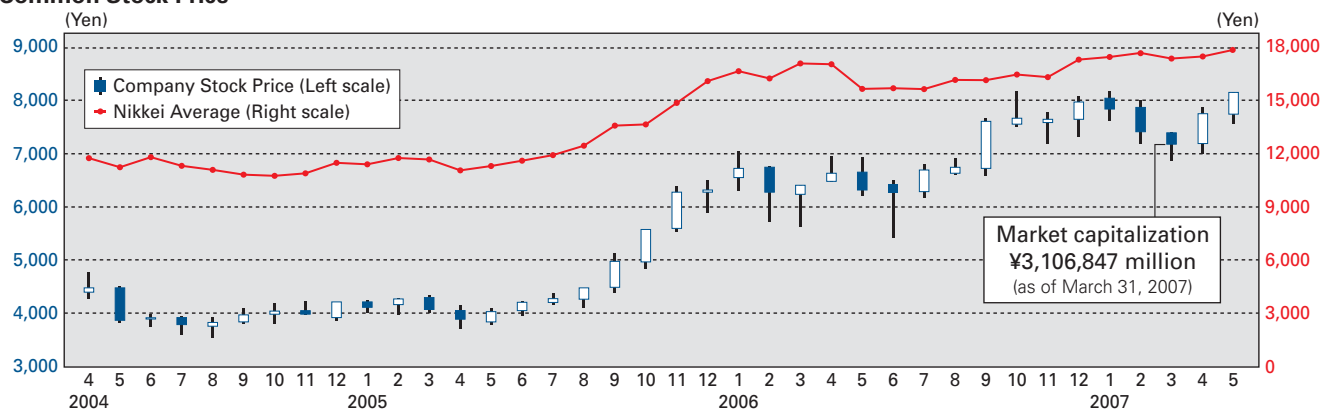
### Major Shareholders:

Name	Number of Shares (Thousands)	Percentage of Total Equity (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	42,763	9.9
Japan Trustee Services Bank, Ltd. (Trust account)	36,078	8.4
Nippon Life Insurance Company	23,150	5.4
Japan Trustee Services Bank, Ltd. (Trust account 4)	17,077	4.0
The Hachijuni Bank, Ltd.	11,790	2.7
Meiji Yasuda Life Insurance Company	11,529	2.7
NIPPONKOA Insurance Co., Ltd.	10,077	2.3
State Street Bank and Trust Company 505103	7,859	1.8
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,095	1.6
State Street Bank and Trust Company	5,489	1.3

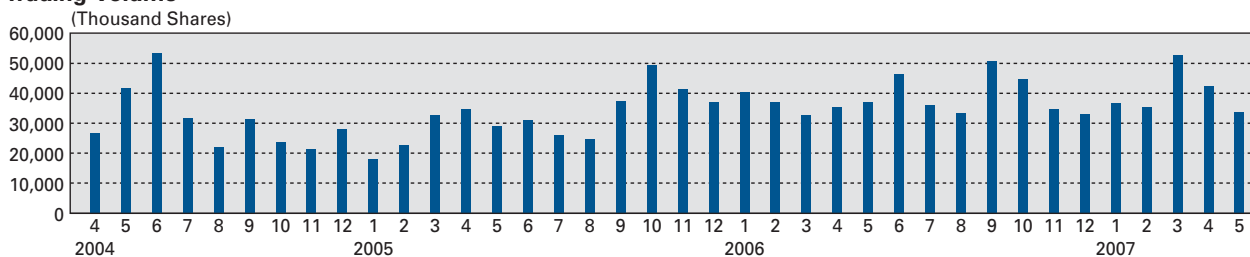
### Information:

Public Relations Department  
6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, Japan  
Phone: +81-3-3246-5091  
Fax: +81-3-3246-5096  
e-mail: [sec-pr@shinetsu.jp](mailto:sec-pr@shinetsu.jp)

### Common Stock Price



### Trading Volume





# Shin-Etsu's Worldwide Network

(Main Shin-Etsu Group Companies)

## AMERICA

### U.S.A.

#### 1 SHINTECH INCORPORATED

#3 Greenway Plaza, Suite 1150, Houston, TX 77046  
Phone: +1-713-965-0713 Fax: +1-713-965-0629  
Business: Production and Sales of PVC

#### 2 SHIN-ETSU HANDOTAI AMERICA, INC. (S.E.H. AMERICA)

4111 N.E. 112th Ave., Vancouver, WA 98668-8965  
Phone: +1-360-883-7000 Fax: +1-360-254-6973  
Business: Production and Sales of Semiconductor Silicon

#### 3 SHIN-ETSU MAGNETICS, INC.

2372 Qume Drive, Suite B, San Jose, CA 95131-1841  
Phone: +1-408-383-9240 Fax: +1-408-383-9245  
Business: Sales of Rare Earth Magnets

#### 4 SHIN-ETSU MICROSI, INC.

10028 South 51st. Phoenix, AZ 85044  
Phone: +1-480-893-8898 Fax: +1-480-893-8637  
Business: Sales of Electronics Materials

#### 5 SHIN-ETSU POLYMER AMERICA, INC.

5600 Mowry School Road, Suite 320, Newark, CA 94560  
Phone: +1-510-623-1881 Fax: +1-510-623-1603  
Business: Sales of Keypads and Inter-Connectors

#### 6 SHIN-ETSU SILICONES OF AMERICA, INC.

1150 Damar Drive, Akron, OH 44305  
Phone: +1-330-630-9860 Fax: +1-330-630-9855  
Business: Production and Sales of Silicone Products

#### 7 HERAEUS SHIN-ETSU AMERICA, INC.

4600 NW Pacific Rim Blvd., Camas, WA 98607  
Phone: +1-360-834-4004 Fax: +1-360-834-3115  
Business: Production and Sales of Quartz Crucibles for Drawing Semiconductor Silicon

#### 8 K-BIN INC.

#3 Greenway Plaza, Suite 1150, Houston, TX 77046  
Phone: +1-713-965-0713 Fax: +1-713-965-0629  
Business: Production and Sales of PVC Compounds

#### 9 SHINCOR SILICONES, INC.

1030 Evans Avenue, Akron, OH 44305  
Phone: +1-330-630-9460 Fax: +1-330-630-1491  
Business: Production and Sales of Silicone Products

#### 10 PACIFIC BIOCONTROL CORPORATION

14615 NE 13th Court, Vancouver, WA 98685  
Phone: +1-360-574-9726 Fax: +1-360-574-9727  
Business: Sales of Pheromone Formulation

## EUROPE

### France

#### 11 S.E.H. EUROPE (FRENCH OFFICE)

1360 Route Des Dolines, Cardoulines B2,  
06560 Sophia Antipolis  
Phone: +33-4.97.21.44.88 Fax: +33-4.97.21.44.80  
Business: Sales of Semiconductor Silicon

### Germany

#### 12 SE TYLOSE GMBH & CO. KG

Rheingastr. 190-196, 65203 Wiesbaden  
Phone: +49-611-962-8189 Fax: +49-611-962-9071  
Business: Production and Sales of Cellulose Derivatives

#### 13 S.E.H. EUROPE (GERMAN OFFICE)

Fabrikstr. 8, D-85354 Freising  
Phone: +49-8161-50611 Fax: +49-8161-50682  
Business: Sales of Semiconductor Silicon

### Hungary

#### 14 SHIN-ETSU POLYMER HUNGARY KFT.

Berkeyefasor 2/A, H-9027 Győr, Hungary  
Phone: +36-96-887-100 Fax: +36-96-887-110  
Business: Production and Sales of Keypads

### The Netherlands

#### 15 SHIN-ETSU PVC B.V.

Building Noorderheave Noorderweg 68,  
1221 AB Hilversum  
Phone: +31-35-689-8010  
Fax: +31-35-685-0989 Fax: +31-35-685-0989  
Business: Production and Sales of Vinyl Chloride Monomer and PVC

#### 16 SHIN-ETSU INTERNATIONAL EUROPE B.V.

World Trade Center Amsterdam, Strawinskylaan B-827,  
1077 XX Amsterdam  
Phone: +31-20-662-1359 Fax: +31-20-664-9000  
Business: Sales of Chemical Products and Electronics Materials

#### 17 SHIN-ETSU POLYMER EUROPE B.V.

Groot Bollerweg 10, 5928 NS, Venlo  
Phone: +31-77-323-6000 Fax: +31-77-323-6001  
Business: Production and Sales of Keypads and Inter-Connectors

#### 18 SHIN-ETSU SILICONES EUROPE B.V.

Bolderweg 32, 1332 AV, Almere  
Phone: +31-36-5493170 Fax: +31-36-5326459  
Business: Production and Sales of Silicone Products

### Portugal

#### 19 CIRES, S.A. (COMPANHIA INDUSTRIAL DE RESINAS SINTETICAS, S.A.)

P.O. Box 20, Samouqueiro, Avanca 3864-752, Estarreja  
Phone: +351-234-811-200 Fax: +351-234-811-204  
Business: Production and Sales of PVC

### U.K.

#### 20 SHIN-ETSU HANDOTAI EUROPE LTD. (S.E.H. EUROPE)

Wilson Road, Toll Roundabout, Eliburn, Livingston,  
West Lothian EH54 7DA  
Phone: +44-1506-41-5555 Fax: +44-1506-41-7171  
Business: Production and Sales of Semiconductor Silicon

## ASIA-OCEANIA

### Australia

#### 21 SIMCOA OPERATIONS PTY. LTD.

Lot 22 Marriott Road, Wellesley, WA 6233  
Phone: +61-8-9780-6666 Fax: +61-8-9780-6777  
Business: Production and Sales of Silicone Metal

### China

#### 22 SHIN-ETSU SILICONE INTERNATIONAL TRADING (SHANGHAI) CO., LTD.

29F Junyao International Plaza No. 789,  
Zhao Jia Bang Road, Shanghai 200320  
Phone: +86-21-6443-5550 Fax: +86-21-6443-5868  
Business: Sales of Silicone Products

#### 23 SUZHOU SHIN-ETSU POLYMER CO., LTD.

A-10 Fenu Economic and Technical Development Zone,  
Wujiang City, Jiansu  
Phone: +86-512-63-271640 Fax: +86-512-63-272674  
Business: Production and Sales of Keypads and Inter-Connectors

#### 24 SHIN-ETSU POLYMER HONG KONG CO., LTD.

RM 1602, 16/F, Tower 6, China Hong Kong City,  
33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong  
Phone: +852-2377-9131 Fax: +852-2377-1673  
Business: Sales of Keypads and Inter-Connectors

#### 25 ZHEJIANG SHIN-ETSU HIGH-TECH CHEMICAL CO., LTD.

No.66, Lizhong Road, Jiashan Economic Development  
Zone, Zhejiang Sheng 3141116  
Phone: +86-573-475-5071 Fax: +86-573-475-5070  
Business: Production and Sales of Silicone Products

### Korea

#### 26 SHIN-ETSU SILICONE KOREA CO., LTD.

Danam Bldg. 9F, 120, 5-ka, Namdaemunno 5(O)-ga,  
Jungu-gu, Seoul  
Phone: +82-2-775-9691 Fax: +82-2-775-9690  
Business: Production and Sales of Silicone Products



## Malaysia

### 27 S.E.H. MALAYSIA SDN. BHD.

Lot No.2, Lorong Enggang 35,  
Ulu Klang Free Trade Zone, Selangor Darul Ehsan  
Phone: +60-3-4259-6600 Fax: +60-3-4257-5751  
Business: Production, Processing and Sales of  
Semiconductor Silicon Wafers

### 28 S.E.H. (SHAH ALAM) SDN. BHD.

Lot 8, Jalan Sementa 27/91, Seksyen 27,  
40400 Shah Alam, Selangor Darul Ehsan  
Phone: +60-3-5198-0111 Fax: +60-3-5191-3111  
Business: Production and Processing of Semiconductor  
Silicon Wafers

### 29 SHIN-ETSU ELECTRONICS (MALAYSIA) SDN. BHD.

Lot 50, Jalan Serendah 26/17, HICOM Industrial Estate,  
40000 Shah Alam, Selangor Darul Ehsan  
Phone: +60-3-5192-1081 Fax: +60-3-5192-1068  
Business: Production and Sales of Epoxy Molding Compounds

### 30 SHIN-ETSU (MALAYSIA) SDN. BHD.

Lot 50, Jalan Serendah 26/17, HICOM Industrial Estate,  
40000 Shah Alam, Selangor Darul Ehsan  
Phone: +60-3-5191-2233 Fax: +60-3-5191-2288  
Business: Production and Sales of Rare Earth Magnets

### 31 SHIN-ETSU POLYMER (MALAYSIA) SDN. BHD.

Lot 52, Jalan Sepintas 26/13, Kawasan, Perindustrian  
HICOM, 40000 Shah Alam Selangor Darul Ehsan  
Phone: +60-3-5191-1161 Fax: +60-3-5191-1181  
Business: Production, Processing and Sales of Keypads,  
Silicone Products and Embossed Carrier Tapes and  
Processing of Inter-Connectors

## Singapore

### 32 SHIN-ETSU ELECTRONICS MATERIALS SINGAPORE PTE. LTD.

100 Beach Road, #23-01 Shaw Towers, 189702  
Phone: +65-6297-9211 Fax: +65-6297-9311  
Business: Sales of Rare Earth Magnets and Other Products

### 33 SHIN-ETSU SINGAPORE PTE. LTD.

4 Shenton Way #10-03/06 SGX Centre 2,  
Singapore 068807  
Phone: +65-6743-7277 Fax: +65-6743-7477  
Business: Sales of Silicone Products

### 34 SHIN-ETSU POLYMER SINGAPORE PTE. LTD.

4 Shenton Way #10-02 SGX Centre 2, Singapore 068807  
Phone: +65-6735-0007 Fax: +65-6735-0008  
Business: Sales of Keypads and Inter-Connectors

## Taiwan

### 35 SHIN-ETSU HANDOTAI TAIWAN CO., LTD. (S.E.H. TAIWAN)

No. 12, Industry East Road 9,  
Hsin-Chu Science Park, Hsin-Chu  
Phone: +886-3-577-1188 Fax: +886-3-577-1199  
Business: Production, Processing and Sales of  
Semiconductor Silicon Wafers

### 36 SHIN-ETSU OPTO ELECTRONIC CO., LTD.

No.30, Industry East Road 4,  
Hsin-Chu Science Park, Hsin-Chu  
Phone: +886-3-578-4566 Fax: +886-3-578-9864  
Business: Production and Sales of Compound  
Semiconductors

### 37 SHIN-ETSU SILICONE TAIWAN CO., LTD.

11F-D, No. 167, Tun Hua N. Rd., Taipei 10549  
Phone: +886-2-2715-0055 Fax: +886-2-2715-0066  
Business: Production and Sales of Silicone Products

## Thailand

### 38 SHIN-ETSU SILICONES (THAILAND), LTD.

7th Floor, Harindhorn Tower, 54 North Sathorn Road,  
Bangkok 10500  
Phone: +66-2-632-2941 Fax: +66-2-632-2945  
Business: Production and Sales of Silicone Products

### 39 ASIA SILICONES MONOMER LTD.

1 Moo 2 Asia Industrial Estate Tambol Banchang,  
Ampher Banchang Rayong 21130  
Phone: +66-38-687-050-1 Fax: +66-38-687-060-1  
Business: Production and Sales of Silicone Monomer

## JAPAN

### 40 SHIN-ETSU CHEMICAL CO., LTD.

6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo  
Phone: +81-3-3246-5011 Fax: +81-3-3246-5350  
Business: Production and Sales of Products in Organic and  
Inorganic Chemicals, Electronics Materials, and  
Functional Materials and Others

### 41 SHIN-ETSU ASTECH CO., LTD.

2-1, Uchikanda 2-chome, Chiyoda-ku, Tokyo  
Phone: +81-3-5298-3211 Fax: +81-3-3254-1931  
Business: Construction Businesses and Sales of Chemical  
Products and Others

### 42 SHIN-ETSU ENGINEERING CO., LTD.

9, Kanda-Nishikicho 2-chome, Chiyoda-ku, Tokyo  
Phone: +81-3-3296-1080 Fax: +81-3-3296-1085  
Business: Engineering Services and Production of  
Mechatronics Systems

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

3-8, Uchikanda 1-chome, Chiyoda-ku, Tokyo  
Phone: +81-3-3259-1061 Fax: +81-3-3259-1064  
Business: Production and Sales of PP Film for Condensers

### 44 SHIN-ETSU HANDOTAI CO., LTD.

4-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo  
Phone: +81-3-3214-1831 Fax: +81-3-3215-9040  
Business: Production and Sales of Semiconductor Silicon  
and Compound Semiconductors

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

3-5, Nihonbashi Honcho 4-chome, Chuo-ku, Tokyo  
Phone: +81-3-3279-1712 Fax: +81-3-3246-2529  
Business: Production and Sales of Synthetic Resin Products

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

22-2, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo  
Phone: +81-3-3348-1912 Fax: +81-3-3348-4919  
Business: Production and Sales of Quartz Glass Products

### 47 JAPAN VAM & POVAL CO., LTD.

11-1, Chikkoshinmachi 3-cho, Nishi-ku, Sakai-shi, Osaka  
Phone: +81-72-245-1131 Fax: +81-72-245-8144  
Business: Production and Sales of Vinyl Esters of  
Carboxylic Acids, such as Vinyl Acetate  
Monomer and Polyvinyl Alcohol

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

2, Towada, Kamisu-shi, Ibaraki  
Phone: +81-299-96-3415 Fax: +81-299-96-6354  
Business: Production and Sales of Vinyl Chloride Monomer

### 49 NAGANO ELECTRONICS INDUSTRIAL CO., LTD.

1393, Yashiro, Chikuma-shi, Nagano  
Phone: +81-26-261-3100 Fax: +81-26-261-3131  
Business: Production, Processing and Sales of  
Semiconductor Silicon Wafers and  
Other Products

### 50 NAOETSU ELECTRONICS CO., LTD.

596-2 Jonokoshi, Kubiki-ku, Joetsu-shi, Niigata  
Phone: +81-25-530-2631 Fax: +81-25-530-2908  
Business: Production, Processing and Sales of  
Semiconductor Silicon Wafers

### 51 MIMASU SEMICONDUCTOR INDUSTRY CO., LTD.

2174-1 Hodotamachi, Takasaki-shi, Gunma  
Phone: +81-27-372-2021 Fax: +81-27-372-2018  
Business: Precision Production, Processing and Sales of  
Semiconductor Silicon Wafers and Others

### 52 NISSIN CHEMICAL INDUSTRY CO., LTD.

17-33, Kitago 2-chome, Echizen-shi, Fukui  
Phone: +81-778-22-5100 Fax: +81-778-24-0657  
Business: Production and Sales of Synthetic Resin  
Emulsions and Other Products

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

5-2, Kanda-Kajicho 3-chome, Chiyoda-ku, Tokyo  
Phone: +81-3-5298-1601 Fax: +81-3-5298-0071  
Business: Production and Sales of Carborundum Products



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