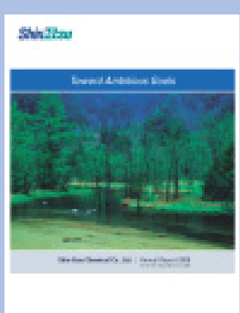
Toward Ambitious Goals

Shin-Etsu Chemical Co., Ltd. | Annual Report 2008

For the Year Ended March 31, 2008

Contents



About the Cover

Taisho Lake in Nagano Prefecture, from the Shin-Etsu Group Original Calendar 2008 "NATURE AND LIFE"

Photo by Shin Yoshino

Forward-looking Statements

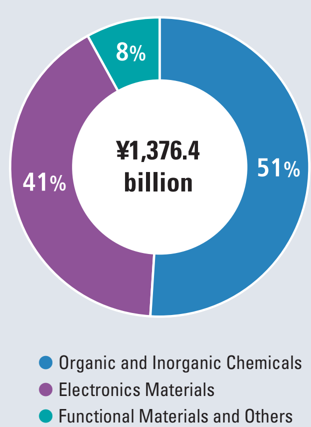
This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication.

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.

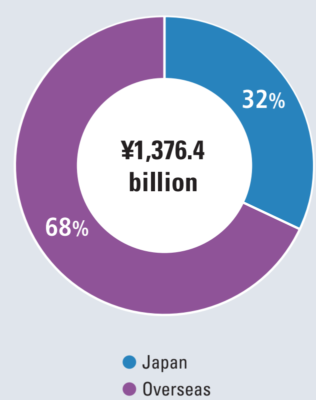
Profile

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



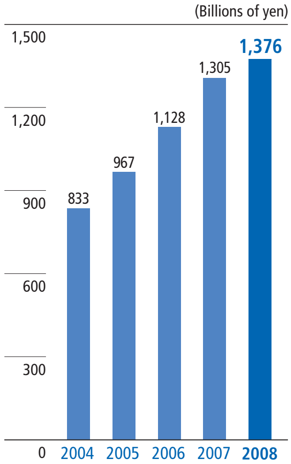
Financial Highlights

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

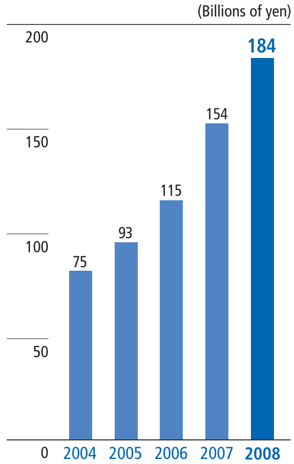
	Millions of yen			% Change	Thousands of U.S. dollars[1]
	2008	2007	2006	**2008**/2007	**2008**
For the year:					
Net sales	**¥1,376,365**	¥1,304,696	¥1,127,916	**5.5%**	**$13,763,650**
Operating income	**287,146**	241,029	185,320	**19.1**	**2,871,460**
Net income	**183,580**	154,010	115,045	**19.2**	**1,835,800**
Capital expenditures	**268,479**	210,613	145,330	**27.5**	**2,684,790**
Depreciation and amortization	**141,270**	138,462	111,637	**20.3**	**1,412,700**
At year-end:					
Total assets	**¥1,918,545**	¥1,859,996	¥1,671,281	**3.1%**	**$19,185,450**
Working capital	**638,807**	628,986	572,206	**1.6**	**6,388,070**
Net assets	**1,483,669**	1,360,315	—	**9.1**	**14,836,690**
Interest-bearing debt	**34,045**	45,142	83,838	**(24.6)**	**340,450**
	Yen			% Change	U.S. dollars
Per share data (yen and U.S. dollars):					
Net income – primary	**¥ 426.63**	¥ 357.78	¥ 266.63	**19.2%**	**$ 4.27**
Net assets	**3,344.17**	3,065.80	2,730.94	**9.1**	**33.44**
Cash dividends	**90.00**	70.00	35.00	**28.6**	**0.90**
Payout ratio	**21.1%**	19.6%	13.1%		
Return on equity (ROE)[2]	**13.3%**	12.4%	10.6%		
Return on assets (ROA)	**15.9%**	14.0%	11.8%		
Number of employees	**20,241**	19,177	18,888		

Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥100=US$1, the approximate rate of exchange on March 31, 2008.
2. Stockholders' equity used for calculation of indices for the fiscal years ended March 31, 2007 and 2008 consists of "stockholders' equity" and "valuation and translation adjustments."

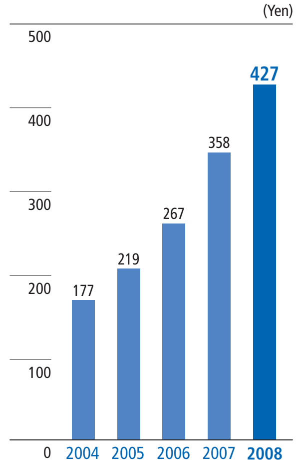
Net Sales



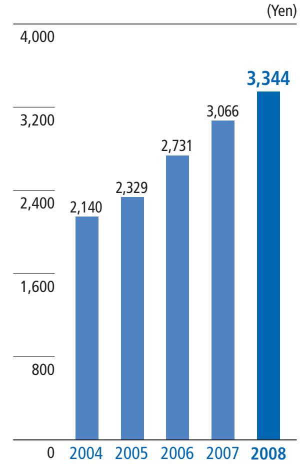
Net Income



Net Income per Share



Net Assets per Share



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

Interview with the President

For fiscal 2008, the year ended March 31, 2008, consolidated net sales increased 5.5 percent, or ¥71,669 million, compared with the previous fiscal year to ¥1,376,365 million. Operating income increased 19.1 percent, or ¥46,117 million, to ¥287,146 million, ordinary income increased 21.5 percent, or ¥53,022 million, to ¥300,040 million and net income increased 19.2 percent, or ¥29,570 million, to ¥183,580 million. It was the Shin-Etsu Group's 15th consecutive year of profit growth, and 13th consecutive year of record profits. In addition, cash dividends per share increased ¥68.85 to ¥426.63.

Chihiro Kanagawa
President and CEO

Q1. In fiscal 2008, the year ended March 31, 2008, Shin-Etsu attained year-on-year growth in profits for the 13th consecutive year, while its ordinary income increased by 21.5 percent. What are the factors that made this possible?

The semiconductor silicon wafer business results were a major factor in the substantial growth in profits. Without taking for granted the top market share, we worked hard each and every day to improve our sales results, conducted daily operations that ensured reliable deliveries and consistent quality, made timely investment decisions by accurately grasping the growth in demand and appropriately proceeded with manufacturing facility expansions.

In fiscal 2008, the U.S. PVC market was not particularly strong. However, even under these conditions, Shintech Inc. maintained full-capacity operations, and Shintech's profitability supported the Shin-Etsu Group's business results. This was another reason why the Shin-Etsu Group was able once again to make a record high profit. In addition, the silicones, rare earth magnets and photoresists businesses all contributed to the increase in Shin-Etsu's profit. Moreover, both the PVC and cellulose businesses in Europe achieved higher profits.

The Shin-Etsu Group's strength is based not only on a wide range of products, but also comes from persistent efforts to strengthen each of our operational businesses.

Q2. Please tell us about initiatives in the semiconductor silicon business, which contributed substantially to the Group's profits.

In the wafer business, Shin-Etsu's strength lies in having semiconductor customers worldwide. By attentively listening to our customers around the world, directly and in real time, and thereby being able to accurately anticipate future demand, we have made timely expansions in our production capacity. We have been highly evaluated by our customers, not only for our dependable supply, but also for providing the highest quality wafers slice-to-slice. In these ways, we have supported the business development of each of our customers.

One of our responsibilities as the supplier that holds the largest share in the semiconductor wafer market in the world is to assure our customers of a reliable supply of products at all times. To assure a steady supply of quality products, we have geographically dispersed our production facilities for crystals and 300mm wafers. There is an old saying, "one should not put all one's eggs in one basket." In other words, we have created a system whereby even if one plant should shut down as a result of events such as a natural disaster, we can continue to supply our customers from other plants.

While market conditions have been relatively favorable for the past four years, I have been cautioning that the semiconductor market will eventually change. To be prepared for such a change, two years ago I decided to cut the depreciation period for wafer-production facilities down to three years, which is unprecedented.

As for 300mm wafers, we will continue to strengthen our top global position by carefully tracking global market trends and promptly increasing production capacity after evaluating demand trends. I believe that the true strength of a business is tested under severe market conditions. We will continue to supply our customers with reliable, high-quality wafer products in all market conditions.

Q3. Due to sluggish PVC demand in the U.S., other companies in the same business are recording substantially lower profits and even losses. Why has only Shintech been able to continue operating at full capacity?

For more than 30 years, Shintech has been meeting the demands of its U.S. customers, and, at the same time, it has been steadily supplying PVC to customers in other countries. Over that period, Shintech has expanded its production capacity more than 10 times while always maintaining full production and sales after each expansion.

Although current market conditions in the U.S. are clearly unfavorable, Shintech is further solidifying its relationships with its domestic customers. Furthermore, Shintech is making effective use of its relationships with the overseas customers that it has nurtured over many years. Shintech is capable of promptly responding to market changes by increasing its export business by using its own extensive sales network and packaging facilities.

Through these management measures as well as its daily sales efforts, Shintech was able to maintain full-capacity operations and sales over the course of the year.

Q4. With Shintech's new plant in Louisiana now in operation, how would you describe the future of the PVC business in the U.S.?

The new plant in Louisiana is Shintech's first integrated PVC manufacturing facility starting from basic raw materials. This cutting-edge PVC plant incorporates the latest technologies in every manufacturing process, including for the extraction of salt from salt domes, purification, electrolysis and the production of vinyl chloride monomer (VCM) and PVC, as well as utilities for the plant.

Land for industrial use is an important asset for future corporate growth. Shintech has secured extensive land for industrial use in Louisiana for future major expansions. The property is contiguous to the Mississippi River, making it an excellent location both for receiving raw materials via water as well as for shipping our products. The United States has natural gas and salt – both raw materials for PVC – and is a huge market for PVC and caustic soda. Shin-Etsu will utilize Shintech's U.S. plants as supply bases to meet the steadily increasing global PVC demand.

Q5. What steps will you take in the future regarding the silicones business?

The silicones business has been a steady contributor to Shin-Etsu's results and has the potential for significant growth. We will continue to increase the revenue from high-value-added products by focusing on the development of unique products, particularly in such applications as electrical, electronic, auto and cosmetics.

Regionally, we are focusing on increasing our sales in Asian markets, where strong economic development is expected to significantly expand the markets for silicones in the near future. In Europe and the United States, we are taking steps to expand business centered on silicones for specialty applications. By capitalizing on the strengths that Shin-Etsu has with silicone plants in both Japan and Thailand, we will further expand the business.

Q6. What is the situation in businesses other than PVC, silicon wafers and silicones?

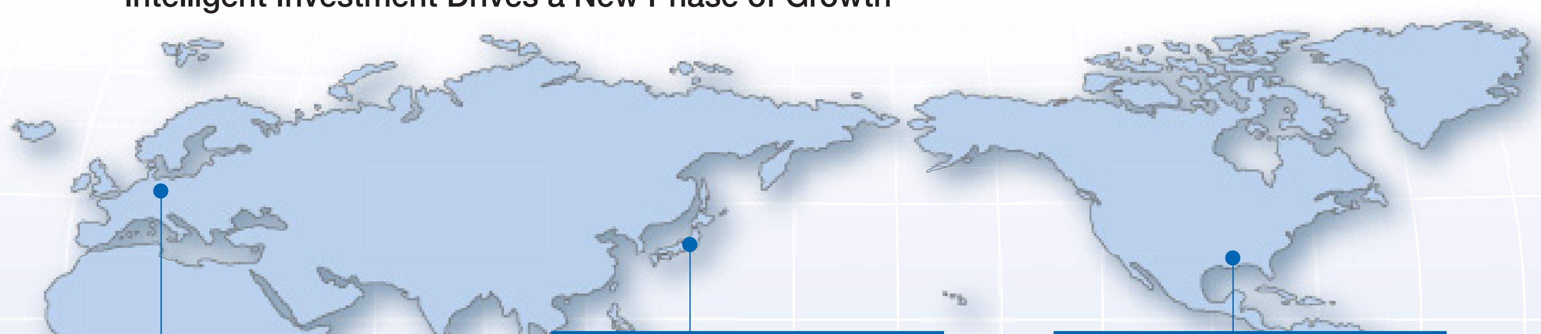
Photoresists are representative of a growing business that is contributing to the good results. We have innovated and tirelessly nurtured this line of products from the early stages of R&D and developed it into a business that has become an important income generator. The rare earth magnet business also contributed to our profit growth in fiscal 2008. We have accurately assessed customer needs for lighter-weight and more energy-efficient products. We are taking assured steps to enhance our performance in other businesses, including synthetic quartz and cellulose.

Q7. What are the points that you place importance on when deciding to make manufacturing facility investments?

The Shin-Etsu Group needs to continue to make capital investments in its manufacturing facilities to expand its businesses. All of our decisions on capital investments are made by giving careful consideration to every possible market condition and looking ahead to demand prospects.

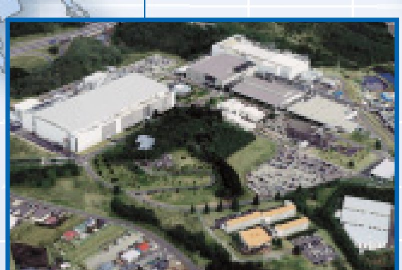
In addition, the location of a plant facility is an important factor in making any facility capital investment. When constructing a plant, we select an optimal site after comparing possible locations based on many factors such as present market conditions and prospects, supply of raw materials, quality of workforce and various governmental regulations. Furthermore, speed and efficiency are very important factors. The Shin-Etsu Group has a large number of highly competent engineers who are versed in the technologies of the Company and who have a wealth of experience in designing and constructing plants. Accordingly, when executing large-scale projects, we move quickly under our own management – from planning to construction and start-up.

Intelligent Investment Drives a New Phase of Growth



Europe

In the cellulose business, Shin-Etsu is investing in SE Tylose GmbH & Co. KG in Germany as it works to create multiple production and supply bases for 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.

Q8. Are you also considering mergers and acquisitions to expand your business?

Shin-Etsu has carried out several mergers and acquisitions in the past by carefully selecting only those M&A projects that would increase the company value of Shin-Etsu. To date, all businesses that we have acquired have been steadily contributing to our business results. We will continue to carefully select candidates for M&A. We will look to M&A as an important method for expanding our business when or if cases arise where we can improve performance through Shin-Etsu's management expertise and where we can attain a synergistic effect with existing businesses.

Q9. What are some of the new product development initiatives?

The development of photoresists was a project chosen by our R&D assessment committee ("Z Committee"). Because our worldwide clients demand cutting-edge technologies from us at each generational change in semiconductor technology, success in the photoresists business depends on our technological capabilities. We will continue to focus on product development to meet our customers' needs, and, at the same time, we will do our best to develop new products that can utilize our Company's technological strengths.

In the fiscal year ending March 31, 2009, we will work to speed up the introduction of new products.

Q10. What are your ideas on CSR (Corporate Social Responsibility)?

I believe that the most important contribution a company can make to society is to strictly adhere to a law-abiding spirit at all times, and based on this core principle, a company contributes to society by endeavoring to increase profits as much as possible while paying corporate taxes in a fair and correct manner.

The Shin-Etsu Group operates businesses worldwide and puts strong emphasis on CSR in all of its operations. One example is Shintech. It began operations in 1974, and by greatly expanding the scale of its business since then, it has contributed to local communities. Prior to the construction of the new Louisiana Plant, Shintech set up an occupational training school, providing local residents with a place to acquire technical skills and boosting local employment opportunities both for Shintech and other employers in the area. Shintech has also strengthened ties with the local community by arranging for management personnel to live near the plant and by readily providing information through local liaison meetings and frequent dialogue with the community. These are just some examples of our approach to CSR. By conducting business activities in a fair and ethical manner, the Company will continue to grow and contribute to the economic and social development of the communities where we operate.

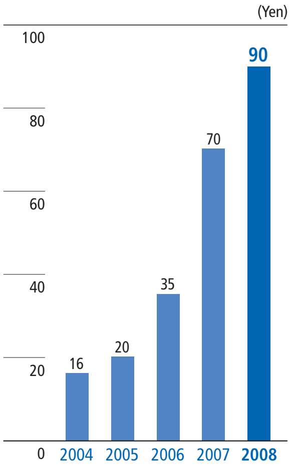
Q11. What steps is Shin-Etsu taking to deal with environmental issues?

In addition to strictly complying with the environmental laws and regulations in countries and regions where our plants operate, Shin-Etsu has constantly worked to improve its energy-saving technologies.

Never content with the current situation and in order to utilize limited resources with maximum efficiency, we have also focused our management targets on improving unit-energy consumption, improving productivity and minimizing the environmental burden of our business activities. In short, we continue to work constantly, night and day to realize these goals. With regard to the reduction of greenhouse gases, one global environmental goal we have set is to reduce unit-energy consumption to 66 percent of the 1990 level by 2010. We are making good progress in our efforts toward achieving this goal.

Environmental problems also impact the continued existence of companies. We consider it to be the Company's obligation not only to achieve a quantitative target, but also to develop technologies and products that contribute to the reduction of greenhouse gases. We will work steadfastly toward the attainment of this goal.

Cash Dividends per Share



Q12. What is your position on safety?

The Shin-Etsu Group's highest management priority is "safety first." We are in the manufacturing business and treat the safety of plants and products with the utmost importance. We consider safety to be linked to operational efficiency and quality improvement. For this purpose, we repeatedly instruct key personnel at our plants and engineering departments never to spare any expense in investments for equipment or anything else that is needed to assure the safety of our people and the communities in which we operate. We follow up to make sure these instructions are put into practice. We have also given specific concrete instructions that no matter what kind of problem occurs at a plant our employees must never try to make up for time-loss caused by a delay by speeding up their work. Safety is an issue that concerns everyone working in the Shin-Etsu Group. We will continue to constantly discuss concrete safety measures with labor unions so that everyone works together in total cooperation. We thereby dedicate ourselves to assuring safety.

Q13. What is your policy on profit distribution, including dividends?

Shin-Etsu's core businesses, such as semiconductors and PVC, are subject to substantial market changes, and it is by no means easy for our Company to consistently increase the profits and cash flow of its operations. Under these circumstances, through its management efforts Shin-Etsu has been able to achieve record high profits for 13 consecutive years. Accordingly, we have decided to increase the full-year dividend to ¥90.00 per share. This is more than 10 times the ¥8.50 per share for the fiscal year ended March 1998—10 years ago. Shin-Etsu will continue to increase the value of the Company by investing in those businesses that can demonstrate their strengths and by persistently making daily management efforts to improve those businesses. Moreover, it is our basic policy to appropriately return the fruits of these management efforts to shareholders by paying dividends.

Q14. Please tell us about your determination on how to approach management in the next fiscal year, which ends March 31, 2009.

We intend to continue increasing the value of our company regardless of the economic environment. I keep telling our employees: " Be ambitious!" I not only direct these words to them, I also personally continue to this day to faithfully follow through on the sentiment behind these words, and tackle each management task every day with high ambition. In order to ensure Shin-Etsu's standing as a perpetually growing company, we continue to work diligently every day, every month and every year to develop a consistent track record of strong results. By managing the company without ever being satisfied with the status quo, we hope to meet everyone's expectations.

I would like to sincerely ask for the continued understanding and support of all of our shareholders and investors, customers and suppliers, as well as that of the people in every region where Shin-Etsu does business and certainly that of the dedicated employees of the Shin-Etsu Group around the world.

Thank you.

The Shin-Etsu Group's Mission Statement

The Group strictly complies with all laws and regulations, conducts fair business practices and contributes to people's daily lives as well as to the advance of industry and society by providing key materials and technologies

Management Objectives for Fiscal 2008

Objective 1

Strive to make sure to achieve our profit and sales targets, regardless of the changes in business circumstances.

(1) Group companies should work in close coordination and endeavor to expand sales to customers all around the world.
(2) Strive to capture market needs and speedily execute aggressive investments for the future growth of the company.
(3) Win the trust of customers by stably supplying products.
(4) Create products that have pricing power.
(5) Obtain strong patents that protect our company's technology.
(6) Secure raw materials with long-term stability of supply and at an advantageous price.
(7) Closely examine all possible risks concerning the business and quickly take appropriate countermeasures

Objective 2

Start up new businesses that will become new pillars of the Company.

(1) Evaluate market potential and profitability in numerical terms and select research themes.
(2) In R&D, set high numerical value goals and strive to differentiate product quality.
(3) Pioneer new business domains through M&A and business tie-ups with other companies.

Objective 3

Achieve zero accidents and zero human-made disasters through thorough daily safety management.

(1) Do not cause accidents and disasters again; let the Naoetsu Plant accident be a lesson.

(2) Supervisors should continually recheck operation manuals and make sure they are being thoroughly followed.

(3) Each and every one of us should consider safety to be his or her own responsibility as we perform our daily work.

(4) Even if there is a production problem, don’t ever force things by trying to make up for a delay by using unreasonable means.

(5) Each supervisor should visit the site everyday and exchange opinions with workers and do all he or she can to assure safety.

Objective 4

Strive to improve our production technologies and promote product quality, saving resources and environmental countermeasures.

(1) Always work to improve product quality and the quality of our services to customers without being content with the present situation.

(2) Strive to further improve the productivity of labor and production facilities as well as safety technologies.

(3) Standardize optimum operations and pass on the superior operation technologies.

(4) In all departments, endeavor to save on energy consumption.

Objective 5

Remain thoroughly committed to the spirit of compliance and contribute to society through fair corporate practices.

(1) By making profit and paying taxes, contribute to society and meet the expectation of all people concerned with our company, starting with shareholders.

(2) The head of all affiliated companies and each department, should always engage in fair corporate practices, strengthen internal control and assume the responsibility to make correct reports to the Accounting & Finance Department. The Accounting & Finance Department will re-examine the reported figures from an independent perspective and take responsibility for those figures.

(3) Appropriately disclose information and promote fair and highly transparent corporate practices.

(4) Firmly believe in a bright future and create a Shin-Etsu Group that is full of hope and vitality.

Toward Ambitious Goals

The fundamental role of the Shin-Etsu Group's research and development is to maintain global top-class quality, technology and cost competitiveness. In developing products, Shin-Etsu puts importance on the development of unique technologies that differentiate the Company from other competitors and adds value to products so that the Company may avoid simple price competition.

As a producer of materials, the Shin-Etsu Group has a basic policy of developing new products faster than competitors by emphasizing relationships of trust with customers, and meeting their needs in a timely fashion.

With top global market share in a large number of product categories, such as semiconductor silicon wafers, Shin-Etsu is in the advantageous position of obtaining the latest information from customers faster than any of its competitors.

Yoshiaki Ono
General Manager, Silicone-Electronics Materials Research Center,
Research & Development Department, Patent Department and New Products Department

In existing businesses, the Shin-Etsu Group is working to strengthen operations with a tripartite structure incorporating sales, research and production. With a focus on developing new products more quickly than competitors, sales and research staff work together as one team to build strong relationships with customers in order to grasp and follow up on individual customer needs.

Production divisions and research divisions cooperate closely to speed commercial production of newly developed products while working to maintain and enhance product quality. All R&D bases are located at production sites, which is another strength of the Shin-Etsu Group because it allows a smooth shift to commercial production.

New research initiatives, key drivers of the Company's continuous growth, begin with identifying new themes. New themes can be proposed at any time from any of Shin-Etsu's divisions, but come mainly from staff at the research centers. These new themes are selected by the New Z Committee, chaired by the Company president, based on standards of technical originality, market size, growth potential and profitability. Once a new theme is chosen, the most suitable members are gathered together from throughout the Company, a budget is set and a new project is initiated. The New Z Committee then regularly follows the progress of the projects, and commercialization begins. Currently, more than 10 research themes are progressing, with the aim of early commercialization.

Recognizing that intellectual property, such as patents and technological expertise, is an important management asset, the Shin-Etsu Group's research activities culminate in the acquisition of patents to protect its property rights. The Group is enhancing its studies and administration regarding patent application issues. Initiatives include determining whether the Group's technologies under development are ahead of other companies' and how such technologies can be managed with patents.

As of March 31, 2008, the Shin-Etsu Group as a whole held 4,622 domestic and 5,571 overseas patents. Of these, the Group obtained 101 patents in the U.S. in 2007, which is top-class among Japanese chemical companies.

Number of Patents by Region

	Number of patents acquired during 2007	Cumulative number of patents acquired as of the end of fiscal 2008
Japan	620	4,622
North America	134	2,145
Asia/Oceania	301	1,526
Europe	223	1,889
Other Areas	0	11
Total	1,278	10,193

Unique Ideas and a Spirit of Challenge Lead the Way to Further Growth on the Global Stage

The Shin-Etsu Group responds to customer demands for high functionality by continuously providing new materials with unique properties and superior capabilities. To create revolutionary new products, Group researchers combine their spirit of challenge and passion for research with Shin-Etsu's original technologies, know-how and customer trust cultivated over many years as a top manufacturer. We will continue striving to develop new materials going forward.

Kenichi Isobe (left), Kunihiro Yamada (right)
Silicone-Electronics Materials Research Center

Curable Thermally Conductive Grease for Use in CPUs

CPUs, the hearts of computers, have achieved remarkably high performance through miniaturization. However, unexpected limits on miniaturization have emerged at the same time. Efficient dissipation of the heat generated by increasing current density was regarded as the most important factor in CPU evolution.

One method proposed for transferring the heat generated by a silicon chip to radiation fins was to attach a heat spreader over the chip. However, satisfactory performance was unattainable due to the great burden on the thermally conductive material between the chip and the heat spreader, and pumping out of the material from the gap as a result of package warpage during temperature cycling.

We started this project in response to demand from a top global customer for development of a new thermal interface material (TIM) that would neither lose its flexibility nor pump out even after prolonged exposure to high temperatures. By steadily persevering toward this difficult goal, we succeeded in developing the material to satisfy the customer's requirement. The success was attributable to the application of curing technologies, compounding technologies and evaluation technique, which the Shin-Etsu Group accumulated over many years, and our researchers' passion for development.

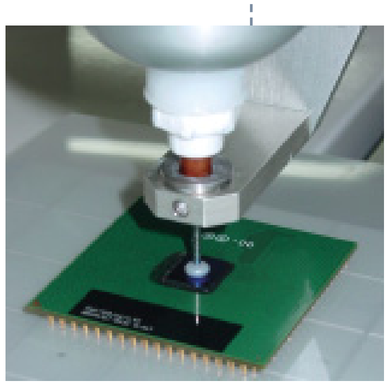
We successfully received production approval from the customer through strict audit in the process of commercialization of the material. This process leveraged the merits of our tripartite structure incorporating research, development and production.

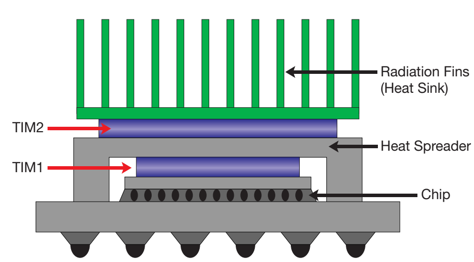
A compound, Shin-Etsu's curable thermally conductive grease for use in CPUs* is applied between chips and heat spreaders and heat cured, becoming a highly reliable thermal conductor. It is very flexible and highly stable due to the combination of a thermally conductive filler and silicone base polymer binder with superior low-temperature properties and heat resistance.

In addition to high thermal conductivity, the product can be used for thin film coating, and also has superior reworkability. We therefore expect demand to grow for a variety of applications, including in automobile engine control units and LCD television plasma display panels.

The Shin-Etsu Group will continue to demonstrate its advanced technological capabilities on the global stage.

*Kenichi Isobe and Kunihiro Yamada received the 2008 Imperial Invention Prize from the Japan Institute of Invention and Innovation for their valuable contribution to increasing the capability and lifespan of CPUs, which operate in harsh conditions.





Shin-Etsu's thermally conductive grease, a thermal interface material (TIM), is applied in the spaces between chips and heat spreaders and heat sinks in CPUs, as indicated by TIM1 and TIM2, above.

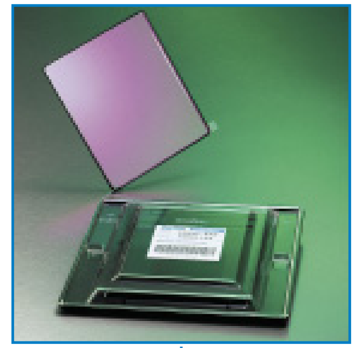
The Shin-Etsu Group is a global leader in developing sophisticated technologies for the semiconductor industry. Throughout the semiconductor production process, Shin-Etsu technologies support greater integration and production efficiency.

300mm Silicon Wafers

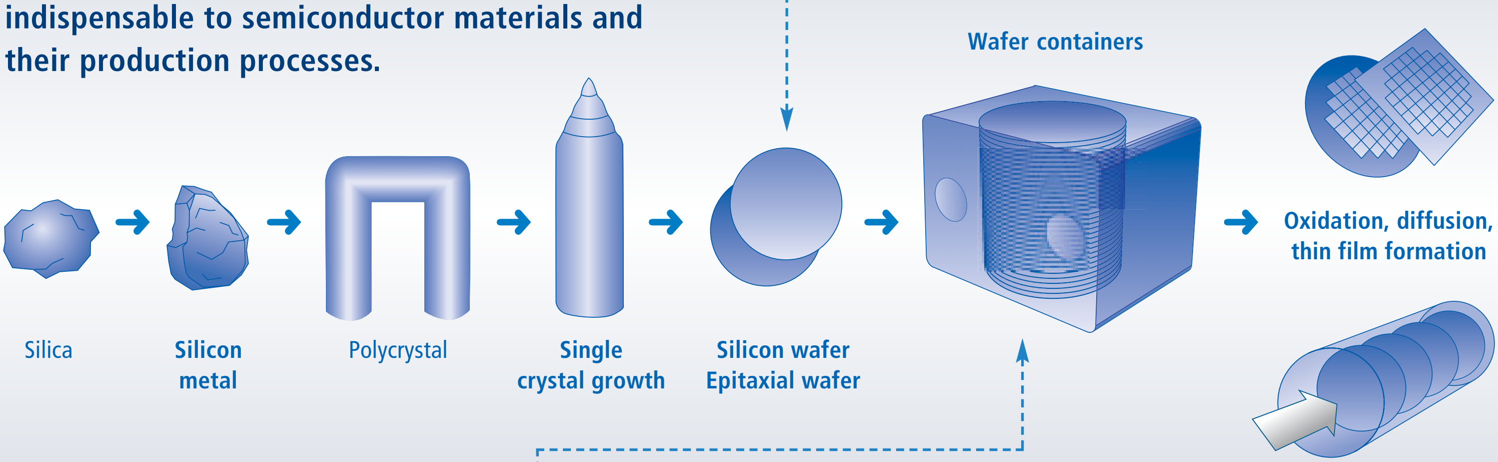
Shin-Etsu was the first company in Japan to design and produce silicon wafers, and began the world's first commercial production of 300mm silicon wafers in 2001. Shin-Etsu Handotai Co., Ltd. has established defect-free technology for single crystals, gaining strong customer trust for its commercial production capabilities and quality technologies, and has maintained its position as the world's largest manufacturer of silicon wafers.

Pellicles

Shin-Etsu Chemical supplies high-quality pellicles for ArF and KrF excimer laser lithography. Shin-Etsu pellicles support customers' semiconductor device production with their excellent performance, such as high light-resistance, good transmission uniformity and low outgassing. In addition, Shin-Etsu has succeeded in the development of super large-size pellicles for the production of liquid crystal display (LCD) panels.



Various products developed by Shin-Etsu are indispensable to semiconductor materials and their production processes.



Wafer Containers

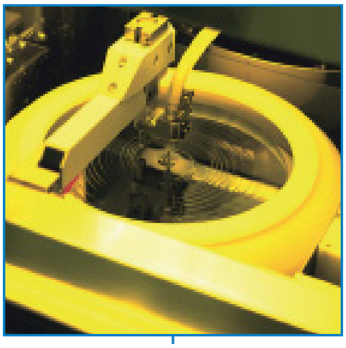
Group company Shin-Etsu Polymer Co., Ltd. has an excellent track record in front opening shipping boxes (FOSB) and front opening unified pods (FOUP). FOSB are used for shipping wafers from the wafer maker to device manufacturers and FOUP are used by device manufacturers to carry wafers in the production line. With core technologies, precision molding, environmental preservation and control technologies, and design skills that precisely meet customers' high-level requirements, Shin-Etsu Polymer has established a solid reputation in the semiconductor industry.

Quartz Glass for Semiconductor Production Processes

Improvements in the degree of integration of semiconductors necessitates greater levels of purity and accuracy of quartz glass for semiconductor production processes, which can be achieved through means including increasing the diameter of silicon wafers and further miniaturizing production processes. The Shin-Etsu Group's synthetic quartz glass with dramatically improved heat resistance has an excellent reputation due to its ability to meet the needs of high-humidity processes in ultra-clean rooms.

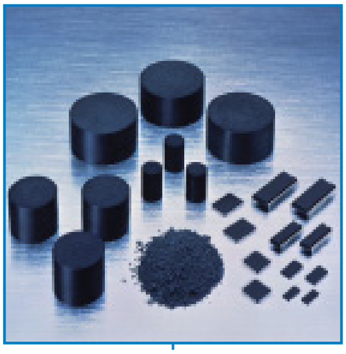
Photoresists

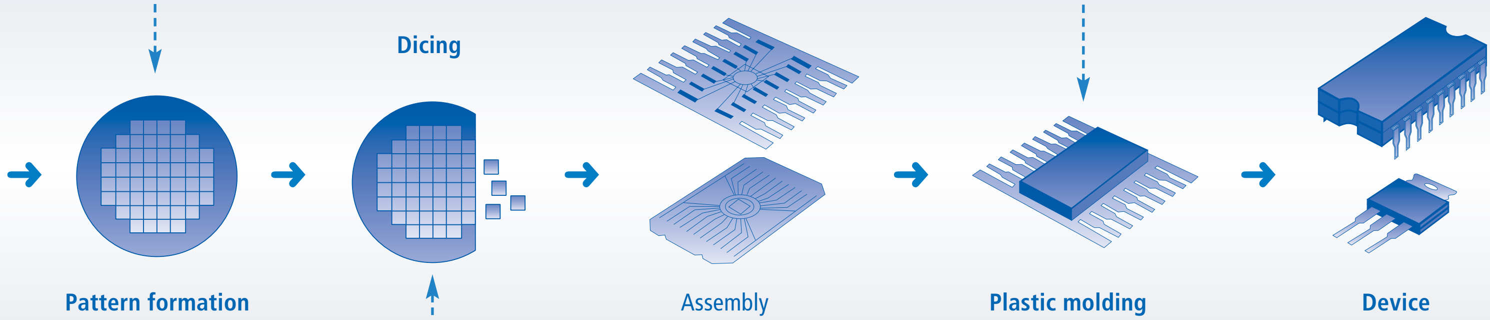
Shin-Etsu developed the first photoresist for use with the short wavelength KrF (krypton fluoride) excimer laser in 1996, and has become the leading manufacturer in this field. Sales have also begun for tri-layer materials used in post-45nm generation miniaturization processes. Shin-Etsu's strengths in this field include: 1) being the world's only photoresist manufacturer with an integrated production system from base polymers (raw materials) to the final resist products; and 2) its consultation process with customer engineers who make decisions relating to all aspects of production, from specifications to product delivery.



Epoxy Molding Compounds

Shin-Etsu's epoxy molding compounds provide excellent reliability and moldability in order to fulfill the latest semiconductor package requirements. These high-performance encapsulation materials have been developed based on Shin-Etsu's own silicone low-stress technology, special filler technology and the Company's unique flame retardant technology, or "green compound technique." In addition, super-high Tg grade and very high thermal conductive grade materials are indispensable for meeting next-generation requirements.





Dicing Die Attach Film

Dicing Die Attach Film (DDAF) is an adhesive die bond film with dicing film used in the dicing process. Stacked packages are mainstream. Traditional epoxy pastes cause the problem of bleeding and uneven bonding thickness in stacked packages. Shin-Etsu DDAF solves these problems and gives strong user support with its superior process ability and reliability.

Silicone-based Thermal Interface Materials

As higher integration and faster performance of electronic devices are achieved, demand is rising for thermal interface materials for heat dissipation because of increasing heat generation inside IC devices. Shin-Etsu offers a lineup of various silicone-based thermal interface materials such as rubber sheet, grease-type, gel-type and liquid rubber-type products that possess excellent adhesiveness as thermally conductive materials to fill gaps between heat-generating units like CPUs and heat-sinks. Shin-Etsu responds to various needs for heat dissipation according to specific applications.

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. 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

Steps to Being Accident- and Disaster-Free

Reflecting on the March 20, 2007 explosion and fire at the Naoetsu Plant cellulose manufacturing facility, Shin-Etsu returned to the starting point of placing safety and environmental protection first and is working to reform safety measures by reconfirming the hazards at all production facilities.

Immediately following the accident, President Kanagawa instructed all Shin-Etsu Group companies to inspect and confirm safety and make any necessary improvements at all plants. We executed a detailed survey of hazards at each production base.

Shin-Etsu improved processes, facilities and manuals based on the results of the inspections, and discloses information both inside and outside the Group through the Company website, including identified hazards and suggestions for improvements that we have collected from employees as examples of close calls.

Further, we work to increase employees' safety consciousness by publishing in-house safety features repeatedly in a variety of media.

Shin-Etsu is working harder than ever to place safety and environmental protection first. The entire Company is working as one to create a new framework that ensures no disasters occur, and continues to take all possible measures 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 Entire Shin-Etsu Group is Working to Implement the Following Basic CSR Policies.

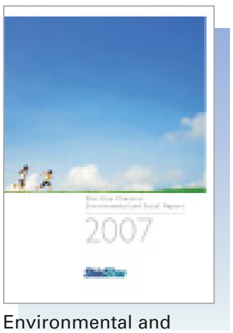
- The Shin-Etsu Group's corporate mission is, "To contribute to people's daily lives as well as to the advance of industry and society by providing key materials and technologies." To achieve this mission, the Group carries out fair and sound business practices in strict compliance with the law, and 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 Environmental Control

The Shin-Etsu Group places safety and environmental protection first and is aggressively promoting environmental management in order to realize a sustainable society. We strive to achieve our goals concerning environmental issues, management of chemical substances, management of facilities and prevention of work-related accidents. 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.

In 2005, Shin-Etsu Chemical revised its Environmental Charter, adopted in 1998, which sets forth its basic spirit with regard to environmental protection. Each plant conducts Responsible Care, a self-directed activity program for improvement of the environment and safety. In addition, all major plants and subsidiaries are carrying out environmental conservation activities with ISO 14001 certification, the international standard for environmental management systems.

The Shin-Etsu Group's environmental targets for fiscal 2011 are to curb greenhouse gases by reducing unit energy consumption based on the total amount of sales to 66 percent of the fiscal 1991 level and to achieve zero emissions of waste.



Environmental and Social Report 2007
http://www.shinetsu.co.jp/e/catalog/kankyo2007.pdf

Eco-Friendly Products of the Shin-Etsu Group

We tackle the issues of reducing environmental burden and saving natural resources by developing eco-friendly products. Following here are some of the products that are representative of our contributions to reducing environmental burden.

Polyvinyl Chloride (PVC)

Compared with other plastics, PVC is far less dependent on petroleum resources, and coupled with progress in recycling technologies, it makes major contributions to the environment as well.

PVC Window Frames Are Adopted by the Ministry of the Environment

As reported in news stories, in March 2008 the Ministry of the Environment replaced window frames in its Central Common Government Offices No. 5 using PVC sashes, which have been highly evaluated for their thermal insulation efficiency.

According to trial calculations made by the Plastic Windows Promotion Committee, if all detached houses and collective housing throughout Japan adopted this PVC sash/multi-layered glass system, the annual reduction in CO_2 emissions could be as high as 35,000,000 tons. This one measure would meet the total CO_2 reductions currently required of the Japanese residential sector.

Rare Earth Magnets

With the use of rare earth magnets for air conditioner compressor motors, the coefficient of performance (COP) has improved between approximately 5 percent and 10 percent and power consumption has greatly decreased, which helps save energy and reduce CO_2 emissions.

Automobile applications include use for driving the various motors in hybrid and fuel-cell vehicles, as well as in generators and sensors. Rare earth magnets help achieve smaller components, and contribute to energy conservation and clean energy needs.

The Birth of the SEH-Kanagawa Way in Vancouver

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. Activities include interactions with local governments and residents, as well as the establishment of scholarship systems by Group companies in the United States and Malaysia.

The street leading to the entrance of SEH America Inc. in Vancouver, Washington was renamed SEH-Kanagawa Way. The mayor of Vancouver, Royce Pollard, proposed the name as a lasting commemoration of SEH America's and President Kanagawa's longstanding contributions to the local community.

A commemorative ceremony was held on March 5, 2008 to unveil the new street sign. Attendees included Mayor Pollard, prominent community members and many SEH America employees.

The Shin-Etsu Group hopes that SEH America and Vancouver will continue to deepen their good relations and grow together.

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 concept 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

At its meeting in July 2007, the Board of Directors resolved to appoint three existing directors to the position of representative director. Representative directors now comprise the president and the three senior managing directors.

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. Further, the statutory auditors are present at audits conducted by the accounting auditors and exchange information and opinions with the accounting auditors.

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 ¥1,218 million in fiscal 2008.

Internal audits of the Company are performed by the Auditing Department, which checks the legality and reasonableness of business activities in each division.

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's internal control promotion team is promoting the establishment of a companywide internal control system through measures including creating basic internal control guidelines for financial reporting.

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.

Toward Thorough Compliance Management

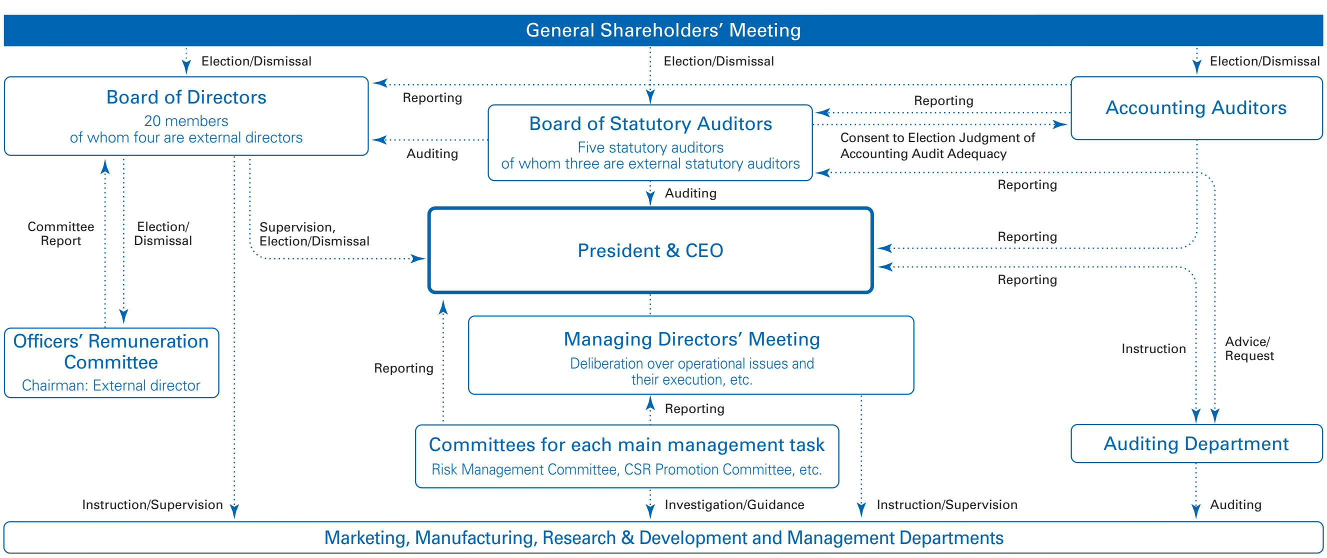
The Shin-Etsu Group is taking the following practical approaches to promote compliance management.

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.

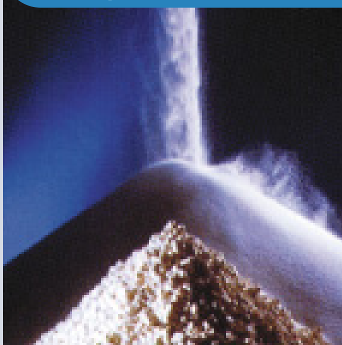
In consideration of the Act on the Protection of Personal Information, the Shin-Etsu Group established a personal information protection policy that is now posted on the Company website. Moreover, we hold meetings to explain the Act to employees and work to ensure appropriate handling and thorough protection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

Shin-Etsu's Corporate Governance Structure



The Shin-Etsu Group at a Glance

Organic and Inorganic Chemicals



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

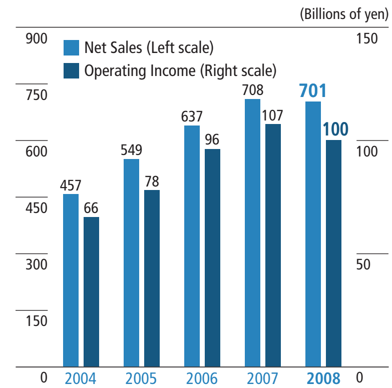
Main Products

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

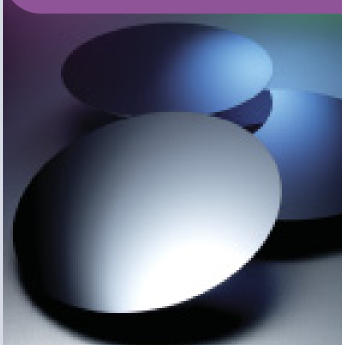
Results for Fiscal 2008

In the PVC business, Shintech of the United States achieved a high profit level by continuing to operate at full capacity. The silicone business grew as the Group concentrated on expanding sales centered on specialized products. In the cellulose derivatives business, results increased solidly at SE Tylose GmbH & Co. KG in Germany.

Net Sales and Operating Income



Electronics Materials



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

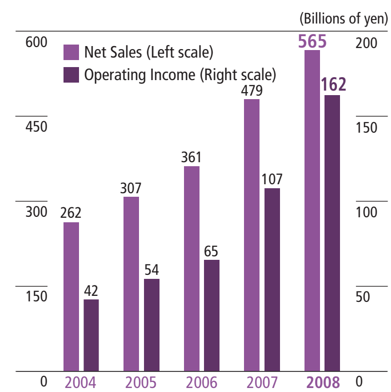
Main Products

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

Results for Fiscal 2008

In the semiconductor silicon business, results increased substantially due to strong demand for electronics devices and increased shipments of 300mm wafers. Sales of rare earth magnets for hard disc drive applications in the electronics industry were firm. Sales of photoresists increased sharply due to strong sales of ArF resists.

Net Sales and Operating Income



Functional Materials and Others

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

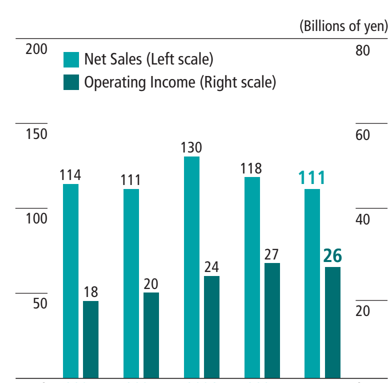
Main Products

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

Results for Fiscal 2008

In the synthetic quartz products business, sales of preforms for optical fiber were firm, but challenging conditions continued for large-size photomask substrates used for LCDs. Sales of rare earth magnets for general applications increased, and liquid fluoroelastomers and pellicles performed strongly.

Net Sales and Operating Income



Organic and Inorganic Chemicals


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


The superior adhesiveness, durability and deep hardening qualities of silicone-based, elastic joint sealing material make it effective for aquariums and other large-size water tanks.

Net Sales of Main Products (Billions of yen)

	2008	2007	2006
Polyvinyl chloride (PVC)	**363.7**	375.8	345.3
Silicones	**199.7**	198.8	176.5
Cellulose derivatives and others	**137.6**	133.8	114.7
Total	**701.0**	708.4	636.5

Polyvinyl Chloride (PVC)

PVC is a commodity plastic resin having superior use properties, processability and economic advantages. Life-cycle assessment shows major environmental benefits, too: PVC manufacture requires less petroleum resources than other plastics manufacture, because 60 percent of its raw material comes from common salt and only 40 percent from petroleum. Recycling is also progressing.

The highest-volume uses of PVC are in construction components, although it also has certain niche applications of very high value to our lives. Demand for PVC products in North America is primarily in the forms of pipes and sidings. In Europe and Asia, use for pipes and window frames is popular. For example, builders in Japan have recently begun using more PVC window frames due to their superior insulation performance, seasonally reducing costs of both heating and cooling of homes and contributing to reduction of global warming via reduced energy needs. Nowadays, demand is growing particularly strongly in China, mainly for construction materials as well as in consumer goods.

For all these reasons, global PVC demand continues to grow steadily and strongly, and to keep pace, we at Shin-Etsu are expanding our PVC production capacity at Shintech Inc. in the United States. In 2008, operations are scheduled to commence at our additional large-scale integrated PVC plant in Louisiana, which will handle all processes from the raw material stage onward. Besides Shintech, the Shin-Etsu Group will strengthen its PVC businesses in the Netherlands and elsewhere, going forward with tri-lateral bases positioned to best serve all world markets.

Silicones

Silicones combine organic and inorganic properties and can take different physical forms, such as fluid, resin or rubber. Their numerous unique properties include electrical insulation, as well as heat, cold and weather resistance. We currently provide more than 4,000 different silicone products for applications in a wide range of fields such as the electrical, electronics, automotive, construction, cosmetics, toiletries and chemical industries, and contribute to the improvement of functionality, rationalization and efficiency of production processes in numerous industries.

In recent years, growth has been steady in electrical and electronics applications that require thermally conductive silicone, and in cosmetics applications in addition to automobiles applications, where high functionality is increasingly required.

Replacing about 20 percent of our lineup each year, the Shin-Etsu Group aggressively develops new silicone products. Recently, we successively launched new products including super-low hardness thermally conductive silicone rubber for dissipation, a silicone anti-foaming agent with excellent alkali-resistance and low-staining silicone sealant.

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 United States, the Netherlands, Korea, Taiwan and China, the Shin-Etsu Group has been working to maintain 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 aims to expand overseas operations along 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 such as pharmaceutical coatings and binders for tablets and granules, construction, civil engineering, agriculture, fine ceramics, paper processing, foods and toiletries.

Shin-Etsu is working to sequentially resume regular operations at the Naoetsu Plant's cellulose production facilities, where the March 2007 explosion and fire caused considerable concern among the many parties connected to the plant including local residents and our customers. In addition, construction is progressing on new pharmaceutical cellulose production facilities at SE Tylose GmbH & Co. KG in Germany in order to stabilize supply by using multiple production bases.

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, peach and grape. 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 top market share in this field and will continue to expand sales worldwide. In addition, Shin-Etsu supplies acetylene derivatives as aroma chemicals for fragrances and food flavorings.

The Shin-Etsu Group also manufactures silicon metal, an essential raw material in such products as semiconductor silicon, silicones and synthetic quartz, which are among the Group's core businesses. Simcoa Operations Pty. Ltd., a wholly owned subsidiary in Western Australia produces 30,000 tons of high-quality silicon metal annually. Simcoa also has long-term mining rights of silica, which is a raw material of silicon metal. Shin-Etsu has secured a stable, long-term supply of quality silicon metal while demand is tightening globally.

Topics: Shintech Nearing Start of Operations at Integrated PVC Plant under Construction in Louisiana

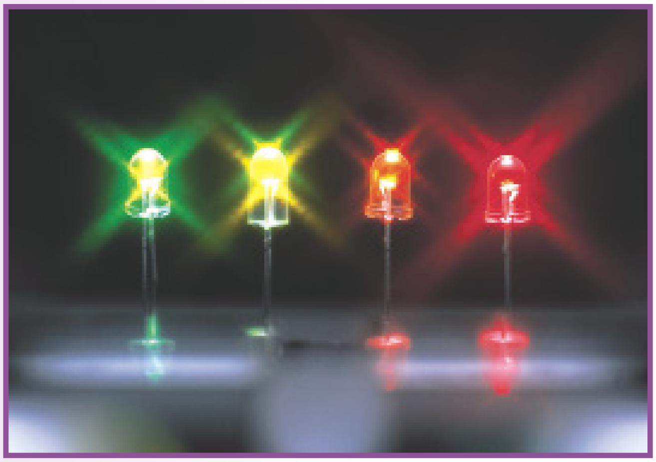
Shintech Inc. has started trial operations at its new plant at Plaquemine, Louisiana. Thanks to highly strategic property acquisition, the site has a salt dome as well as long, navigable Mississippi River frontage. Thus, the plant is totally integrated vertically, every step from mining salt and electrolysis, to producing PVC monomers, PVC resin and caustic soda.

Commercial operation of the first of two stages is scheduled to start during 2008, with construction being phased to closely track growth in global PVC demand. Annual production of first phase at Plaquemine will be 300,000 tons of PVC resin, raising Shintech's total capacity to 2.3 million tons annually and solidifiying the company's position as the largest PVC manufacturer in the United States.

Shintech has also agreed on renewal of its long-term materials procurement contract with Dow Chemical Company, further strengthening the close long-standing partnership between Shin-Etsu and Dow, and extending it to more than half a century.

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)

	2008	2007	2006
Semiconductor silicon	**482.8**	406.7	305.7
Others	**81.9**	72.7	55.7
Total	**564.7**	479.4	361.4

Semiconductor Silicon

The Shin-Etsu Group is the world's leading silicon wafer supplier, with a worldwide market share of approximately 32 percent.

Demand for semiconductor devices has been expanding for a wide range of applications, such as personal computers, mobile telephones, digital home appliances and automobiles. At the same time, the silicon wafer market has grown significantly in recent years. Amid these conditions, the Shin-Etsu Group has been providing a stable supply to users from its silicon wafer production bases in Japan, Malaysia, the United States, the United Kingdom and Taiwan.

To meet growing global demand, rapidly increasing production and dispersing risk in the 300mm wafer market, the Group expanded capacity at its five production bases in Japan and the United States. A production system for 1 million wafers a month was set up in summer 2007, earlier than scheduled. In the future, the Group will apply its collective strength to fulfilling its duties as the world's largest manufacturer by accurately grasping demand trends and maintaining its framework for promptly increasing capacity to meet demand.

The Group is also focusing endeavor on sales of such special products as SOI wafers, used for applications in highly functional devices. For wafer products with diameter less than 200mm, the Group will concentrate on strengthening competitiveness through increased productivity, product quality improvement efforts and product differentiation.

The Shin-Etsu Group, as a world leader in the semiconductor silicon wafer business, will continue working to achieve the world's highest quality products and provide 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, and meet all client demands including delivery dates.

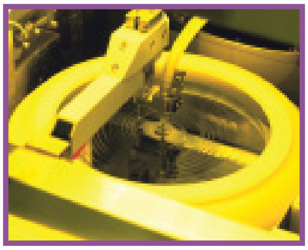
Rare Earth Magnets for the Electronics Industry

Rare earth magnets are high-performance, permanent magnets that have about 10 times the magnetic force of ferrite magnets. The Shin-Etsu Group has the largest global market share for rare earth magnets for voice coil motors (VCM), which are used for hard disk drives (HDD) used in computers, servers and video recording devices. Shin-Etsu has been working to progressively increase production capacity to meet the strong demand for VCM applications.

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 to respond to customer needs, providing a stable supply of products, developing products that meet application requirements and maintaining thorough quality control. Shin-Etsu's magnet business will continue contributing to the development of more compact, lightweight, high-performance and energy-efficient electric and magnetic parts.

Photoresists and Other Products

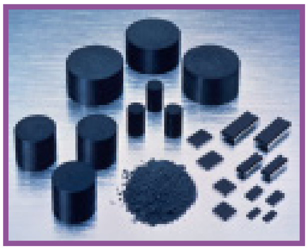


The Shin-Etsu Group is developing a system to supply the principal materials needed in the lithography process for manufacturing semiconductor devices. We have used our close connections with the semiconductor industry to develop, commercially produce and market photoresists for KrF (krypton fluoride) 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 the dust protective covers called pellicles, used for photomasks with excimer laser lithography.

Although Shin-Etsu entered the photoresist market last, it is now the top photoresist manufacturer in the world, with around one-third of the market share due to the Company's meticulous response to customers' technological innovations and widespread client trust gained by establishing thorough quality control and production commercialization technologies. Currently, ArF (argon fluoride) resists are demonstrating substantial growth with the progress of full-scale adoption for advanced devices.

The Group is preparing for the next generation of semiconductor devices in such ways as developing advanced photomask blanks together with users. The Group will continue strengthening its development and marketing to establish its position as a top semiconductor materials manufacturer.

Epoxy Molding Compounds



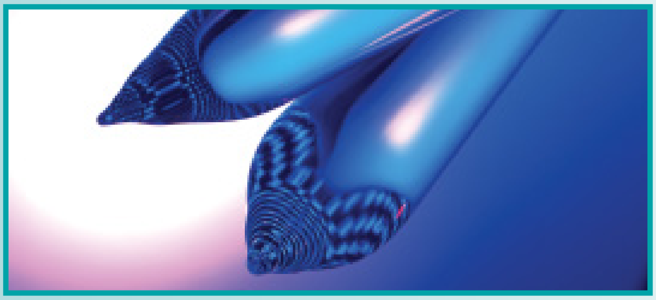
Epoxy molding compounds are used as packaging materials in almost all semiconductor products, from specific-application semiconductors to CPUs. Demand for thinner and smaller devices in the semiconductor market is driving the development of chip-size packages and the system-in-package trend in which 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 has provided a succession of unique products that are differentiated from those of other companies. These include Green EMC products, which introduced a new flame-retardant system that responds to recent environmental requirements, liquid epoxy resins that can be applied for WLCSP packaging, and molding materials modified with silicones for high-luminosity LEDs, for which applications have rapidly broadened in recent years.

Topics 300mm Wafer Production Capacity Increased to 1 Million per Month

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 1 million wafers per month in summer 2007, ahead of schedule. 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. In addition, we have increased single-crystal ingot production capacity at the Shirakawa Plant and Shin-Etsu Handotai America, and initiated production at Shin-Etsu Handotai's Takefu Plant in Fukui Prefecture, Japan. The Shin-Etsu Group will carefully follow market trends and immediately increase production capacity when it confirms demand.

Functional Materials and Others



Preforms for optical fiber

Net Sales of Main Products (Billions of yen)

	2008	2007	2006
Synthetic quartz products	**29.6**	32.9	34.5
Rare earths and rare earth magnets, etc.	**37.4**	34.8	30.6
Others	**43.7**	49.2	64.9
Total	**110.7**	116.9	130.0

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 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 extremely high in purity compared to natural quartz.

The Group supplies synthetic quartz products such as preforms for optical fiber, LSI photomask substrates, stepper lenses used in photolithography for creating semiconductor circuits, and large-size photomask substrates for LCDs, which are indispensable materials for the IT industry.

The Shin-Etsu Group is committed to differentiation through quality and will work to ensure a proper response to changes in demand for preforms for optical fiber and large-size photomask substrates for LCD panels 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 uses high-level separation and refining technologies and physical property control technologies to commercially produce rare earths with a purity rate of 99.9999 percent. The Group's rare earths contribute to energy conservation and reduction of CO_2 emissions through widespread application in such products as plasma display panels, LCD TVs and fluorescent lamps, luminescence for medical equipment, oxygen sensors in automobile engines, and capacitors.

By maximizing strong magnetic force, the Group's rare earth magnets for general industrial use contribute to the introduction of products that are lighter in weight, smaller in size, and higher in output for equipment such as motors. Among a wide range of applications, rare earth magnet uses are increasing in product areas such as home appliances, including energy-efficient air conditioners, 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 rare earth magnets, named the "new alloying process by grain boundary diffusion." As a result of the development of this new high-performance technology, the Group has realized the world's highest magnet performance characteristics for applications at higher temperatures. Expected applications include motors for automobiles, air conditioners and other equipment that requires high heat-resistance.

Liquid Fluoroelastomer SHIN-ETSU SIFEL®

SHIN-ETSU SIFEL® is a 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. SHINETSU SIFEL® has superior resistance to cold, keeping its elasticity even at minus 50ºC. 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 a molding material, an adhesive, a coating and a potting material in a wide range of application fields such as 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 and digital cameras and are contributing to making these products lighter and more compact. Shin-Etsu developed and started marketing original two-layer flexible FCLs and a halogen-free cover layer with excellent properties.

Shin-Etsu Engineering Co., Ltd., a Shin-Etsu Group company, consists of the Plant Division, which handles the integrated design and construction of various types of plants, and the Electro-Mechanics Division, which handles the development, planning and manufacturing of equipment for electronics-related industries. Both divisions also contribute to expediting the Shin-Etsu Group's capital investment projects and receive a large number of orders from companies outside of the Group. The Electro-Mechanics Division also supplies alignment machines for panel production of LCDs and Plasma Display Panels (PDPs).

Topics — New Rare Earth Separation and Refining Plant Completed

Shin-Etsu decided to construct a rare earth separation and refining plant in Sakai City, Fukui Prefecture, to increase the yield for rare earth magnet materials. The new plant will meet recent burgeoning demand for rare earth magnets in motors for products including hybrid cars and air conditioner compressors, and will play a major role in the stable supply of materials for the expanding rare earth magnets business.

Board of Directors and Auditors

(As of June 29, 2008)

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

Kiichi Habata
In charge of Environmental Control & Safety and Auditing

Yoshiaki Ono
General Manager, Silicone-Electronics Materials Research Center, Research & Development Department, 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*
Honorary Adviser,
Tokio Marine & Nichido Fire Insurance Co., Ltd.

Masashi Kaneko*
Former Director & Chairman, Nikko Cordial Corporation (currently Nikko Citi Holdings Inc.)

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
Deputy General Manager, Organic Chemicals Division

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

Toshiya Akimoto
General Manager, Office of the Secretariat

FULL-TIME STATUTORY AUDITOR

Osamu Okada

STATUTORY AUDITORS

Masahiko Watase

Taku Fukui**

Yoshihito Kosaka**

Kiyoshi Nagano**

* External director
** External auditor

Eleven-year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 1998 through 2008

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

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

Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥100=US$1, the approximate rate of exchange on March 31, 2008.
2. Stockholders' equity used for calculation of indices for the fiscal years ended March 31, 2007 and 2008 consists of "stockholders' equity" and "valuation and translation adjustments."

2004	2003	2002	2001	2000	1999	1998
¥ 832,805	¥ 797,523	¥ 775,097	¥ 807,485	¥ 678,859	¥ 642,796	¥ 693,275
125,626	122,150	114,724	112,677	87,465	86,323	90,860
74,806	73,016	68,519	64,505	48,229	43,363	42,027
177.25	173.13	162.93	153.58	116.56	109.36	110.73
173.52	169.36	159.38	150.24	113.46	103.17	101.69
16.00	14.00	12.00	12.00	10.00	9.00	8.50
113,591	75,211	81,543	96,770	80,003	73,641	136,384
73,582	66,566	70,878	70,767	61,384	56,196	62,144
¥1,386,216	¥1,310,875	¥1,288,432	¥1,265,799	¥1,168,729	¥1,060,973	¥1,083,780
401,879	409,262	363,677	350,273	273,193	261,691	221,869
110,493	110,272	110,260	110,247	107,664	98,243	83,957
–	–	–	–	–	–	–
900,724	846,962	812,068	714,996	651,261	564,067	497,312
2,140.23	2,014.11	1,930.30	1,699.74	1,557.48	1,380.43	1,265.39
17,384	16,573	16,456	19,398	18,754	18,384	19,238
422,798	422,568	422,555	422,542	419,848	410,015	393,722

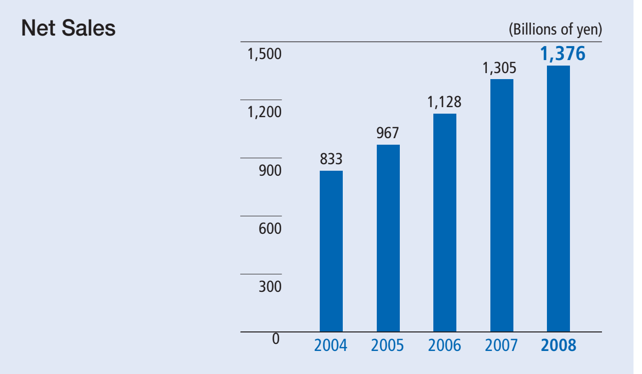
2004	2003	2002	2001	2000	1999	1998
$ 8,328,050	$ 7,975,230	$ 7,750,970	$ 8,074,850	$ 6,788,590	$ 6,427,960	$6,932,750
1,256,260	1,221,500	1,147,240	1,126,770	874,650	863,230	908,600
748,060	730,160	685,190	645,050	482,290	433,630	420,270
1.773	1.731	1.629	1.536	1.166	1.094	1.107
1.735	1.694	1.594	1.502	1.135	1.032	1.017
0.160	0.140	0.120	0.120	0.100	0.090	0.085
1,135,910	752,110	815,430	967,700	800,030	736,410	1,363,840
735,820	665,660	708,780	707,670	613,840	561,960	621,440
$13,862,160	$13,108,750	$12,884,320	$12,657,990	$11,687,290	$10,609,730	$10,837,800
4,018,790	4,092,620	3,636,770	3,502,730	2,731,930	2,616,910	2,218,690
1,104,930	1,102,720	1,102,600	1,102,470	1,076,640	982,430	839,570
–	–	–	–	–	–	–
9,007,240	8,469,620	8,120,680	7,149,960	6,512,610	5,640,670	4,973,120
21.402	20.141	19.303	16.997	15.575	13.804	12.654
17,384	16,573	16,456	19,398	18,754	18,384	19,238
422,798	422,568	422,555	422,542	419,848	410,015	393,722

Overview of the Shin-Etsu Group

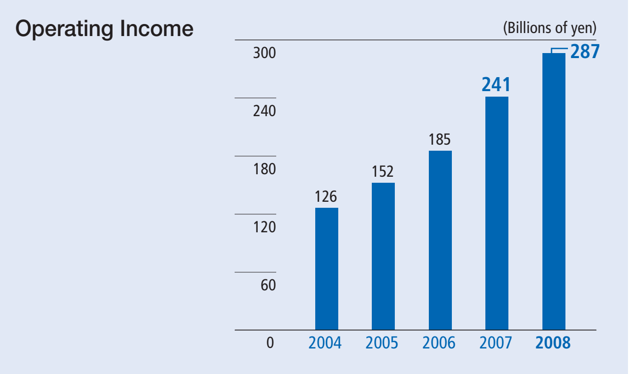
The Shin-Etsu Group (the "Group") is composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 96 subsidiaries and 16 affiliates, as of March 31, 2008. The Organic and Inorganic Chemicals segment focuses on the manufacture and sale of polyvinyl chloride (PVC), silicones and other products. The Electronics Materials segment mainly manufactures and sells semiconductor silicon, and the Functional Materials and Others segment focuses on the manufacture and sale of synthetic quartz and other products as well as providing various services including construction and repair. The Company conducts business activities in mutual cooperation with Group companies in the areas of manufacturing and sales.

Consolidated Operating Performance

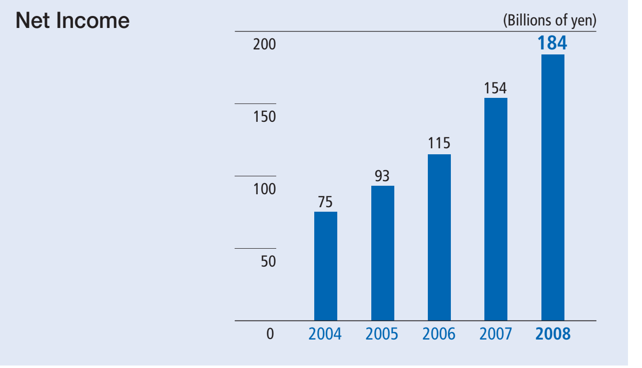
During fiscal 2008, the year ended March 31, 2008, the Japanese economy was on a moderate recovery track despite rapidly growing concern from January 2008 about a slowdown, as areas such as private sector capital investment and exports were firm. In the U.S. economy, the effects of the subprime mortgage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



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



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



Summary of Net Sales, Operating Costs and Income

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

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

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

Operating performance by business segment was as follows.

Organic and Inorganic Chemicals

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

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

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

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

Electronics Materials

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

Sales of rare earth magnets for hard disk drive applications in the electronics industry were firm, supported by increased demand for personal computers, servers and other products. Sales of photoresists increased substantially, due to factors including strong sales of ArF resists resulting from the ongoing miniaturization of semiconductor devices.

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

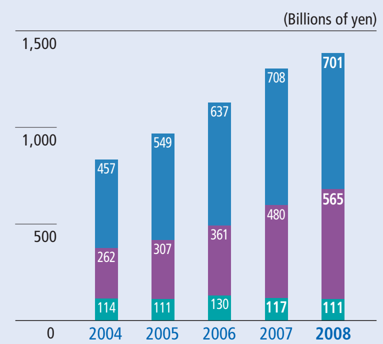
Functional Materials and Others

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

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

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

Net Sales by Business Segment



Analysis of Financial Position

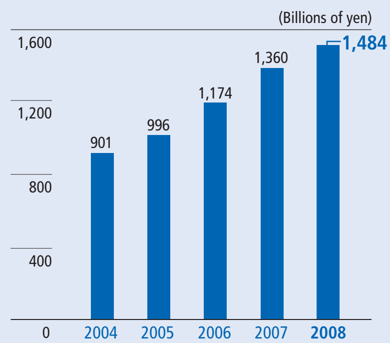
Assets, Liabilities and Net Assets

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

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

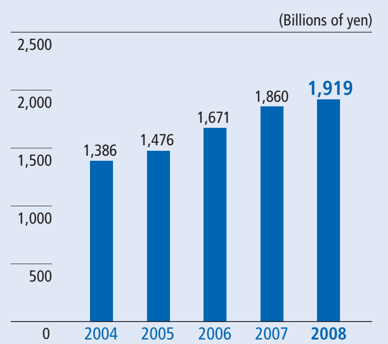
Total net assets as of March 31, 2008 were ¥1,483.7 billion due to an increase in retained earnings from net income of ¥183.6 billion and other factors. As a result, the stockholders' equity ratio was 75.0% as of March 31, 2008, an increase of 4.0 percentage points from 71.0% a year earlier. Net assets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

Total Net Assets*



* Figures for 2004, 2005 and 2006 represent shareholders' equity as reported under the former accounting standard.

Total Assets



Cash Flows

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

Cash Flows from Operating Activities

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

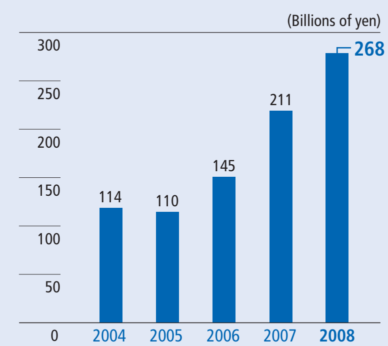
Cash Flows from Investing Activities

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

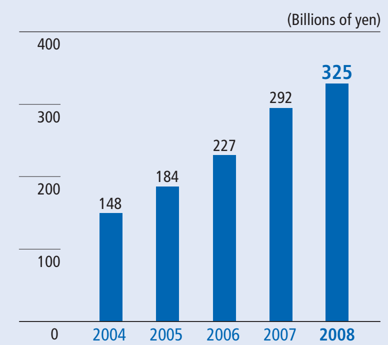
Cash Flows from Financing Activities

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

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, 2008), the types of risks listed below are those that the Group considers most significant. This list does not represent an attempt to discuss all possible risks that could impact on the Group.

1) Influence of Economic Trends and Product Markets

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

2) Influence of Fluctuations in Foreign Exchange Rates

Overseas sales accounted for 68.3% of the total consolidated sales of the Group in fiscal 2008. It is expected that this ratio will remain at a high level. The yen conversion amounts of such items included in the Group's consolidated financial statements related to the results of the Group's consolidated subsidiary companies are influenced by the exchange rate. In case of a large fluctuation in exchange rates, there is a possibility of a major impact on the business operations results of the whole Group. In addition, for transactions in foreign currencies, the Company is taking such measures as making forward-exchange contracts in order to reduce risks. However, a similar major impact might occur.

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

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

4) Influence of Public Regulatory Requirements and Law

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

5) Influence of Supply Factors on Procurement of Materials

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

6) Influence on Development of New Products and Technologies

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

7) Influence of Environmental Problems

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

8) Influence of Product Liability

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

Consolidated Balance Sheets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

As of March 31, 2008 and 2007	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	**2008**	2007	**2008**
Current Assets:			
Cash and time deposits (Note 17)	**¥ 217,266**	¥ 296,852	**$ 2,172,660**
Securities (Notes 5 and 17)	**184,520**	207,178	**1,845,200**
Notes and accounts receivable:			
Trade	**308,026**	310,416	**3,080,260**
Unconsolidated subsidiaries and affiliates	**15,886**	18,068	**158,860**
Other	**16,498**	6,457	**164,980**
Less: Allowance for doubtful accounts (Note 2 (5))	**(4,726)**	(5,988)	**(47,260)**
	335,684	328,953	**3,356,840**
Inventories (Note 4)	**204,337**	169,177	**2,043,370**
Deferred taxes, current (Note 16)	**30,188**	40,694	**301,880**
Other	**45,331**	19,026	**453,310**
Total current assets	**1,017,326**	1,061,880	**10,173,260**
Property, Plant and Equipment (Note 2 (8)):			
Buildings and structures	**380,623**	359,058	**3,806,230**
Machinery and equipment	**1,296,007**	1,171,300	**12,960,070**
Less: Accumulated depreciation	**(1,243,923)**	(1,126,524)	**(12,439,230)**
	432,707	403,834	**4,327,070**
Land	**62,920**	62,222	**629,200**
Construction in progress	**159,016**	79,352	**1,590,160**
Total property, plant and equipment	**654,643**	545,408	**6,546,430**
Intangible Fixed Assets	**25,859**	25,965	**258,590**
Investments and Other Assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 7)	**78,908**	69,541	**789,080**
Investments in securities (Note 5)	**73,033**	108,698	**730,330**
Long-term loans	**881**	983	**8,810**
Deferred taxes, non-current (Note 16)	**35,011**	26,259	**350,110**
Other	**32,904**	21,284	**329,040**
Less: Allowance for doubtful accounts (Note 2 (5))	**(20)**	(22)	**(200)**
Total investments and other assets	**220,717**	226,743	**2,207,170**
Total assets	**¥ 1,918,545**	¥ 1,859,996	**$ 19,185,450**

The accompanying notes are an integral part of the statements.

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

Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

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

	Yen 2008	2007	2006	U.S. dollars (Note 3) 2008
Per Share (Note 2 (14)):				
Net income—primary	**¥426.63**	¥357.78	¥266.63	**$4.266**
Net income—fully diluted	**426.35**	357.32	266.07	**4.264**
Cash dividends	**90.00**	70.00	35.00	**0.900**
Weighted-Average Number of Shares Outstanding (Thousands)	**430,304**	430,466	429,587	**430,304**

The accompanying notes are an integral part of the statements.

Consolidated Statements of Changes in Net Assets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

	Thousands	Millions of yen											
		Stockholders' Equity					Valuation and Translation Adjustments						
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Deferred Gain on Hedges	Foreign Currency Translation Adjustments	Total	Share Subscription Rights	Minority Interests in Consolidated Subsidiaries	Total Net Assets
Balance at March 31, 2005	430,119	¥117,513	¥126,274	¥ 780,199	¥(11,092)	¥1,012,894	¥13,688	¥ –	¥(30,275)	¥(16,587)	¥ –	¥29,065	¥1,025,372
Conversion of convertible debentures	1,988	1,907	1,905			3,812				–			3,812
Net income				115,045		115,045				–			115,045
Effect of increase in consolidated subsidiaries				9		9				–			9
Cash dividends (Note 11)				(11,793)		(11,793)				–			(11,793)
Directors' and statutory auditors' bonuses				(352)		(352)				–			(352)
Effect of change of accounting standard at an overseas consolidated subsidiary				(586)		(586)				–			(586)
Purchases of treasury stock					(1,454)	(1,454)				–			(1,454)
Disposal of treasury stock				(109)	6,246	6,137				–			6,137
Net change during the year						–	24,911	–	41,644	66,555	–	5,154	71,709
Balance at March 31, 2006	432,107	119,420	128,179	882,413	(6,300)	1,123,712	38,599	–	11,369	49,968	–	34,219	1,207,899
Net income				154,010		154,010				–			154,010
Cash dividends (Note 11)				(18,291)		(18,291)				–			(18,291)
Directors' and statutory auditors' bonuses				(486)		(486)				–			(486)
Purchases of treasury stock					(5,090)	(5,090)				–			(5,090)
Disposal of treasury stock				(387)	3,830	3,443				–			3,443
Other			(1)			(1)				–			(1)
Net change during the year						–	(9,425)	–	22,404	12,979	664	5,188	18,831
Balance at March 31, 2007	432,107	119,420	128,178	1,017,259	(7,560)	1,257,297	29,174	–	33,773	62,947	664	39,407	1,360,315
Net income				183,580		183,580				–			183,580
Cash dividends (Note 11)				(36,579)		(36,579)				–			(36,579)
Purchases of treasury stock					(7,896)	(7,896)				–			(7,896)
Disposal of treasury stock				(580)	3,238	2,658				–			2,658
Net change during the year						–	(18,478)	3,231	(7,963)	(23,210)	950	3,851	(18,409)
Balance at March 31, 2008	**432,107**	**¥119,420**	**¥128,178**	**¥1,163,680**	**¥(12,218)**	**¥1,399,060**	**¥10,696**	**¥3,231**	**¥ 25,810**	**¥ 39,737**	**¥1,614**	**¥43,258**	**¥1,483,669**

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

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

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

The accompanying notes are an integral part of the statements.

Notes to Consolidated Financial Statements

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

1. Basis of presenting financial statements

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

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

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

2. Summary of significant accounting policies

(1) Principles of consolidation

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

The remaining 28 (26 and 24 for 2007 and 2006, respectively) unconsolidated subsidiaries whose combined assets, net sales, net income and retained earnings in the aggregate are not significant compared with those of the consolidated financial statements of the Companies, therefore, have not been consolidated with the Company. For consolidation of the accounts of subsidiaries whose fiscal year-ends are not in agreement with that of the Company, necessary adjustments are made on significant intercompany transactions which took place during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

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

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

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

(2) Accounting for investments in unconsolidated subsidiaries and affiliates

The Company had 28 (26 and 24 for 2007 and 2006, respectively) unconsolidated subsidiaries (majority-owned) and 16 (15 and 16 for 2007 and 2006, respectively) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 7 (7 and 7 for 2007 and 2006, respectively) major affiliates and the cost method is applied to investments in the remaining unconsolidated subsidiaries and affiliates since they are not material for the consolidated financial statements.

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

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

(3) Translation of foreign currency transactions

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

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

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

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

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

Under the BAC method, all assets and liabilities are translated into yen at current exchange rates while capital accounts and retained earnings are translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year. The resulting translation adjustments are, as before, shown as "Foreign currency translation adjustments" in the accompanying balance sheets as of March 31, 2008 and 2007.

(5) Allowance for doubtful accounts

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

(6) Inventories

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

(7) Financial instruments

Securities:

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

Derivatives:

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

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

Hedge accounting:

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

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

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

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

(8) Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

(13) Research and development costs
Research and development costs are charged to income as incurred.

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

(15) Dividends
Dividends are proposed by the Board of Directors and approved by the stockholders at meetings held subsequent to the fiscal year to which the dividends are applicable, and registered stockholders as of the end of such fiscal year are entitled to the subsequently declared dividends. Interim cash dividends are also paid (see Note 11).

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

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

(17) Accrued retirement bonuses for directors
Until the fiscal year ended March 31, 2007, the Company and certain domestic subsidiaries had expensed directors' retirement bonuses at the time of payment. However, effective in the fiscal year ended March 31, 2008, the Company and certain domestic subsidiaries recognized the required amount of directors' retirement bonuses in accordance with an internal standard. Because *Treatment for Auditing of Reserves under the Special Taxation Measurement Law, Reserves under Special Laws and Reserves for Directors' Retirement Bonuses* (JICPA Audit and Assurance Practice Committee Report No. 42, April 13, 2007) was issued, in addition to that *Accounting Standard for Directors' Bonuses* (ASBJ statement No. 4, November 29, 2005) stipulates to accrue and expense directors' bonuses. Due to this change, we recorded ¥216 million ($2,160 thousand) which occurred in the current fiscal year and ¥1,404 million ($14,040 thousand) which belongs to the previous fiscal year as Selling, general and administrative expenses and Non-operating expenses, respectively.

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

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

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

(20) Consumption tax

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

(21) Reclassifications

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

3. United States dollar amounts

The Company prepares its consolidated financial statements in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥100 to US$1, the approximate effective rate of exchange on March 31, 2008. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥100 to US$1 or at any other rate.

4. Inventories

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

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

5. Securities

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

(1) Market value of bonds held to maturity

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

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

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

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

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

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

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

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

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

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Within one year	¥184,541	¥206,840	$1,845,410
Over one year within five years	13,350	26,260	133,500
Over five years within ten years	678	740	6,780

6. Derivative transactions

Derivative financial instruments were as follows:

As of March 31, 2008

Currency related:

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

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

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

Interest related:

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

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

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

As of March 31, 2007

Currency related:

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

Notes: 1. Market rate represents the foreign exchange rate prevailing as of March 31, 2007.
2. The market value is provided by financial institutions with which the Company made the above contracts.
3. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

Interest related:

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

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

7. Investments in and advances to unconsolidated subsidiaries and affiliates

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

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

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

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

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

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Current	**¥30**	¥ –	**$300**
Non-current	**56**	–	**560**
Total	**¥86**	¥ –	**$860**

As of March 31, 2008, assets pledged as collateral for short-term loans and long-term loans were as follows:

	Millions of yen	Thousands of U.S. dollars
Net book value of property, plant and equipment	**¥3,538**	**$35,380**

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

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

9. Retirement and pension plans

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

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

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

The reserves for retirement benefits as of March 31, 2008 and 2007 are analyzed as follows:

Benefit Obligations

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

Notes: 1. The Company and certain consolidated subsidiaries changed system from tax-qualified pension plans to defined contribution pension plans before prior fiscal year, so that prior service cost is generated.
2. Some subsidiaries adopt a simplified method for the calculation of benefit obligations.

Retirement Benefit Costs

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

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

Basic Assumptions for Calculating Benefit Obligations

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

10. Commitment and contingent liabilities

As of March 31, 2008, the Companies were contingently liable as a guarantor of housing loans for employees and loans to unconsolidated subsidiaries, affiliates and others in the aggregate amount of ¥90 million ($900 thousand).

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

11. Retained earnings

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

The Corporation Law of Japan provides that interim cash dividends (payable to stockholders of record as of September 30 of each year in the case of the Company on a semiannual basis) may be distributed upon approval by the Board of Directors. The Company paid interim dividends during the years ended March 31, 2008, 2007 and 2006 in the amounts of ¥17,201 million ($172,010 thousand) (¥40.0 per share), ¥10,754 million and ¥7,517 million, respectively, which were actually paid to stockholders on November 19, 2007, November 20, 2006 and November 18, 2005, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended March 31, 2008, 2007 and 2006, respectively.

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

12. Research and development costs

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

13. Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2008 and 2007 amounted to ¥387 million ($3,870 thousand) and ¥392 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2008, which was computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value, amounted to ¥387 million ($3,870 thousand).

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Acquisition cost	**¥1,643**	¥2,005	**$16,430**
Accumulated depreciation	**803**	949	**8,030**
Net book value	**¥ 840**	¥1,056	**$ 8,400**

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

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

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

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

14. Related party transactions

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

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

15. Loss on impairment of fixed assets

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

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

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

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

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

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

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

16. Income taxes

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

	2008	2007	2006
Corporate income tax	**30.0%**	30.0%	30.0%
Enterprise tax	**7.2**	7.2	7.2
Resident income taxes	**6.1**	6.1	6.1
	43.3%	43.3%	43.3%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid (unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid)	**40.4%**	40.4%	40.4%

Tax effects of material temporary differences and loss carry forwards which resulted in deferred tax assets or liabilities at March 31, 2008 and 2007 were as follows:

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

Net Deferred Tax Assets are included in the following accounts:

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

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

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

Income taxes - Prior years

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

17. Supplemental cash flow information

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

Reconciliation between cash and equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2008, 2007 and 2006 are presented below:

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

(2) Important non-cash transactions were as follows

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

18. Segment information

(1) Business segment information

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

Organic and inorganic chemicals business segments:
Polyvinyl chloride, Silicones, Methanol, Chloromethanes, Cellulose derivatives, Caustic soda, Silicon metal

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

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

Sales, related operating costs and expenses, operating income, assets, depreciation and capital expenditure of the Companies at March 31, 2008, 2007 and 2006 and for the years then ended, classified by business segment, are presented as follows:

	Millions of yen				
	2008				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[2]	Consolidated Total
Sales:					
Sales to outside customers	**¥701,003**	**¥564,697**	**¥110,665**	**¥ –**	**¥1,376,365**
Intersegment sales	**17,019**	**3,359**	**82,835**	**(103,213)**	**–**
Total	**718,022**	**568,056**	**193,500**	**(103,213)**	**1,376,365**
Operating costs and expenses	**618,540**	**405,956**	**167,488**	**(102,765)**	**1,089,219**
Operating income	**¥ 99,482**	**¥162,100**	**¥ 26,012**	**¥ (448)**	**¥ 287,146**
Assets	**¥782,878**	**¥713,047**	**¥199,498**	**¥ 223,122**	**¥1,918,545**
Depreciation[1]	**31,651**	**100,983**	**8,896**	**(260)**	**141,270**
Capital expenditures	**116,417**	**144,141**	**8,617**	**(696)**	**268,479**

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

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

Notes: 1. As previously mentioned in 8. Property, plant and equipment in Note 2., the Company and its domestic subsidiaries changed the depreciation method of tangible fixed assets in accordance with the revised Japanese Corporation Tax Law.
As a result, the depreciation expenses under Organic and Inorganic Chemicals business segment, Electronics Materials business segment and Functional Materials and Others business segment increased by ¥2,128 million ($21,280 thousand), ¥559 million ($5,590 thousand) and ¥668 million ($6,680 thousand), respectively, compared with the amount under the formerly applied method. The operating expenses for Organic and Inorganic Chemicals business segment, Electronics Materials business segment and Functional Materials and Others business segment increased by ¥1,740 million ($17,400 thousand), ¥502 million ($5,020 thousand) and ¥561 million ($5,610 thousand), respectively. Accordingly, the operating income of each segment decreased by the same amounts.

2. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2008, 2007, and 2006 were ¥274,993 million ($2,749,930 thousand), ¥309,306 million and ¥360,148 million, respectively, which mainly consisted of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

3. As previously mentioned in (8) Property, plant and equipment in Note 2, the period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the fiscal year ended March 31, 2007. With this change, the depreciation expenses under the Electronics Materials business segment for the fiscal year ended March 31, 2007, when compared with the figures calculated for the previous depreciable years, increased by ¥23,875 million ($238,750 thousand). Operating expenses increased by ¥22,405 million, ($224,050 thousand) and accordingly, operating income decreased by the same amount.

4. The period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the fiscal year ended March 31, 2006. With this change, the depreciation expenses under the Electronics Materials business segment for the fiscal year ended March 31, 2006, when compared with the figures calculated for the previous depreciable years, increased by ¥9,957 million. Operating expenses increased by ¥9,505 million, and accordingly, operating income decreased by the same amount.

(2) Geographical segment information

The analysis of the sales, operating costs and expenses, operating income and assets of the Companies by geographical segments as of March 31, 2008, 2007 and 2006 and for the years then ended are presented below:

Millions of yen

2008	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets³	Consolidated Total
Sales:						
Sales to outside customers	**¥ 645,007**	**¥309,101**	**¥241,146**	**¥181,111**	**¥ –**	**¥1,376,365**
Intersegment sales	**280,116**	**68,365**	**64,244**	**2,281**	**(415,006)**	**–**
Total	**925,123**	**377,466**	**305,390**	**183,392**	**(415,006)**	**1,376,365**
Operating costs and expenses²	**710,941**	**343,140**	**282,317**	**168,235**	**(415,414)**	**1,089,219**
Operating income	**¥ 214,182**	**¥ 34,326**	**¥ 23,073**	**¥ 15,157**	**¥ 408**	**¥ 287,146**
Assets	**¥1,014,059**	**¥442,680**	**¥201,640**	**¥169,182**	**¥ 90,984**	**¥1,918,545**

Millions of yen

2007	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets³	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 expenses⁴	709,157	314,015	236,213	154,858	(350,576)	1,063,667
Operating income	¥175,156	¥ 38,284	¥ 15,254	¥ 10,950	¥ 1,385	¥ 241,029
Assets	¥962,147	¥421,474	¥182,257	¥154,403	¥ 139,715	¥1,859,996

Millions of yen

2006	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets³	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 expenses⁵	620,502	284,079	182,164	126,768	(270,917)	942,596
Operating income	¥138,779	¥ 26,597	¥ 9,600	¥ 9,872	¥ 472	¥ 185,320
Assets	¥807,041	¥362,521	¥151,300	¥131,265	¥ 219,154	¥1,671,281

Thousands of U.S. dollars

2008	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets³	Consolidated Total
Sales:						
Sales to outside customers	**$ 6,450,070**	**$3,091,010**	**$2,411,460**	**$1,811,110**	**$ –**	**$13,763,650**
Intersegment sales	**2,801,160**	**683,650**	**642,440**	**22,810**	**(4,150,060)**	**–**
Total	**9,251,230**	**3,774,660**	**3,053,900**	**1,833,920**	**(4,150,060)**	**13,763,650**
Operating costs and expenses²	**7,109,410**	**3,431,400**	**2,823,170**	**1,682,350**	**$(4,154,140)**	**10,892,190**
Operating income	**$ 2,141,820**	**$ 343,260**	**$ 230,730**	**$ 151,570**	**$ 4,080**	**$ 2,871,460**
Assets	**$10,140,590**	**$4,426,800**	**$2,016,400**	**$1,691,820**	**$ 909,840**	**$19,185,450**

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

2. As previously mentioned in 8. Property, plant and equipment in Note 2., the Company and its domestic subsidiaries changed the depreciation method of tangible fixed assets in accordance with the revised Japanese Corporation Tax Law.

As a result, the operating expenses for Japan geographic segment increased by ¥2,803 million ($28,030 thousand), compared with the amount under the formerly applied method. Accordingly, the operating income decreased by the same amount.

3. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2008, 2007, and 2006 were ¥274,993 million ($2,749,930 thousand), ¥309,306 million and ¥360,148 million, respectively, which mainly consisted of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

4. As mentioned in (8) Property, plant and equipment in Note 2, the period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the fiscal year ended March 31, 2007. As a result, operating expenses for Japan, North America, Asia/Oceania and Europe for the fiscal year ended March 31, 2007, increased by ¥13,321 million ($133,210 thousand), ¥4,029 million ($40,290 thousand), ¥2,955 million ($29,550 thousand) and ¥2,099 million ($20,990 thousand), respectively, compared with the figures calculated for the previous depreciable years. Accordingly, operating income decreased by the same amounts.

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

(3) Overseas sales information

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

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

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

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

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

Notes: 1. Main countries or areas
North America .... U.S., Canada
Asia/Oceania .... China, Taiwan, South Korea, Singapore, Thailand, Malaysia
Europe .... Germany, France, Portugal
Other Areas .... Latin America, Middle East
2. "Overseas sales" means sales to outside Japan by the Company and its consolidated subsidiaries.

19. Subsequent event

Appropriation of retained earnings

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

20. Changes in the method of presentation

(Consolidated Balance Sheet)

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

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

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

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

(Consolidated Statements of Cash Flows)

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

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

Consolidated Subsidiaries

As of March 31, 2008

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shintech Inc.[1]	100.0	December 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31
Shin-Etsu Handotai America, Inc. [1]	100.0	December 31
Shin-Etsu Polymer Co., Ltd.	53.1	March 31
S.E.H. Malaysia Sdn. Bhd. [1][2]	100.0	December 31
Shin-Etsu PVC B.V.[1]	100.0	December 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31
SE Tylose GmbH & Co. KG[1]	100.0	December 31
Shin-Etsu-Handotai Europe, Ltd.[1]	100.0	December 31
Nagano Electronics Industrial Co., Ltd.	90.0	February 29
Shin-Etsu Handotai Taiwan Co., Ltd.[1]	70.0	December 31
Naoetsu Electronics Co., Ltd.	100.0	February 29
Shin-Etsu Astech Co., Ltd.	99.6	March 31
S-E, Inc.[1]	100.0	December 31
Shin-Etsu Electronics Materials Singapore Pte. Ltd.[1]	100.0	December 31
Shin-Etsu Fintech Co., Ltd.	100.0	March 31
JAPAN VAM & POVAL Co., Ltd.	100.0	March 31
Shin-Etsu Singapore Pte. Ltd.[1]	100.0	December 31
Shin-Etsu Silicone Korea Co., Ltd.[1]	100.0	December 31
Shinano Polymer Co., Ltd.	100.0	March 31
Shin-Etsu Silicones Thailand Ltd.[1]	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd.[1]	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 29
Shin-Etsu MicroSi, Inc.[1]	100.0	December 31
Shin-Etsu Silicone Taiwan Co., Ltd.[1]	93.3	December 31
Shin-Etsu Silicones of America, Inc.[1]	100.0	December 31
Shin-Etsu Silicones Europe B.V.[1]	100.0	December 31
Shin-Etsu Sealant Co., Ltd.	100.0	March 31
Shin-Etsu Unit Co., Ltd.	100.0	March 31
Shin-Etsu Opto Electronics Co., Ltd.[1]	80.0	December 31
Shin-Etsu Polymer (Malaysia) Sdn. Bhd.[1]	100.0	December 31

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shin-Etsu Polymer Europe B.V.[1]	100.0	December 31
Shin-Etsu International Europe B.V.[1]	100.0	December 31
Nihon Resin Co., Ltd.	100.0	December 31
Naoetsu Precision Co., Ltd.	100.0	February 29
Skyward Information Systems Co., Ltd.	100.0	March 31
Shinano Electric Refining Co., Ltd.	77.4	March 31
Fukui Environmental Analysis Center Co., Ltd.	100.0	February 29
Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu Technology Service Co., Ltd.	76.9	February 29
Urawa Polymer Co., Ltd.	100.0	March 31
Niigata Polymer Company Limited	100.0	March 31
Shin-Etsu Polymer America, Inc.[1]	100.0	December 31
Naoetsu Sangyo Limited	100.0	March 31
San-Ace Co., Ltd.	100.0	March 31
Shinken Total Plant Co., Ltd.	100.0	February 29
Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Magnet Co., Ltd.	100.0	March 31
Shin-Etsu Polymer Mexico S.A. de. C.V.[1]	100.0	December 31
PT. Shin-Etsu Polymer Indonesia[1]	100.0	December 31
Shin-Etsu Polymer Singapore Pte. Ltd.[1]	100.0	December 31
Shin-Etsu Polymer Shanghai Co., Ltd.[1]	100.0	December 31
Shin-Etsu Polymer Hong Kong Co., Ltd.[1]	100.0	December 31
Shin-Etsu Polymer Hungary Kft.[1]	100.0	December 31
Human Create Co., Ltd.	100.0	March 31
Suzhou Shin-Etsu Polymer Co., Ltd.[1]	71.4	December 31
S.E.H. (Shah Alam) Sdn. Bhd.[1]	100.0	December 31
Simcoa Operations Pty. Ltd.[1]	100.0	December 31
Shincor Silicones, Inc.[1]	100.0	December 31
K-Bin, Inc.[1]	100.0	December 31

7 other consolidated subsidiaries

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

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of Shin-Etsu Chemical Co., Ltd. and consolidated subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated balance sheet of Shin-Etsu Chemical Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and the related consolidated statements of income, changes in net assets, and cash flows for each of the two years in the period ended March 31, 2007 were audited by other auditors whose report dated June 28, 2007 expressed an unqualified opinion on those statements.

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

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

Ernst & Young ShinNihon
Tokyo, Japan

June 27, 2008

Investor Information

As of March 31, 2008

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:
20,241 (including 69 consolidated subsidiaries)

Number of Shares Authorized:
1,720,000,000

Number of Shares Issued:
432,106,693

Number of Shareholders:
64,808

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:
Ernst & Young ShinNihon

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)	42,218	9.8
Japan Trustee Services Bank, Ltd. (Trust account)	34,320	8.0
Nippon Life Insurance Company	24,370	5.7
Japan Trustee Services Bank, Ltd. (Trust account 4)	14,436	3.4
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
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,095	1.6
State Street Bank and Trust Company 505103	6,467	1.5
Fukoku Mutual Life Insurance Company	5,600	1.3

Information:

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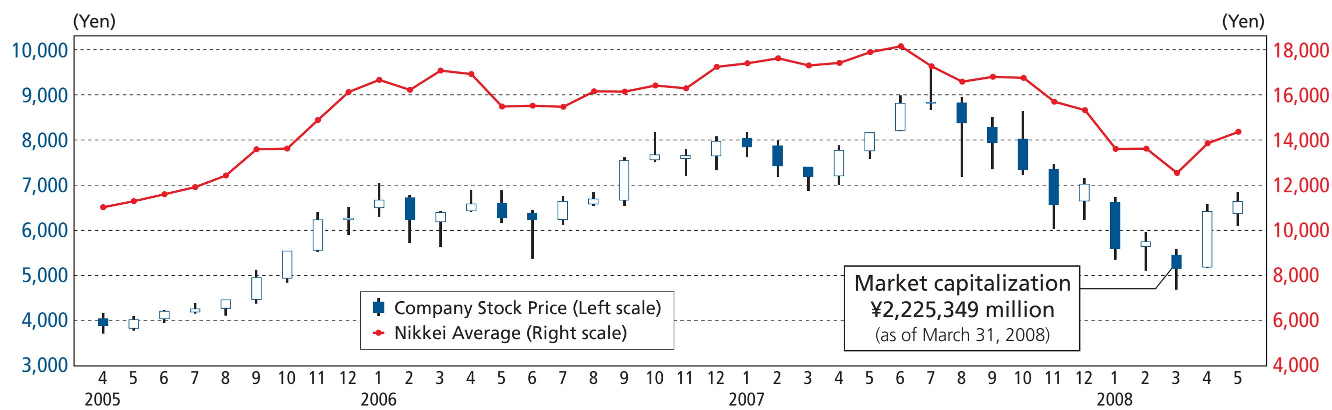
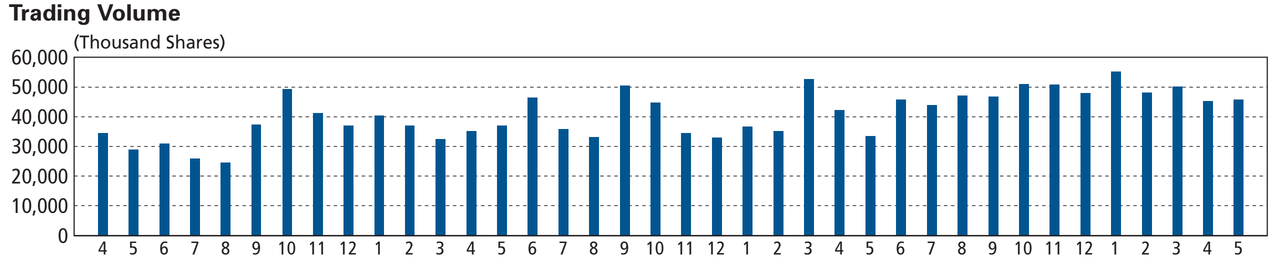
6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, Japan
Phone: +81-3-3246-5091
Fax: +81-3-3246-5096
e-mail: sec-pr@shinetsu.jp

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
Rheingaustr. 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 Györ, 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
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 Silicon 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.
No. 652 Dong Gang Road, Economic and Technical Development Zone, Wujiang City, Jiangsu
Phone: +86-512-6327-0704 Fax: +86-512-6327-2674
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

26 SHIN-ETSU TECHNOLOGY (SUZHOU) CO., LTD.
Block4, No.1 of Qiming Road
Suzhou Industrial Park 215121
Phone: +86-512-6276-3270 Fax: +86-512-6276-3277
Business: Production and Sales of Rare Earth Magnets

Korea

27 SHIN-ETSU SILICONE KOREA CO., LTD.
Danam Bldg. 9F, 120, 5-ka, Namdaemunno 5(0)-ga,
Jungu-gu, Seoul
Phone: +82-2-775-9691 Fax: +82-2-775-9690
Business: Production and Sales of Silicone Products

Malaysia

㉘ 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

㉙ S.E.H. (SHAH ALAM) SDN. BHD.
Lot 8, Jalan Sementa 27/91, Seksyen 27,
40400 Shah Alam, Selangor Darul Ehsan
Phone: +60-3-5123-7000 Fax: +60-3-5191-3111
Business: Production and Processing of Semiconductor Silicon Wafers

㉚ 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

㉛ 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

㉜ 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

㉝ 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

㉞ 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

㉟ 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

㊱ 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

㊲ 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

㊳ 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

㊴ 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

㊵ ASIA SILICONES MONOMER LTD.
1 Moo 2 Asia Industrial Estate Tambol Banchang,
Ampher Banchang Rayong 21130
Phone: +66-38-687-050 Fax: +66-38-687-060
Business: Production and Sales of Silicone Monomer

JAPAN

㊶ 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

㊷ 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

㊸ 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

㊹ 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

㊺ SHIN-ETSU HANDOTAI CO., LTD.
6-2, Ohtemachi 2-chome, Chiyoda-ku, Tokyo
Phone: +81-3-3243-1500 Fax: +81-3-3247-1271
Business: Production and Sales of Semiconductor Silicon and Compound Semiconductors

㊻ 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

㊼ 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

㊽ 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

㊾ 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

㊿ 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

51 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

52 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

53 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

54 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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