Leadership That Creates Value

Shin-Etsu Chemical Co., Ltd. | Annual Report 2010

For the Year Ended March 31, 2010

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.

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 FY 2011 (ending March 2011)

Objective I Strengthen the foundations of our main businesses and further expand them

Objective II Start up new businesses quickly

Objective III Thoroughly commit to safety-first

Objective IV Contribute to improving the global environment

Objective V Strictly comply with all laws and regulations and through fair business practices contribute to society

Key Value Indicators

No.1
global market share in polyvinyl chloride and semiconductor silicon

3.8 million tons
of annual PVC production capacity

(For further details, refer to the graph "Worldwide PVC Production Capacity of the Shin-Etsu Group" on page 6.)

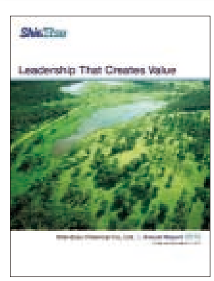
Aa3
rating by Moody's. No.1 rank among all chemical companies worldwide

(For further details, refer to page 15.)

No.1
for two consecutive years in the *Nikkei Shimbun*'s ranking of promising stocks as chosen by 20 corporate managers.

(For further details, refer to page 15.)

Contents



About the Cover

Australia's Kakadu National Park, from the Shin-Etsu Group original calendar 2010 "*NATURE AND LIFE*"

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.

Financial Highlights

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

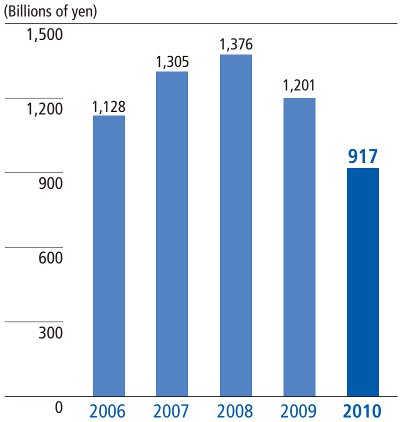
For the years ended March 31, 2000 through 2010

Millions of yen

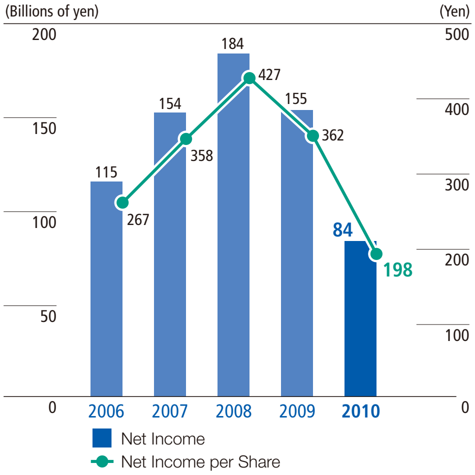
	2010	2009	2008	2007	2006
For the year:					
Net sales	**¥ 916,838**	¥1,200,814	¥1,376,365	¥1,304,696	¥1,127,916
Operating income	**117,216**	232,927	287,146	241,029	185,320
Ordinary income	**127,019**	250,533	300,040	247,018	185,040
Net income	**83,853**	154,732	183,580	154,010	115,045
Capital expenditures	**123,794**	159,407	268,479	210,613	145,330
Depreciation and amortization	**87,723**	119,457	141,270	138,462	111,637
At year-end:					
Total assets	**¥1,769,140**	¥1,684,945	¥1,918,545	¥1,859,996	¥1,671,281
Working capital	**612,447**	606,632	638,807	628,986	572,206
Common stock	**119,420**	119,420	119,420	119,420	119,420
Net assets	**1,474,213**	1,407,354	1,483,669	1,360,315	—
Stockholders' equity	**—**	—	—	—	1,173,680
Interest-bearing debt	**20,052**	23,828	34,045	45,143	83,838
Per share (Yen and U.S. dollars):					
Net income—primary	**¥ 197.53**	¥ 362.39	¥ 426.63	¥ 357.78	¥ 266.63
Net income—fully diluted	**197.50**	362.35	426.35	357.32	266.07
Cash dividends	**100.00**	100.00	90.00	70.00	35.00
Payout ratio (%)	**50.6**	27.6	21.1	19.6	13.1
Net assets	**3,370.56**	3,218.28	3,344.17	3,065.80	2,730.94
General:					
ROE (%)[2]	**6.0**	11.0	13.3	12.4	10.6
ROA (%)	**7.4**	13.9	15.9	14.0	11.8
Number of employees	**16,955**	19,170	20,241	19,177	18,888
Number of shares issued (Thousands)	**432,107**	432,107	432,107	432,107	432,107

Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥93=US$1, the approximate rate of exchange on March 31, 2010.
2. Stockholders' equity used for calculation of indices from the fiscal year ended March 31, 2007 consists of "stockholders' equity" and "valuation and translation adjustments."

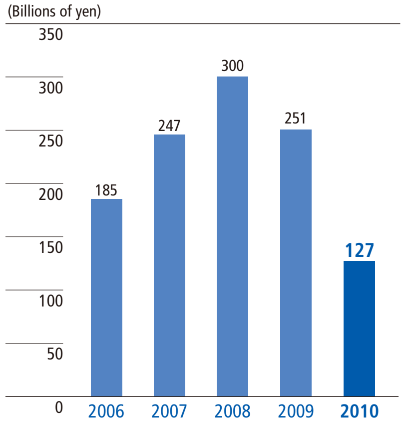
Net Sales



Net Income and Net Income per Share

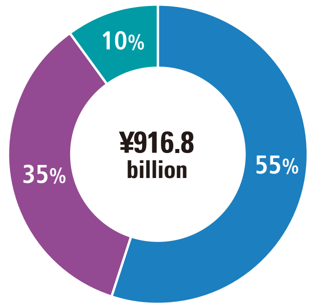


Ordinary income

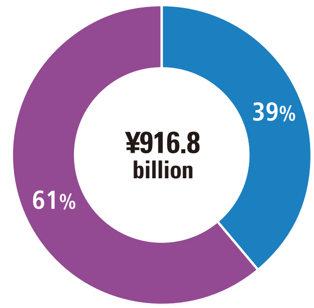


Note: Graphs are based on fiscal years ended March 31.

Net Sales by Business Segment

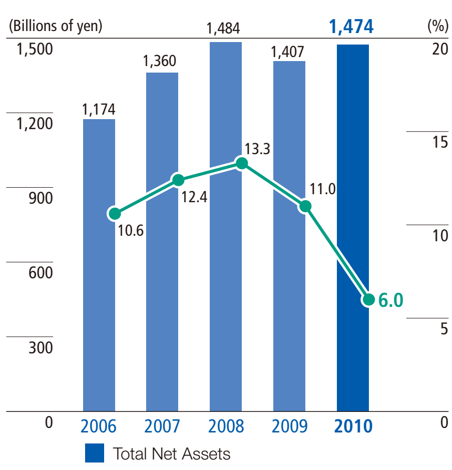


Net Sales in Japan and Overseas



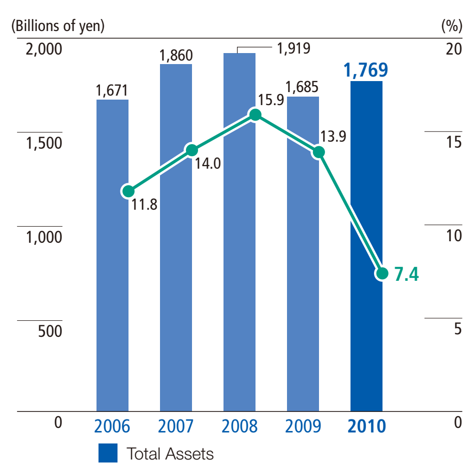
2005	2004	2003	2002	2001	2000	Thousands of U.S. dollars[1] 2010
¥ 967,486	¥ 832,805	¥ 797,523	¥ 775,097	¥ 807,485	¥ 678,859	**$ 9,858,473**
151,734	125,626	122,150	114,724	112,677	87,465	**1,260,387**
151,503	125,612	122,119	117,031	115,798	84,424	**1,365,796**
93,161	74,806	73,016	68,519	64,505	48,229	**901,645**
110,278	113,591	75,211	81,543	96,770	80,003	**1,331,118**
90,875	73,582	66,566	70,878	70,767	61,384	**943,258**
¥1,476,249	¥1,386,216	¥1,310,875	¥1,288,432	¥1,265,799	¥1,168,729	**$19,023,011**
444,935	401,879	409,262	363,677	350,273	273,193	**6,585,452**
117,513	110,493	110,272	110,260	110,247	107,664	**1,284,086**
—	—	—	—	—	—	**15,851,753**
996,307	900,724	846,962	812,068	714,996	651,261	**—**
120,422	163,167	167,362	182,729	197,085	259,847	**215,613**
¥ 219.10	¥ 177.25	¥ 173.13	¥ 162.93	¥ 153.58	¥ 116.56	**$ 2.124**
216.11	173.52	169.36	159.38	150.24	113.46	**2.124**
20.00	16.00	14.00	12.00	12.00	10.00	**1.075**
9.1	9.0	8.1	7.4	7.8	8.6	**50.6**
2,329.47	2,140.23	2,014.11	1,930.30	1,699.74	1,557.48	**36.243**
9.8	8.6	8.8	9.0	9.4	7.9	**6.0**
10.6	9.3	9.4	9.2	9.5	7.6	**7.4**
18,151	17,384	16,573	16,456	19,398	18,754	**16,955**
430,119	422,798	422,568	422,555	422,542	419,848	**432,107**

Total Net Assets* and ROE

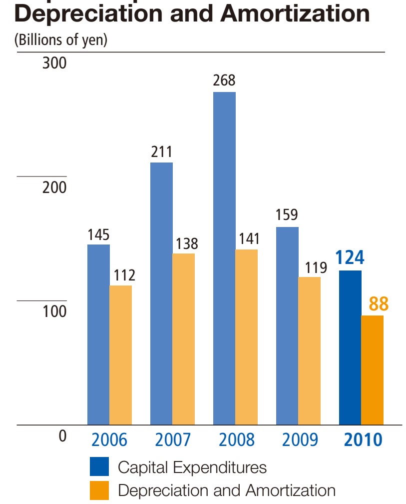


* The figure for 2006 represents stockholders' equity as reported under the former accounting standard.

Total Assets and ROA



Capital Expenditures and Depreciation and Amortization



To Our Stockholders

In fiscal 2010, we were able to keep the effects of the global recession to a minimum and at the same time continued research activities that will assure the future growth of the Shin-Etsu Group.

Chihiro Kanagawa
Chairman

FY 2010 Results

The Shin-Etsu Group had to operate in the difficult business environment caused by the global economic recession throughout fiscal 2010, the year ended March 31, 2010. The business environment was particularly severe during the first half of the year. Tough times, when every company faces strong headwinds, test the real strength of the Company. Bearing that in mind, I have been carrying out the management of Shin-Etsu, which was facing adverse winds. Through my years of practical management experience, I know that fluctuations in the global economy are certain to occur. Accordingly, I took many measures in advance so that Shin-Etsu would be ready to effectively cope with a major downturn in the economy and to strengthen our existing businesses regardless of the condition of the economy. As a result, we attained much better earnings in Shin-Etsu's core businesses, such as our U.S. PVC business and the semiconductor silicon business, while our competition in those businesses were struggling. I believe the Shin-Etsu Group did a much better job fending off the effects of this global recession. In the meantime, we maintained our commitment to R&D without reducing R&D spending for future growth, at a time many companies were reducing their R&D spending.

As a result of these efforts, the Shin-Etsu Group achieved consolidated net sales of ¥916,838 million, consolidated ordinary income of ¥127,019 million and consolidated net income of ¥83,853 million. In addition, we maintained the annual dividend at ¥100 per share, the same level as in the previous fiscal year.

Trends in Core Businesses

With regard to our PVC business, Shintech Inc. in the United States, which is at the core of our PVC business, was affected by the sluggish demand resulting from the prolonged stagnation in the U.S. housing market. However, Shintech contributed significantly to our consolidated earnings by expanding its sales to customers worldwide and maintaining high plant operating levels.

To further develop its business, Shintech in Plaquemine, Louisiana is moving forward with the expansion of its fully integrated manufacturing plant, which starts with PVC raw materials.

In the semiconductor silicon business, demand declined sharply from the second half of 2008. It bottomed out in the January to March 2009 period, then began a recovery that was led mainly by increased demand for 300mm wafers. The Shin-Etsu Group has been implementing various measures to establish a business structure that can quickly respond to the semiconductor device industry's technological innovation and market changes. As a result, during the sluggish demand period in the semiconductor industry, we managed to minimize the negative effects from the situation. The Shin-Etsu Group will further strengthen its competitiveness by providing its customers with a stable supply of differentiated high-quality products that meet their important needs. One example is Shin-Etsu's success in providing products that meet the new requirements for miniaturization in the electronics industry.

With regard to the silicone business, a recovery in demand during the second half of the fiscal year was seen in Japan and other Asian markets. Sales increased in such applications as LEDs, automotive, electronics and cosmetics.

We will accelerate development of new products and new applications for products that are in demand in a wide range of new fields of application. In addition, we will focus on expanding sales in emerging markets such as China.

Comprehensive Initiatives for the Global Environment

Having set "Contributing to the global environment" as an important management objective, the Shin-Etsu Group is working aggressively on initiatives related to environmental issues. Our rare-earth magnets are used in such environment-friendly applications as motors for hybrid vehicles and energy-saving air-conditioners. We are also working diligently to reduce the environmental burden of our production, shipping and other business activities by utilizing our unique production technologies and know-how that we have developed.

Strengthening Our Business Foundation

The Shin-Etsu Group is also working aggressively to secure raw materials and resources for our core products. In addition to Shintech's progress in bolstering its integrated PVC production system from raw materials, the Group is further strengthening its business foundation by increasing its production capacity of silicon metal, a raw material used in such key products as semiconductor silicon, silicones and synthetic quartz.

In research and development, we continue to focus on developing technologies and products that have originality and that no other companies can match. We are also concentrating our efforts on preserving intellectual property rights through such means as patents.

Promoting Fair Management Practices and CSR

The Shin-Etsu Group's mission is "to conduct fair business practices, complying with all laws and regulations, and to contribute to people's daily lives as well as to the advance of industry and society by providing key materials and technologies." We employ a strict internal-control system, and work to ensure management soundness and transparency through the participation of external directors and external statutory auditors.

With regard to Shin-Etsu's Corporate Social Responsibility (CSR) policies, Group companies are carrying out a variety of corporate activities worldwide and appropriately disclosing information about these activities.

At the meeting of the Board of Directors following the annual stockholders' meeting on June 29, 2010, I was appointed Representative Director/Chairman. I would like to express my sincerest gratitude for your kind support during my time as President.

In addition, I would like to express my heartfelt appreciation to all of the Shin-Etsu Group's employees, who have devotedly carried out their work.

I will continue working to develop Shin-Etsu so that it meets the expectations of all of our stockholders and investors. I sincerely ask more than ever for your continued understanding and support.

C. Kanagawa

Chihiro Kanagawa
Chairman

Leadership That Creates Value

Production Expansion through Integrated Facilities

As the world's largest PVC manufacturer, Shintech of the United States, the core of the PVC business of the Shin-Etsu Group, responds to market trends by establishing integrated production from raw materials.

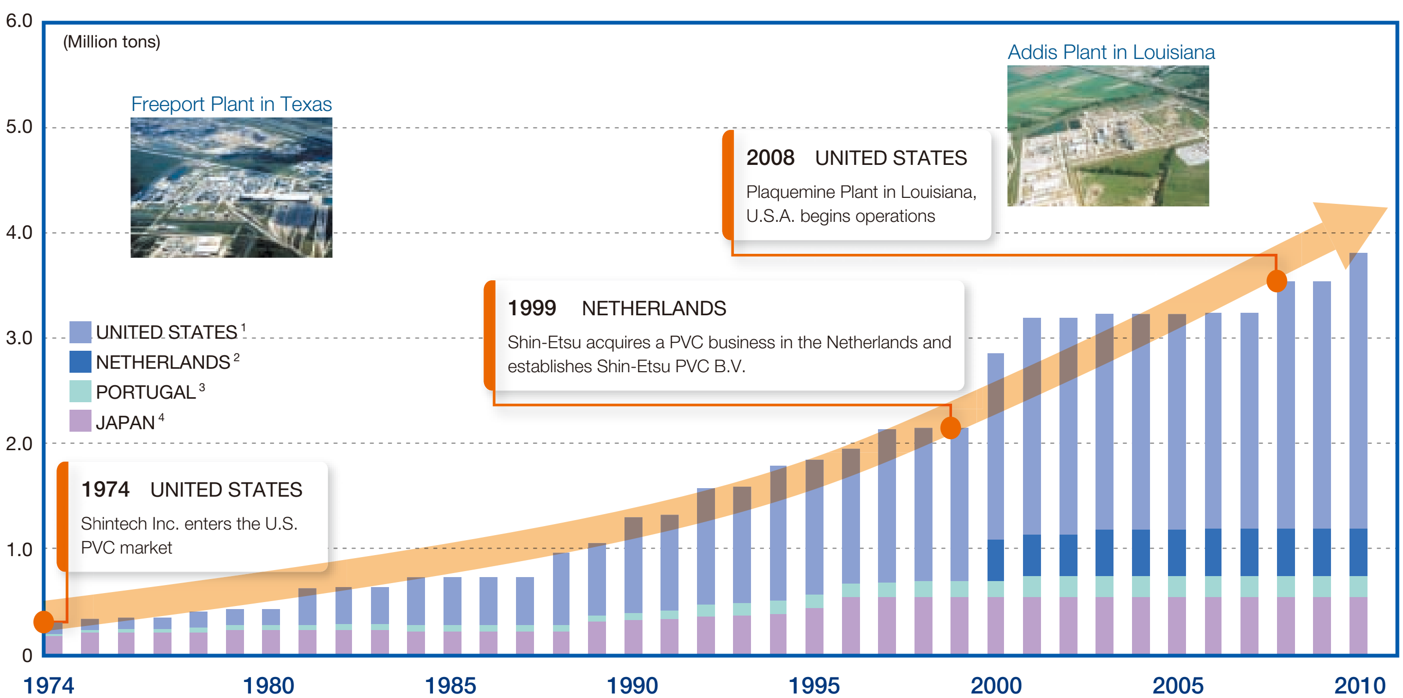
Since beginning operations in 1974, Shintech has expanded its production facilities a number of times. It now has more than 20 times its initial production capacity.

In 2008, operation of the first phase began at the No. 1 plant at Plaquemine, Louisiana, an integrated PVC manufacturing facility handling all processes from raw materials. Second-phase expansion of this facility is scheduled for completion in the second half of 2010. This will bring Shintech's total annual PVC production capacity to 2.6 million tons.

Until recently, Shintech has purchased most of its vinyl chloride monomer, which is a raw material needed to make PVC, from the Dow Chemical Company, its excellent, long-standing and reliable partner. Shintech will continue to purchase raw material from Dow Chemical while strengthening its competitiveness by establishing an integrated system that enables in-house vinyl chloride monomer production whenever necessary.

Worldwide PVC Production Capacity of the Shin-Etsu Group

At the end of 2010, the Shin-Etsu Group's annual PVC production capacity will be 3.8 million tons, the largest in the world.



Notes: 1. UNITED STATES (Shintech Incorporated — Freeport Plant, Addis Plant, Plaquemine Plant)
2. NETHERLANDS (Shin-Etsu PVC B.V.)
3. PORTUGAL (CIRES, S.A. (Companhia Industrial De Resinas Sinteticas, S.A.))
4. JAPAN (Shin-Etsu Chemical Co., Ltd. — Kashima Plant)

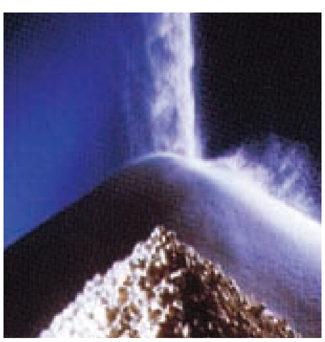
Shintech Invests ¥100 Billion to Expand Production Capacity of PVC Raw Materials

Freeport Plant in Texas

Addis Plant in Louisiana

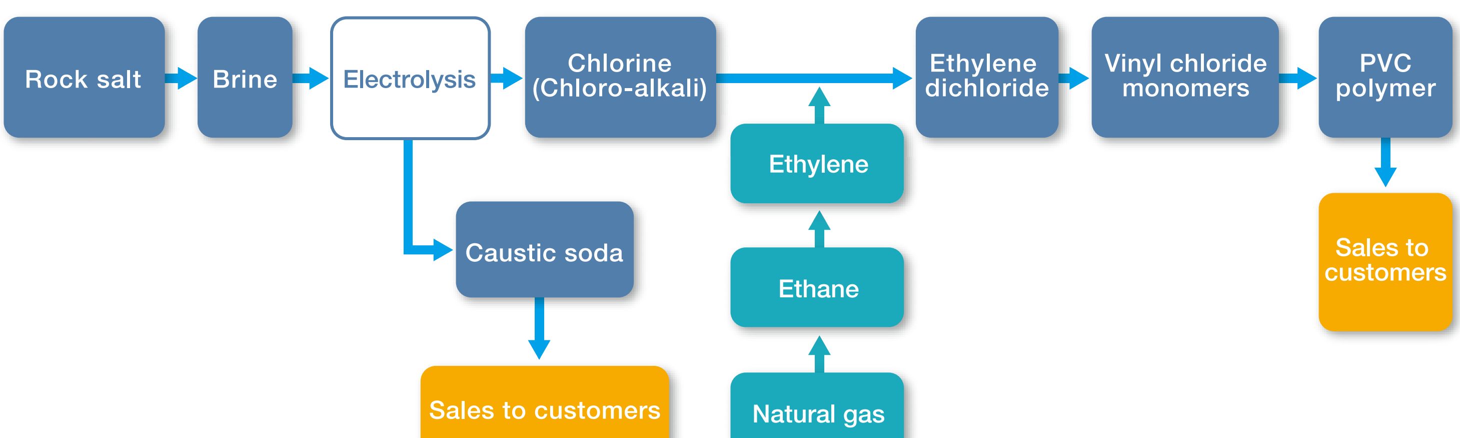
Plaquemine Plant in Louisiana

Shintech began construction of the No. 2 plant on a site adjacent to the No. 1 plant in Plaquemine, Louisiana. Scheduled for completion in 2011, the No. 2 plant will produce vinyl chloride monomer, a raw material for PVC. Total construction costs for the new facility, expected to be around ¥100 billion, will be internally funded. The No. 2 plant will further enhance Shintech's integrated PVC production system from raw materials by doubling total output at Plaquemine with additional annual production capacity of 800,000 tons of vinyl chloride monomer and 530,000 tons of caustic soda.



Integrated Production System from Rock Salt to PVC Resins

At one plant we are able to perform all production processes, from the mining of salt from underground salt domes and its purification to electrolysis and the production of vinyl chloride monomer and PVC.



Leadership That Creates Value

Shin-Etsu's Contributions to Semiconductor Production

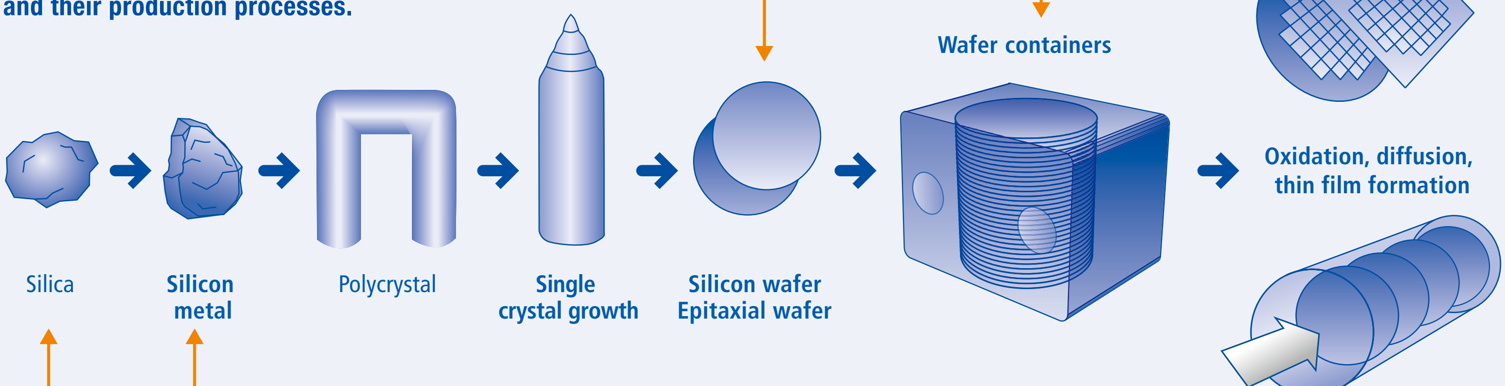
Shin-Etsu was first in the world to mass produce 300mm silicon wafers in 2001. Shin-Etsu Handotai Co., Ltd. established defect-free technology for single crystals and high-flatness processing technology for silicon wafers, gaining strong customer trust for its commercial production capabilities and quality technologies.

300mm Silicon Wafers

Group company Shin-Etsu Polymer Co., Ltd. has an excellent track record in front opening shipping boxes (FOSB) and front opening unified boxes (FOUP).

Wafer Containers

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



Silica and Silicon Metal

Simcoa Operations Pty. Ltd. of Australia has a long-standing silica mining concession and produces silicon metal, a main raw material for semiconductor silicon, silicone and synthetic quartz. It provides key support to Shin-Etsu by ensuring stable, long-term supply of high-quality silicon metal.

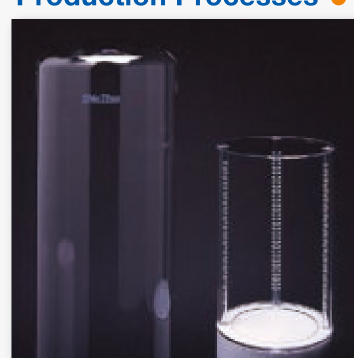
Silica

Silicon Metal

Silicon Carbide Products

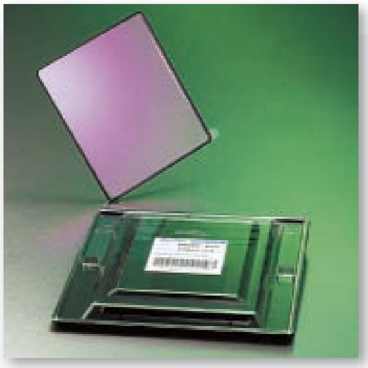
Silicon carbide products of Shinano Electric Refining Co., Ltd. greatly contribute to improving precise processing of silicon wafers as sawing materials and abrasives.

Quartz Glass for Semiconductor Production Processes



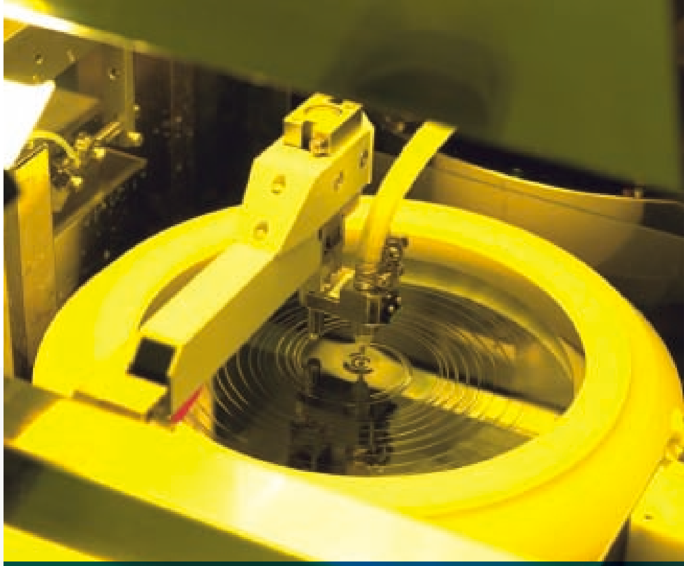
Wafers are fixed in a boat (right) and placed in a furnace tube made of quartz glass (left) for oxidation, diffusion and CVO processes.
The Shin-Etsu Group's quartz glass products meet the customer's needs of high-temperature processes.

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.



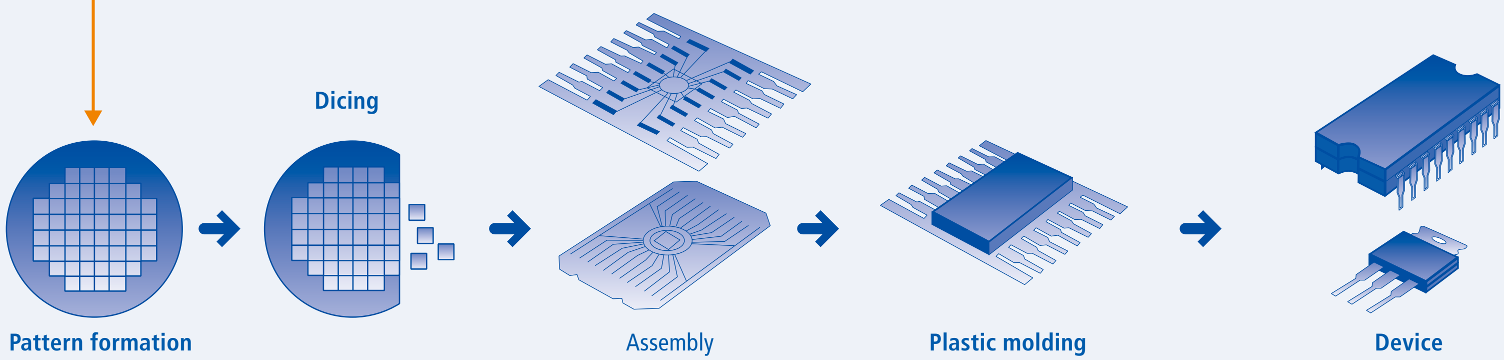
Shin-Etsu supplies high-quality pellicles for ArF and KrF excimer laser lithography. These products have high light-resistance and good transmission uniformity. In addition, Shin-Etsu has succeeded in the development of super large-size pellicles for the production of liquid crystal display (LCD) panels.

Pellicles



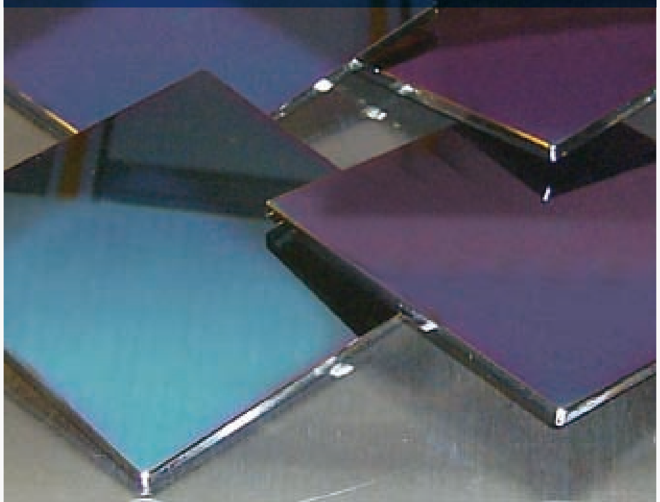
Shin-Etsu developed the first photoresist for use with the short wavelength excimer laser in 1996, and has become the leading manufacturer in this field. Sales have also begun for trilayer materials used in post-45nm generation miniaturization processes.

Photoresists

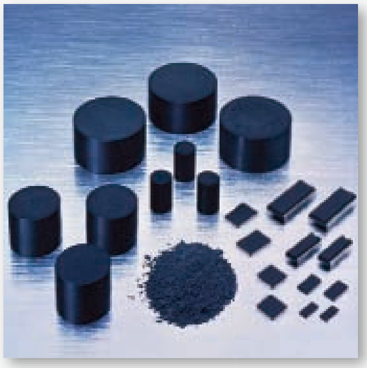


Photomask Blanks

Photomask blanks are photomask materials used for etching circuit patterns on silicon wafers. In fiscal 2010, Shin-Etsu began commercial production of cutting-edge photomask blanks, which are indispensable to the miniaturization of semiconductors.



Epoxy Molding Compounds



Shin-Etsu's epoxy molding compounds provide excellent reliability and moldability due to the utilization of Shin-Etsu's own silicone low-stress technology, special filler technology and unique flame retardation technology, or "green compound technique."

Silicone-based Thermal Interface Materials

Shin-Etsu offers various silicone-based thermal interface materials as thermally conductive materials to fill gaps between heat-generating units like CPUs and heat sinks.

The Shin-Etsu Group at a Glance

Organic and Inorganic Chemicals

No. 1 global market share in
polyvinyl chloride (PVC)

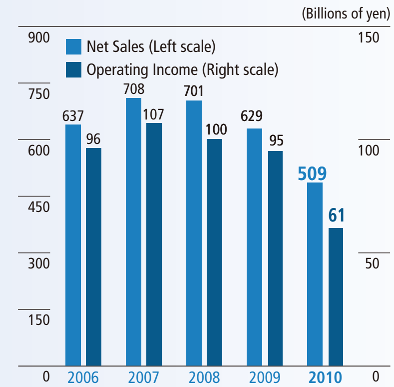
Main Products

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

Results for Fiscal 2010

In the PVC business, Shintech of the United States maintained a high level of shipments, but demand in Europe and Japan was sluggish. Sales were firm in the silicone business as demand started to recover in a wide range of areas from the second half. Sales of cellulose derivatives were stagnant on the whole in Japan, except for pharmaceutical-use products. The performance of SE Tylose in Germany also remained weak due to low demand for construction materials in Europe.

Net Sales and Operating Income



Electronics Materials

No. 1 global market share in
semiconductor silicon

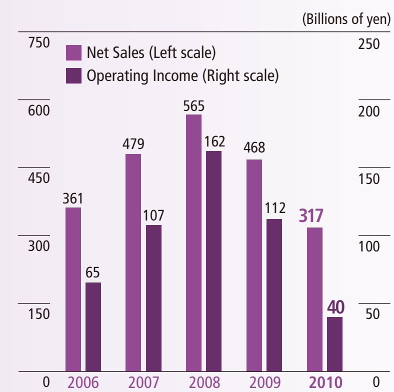
Main Products

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

Results for Fiscal 2010

Although shipments of silicon wafers began to recover, mainly for 300mm wafers, because of the low product prices, the severe business situation continued. Sales of rare-earth magnets to the electronics industry were solid as a result of recovery in demand for hard disk drives. Sales of photoresist products were strong because of progress in the miniaturization of semiconductor devices.

Net Sales and Operating Income



Functional Materials and Others

No. 1 global market share in
photomask substrates

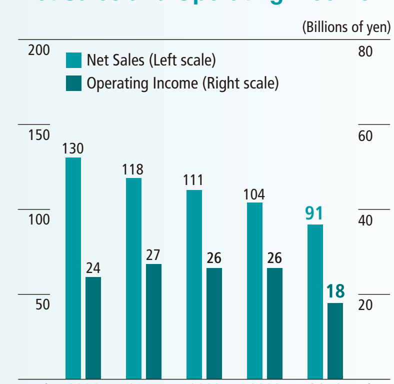
Main Products

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

Results for Fiscal 2010

In synthetic quartz products, sales of optical fiber preforms were firm. However, although shipments of large-size photomask substrates for LCDs were steady, sales were significantly affected by intensifying price competition. Sales of rare-earth magnets for general industrial use were firm for applications including motors for hybrid vehicles and energy-saving air-conditioners. However, demand for other applications was slack overall. Sales of liquid fluoroelastomers were solid in Japan, but exports were flat. Sales of pellicles were firm.

Net Sales and Operating Income



Topics

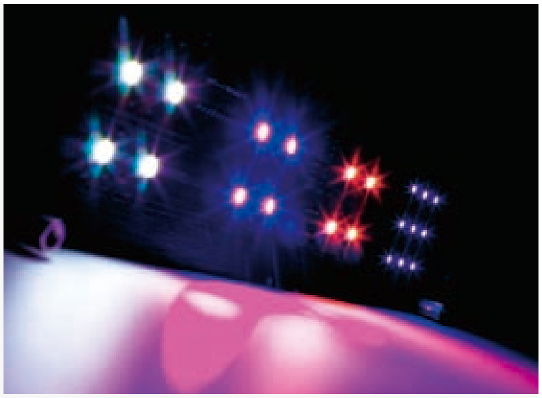
Increasing Production Capacity of Silicon Metal at Simcoa Operations

Shin-Etsu's subsidiary Simcoa Operations Pty. Ltd. of Australia is going ahead with its plan to double production capacity of silicon metals. Together, the first-phase and second-phase expansions are scheduled to increase production capacity by 32,000 tons/year to 64,000 tons/year by the end of 2013. Silicon metal is a main raw material for Shin-Etsu's core products of semiconductor silicon, silicones and synthetic quartz. The expansion will secure a supply of resources that are essential for the Company's businesses.

Topics

Enhancing the Lineup of LED-related Materials

Shin-Etsu supplies many highly reliable products for LEDs, such as silicone encapsulating materials with superior heat resistance and photo-thermal stability that protect LED chips, die-bonding materials with high bonding strength and superior heat resistance, lenses, and thermal interface materials. The Company has recently developed new products to add to its lineup, including silicone reflectors for high-brightness LEDs and transparent protective film with high heat resistance. As a comprehensive supplier of LED-related materials, Shin-Etsu will continue to offer superior products that meet increasingly sophisticated market needs.



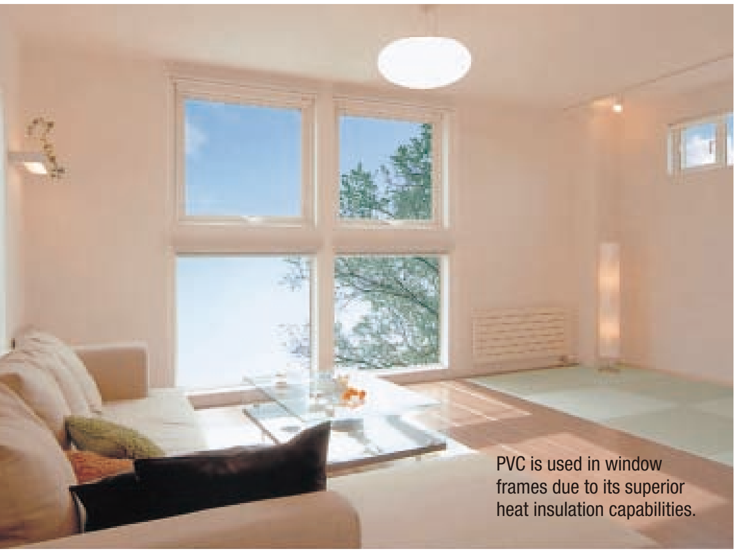
Topics

Shin-Etsu's Magnets Installed in Toyota Prius

Due to their outstanding attraction, heat resistance and durability, Shin-Etsu's rare-earth magnets are installed in high-end hybrid cars, thus contributing to the automobiles' high functionality and energy conservation. The magnets are used in the drive motors of Toyota Motor Corporation's third-generation Prius, which was Japan's best-selling car in 2009. Shin-Etsu's rare-earth magnets support the Prius, the world's most successful hybrid car.

The new Prius (Photo provided by Toyota Motor Corporation)

Review of Operations



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

Organic and Inorganic Chemicals

Net Sales of Main Products

(Billions of yen)

	2010	2009	2008
Polyvinyl chloride (PVC)	**242.7**	324.9	363.7
Silicones	**155.6**	171.8	199.7
Cellulose derivatives and others	**110.7**	132.5	137.6
Total	**509.0**	629.2	701.0
Assets	**754.0**	698.1	782.9
Depreciation	**33.4**	34.7	31.7
Capital Expenditures	**94.6**	82.0	116.4

Polyvinyl Chloride (PVC)

PVC is a commodity plastic resin having superior properties and processability, as well as economic advantages. Life-cycle assessment shows major environmental benefits, too: Manufacturing PVC requires less petroleum resources than making other plastics, and PVC recycling is also progressing.

PVC is used in a variety of fields including essential public infrastructure such as water and sewage pipes and electrical wires, in many vital medical appliances such as tubing and valves, as well as in construction materials. Recently, a growing number of households in Japan are using 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.

Shin-Etsu is now further expanding the PVC production capacity of our United States subsidiary Shintech Inc. in the state of Louisiana.

Shintech Inc. will continue to be the flagship of the Shin-Etsu Group's PVC businesses, which we manage in a trilateral structure that includes manufacturing bases in Europe and Japan.

Silicones

Silicones combine organic and inorganic properties and can be produced in various 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 kinds of silicone products for applications that contribute to improved functionality of products, rationalization and increased efficiency of production processes in a wide range of fields such as the electrical, electronics, automotive, construction, cosmetics, toiletries and chemical industries.

The Shin-Etsu Group will continue to aggressively expand production and sales of silicones in Japan and overseas, especially in China where the market is growing rapidly. We will also continue to focus on developing new products and new applications.

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.

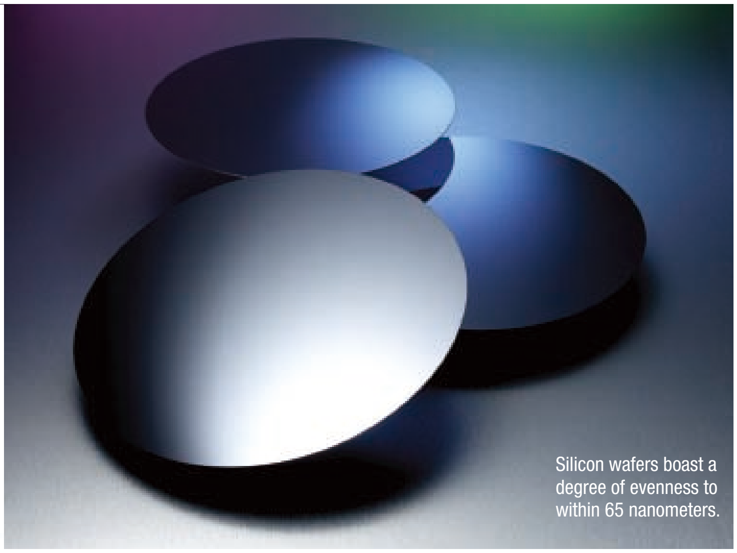
Cellulose Derivatives

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.

In addition to the Naoetsu Plant in Japan, construction is currently progressing on pharmaceutical cellulose production facilities at SE Tylose GmbH & Co. KG in Germany in order to stabilize supply by establishing multiple production bases. We are also working to develop overseas markets.

Synthetic Pheromones

Synthetic pheromones disrupt insect mating behaviors and, as a result, 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 gaining wider attention as an alternative technique to insecticides, and Shin-Etsu will continue to expand sales worldwide.



Silicon wafers boast a degree of evenness to within 65 nanometers.

Electronics Materials

Net Sales of Main Products

(Billions of yen)

	2010	2009	2008
Semiconductor silicon	254.5	404.9	482.8
Others	62.6	62.6	81.9
Total	317.1	467.5	564.7
Assets	624.9	607.2	713.0
Depreciation	47.4	75.8	101.0
Capital Expenditures	22.0	71.3	144.1

Semiconductor Silicon

Demand for semiconductor devices is expanding due to the widening range of applications in such products as personal computers, mobile phones, digital appliances and automobiles. The Shin-Etsu Group is responding to customer demand by shipping silicon wafers to users worldwide from its production bases in Japan, Malaysia, the United States, the United Kingdom and Taiwan.

The Shin-Etsu Group is the world's top silicon wafer supplier, with a worldwide market share of approximately one third. We meet all customer needs through leading cutting-edge technologies and by establishing the framework for stable supply.

As for 300mm wafers, the Group is going forward with mass production at its production sites in Japan and the United States. In the future, the Group will apply its collective strength to fulfill its duties as the world's top supplier by accurately grasping market trends and maintaining its framework for promptly increasing capacity to meet demand.

The Group is focusing on expanding sales of wafers used for applications in power semiconductors, which are increasingly utilized for energy reduction, and in highly functional devices. The Group is also working to strengthen competitiveness through product quality differentiation.

Rare-Earth Magnets for the Electronics Industry

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 audiovisual-recording devices.

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. Beginning with material development, 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.

Photoresists and Other Products

The Shin-Etsu Group has established a framework to supply the principal materials needed for the lithography process in semi-conductor manufacturing. We have leveraged our close connections with the semiconductor industry to develop, commercially produce and market photoresists for KrF (krypton fluoride) and ArF (argon fluoride) excimer lasers as a photo-sensitive material used in printing semiconductor circuits, I-line resists, 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 leading photoresist manufacturer in the world, with a share of around one-third of the market due to the Company's detailed response to customers' technological innovations and widespread client trust.

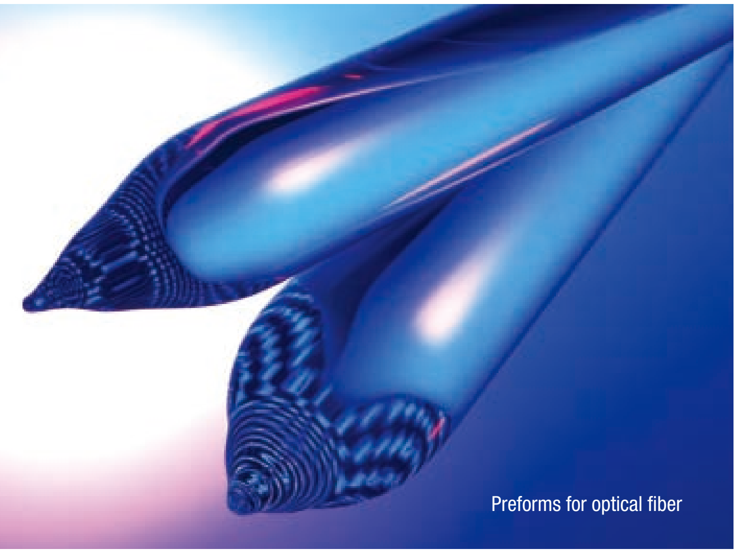
Shin-Etsu will strengthen development to reinforce its position as a top semiconductor materials manufacturer and source of the most advanced photomask blanks.

Epoxy Molding Compounds

Based on 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 with improved flame-retardance that respond to environmental requirements, and liquid epoxy resins.

The Group has recently focused on expanding sales of products that meet the needs of the rapidly growing LED market by developing silicone molding materials and reflectors to meet the heat resistance requirements of high-brightness LEDs.

Shin-Etsu's LED reflector materials are indispensable to enhancing LED brightness.



Preforms for optical fiber

Functional Materials and Others

Net Sales of Main Products

(Billions of yen)

	2010	2009	2008
Synthetic quartz products	23.4	25.8	29.6
Rare earths and rare-earth magnets, etc.	30.3	36.9	37.4
Others	37.0	41.4	43.7
Total	90.7	104.1	110.7
Assets	183.1	172.5	199.5
Depreciation	7.1	9.2	8.9
Capital Expenditures	8.7	6.6	8.6

Synthetic Quartz Products

With silicon metal refined to a high degree of purification as a raw material, the Shin-Etsu Group is mass producing 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, and large-size photomask substrates for LCDs, which are indispensable materials for the IT industry.

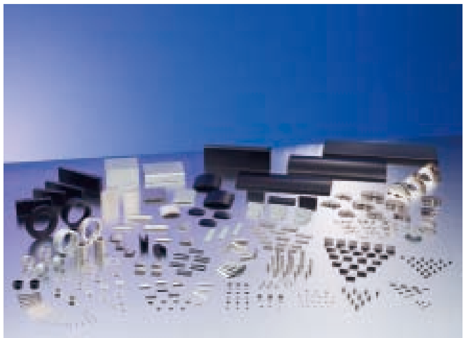
The Shin-Etsu Group is committed to differentiation through quality and will work to ensure a proper response to demand trends for optical fiber preforms and large-size photomask substrates for LCD panels to prepare for the further development of the high-level information society.

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-earth materials for a wide range of applications in such products as plasma display panels, LCD TVs, LEDs and fluorescent materials.

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.

The magnetic force of the Group's rare-earth magnet products is among the strongest in the world. This feature has gained us a high degree of trust from customers for a wide range of applications in such product areas as energy-efficient air conditioners and other home appliances, and various motors for automobiles. In addition, the use of rare-earth magnets is expanding in such energy-saving and environmentally friendly applications as motors for hybrid cars and wind-power generators.



A variety of rare-earth magnets

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. SHIN-ETSU 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 including the automotive, aircraft, electric, electronics, office equipment and petrochemical industries.

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 FCLs and a halogen-free cover layer with excellent properties.

Shin-Etsu Engineering Co., Ltd. consists of the Plant Division and the Electro-Mechanics Division. Both divisions contribute to expanding and automating the Shin-Etsu Group's investment projects and receive a large number of orders from companies outside of the Group. Shin-Etsu Engineering also supplies alignment machines for panel production of LCDs.

Research and Development

The Shin-Etsu Group places importance on the development of unique technologies that differentiate it from competitors and adds value to avoid simple price competition. In a challenging operating environment, the Research & Development Department is further accelerating development to commercialize new research products.

Accelerating R&D to Compete in a Challenging Environment

New research initiatives begin with identifying new themes. New themes can be proposed at any time from anywhere in the company, and are selected by the New Z Committee based on evaluation criteria including market size, growth potential, profitability, technological originality, and social contribution such as reduction of carbon emissions, energy savings and so on. The New Z Committee regularly follows the progress of projects, and judges when commercialization should begin. Currently, the Company is working on more than 10 research themes with the aim of early commercialization.

The Shin-Etsu Group recognizes that intellectual property, such as patents and technological expertise, is an important management asset. As of March 31, 2010, the Shin-Etsu Group as a whole held 4,898 domestic and 5,911 overseas patents. Of these, the Group obtained 173 patents in the United States in 2009, which is top-class among Japanese chemical companies.

Number of Patents by Region

	Number of patents acquired during fiscal 2009	Cumulative number of patents acquired as of the end of fiscal 2010
Japan	1,184	4,898
North America	173	2,215
Asia/Oceania	186	1,718
Europe	242	1,965
Other Areas	1	13
Total	1,786	10,809

Topics

No. 1 for Two Consecutive Years in Nikkei's Ranking of Promising Stocks

On January 3, 2010, Japan's leading economic newspaper *Nikkei Shimbun* published its annual "Corporate Managers' Outlook for the Economy and Stock Prices" for 2010. For the second consecutive year, Shin-Etsu was ranked by 20 corporate managers as the most promising stock among all listed companies in Japan. The article states that our ranking reflects high expectations for Shin-Etsu as a company with superior technological capabilities and a strong product lineup.

Promising Stock Ranking

2010	2009
1. Shin-Etsu Chemical Co., Ltd.	**1. Shin-Etsu Chemical Co., Ltd.**
2. Komatsu Ltd.	2. Tokyo Electric Power Company
3. Mitsubishi Corporation	3. Nintendo Co., Ltd.
4. Mitsui & Co., Ltd.	4. FAST RETAILING CO., LTD.
5. Honda Motor Co., Ltd.	5. Asahi Breweries, Ltd.
6. Mitsubishi Heavy Industries, Ltd.	5. Takeda Pharmaceutical Company Limited
7. Unicharm Corporation	5. East Japan Railway Company
8. Asahi Breweries, Ltd.	8. Panasonic Corporation
8. Toshiba Corporation	8. Mitsubishi Corporation

Source: *Nikkei Shimbun* Jan. 3, 2009 and Jan. 3, 2010, Japanese ed.

Standing Above All Other Chemical Companies Worldwide with Moody's Highest Credit Rating

Ever since February 20, 2009, Shin-Etsu has maintained the highest long-term credit rating among chemical companies worldwide from credit rating agency Moody's Investors Service: Aa3.

Moody's Investors Service Ratings

(As of April 20, 2010)

Ranking/Company	Long-term rating	Outlook	Country
1. Shin-Etsu Chemical Co., Ltd.	**Aa3**	**STA**	**Japan**
2. BASF (SE)	A1	STA	Germany
2. Kuraray Co., Ltd.	A1	STA	Japan
4. Kaneka Corporation	A2	STA	Japan
4. Monsanto Company	A2	STA	United States
4. Praxair, Inc.	A2	STA	United States
4. Sigma-Aldrich Corporation	A2	STA	United States
4. Syngenta AG	A2	STA	Switzerland
4. E.I. Du pont de Nemours and Company	A2	NEG	United States

Source: Moody's Investors Service

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. Based on the 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," all employees focus on environmentally conscious product development and promote safety, environmental and social activities.

Basic CSR Policy

As a good corporate citizen, the Shin-Etsu Group has always endeavored to contribute to society through positive activities. 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.

- Based on the Shin-Etsu Group's corporate mission of "contributing to people's daily lives as well as to the advance of industry and society by providing key materials and technologies," we endeavor to increase the Group's corporate value and become a company that will achieve continuous growth and development. We do this by faithfully complying with the laws and regulations in all the countries in which we are active and through fair and sound corporate activities.
- The Shin-Etsu Group puts its utmost priorities on the fundamental management principles of Safety-and Environment-First, and we aim to be a company that will continue to be trusted by all of our stakeholders. Shin-Etsu also works to help realize a sustainable society. We endeavor to contribute to the mitigation of the impact of climate change and to promote the preservation of the biodiversity of the Earth.
- Based on the universal principle of "respecting human dignity," Shin-Etsu strives to fulfill its responsibilities as a global enterprise by creating an ideal working environment for employees, one in which there is no unfairness of any kind, as well as no forced labor or child labor.
- In order to continue to work in a harmonious and responsible relationship with global society, Shin-Etsu is committed to carrying out activities that contribute to society and to disclosing appropriate corporate information in a timely fashion.
  Furthermore, Shin-Etsu maintains a sound and transparent relationship with society through such policies as that of not making illegal payments to public officials in any country.

SE Tylose employees and students from a professional school

Safety and Environmental Initiatives

The Shin-Etsu Group has incorporated safety and the environment in its management policy and is working to create a new framework that ensures no disasters occur.

We executed a survey of hazards and improved processes, facilities and manuals. We also use the Company's intranet to share information on hazards identified by employees and their suggestions for improvements. At the same time, we disclose these hazards and suggestions for improvements on the Company website in a section entitled "Disclosure of Close-Call (*Hiyari-Hatto*) Incidents."

In addition, we are promoting environmental management, which includes efforts to achieve our goals concerning environmental issues, management of chemical substances, management of facilities and prevention of work-related accidents.

The Shin-Etsu Group's medium-term environmental objectives are to reduce greenhouse gas emissions to 66 percent of the fiscal 1991 level in terms of the energy consumption rate in 2010 and to reduce the emission rate to less than 1 percent of waste.

Environmental and Social Report 2009
http://www.shinetsu.co.jp/e/catalog/kankyo2009.pdf

Interaction with Local Communities

The Shin-Etsu Group is actively making a 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.

SE Tylose invites students to R&D, quality assurance and technical sales departments to provide them with insights that will benefit their professional life in the future. SE Tylose also provides practical training periods in-house to students who are interested in natural science and has contributed equipment such as a fully functional gas chromatograph to a professional school.

Products and Technologies of the Shin-Etsu Group that Contribute to Achieving a Low-Carbon Society

Dr. Hiroshi Komiyama's *Vision 2050* and the "12, 3, 5, 5" Theory of Greenhouse Gas Reduction

In 1997, Dr. Hiroshi Komiyama, external director of Shin-Etsu, published a compilation of his views on technologies for global sustainability in *Vision 2050*. In the book, he pointed out that tripling energy efficiency, establishing a material recycling system and doubling renewable energy sources are indispensable to achieving a low-carbon, recycling-based society.

He also details his "12, 3, 5, 5" proposal, a concrete vision for reducing greenhouse gas emissions by 25 percent as announced by the Japanese government in 2009. This incorporates a 12 percent reduction from daily life (including emissions from homes, offices and transportation), a 3 percent reduction from manufacturing, a 5 percent reduction from energy production, and a 5 percent reduction from conservation of the natural environment, including forests.

The point he makes clear is that strategically promoting increased energy efficiency in these areas is essential for Japan's growth and for raising energy self-sufficiency.

Dr. Hiroshi Komiyama
External Director
Former President of The University of Tokyo

Products and Technologies of the Shin-Etsu Group that Contribute to Greater Energy Efficiency in Wide-Ranging Fields from Daily Life to Forest Conservation

Daily Life (Including Emissions from Homes, Offices and Transportation): 12 percent

High thermal insulation efficiency (plastic resin window frames): PVC
Heat-pump water heaters: rare-earth magnets (highly efficient motors)
Energy-efficient air-conditioners: rare-earth magnets (highly efficient motors)
LED lighting: silicone peripheral materials for LEDs (lenses, molding materials, reflecting materials, thermal interface materials, etc.)
Clean-energy cars: rare-earth magnets (highly efficient motors); silicone (eco-friendly tires)

Manufacturing: 3 percent

Technologies to improve the efficiency of manufacturing processes
Resource recycling technologies

Energy Production: 5 percent

Solar power generation: single crystal silicon, abrasive materials, silicone assembly materials, silane gas
Wind power generation: rare-earth magnets (generators)

Conservation of the Natural Environment, Including Forests: 5 percent

Synthetic pheromones (forest pest control agents)

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 are some of the many products we supply that are representative of our contributions to the achievement of the goals of Dr. Hiroshi Komiyama's *Vision 2050*.

Annual reduction in greenhouse gases of **35 million tons**

Photo provided by TOSTEM CORPORATION

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 significantly reduce energy consumption for heating during winter due to their superior thermal insulation. Based on a statistical study, conversion of all houses in Japan from aluminum sashes to PVC window frames would reduce greenhouse gas emissions by 35 million tons annually, based on four-person households with full-time housewives. An experiment at The University of Tokyo yielded a 43 percent reduction.

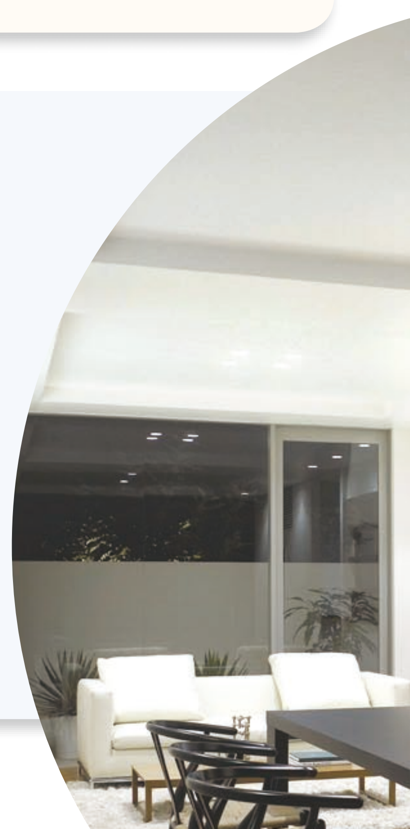
The Ministry of the Environment and The University of Tokyo have installed PVC window frames because of the high evaluation they have received for reducing greenhouse gas emissions. In addition, PVC window frames have become increasingly popular products because they are covered by the recent ecopoint program established for housing by the Ministry of Land, Infrastructure, Transport and Tourism, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment.

In addition, PVC window frames have proven to be highly effective in addressing needs in urban centers for uses such as soundproofing, crime prevention and condensation prevention.

Silicones for LEDs

LEDs have rapidly gained share in the market for illuminants because they reduce environmental burden. Applications for these products are expanding in areas from display devices such as traffic signals to backlighting for LCD TVs, as well as in automobile headlights and room lights. It is estimated that LEDs can reduce CO_2 emissions by 50 percent or more compared with conventional lighting.

Shin-Etsu makes a substantial contribution to the creation of an environmentally conscious society by manufacturing a variety of highly reliable silicone products that are indispensable to LEDs. These include silicone encapsulating materials to protect LED chips, die-bonding materials to fix LED chips and reflectors to prevent degradation of LED brightness.



Reducing greenhouse gas emissions by up to about **50 percent**

The new Prius
(Photo provided by Toyota Motor Corporation)

Rare-Earth Magnets

Rare-earth magnets contribute to reducing energy and greenhouse gas emissions. With the use of rare-earth magnets for air-conditioner compressor motors, the coefficient of performance has improved between approximately 5 percent and 10 percent. They play a significant role in improving the energy efficiency of heat-pump water heating systems.

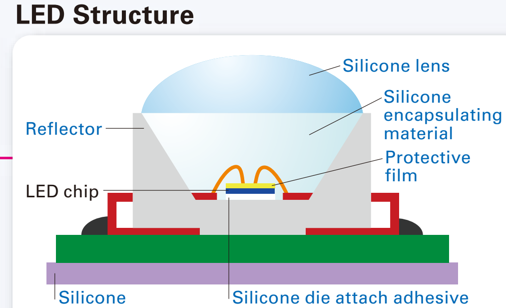
Moreover, automobile applications include use for driving the various motors in powertrains for hybrid and electric vehicles, as well as in generators and sensors. Addressing clean energy needs, rare-earth magnets help miniaturize components and reduce greenhouse gas emissions by up to about 50 percent compared with those of gasoline-powered vehicles.

Photo provided by
TOSHIBA Corporation

The coefficient of performance has improved between approximately **5 percent and 10 percent**

Can reduce greenhouse gas emissions by **50 percent or More**

LED Structure



*Blue are products that are handled by Shin-Etsu Chemical

Corporate Governance

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

The Shin-Etsu Group is establishing a system to promote speedier decision-making and agile management.

In June 2010, Dr. Hiroshi Komiyama, a former president of The University of Tokyo, was appointed as a new external director.

The Officers' Remuneration Committee reviews and assesses officers' remuneration and reports to the Board of Directors.

Shin-Etsu has adopted a statutory auditor system. In order to enhance and strengthen the auditing function, three of Shin-Etsu's five statutory auditors, including one full-time statutory auditor, are external statutory auditors. Internal audits of the Company are performed by the Auditing Department, which checks the legality and reasonableness of business activities in each division.

Shin-Etsu established a basic internal control policy for financial reporting and has implemented strict internal controls to ensure the reliability of financial reporting and improve management transparency, which includes responding to the system of internal controls for financial reporting based on the Financial Instruments and Exchange Law applied from fiscal 2009.

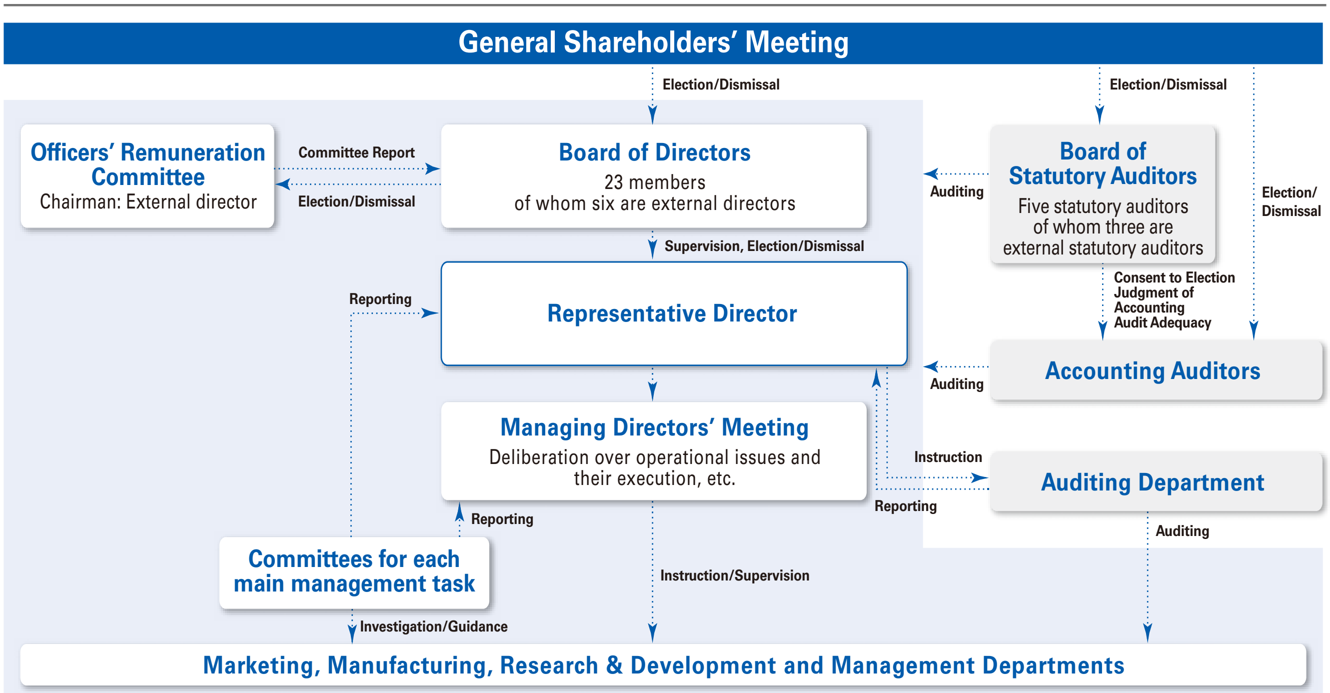
In addition to disclosing information about these specific initiatives on its website, Shin-Etsu discloses information on corporate governance and compliance through a variety of methods.

Basis for Selection of and Functions of External Directors and External Auditors

Shin-Etsu has invited six eminent experts to serve as external directors in order to reflect their wealth of experience and broad insight in the Company's management from an independent perspective. External directors attend not only meetings of the Board of Directors, but also other key meetings, in order to render opinions from a broad perspective that leverage their experience in corporate management and to conduct oversight from an independent perspective.

In addition, Shin-Etsu has invited three individuals to serve as external statutory auditors in order to undergo audits based on their specialized knowledge and experience and insight as managers. External statutory auditors work to

Shin-Etsu's Corporate Governance Structure



safeguard the compliance structure by attending key internal meetings, including meetings of the Board of Statutory Auditors, in order to render opinions based on their specialized knowledge and broad perspectives.

Officers' Remuneration

The Officers' Remuneration Committee is chaired by an external director and includes three other directors. It reviews and assesses officers' remuneration based on the officers' remuneration regulations at two regular meetings annually and via audio conferencing as required, and reports to the Board of Directors.

In fiscal 2010, the amount of remuneration paid to officers was ¥1,439 million. Of this, ¥158 million was paid to external directors and external statutory auditors. This amount did not include salaries (including bonuses) paid to employees concurrently serving as directors or stock acquisition rights issued as stock options.

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 enforcement of these regulations 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 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, in order to quickly detect and rectify legal or regulatory violations, we have set up the Compliance Consultation Office to establish a system that allows consultation and reporting as needed.

Risk Management

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.

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 Appoints Dr. Hiroshi Komiyama, Former President of The University of Tokyo, as a Director

Shin-Etsu has appointed Dr. Hiroshi Komiyama, former president of The University of Tokyo, as an external director.

Dr. Komiyama has a wealth of knowledge and experience not only in his own specialized academic research fields, but also from his years as president of The University of Tokyo. Moreover, he is a person of the highest character. Shin-Etsu has received the benefit of his sage advice since his appointment as Special Adviser, particularly with regard to the Company's technologies and R&D.

The request for Dr. Komiyama to serve as an external director is aimed at receiving his guidance in attaining the Company's long-term R&D goals, based on his specialized knowledge and experience extending from chemical engineering to broad areas of research including the global environment, resources and energy. Further, Dr. Komiyama has built up an extensive network in the academic world, and the advice that Shin-Etsu receives from him will be very helpful in furthering the success of the Company's business-academic collaborations. In addition, his expert guidance will assist the Company's efforts to improve its chemical plant process technologies.

Dr. Komiyama made the following comments to Shin-Etsu at the time of his appointment as an external director:

"I am truly honored to have been asked to become a director of Shin-Etsu Chemical by President Kanagawa, who has nurtured the Company to world-class excellence. A leading global chemical company, Shin-Etsu works aggressively to develop products that contribute to reducing the worldwide environmental burden. I hope to use the results and applications of the global environmental research that I have conducted in order to assist in the further development of the Company.

Board of Directors and Auditors

(As of June 29, 2010)

CHAIRMAN

Chihiro Kanagawa

PRESIDENT

Shunzo Mori

EXECUTIVE VICE PRESIDENTS

Fumio Akiya

Yasuhiko Saitoh

EXECUTIVE SENIOR MANAGING DIRECTOR

Yoshiaki Ono

CHAIRMAN

Chihiro Kanagawa

PRESIDENT

Shunzo Mori

EXECUTIVE VICE PRESIDENTS

Fumio Akiya
In charge of Semiconductor Materials, Advanced Materials and Technologies

Yasuhiko Saitoh
In charge of the Office of the President, Public Relations, Finance & Accounting and Legal Affairs
General Manager, International Division

EXECUTIVE SENIOR MANAGING DIRECTOR

Yoshiaki Ono
General Manager, Silicone Division

MANAGING DIRECTORS

Kiichi Habata
In charge of General Affairs, Personnel & Labor Relations, Environmental Control & Safety and Auditing

Koji Takasugi
In charge of Purchasing
General Manager, New Products Department

Toshinobu Ishihara
In charge of New Functional Materials
General Manager, Research & Development Department and New Functional Materials Research Center

Masahiko Todoroki
General Manager, Planning & Administrative Department, Semiconductor Materials Division

Toshiya Akimoto
In charge of the Office of the President and Finance & Accounting
General Manager, Office of the Secretariat

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 Citigroup Japan Holdings Corp.)

Tsuyoshi Miyazaki*
Advisor, Mitsubishi Logistics Corporation

Toshihiko Fukui*
Former Governor of the Bank of Japan

Hiroshi Komiyama*
Former President of The University of Tokyo

Masaki Miyajima
General Manager, PVC Division

Fumio Arai
General Manager, Organic Chemicals Division

Toshiyuki Kasahara
General Manager, Finance & Accounting Department

Hidenori Onezawa
General Manager, Business Development Department

Ken Nakamura
General Manager, Office of the President and Public Relations Department

Yukihiro Matsui
General Manager, Electronics Materials Division

Hiroaki Okamoto
In charge of Patents
General Manager, Development & Investigation Department

FULL-TIME STATUTORY AUDITOR

Osamu Okada

STATUTORY AUDITORS

Masahiko Watase

Taku Fukui**

Yoshihito Kosaka**

Kiyoshi Nagano**

* External director
** External auditor

Greetings to all stockholders

I was appointed President at the meeting of the Board of Directors following the annual stockholders' meeting on June 29, 2010. I wish to ask for your support and guidance.

Shunzo Mori
President

Looking back on my first year as director

Toshihiko Fukui
External Director
Former Governor of the Bank of Japan

Close to a year has already passed since my appointment as a director. It has been a challenging year, following the unprecedented international financial and economic crisis and the substantial decline of the Japanese economy that resulted.

Amid these circumstances, Shin-Etsu has carried out steadfast business efforts specifically targeted at attaining a recovery in earnings.

When a company tries to achieve earnings targets in the face of headwinds, following a strategy designed to only "sellout" total production is not sufficient. It is essential to "maintain proper price levels." It is predictable that other companies would aggressively cut prices in desperation, and it is clear that Shin-Etsu could not counter these actions with strong determination alone.

However, the true strength of Shin-Etsu lies in overcoming such challenges. Let's consider the reasons for Shin-Etsu's strength:

Shin-Etsu is a materials manufacturer, and manufacturers of final goods exist apart from materials manufacturers. Added value is incorporated at the stage of the manufacture of the final goods. It stands to reason that the contribution of materials to the value-added of final goods is returned to the materials manufacturer in the form of earnings. Accordingly, in order for a materials manufacturer to increase earnings, the manufacturer has to supply good materials that are suitable for the final goods maker to produce high-value-added goods.

When we further extend this analysis with regard to the point about selling out total production, a materials manufacturer needs to supply materials that have superior quality and at the same time are easy to use, so that the materials will be bought by as many manufacturers of final goods as possible, both in Japan and overseas.

From the point of view of maintaining proper price levels, it is important to build a wall of differentiation surrounding Shin-Etsu's core technologies, so that competing materials manufacturers cannot duplicate Shin-Etsu's products.

If this line of reasoning is correct, then it probably means that based on the results shown by past earnings, Shin-Etsu is running way ahead of others in taking the right path.

However, technological progress never stops, and competitors are working ever more vigorously to try and close the gap. We can never be complacent. Going forward, I would like in my humble way to help contribute to the further growth of Shin-Etsu. I would like to continue to be in the support line in Shin-Etsu's great effort to meet the intellectual challenges in business to assure future growth.

Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

Overview of the Shin-Etsu Group

The Shin-Etsu Group (the "Group") is composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 101 subsidiaries and 16 affiliates, as of March 31, 2010. The Organic and Inorganic Chemicals segment focuses on the manufacture and sale of polyvinyl chloride (PVC), silicones and other products. The Electronics Materials segment mainly manufactures and sells semiconductor silicon, and the Functional Materials and Others segment focuses on the manufacture and sale of synthetic quartz and other products as well as providing various services including construction and repair. The Company conducts business activities in mutual cooperation with Group companies in the areas of manufacturing and sales.

Consolidated Operating Performance

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

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

Net Sales

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

Cost of Sales and Selling, General and Administrative Expenses

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

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

Operating Income

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

Business Segment Overview

Organic and Inorganic Chemicals

PVC

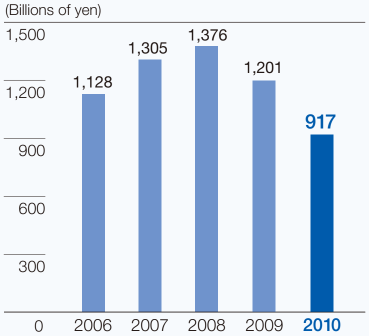
Although it was affected by sluggish demand resulting from the long period of stagnation in the U.S. housing market, Shintech Inc. of the United States strove to expand its sales to

Summary of Net Sales, Operating Costs and Income

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

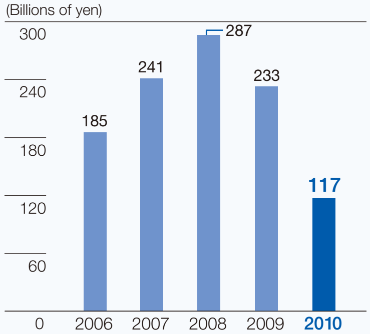
Net Sales

(Billions of yen)



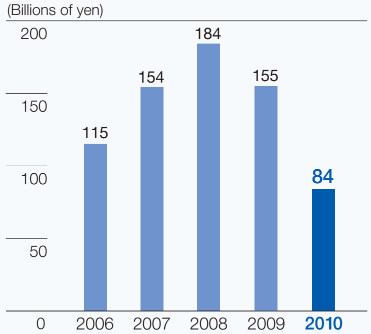
Operating Income

(Billions of yen)



Net Income

(Billions of yen)



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

Silicones

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

Other Products

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

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

Electronics Materials

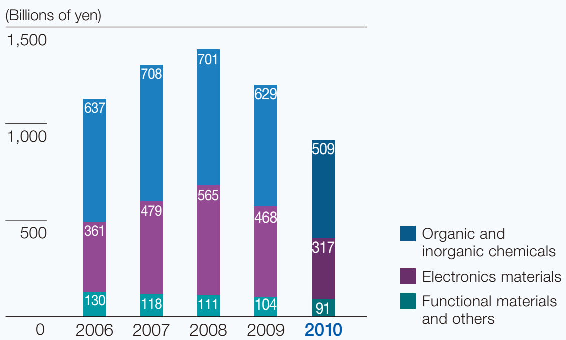
Semiconductor Silicon

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

Other Products

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

Net Sales by Business Segment



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

Functional Materials and Others

Synthetic Quartz

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

Rare-Earth Magnets and Other Functional Materials

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

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

Other Income and Extraordinary Income

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

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

Net Income

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

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

Analysis of Financial Position

Assets, Liabilities and Net Assets

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

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

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

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

Cash Flows

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

Cash Flows from Operating Activities

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

Cash Flows from Investing Activities

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

Cash Flows from Financing Activities

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

Capital Expenditures

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

Basic Policy Concerning Profit-Sharing

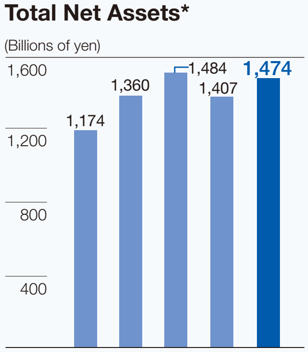
Taking a long-term perspective, Shin-Etsu focuses on expanding earnings and strengthening the Group's structure. It is our basic policy to appropriately return the results of these management efforts to our shareholders by distributing dividends. We use our internal reserves to increase corporate value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

Fiscal 2011 Outlook

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

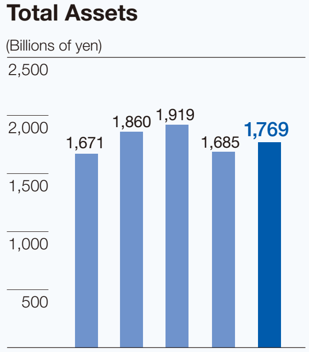
Under these circumstances, the Shin-Etsu Group will navigate the challenging operating environment that lies ahead through aggressive sales activities targeting its wide range of customers around the world. We will also cultivate new demand by developing products with special characteristics. Further,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

Total Net Assets*

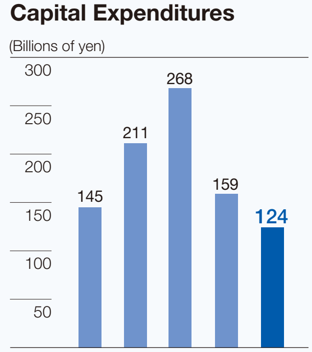


* The figure for 2006 represents stockholders' equity as reported under the former accounting standard.

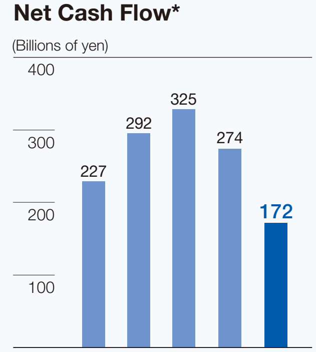
Total Assets



Capital Expenditures



Net Cash Flow*



* Net cash flow = Net income + Depreciation and amortization

Business Risk

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

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

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

1) Influence of Economic Trends and Product Markets

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

2) Influence of Fluctuations in Foreign Exchange Rates

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

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

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

4) Influence of Public Regulatory Requirements and Law

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

5) Influence of Supply Factors on Procurement of Materials

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

6) Influence of Development of New Products and Technologies

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

7) Influence of Environmental Problems

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

8) Influence of Product Liability

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

Consolidated Balance Sheets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 2010 and 2009

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

The accompanying notes are an integral part of the statements.

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

Consolidated Statements of Income

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

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

The accompanying notes are an integral part of the statements.

Consolidated Statements of Changes in Net Assets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

	Thousands	Millions of yen												
		Stockholders' Equity					Valuation and Translation Adjustments						
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Deferred Gains (Losses) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Share Subscription Rights	Minority Interests in Consolidated Subsidiaries	Total Net Assets
Balance at March 31, 2007	432,107	¥119,420	¥128,178	¥1,017,259	¥ (7,560)	¥1,257,297	¥ 29,174	¥ –	¥ 33,773	¥ 62,947	¥ 664	¥39,407	¥1,360,315
Net income				183,580		183,580				–			183,580
Cash dividends (Note 11)				(36,579)		(36,579)				–			(36,579)
Purchases of treasury stock					(7,896)	(7,896)				–			(7,896)
Disposal of treasury stock				(580)	3,238	2,658				–			2,658
Net change during the year						–	(18,478)	3,231	(7,963)	(23,210)	950	3,851	(18,409)
Balance at March 31, 2008	432,107	119,420	128,178	1,163,680	(12,218)	1,399,060	10,696	3,231	25,810	39,737	1,614	43,258	1,483,669
Effect of changes in accounting policies applied to foreign subsidiaries				1,689		1,689				–			1,689
Net income				154,732		154,732				–			154,732
Cash dividends (Note 11)				(42,884)		(42,884)				–			(42,884)
Purchases of treasury stock					(29,938)	(29,938)				–			(29,938)
Disposal of treasury stock				(161)	542	381				–			381
Net change during the year							(12,473)	(3,273)	(140,970)	(156,716)	832	(4,411)	(160,295)
Balance at March 31, 2009	432,107	119,420	128,178	1,277,056	(41,614)	1,483,040	(1,777)	(42)	(115,160)	(116,979)	2,446	38,847	1,407,354
Net income				83,853		83,853							83,853
Cash dividends (Note 11)				(42,449)		(42,449)							(42,449)
Purchases of treasury stock					(31)	(31)							(31)
Disposal of treasury stock				(166)	752	586							586
Change of scope of consolidation				120		120							120
Net change during the year							8,495	560	13,952	23,007	1,203	570	24,780
Balance at March 31, 2010	432,107	¥119,420	¥128,178	¥1,318,414	¥(40,893)	¥1,525,119	¥ 6,718	¥ 518	¥(101,208)	¥(93,972)	¥3,649	¥39,417	¥1,474,213

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

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

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

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

The accompanying notes are an integral part of the statements.

Notes to Consolidated Financial Statements

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

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of consolidation

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

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

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

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

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

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

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

(2) Accounting for investments in unconsolidated subsidiaries and affiliates

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

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

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

(3) Translation of foreign currency transactions

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

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

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

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

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

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

(5) Allowance for doubtful accounts

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

(6) Inventories

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

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

(7) Financial instruments

Securities:

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

Derivatives:

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

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

Hedge accounting:

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

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

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

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

(8) Property, plant and equipment

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

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

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

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

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

(9) Repairs and maintenance

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

(10) Accounting for leases

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

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

(11) Accrued retirement benefits

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

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

(12) Income taxes

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

(13) Research and development costs

Research and development costs are charged to income as incurred.

(14) Income and dividends per share

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

(15) Dividends

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

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

(16) Accrued retirement bonuses for directors

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

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

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

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

(18) Consumption tax

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

(19) Reclassifications

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

3. UNITED STATES DOLLAR AMOUNTS

The Company prepares its consolidated financial statements in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥93 to US$1, the approximate effective rate of exchange on March 31, 2010. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥93 to US$1 or at any other rate.

4. FINANCIAL INSTRUMENTS

(1) Overview of financial instruments

Management policy

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

Financial instruments, risks and risk management

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

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

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

Supplementary explanation on the estimated fair value of financial instruments

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

(2) Fair value of financial instruments

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

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

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

Assets

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

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

(3) Securities and investments in securities

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

(4) Long-term loans

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

Liabilities

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

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

(5) Long-term debts

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

Derivative transactions

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

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

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

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

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

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

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

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

5. SECURITIES

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

(1) Market value of bonds held to maturity

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

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

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

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

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

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

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

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

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

6. DERIVATIVE TRANSACTIONS

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

Currency related:

As of March 31, 2010

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

Notes: 1. Market rate represents the foreign exchange rate prevailing as of March 31, 2010.
2. The fair value is provided by financial institutions with which the Company made the above contracts.
3. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

Currency related:

As of March 31, 2009

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

Notes: 1. Market rate represents the foreign exchange rate prevailing as of March 31, 2009.
2. The fair value is provided by financial institutions with which the Company made the above contracts.
3. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

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

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

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

2) Interest related:
As of March 31, 2010

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

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

7. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

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

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

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

8. SHORT-TERM BORROWING, LONG-TERM DEBT AND LEASE OBLIGATIONS

Short-term borrowings outstanding as of March 31, 2010 and 2009 are represented generally by overdrafts contracted between the Companies and banks.

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

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

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

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

As of March 31, 2010, assets pledged as collateral for short-term loans and long-term loans were as follows:

	Millions of yen	Thousands of U.S. dollars
Net book value of property, plant and equipment	¥—	$—

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

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

9. RETIREMENT AND PENSION PLANS

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

Certain overseas consolidated subsidiaries have defined pension plans while others have defined contribution pension plans. Additionally, the Company has a "Retirement Benefit Trust."

The reserves for retirement benefits as of March 31, 2010 and 2009 are analyzed as follows:

Benefit Obligations

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

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

Retirement Benefit Costs

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

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

Basic Assumptions for Calculating Benefit Obligations

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

10. COMMITMENT AND CONTINGENT LIABILITIES

As of March 31, 2010, the Companies were contingently liable as a guarantor of housing loans for employees and loans to unconsolidated subsidiaries, affiliates and others in the aggregate amount of ¥52 million ($559 thousand).

11. RETAINED EARNINGS

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

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

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

12. RESEARCH AND DEVELOPMENT COSTS

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

13. LEASE TRANSACTIONS

Lease expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2010 and 2009 amounted to ¥237 million ($2,548 thousand) and ¥271 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2010, which was computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value, amounted to ¥237 million ($2,548 thousand).

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

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

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

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

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

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

14. RELATED PARTY TRANSACTIONS

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

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

15. LOSS ON IMPAIRMENT OF FIXED ASSETS

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

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

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

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

16. INCOME TAXES

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

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

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

Net Deferred Tax Assets are included in the following accounts:

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

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

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

Income taxes - Prior years

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

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

Reconciliation between cash and equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2010, 2009 and 2008 are presented below:

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

18. SEGMENT INFORMATION

(1) Business segment information

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

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

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

Functional materials and others business segment: Synthetic quartz products, Rare earths and rare earth magnets for general applications, Liquid fluoroelastomers, Pelicles, Export of technology and plants, Export and import of goods, Construction and plant engineering, Information processing

Sales, related operating costs and expenses, operating income, assets, depreciation and capital expenditure of the Companies at March 31, 2010, 2009 and 2008 and for the years then ended, classified by business segment, are presented as follows:

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

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

	Millions of yen				
	2008				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[2]	Consolidated Total
Sales:					
Sales to outside customers	¥701,003	¥564,697	¥110,665	¥ —	¥1,376,365
Intersegment sales	17,019	3,359	82,835	(103,213)	—
Total	718,022	568,056	193,500	(103,213)	1,376,365
Operating costs and expenses	618,540	405,956	167,488	(102,765)	1,089,219
Operating income	¥ 99,482	¥162,100	¥ 26,012	¥ (448)	¥ 287,146
Assets	¥782,878	¥713,047	¥199,498	¥ 223,122	¥1,918,545
Depreciation[6]	31,651	100,983	8,896	(260)	141,270
Loss on impairment	7,198	—	—	—	7,198
Capital expenditures	116,417	144,141	8,617	(696)	268,479

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

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

2. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2010, 2009, and 2008 were ¥246,076 million ($2,645,978 thousand), ¥246,636 million and ¥274,993 million, respectively, which mainly consisted of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

3. As previously mentioned in (6) Inventories in Note 2., the Company and its domestic subsidiaries adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9) and changed the evaluation standard and the evaluation method for inventories from the fiscal year ended March 31, 2009.

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

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

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

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

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

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

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

(2) Geographical segment information

The analysis of the sales, operating costs and expenses, operating income and assets of the Companies by geographical segments as of March 31, 2010, 2009 and 2008 and for the years then ended are presented below:

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

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

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

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

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

North America........................ U.S.

Asia/Oceania .... Malaysia, Singapore, South Korea, Taiwan, Thailand, China, Australia

Europe................................... U.K., Netherlands, Germany, Portugal

2. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2010, 2009, and 2008 were ¥246,076 million ($2,645,978 thousand), ¥246,636 million and ¥274,993 million, respectively, which mainly consisted of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

3. As previously mentioned in (6) Inventories in Note 2., the Company and its domestic subsidiaries adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9) and changed the evaluation standard and the evaluation method for inventories from the fiscal year ended March 31, 2009.

As a result, for the fiscal year ended March 31, 2009, the operating expenses for Japan geographic segment increased by ¥3,398 million. Accordingly, the operating income decreased by the same amount.

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

(3) Overseas sales information

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

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

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

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

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

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

19. SUBSEQUENT EVENT

Appropriation of retained earnings

Subsequent to March 31, 2010, the Company's Board of Directors, with the approval of stockholders on June 29, 2010 declared a cash dividend of ¥21,230 million ($228,280 thousand) equal to ¥50.00 ($0.54) per share, applicable to earnings of the year ended March 31, 2010 and payable to stockholders on the stockholders' register on March 31, 2010.

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

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

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

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

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

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

Consolidated Subsidiaries

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

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

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

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

Report of Independent Auditors

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

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

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

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

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

Ernst & Young ShinNihon LLC

Ernst & Young ShinNihon
Tokyo, Japan

June 29, 2010

Investor Information

As of March 31, 2010

Please visit our website:

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

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:
16,955 (including 68 consolidated subsidiaries)

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

Number of Shares Issued:
432,106,693

Number of Stockholders:
65,888

Fiscal Year-End:
March 31

Stockholders' Meeting:
June

Stock Listings:
Tokyo, Osaka, Nagoya (Ticker Code: 4063)

Transfer Agent:
Mitsubishi UFJ Trust and Banking Corporation

Auditor:
Ernst & Young ShinNihon

Major Stockholders:

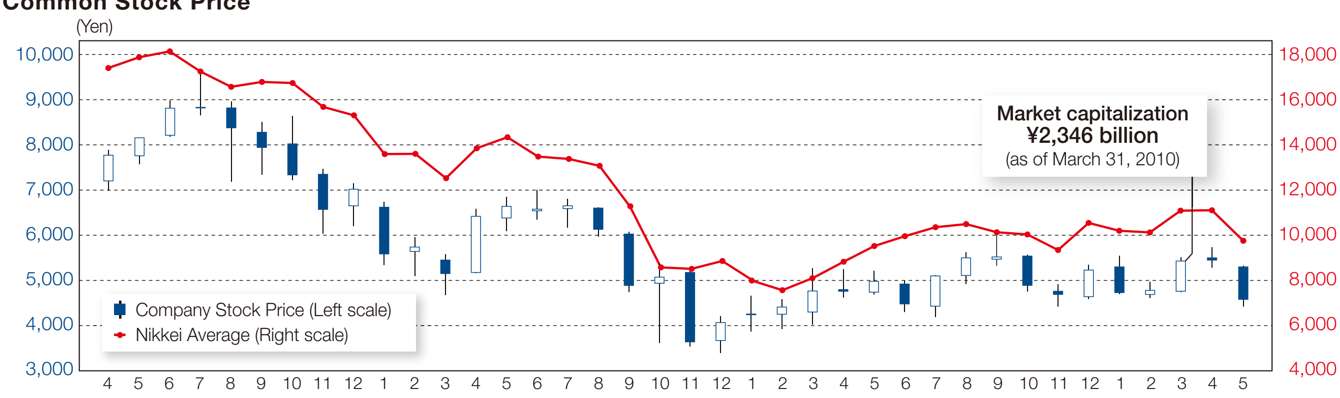
Name	Number of Shares (Thousands)	Percentage of Total Equity (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	33,920	8.0
Japan Trustee Services Bank, Ltd. (Trust account)	29,278	6.9
Nippon Life Insurance Company	24,370	5.7
JPMortgan Chase Bank 380055	12,085	2.8
The Hachijuni Bank, Ltd.	11,790	2.8
Meiji Yasuda Life Insurance Company	11,529	2.7
Japan Trustee Services Bank, Ltd.(Trust account 4)	11,352	2.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,095	1.7
NIPPONKOA Insurance Co., Ltd.	7,077	1.7
Fukoku Mutual Life Insurance Company	6,000	1.4

Note: Shin-Etsu holds 7,505,054 shares of treasury stock, but is excluded from the above list of major stockholders. Stockholding percentages are calculated excluding treasury stock.

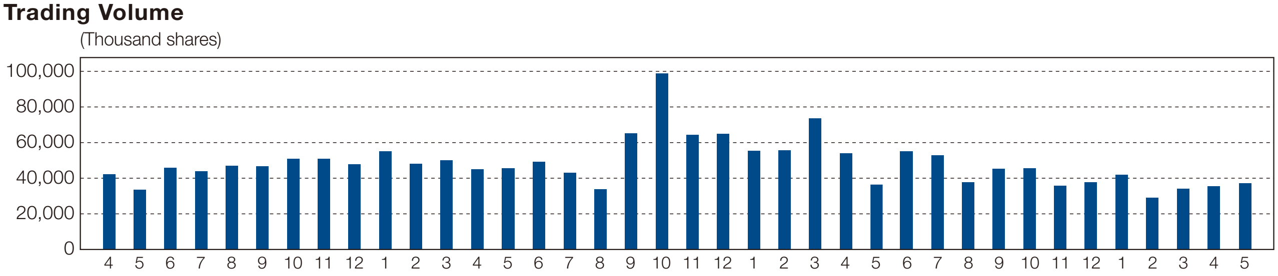
Information:

Public Relations Department
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**
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)**
Phone: +1-360-883-7000 Fax: +1-360-254-6973
Business: Production and Sales of Semiconductor Silicon

3 **SHIN-ETSU MAGNETICS, INC.**
Phone: +1-408-383-9240 Fax: +1-408-383-9245
Business: Sales of Rare Earth Magnets

4 **SHIN-ETSU MICROSI, INC.**
Phone: +1-480-893-8898 Fax: +1-480-893-8637
Business: Sales of Electronics Materials

5 **SHIN-ETSU POLYMER AMERICA, INC.**
Phone: +1-510-623-1881 Fax: +1-510-623-1603
Business: Sales of Keypads and Inter-Connectors

6 **SHIN-ETSU SILICONES OF AMERICA, INC.**
Phone: +1-330-630-9860 Fax: +1-330-630-9855
Business: Production and Sales of Silicone Products

7 **HERAEUS SHIN-ETSU AMERICA, INC.**
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.**
Phone: +1-713-965-0713 Fax: +1-713-965-0629
Business: Production and Sales of PVC Compounds

9 **SHINCOR SILICONES, INC.**
Phone: +1-330-630-9460 Fax: +1-330-630-1491
Business: Production and Sales of Silicone Products

10 **PACIFIC BIOCONTROL CORPORATION**
Phone: +1-360-571-2247 Fax: +1-360-571-2248
Business: Sales of Pheromone Formulation

EUROPE

France

11 **S.E.H. EUROPE (FRENCH OFFICE)**
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**
Phone: +49-611-962-8189 Fax: +49-611-962-9071
Business: Production and Sales of Cellulose Derivatives

13 **S.E.H. EUROPE (GERMAN OFFICE)**
Phone: +49-8161-50611 Fax: +49-8161-50682
Business: Sales of Semiconductor Silicon

Hungary

14 **SHIN-ETSU POLYMER HUNGARY KFT.**
Phone: +36-96-887-100 Fax: +36-96-887-110
Business: Production and Sales of Keypads

The Netherlands

15 **SHIN-ETSU PVC B.V.**
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.**
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.**
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.**
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.)**
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)**
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.**
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.**
Phone: +86-21-6443-5550 Fax: +86-21-6443-5868
Business: Sales of Silicone Products

23 **SUZHOU SHIN-ETSU POLYMER CO., LTD.**
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.**
Phone: +852-2377-9131 Fax: +852-2377-1673
Business: Sales of Keypads and Inter-Connectors

25 **ZHEJIANG SHIN-ETSU HIGH-TECH CHEMICAL CO., LTD.**
Phone: +86-573-8475-5071 Fax: +86-573-8475-5070
Business: Production and Sales of Silicone Products

26 **SHIN-ETSU TECHNOLOGY (SUZHOU) CO., LTD.**
Phone: +86-512-6276-3270 Fax: +86-512-6276-3277
Business: Production and Sales of Rare Earth Magnets

India

27 **SHIN-ETSU POLYMER INDIA PVT. LTD.**
Phone:+91-44-6711-2800 Fax:+91-44-6711-2801
Business: Production of Keypads

Korea

28 SHIN-ETSU SILICONE KOREA CO., LTD.
Phone: +82-2-775-9691 Fax: +82-2-775-9690
Business: Production and Sales of Silicone Products

Malaysia

29 S.E.H. MALAYSIA SDN. BHD.
Phone: +60-3-4259-6600 Fax: +60-3-4257-5751
Business: Production, Processing and Sales of Semiconductor Silicon Wafers

30 S.E.H. (SHAH ALAM) SDN. BHD.
Phone: +60-3-5123-7000 Fax: +60-3-5191-3111
Business: Production and Processing of Semiconductor Silicon Wafers

31 SHIN-ETSU ELECTRONICS (MALAYSIA) SDN. BHD.
Phone: +60-3-5192-1081 Fax: +60-3-5192-1068
Business: Production and Sales of Epoxy Molding Compounds

32 SHIN-ETSU (MALAYSIA) SDN. BHD.
Phone: +60-3-5191-2233 Fax: +60-3-5191-2288
Business: Production and Sales of Rare Earth Magnets

33 SHIN-ETSU POLYMER (MALAYSIA) SDN. BHD.
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

34 SHIN-ETSU ELECTRONICS MATERIALS SINGAPORE PTE. LTD.
Phone: +65-6297-9211 Fax: +65-6297-9311
Business: Sales of Rare Earth Magnets and Other Products

35 SHIN-ETSU SINGAPORE PTE. LTD.
Phone: +65-6743-7277 Fax: +65-6743-7477
Business: Sales of Silicone Products

36 SHIN-ETSU POLYMER SINGAPORE PTE. LTD.
Phone: +65-6735-0007 Fax: +65-6735-0008
Business: Sales of Keypads and Inter-Connectors

Taiwan

37 SHIN-ETSU HANDOTAI TAIWAN CO., LTD. (S.E.H. TAIWAN)
Phone: +886-3-577-1188 Fax: +886-3-577-1199
Business: Production, Processing and Sales of Semiconductor Silicon Wafers

38 SHIN-ETSU OPTO ELECTRONIC CO., LTD.
Phone: +886-3-578-4566 Fax: +886-3-578-9864
Business: Production and Sales of Compound Semiconductors

39 SHIN-ETSU SILICONE TAIWAN CO., LTD.
Phone: +886-2-2715-0055 Fax: +886-2-2715-0066
Business: Production and Sales of Silicone Products

Thailand

40 SHIN-ETSU SILICONES (THAILAND), LTD.
Phone: +66-2-632-2941 Fax: +66-2-632-2945
Business: Production and Sales of Silicone Products

41 ASIA SILICONES MONOMER LTD.
Phone: +66-38-687-050 Fax: +66-38-687-060
Business: Production and Sales of Silicone Monomer

JAPAN

42 SHIN-ETSU CHEMICAL CO., LTD.
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

43 SHIN-ETSU ASTECH CO., LTD.
Phone: +81-3-5298-3211 Fax: +81-3-3254-1931
Business: Construction Businesses and Sales of Chemical Products and Others

44 SHIN-ETSU ENGINEERING CO., LTD.
Phone: +81-3-3296-1080 Fax: +81-3-3296-1085
Business: Engineering Services and Production of Mechatronics Systems

45 SHIN-ETSU FILM CO., LTD.
Phone: +81-3-3259-1061 Fax: +81-3-3259-1064
Business: Production and Sales of PP Film for Condensers

46 SHIN-ETSU HANDOTAI CO., LTD.
Phone: +81-3-3243-1500 Fax: +81-3-3247-1271
Business: Production and Sales of Semiconductor Silicon and Compound Semiconductors

47 SHIN-ETSU POLYMER CO., LTD.
Phone: +81-3-3279-1712 Fax: +81-3-3246-2529
Business: Production and Sales of Synthetic Resin Products

48 SHIN-ETSU QUARTZ PRODUCTS CO., LTD.
Phone: +81-3-3348-1912 Fax: +81-3-3348-4919
Business: Production and Sales of Quartz Glass Products

49 JAPAN VAM & POVAL CO., LTD.
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

50 KASHIMA VINYL CHLORIDE MONOMER CO., LTD.
Phone: +81-299-96-3415 Fax: +81-299-96-6354
Business: Production and Sales of Vinyl Chloride Monomer

51 NAGANO ELECTRONICS INDUSTRIAL CO., LTD.
Phone: +81-26-261-3100 Fax: +81-26-261-3131
Business: Production, Processing and Sales of Semiconductor Silicon Wafers and Other Products

52 NAOETSU ELECTRONICS CO., LTD.
Phone: +81-25-530-2631 Fax: +81-25-530-2908
Business: Production, Processing and Sales of Semiconductor Silicon Wafers

53 MIMASU SEMICONDUCTOR INDUSTRY CO., LTD.
Phone: +81-27-372-2021 Fax: +81-27-372-2018
Business: Precision Production, Processing and Sales of Semiconductor Silicon Wafers and Others

54 NISSIN CHEMICAL INDUSTRY CO., LTD.
Phone: +81-778-22-5100 Fax: +81-778-24-0657
Business: Production and Sales of Synthetic Resin Emulsions and Other Products

55 SHINANO ELECTRIC REFINING CO., LTD.
Phone: +81-3-5298-1601 Fax: +81-3-5298-0071
Business: Production and Sales of Carborundum Products

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