

## Press Release of Consolidated Financial Data



For the six months ended September 30, 2006

October 23, 2006

### Shin-Etsu Chemical Co.,Ltd.

The seat of headquarters : Tokyo

Listing Code No. 4063

(URL <http://www.shinetsu.co.jp/>)

Listing Stock Exchange : Tokyo, Osaka, Nagoya

Representative:

Chihiro Kanagawa (Mr.)

Representative Director-President

Personnel to contact :

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Date of Board of Directors Meeting

For the authorization of the consolidated financial statements

for the first half of the current fiscal year ... October 23, 2006

Adoption of U.S. GAAP : No

### 1.Consolidated Operating Performance for the First Half of the Current Fiscal Year

(From April 1, 2006 to September 30, 2006)

(Amounts are stated in millions of Yen by discarding fractional amounts less than 1 million.)

#### (1)Results of Consolidated operations

		<u>Millions of Yen</u>	
	<u>Apr.-Sep. '06</u>	<u>Apr.-Sep. '05</u>	<u>Apr. '05-Mar. '06</u>
Net sales	639,049	535,103	1,127,915
Ratio of increase over the first half of the prior year	19.4%	14.2%	
Operating income	120,024	90,291	185,320
Ratio of increase over the first half of the prior year	32.9%	17.6%	
Ordinary income	120,043	90,037	185,040
Ratio of increase over the first half of the prior year	33.3%	18.8%	
Net income	74,932	55,611	115,045
Ratio of increase over the first half of the prior year	34.7%	19.7%	
Net income per share (in yen)	174.08	129.68	266.63
Diluted net income per share (in yen)	173.86	129.48	266.07
Net income ratio on equity(p.a.)	12.5%	10.7%	10.6%
(Notes)			
1. Equity in earnings of Affiliates (in millions of yen)	2,105	1,182	3,995
2. Average number of consolidated shares issued (in share)	430,443,943	428,836,397	429,587,219
3. Changes in accounting policies applied : No			

## **(2) Consolidated financial position**

	<u>Millions of Yen</u>		
	<u>Sep. 30, '06</u>	<u>Sep. 30, '05</u>	<u>Mar. 31, '06</u>
Total assets	1,753,571	1,551,809	1,671,280
Total net assets	1,264,767	1,077,074	1,173,679
Equity ratio	70.0%	69.4%	70.2%
Stockholders' equity per share (in yen)	2,855.20	2,507.40	2,730.94
(Note)			
Number of shares issued at year end (in shares)	430,180,394	429,558,242	430,640,725

## **(3) Consolidated statement of cash flows**

	<u>Millions of Yen</u>		
	<u>Apr.-Sep. '06</u>	<u>Apr.-Sep. '05</u>	<u>Apr. 05-Mar. '06</u>
Cash flows from operating activities	132,344	100,994	220,592
Cash flows from investing activities	(83,486)	(50,051)	(138,813)
Cash flows from financing activities	(19,702)	(24,754)	(42,496)
Cash & Cash Equivalents at end of period	400,402	351,646	373,863

## **(4) Application of consolidated and equity method**

Number of consolidated subsidiaries	.....	69
Number of non-consolidated subsidiaries applied to equity method	.....	0
Number of affiliates applied to equity method	.....	7

## **(5) Changes in scope of consolidation or application of the equity method**

Consolidation	Increase	2	Decrease	1
Equity method	Increase	0	Decrease	0

## **2.The Forecast of Consolidated Operating Performance for the Fiscal Year ending March 31, 2007** **(From April 1, 2006 to March 31, 2007)**

	<u>Millions of Yen</u>
	<u>Apr. 06-Mar. 07</u>
Net sales	1,290,000
Ordinary income	241,000
Net income	150,000

### **(Reference)**

The forecast of "Net income per share" (from April 1, 2006 to March 31, 2007) ..... 348.69 yen per share

### **(Note)**

The forecast of results of operations made in this document involves risks and uncertainties since the forecast is based on management's assumptions and beliefs in light of the information currently available to it. The reader should be aware that actual results may be materially different from any future results expressed herein due to various factors. Material factors affecting the actual results may include overall economic conditions in which the businesses of our company and our group companies are involved, the relevant market trends and fluctuations in foreign exchange rates of the yen, in particular, the exchange rate between the U.S. dollars and the yen ; provided, however, that such factors as may affect results of operations are not limited to those enumerated above.

## 1. Corporate Overview

The Shin-Etsu Group is composed of Shin-Etsu Chemical Co., Ltd. (the “Company”), 92 subsidiaries, and 15 affiliates as of September 30, 2006. Business is divided into three segments: Organic and Inorganic Chemicals Segment, which consists mainly of the manufacture and sale of polyvinyl chloride (PVC) and silicones; Electronics Materials Segment, which consists mainly of the manufacture and sale of semiconductor silicon; and Functional Materials and Others Segment, which manufactures and sells synthetic quartz and other materials as well as providing various other services, such as construction and repair. The Company and its subsidiaries and affiliates share responsibility for sales, manufacturing, and other operations, and cooperate with each other to develop business activities.

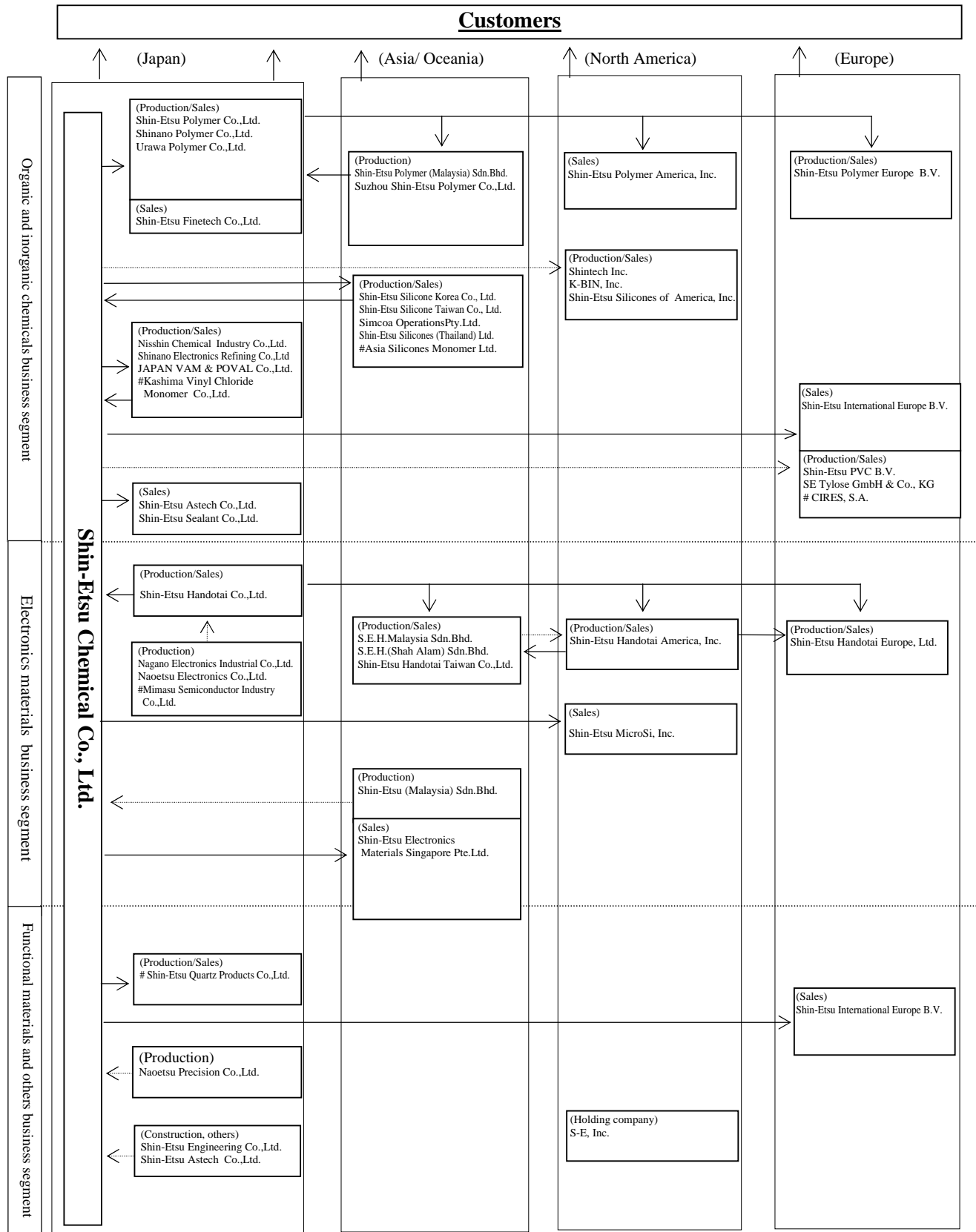
The Group’s business activities, the role and functions of the Company and major subsidiaries and affiliates are described below.

Organic and Inorganic Chemicals business segment	Polyvinyl chloride Silicones Methanol Chloromethanes Cellulose derivatives Caustic soda Silicon metal Poval	Domestic	Shin-Etsu Chemical Co., Ltd. Shin-Etsu Polymer Co., Ltd.* (* Listed in Tokyo Stock Exchange) Shin-Etsu Astech Co., Ltd. JAPAN VAM & POVAL Co., Ltd. Shin-Etsu Finetech Co., Ltd. Shinano Polymer Co., Ltd. Nissin Chemical Industry Co., Ltd. Shin-Etsu Sealant Co., Ltd. Shinano Electric Refining Co., Ltd. Urawa Polymer Co., Ltd. Kashima Vinyl Chloride Monomer Co., Ltd. 12 other companies Total number of companies: 23
		Overseas	Shintech Inc. Shin-Etsu PVC B.V. Shin-Etsu Silicone Korea Co., Ltd. Shin-Etsu Silicones (Thailand) Ltd. Shin-Etsu Silicone Taiwan Co., Ltd. Shin-Etsu Silicones of America, Inc. Shin-Etsu International Europe B.V. Shin-Etsu Polymer (Malaysia) Sdn. Bhd. Shin-Etsu Polymer Europe B.V. Shin-Etsu Polymer America, Inc. Suzhou Shin-Etsu Polymer Co., Ltd. Simcoa Operations Pty. Ltd. SE Tylose GmbH & Co. KG K-Bin, Inc. Asia Silicones Monomer Ltd. CIRES, S.A. 19 other subsidiaries Total number of companies: 35

Electronics materials business segment	Semiconductor silicon Organic materials for the electronics industry Rare earth magnets for the electronics industry Photo resists	Domestic	Shin-Etsu Chemical Co., Ltd. Shin-Etsu Handotai Co., Ltd. Nagano Electronics Industrial Co., Ltd. Naoetsu Electronics Industrial Co., Ltd. Mimasu Semiconductor Industry Co., Ltd.* (* Listed in Tokyo Stock Exchange) 7 other companies Total number of companies: 12
		Overseas	Shin-Etsu Handotai America, Inc. S.E.H. Malaysia Sdn.Bhd. Shin-Etsu Handotai Europe, Ltd. Shin-Etsu Handotai Taiwan Co., Ltd. Shin-Etsu Electronics Materials Singapore Pte.Ltd. Shin-Etsu (Malaysia) Sdn. Bhd. Shin-Etsu MicroSi, Inc. S.E.H.(Shah Alam) Sdn.Bhd. 8 other companies Total number of companies: 16
Functional materials and others business segment	Synthetic quartz products Oxide single crystals Rare Earth and rare earth magnets Liquid fluoroelastomers Export of technology and plants Export and import of goods Construction and Plant engineering Information processing	Domestic	Shin-Etsu Chemical Co., Ltd. Shin-Etsu Engineering Co., Ltd. Shin-Etsu Astech Co., Ltd. Naoetsu Precision Co., Ltd. Shin-Etsu Quartz Products Co., Ltd. 21 other companies Total number of companies: 26
		Overseas	S-E, Inc. Shin-Etsu Electronics Materials Singapore Pte.Ltd. Shin-Etsu (Malaysia) Sdn. Bhd. Shin-Etsu International Europe B.V. 5 other companies Total number of companies: 9

(Note) Some of the companies listed in each business segment may be engaged in business across business segments, and therefore may be listed in more than one category.

# Business Flows Within the Group



Note) Unmarked: Consolidated subsidiaries  
 Marked # : Affiliates which are applied to equity method

→ Products  
 → Processing, technology, service and other

## **2. Management Policies**

### **(1) Basic Management Policies**

The basic management policy of Shin-Etsu Chemical Co., Ltd. is to place No. 1 priority on giving Shin-Etsu's shareholders maximum value by enhancing the worth of Shin-Etsu Group companies.

To achieve this goal, Shin-Etsu strives to secure and further develop its leading world market positions. Shin-Etsu achieves these objectives by developing the world's highest level of technology in its business fields, as well as by attaining superior product quality and the most competitive production costs in the world. In this way, Shin-Etsu establishes stable business relationships with a great number of customers around the world. In addition, Shin-Etsu endeavors to establish a business system that can effectively cope with changes in the economic situation and changing world market conditions.

### **(2) Basic Policy Regarding Dividends**

Emphasizing the long-term perspective with continued stable dividends as its basis, Shin-Etsu would like to return a portion of the company's profits to its shareholders, taking into consideration its business results and other factors while working to increase sales and profits and strengthen the company's business structure.

The company will use its financial reserves for such needs as facility and R&D investment, acquisition of businesses, strengthening the company's global competitive power and developing promising future businesses. Shin-Etsu is making strenuous efforts to enhance the company's value.

### **(3) Policy implementation**

In the PVC business, because demand is increasing worldwide, Shintech Inc. in the U.S. is constructing a large-scale integrated PVC manufacturing facility from electrolysis to PVC resin. In addition, Shin-Etsu PVC B.V. has completed an expansion of its PVC production capabilities. The Shin-Etsu Group will strive to achieve further growth in its PVC business.

In recent years, because a large number of PVC manufacturing plants have been constructed in China and their production capacity now exceeds China's domestic PVC demand level, there is some concern about the market impact of these developments. Shin-Etsu will closely monitor this situation and will take appropriate policy measures.

In the silicone business, by making the most of the product characteristics of silicones, which are in demand in an extraordinary diversity of application fields, Shin-Etsu will promote the development of new silicone products. At the same time, the company will strive to expand its silicone business by endeavoring to maintain stable operations at each of its domestic, U.S. and Thai manufacturing facilities.

In the cellulose business, SE Tylose in Germany has recently completed an expansion of its facilities. Combining the contributions of the expanded SE Tylose with the strengths of Shin-Etsu's cellulose manufacturing facility in Japan, Shin-Etsu will work to assure stable operation of these plants in Germany and Japan and strive to expand its cellulose business.

In the semiconductor silicon business, as the world's largest maker supplying 300mm wafers, Shin-Etsu is decisively responding to the rapid increase in worldwide demand by making use of the Shin-Etsu Group's collective strength, and making investments in a total of five production bases, both in Japan and in the U.S. so as to prepare for an early increase in production capacity and to diversify risk. Shin-Etsu will expand its global 300mm silicon wafer production capacity from its present level of 700,000 wafers/month to 1,000,000 wafers/month in the fall of 2007, and will build a stable global supply system for 300mm wafers. In addition, because the demand for 300mm wafers is expected to further grow in the coming years, Shin-Etsu will continue to place priority on investing in strengthening its production system even after the 1,000,000 wafers/month system is in operation. We intend to speedily and appropriately meet our customers' expanding needs.

Presently, indications are bullish for the wafer market; however, fluctuations in the market are expected to occur, although varying in degree. Shin-Etsu will implement various policy countermeasures so as to as much as possible effectively anticipate and deal with such fluctuation possibilities.

In the synthetic quartz products business, Shin-Etsu will strive to differentiate the quality of our products from those of others, and at the same time, will endeavor to accurately grasping the demand for large-size photomask substrates used for LCDs.

Shin-Etsu also will focus on expanding its rare earth magnets business, where applications are growing in such areas as hard disk drives (HDDs), home appliances and automobile-related products. Shin-Etsu will successively increase its production capacity for this product area.

On the other hand, to effectively cope with the continuing high level of crude oil prices, Shin-Etsu will implement such policy measures as the timely adjustment of product prices, securing and diversifying the supply of raw materials, and strengthening its business base. In this way, the Shin-Etsu Group will be well-prepared to weather any influences that might arise from the effects of soaring oil prices on the economy. In addition, Shin-Etsu will endeavor to diversify its product structure.

To further expand its business, Shin-Etsu will focus on the R&D of new products and their commercialization, and at the same time, will implement sound policy measures, including engaging in M&A activities, that place great importance on enhancing profit. Moreover, Shin-Etsu will strive to strengthen its relationships not only with customers but also with suppliers of raw materials and with those to whom it commissions processing of its products. Shin-Etsu will endeavor to build the foundations for the growth of its businesses.

Our company will aim to continually maximize its corporate worth by carrying out its corporate social responsibilities in such areas as corporate governance and environmental conservation.

### **3. Results of Operations and Financial Position**

#### **(1) Results of operations**

##### **General Overview**

During the first half of “current fiscal year ended March 31, 2007 (FY2007)”, the Japanese economy continued its steady recovery. In addition to vigorous industrial facility investment, personal consumption continued to be strong. At the same time, the economies of Southeast Asia and China continued growing. On the other hand, although the U.S. economy continued to be firm, going forward, there are some concerns about the trends in such areas as energy prices and personal consumption.

Under these circumstances, along with aggressively pursuing its sales activities to its wide range of worldwide customers, the Shin-Etsu Group is making strong efforts to implement reasonable adjustments in product prices to cope with the sharp rise in raw material prices, carry out facility investments for the further development of its businesses and promote the development and commercialization of new products.

As a result, the consolidated business results for the first half of FY 2007 show that net sales increased by 19.4% (¥103,946 million) compared to the corresponding period of previous fiscal year to become ¥639,049 million. Compared to the performance of the corresponding period of the previous fiscal year, operating income increased 32.9% (¥29,733 million) to ¥120,024 million, ordinary income increased 33.3% (¥30,006 million) to ¥120,043 million and net income increased 34.7% (¥19,321 million) to ¥74,932 million.

##### **Business Segment Overview**

###### **Organic and inorganic chemicals**

In the global PVC business, Shintech Inc. in the U.S. increased both its sales and profit due to vigorous demand mainly in the North American market and to the continued high level of PVC product prices. Supported by good demand throughout Europe, Shin-Etsu PVC B.V. in The Netherlands also increased its net sales and profit. On the other hand, in the domestic PVC business, sales increased with the upward adjustment of product prices as a result of the large increase in the price of crude oil; however, as a result of the deterioration in the profitability of exports to China, operating income decreased.

With regard to the silicone business, in addition to steady exports to China and the U.S., domestic sales of silicones, such as for electric, electronics and automobile applications, were generally bullish. The result was increased sales and profits. Moreover, sales of silicone-related products, such as keypads for mobile phones supplied by Shin-Etsu Polymer Co., Ltd., were also firm.

In addition to continued strong domestic sales of cellulose derivatives, mainly for such application areas as pharmaceuticals, SE Tylose in Germany did well in cellulose sales for building material applications. Furthermore, Japan VAM & POVAL Co., Ltd. also did well in their product shipments.

As a result, the net sales of this business segment increased 16.7% (¥50,645 million) compared to the corresponding period of previous fiscal year to ¥353,051 million. Operating income also increased 17.6% (¥8,236 million) to ¥55,127 million.

###### **Electronics materials**

In the semiconductor silicon business, amid expanding demand from device makers in a wide range of application fields such as mobile phones, PCs, digital home appliances and automobiles, Shin-Etsu, accurately anticipating the expanding demand for 300mm wafers, increased the production capacity at its multiple production bases and effectively met the continued increase in demand for 300mm wafers. Demand for 200mm wafers also maintained a high level, and as a result, the semiconductor silicon business attained a large increase in both sales and profit. With regard to depreciation of domestic wafer production facilities, in the first half of the FY 2007, the number of years for the depreciation period was shortened from the previous period of five years to three years.

Sales of rare earth magnets for the electronics industry increased greatly with robust demand for use in such applications as hard disk drives for desktop PCs, servers and visual recording media. In addition, sales of photoresists for semiconductors were good, particularly of ArF resists, which began to be widely adopted for cutting-edge electronic devices. Both the sales and operating income of this business greatly increased.

As a result, the net sales of this business segment increased 33.4% (¥56,439 million) compared to the corresponding period of the previous fiscal year, reaching ¥225,354 million. Operating income increased 60.3% (¥18,972 million) to ¥50,455 million.

### Functional Materials and Others

In the synthetic quartz product area, large-size photomask substrates used for LCDs, which had been greatly increasing in sales, saw an adjustment phase in the latter half of the first half of FY 2007. On the other hand, there were signs of recovery in demand for preform for optical fiber, and overall, synthetic quartz products saw increased sales and profit.

Sales of general-purpose rare earth magnets continued bullish with the growth of applications in many fields, such as automobiles, where energy-saving and lighter weight are required, and digital home appliances. Moreover, sales of liquid fluoroelastomers and pellicles continued to do well.

Other businesses such as sales of commodity products decreased.

As a result, the net sales of this business segment decreased 4.9% (¥3,139 million) compared to the corresponding period of previous fiscal year to become ¥60,642 million, operating income increased 19.0% (¥2,284 million) compared to previous fiscal year to reach ¥14,312 million.

### Business prospects

Regarding Shin-Etsu's business forecast for FY 2007 (April 1, 2006 to March 31, 2007), although the recovery of the Japanese economy is expected to continue, supported by private-sector demand, there are concerns about the trends that might affect the future prospects of the U.S. economy and the effects of any sharp rises in raw material prices. Accordingly, the business outlook for the fiscal year that began in April 2006 is quite uncertain.

Under these circumstances, the Shin-Etsu Group will continue to make strong sales efforts to its worldwide customers by utilizing to the maximum the Group companies' sales power that was nurtured in the world market and by emphasizing the special features of Shin-Etsu products. At the same time, in addition to aggressively making facility investments to assure the further growth and development of its businesses, Shin-Etsu will also strive to achieve improvements in productivity by making use of its strengths in the development of new products and technologies, and will continue to pursue the further rationalization of its management systems.

At this point, Shin-Etsu's business forecast for all of FY 2007 is as follows:

	<u>Billions of yen</u>	
	<u>Consolidated</u>	<u>Non-consolidated</u>
Net sales	1,290	690
Ratio of increase over the prior fiscal year	14.4%	18.5%
Ordinary income	241	80
Ratio of increase over the prior fiscal year	30.2%	10.9%
Net income	150	50
Ratio of increase over the prior fiscal year	30.4%	11.0%

The year-end dividend is expected to be ¥25 per share. As a result, the annual dividend will be ¥50 per share, which is ¥15 higher than that paid as a dividend of the previous fiscal year.

(Note)

The forecast of results of operations made in this document involves risks and uncertainties since the forecast is based on management's assumptions and beliefs in light of the information currently available to it. The reader should be aware that actual results may be materially different from any future results expressed herein due to various factors. Material factors affecting the actual results may include overall economic conditions in which the businesses of our company and our group companies are involved, the relevant market trends and fluctuations in foreign exchange rates of the yen, in particular, the exchange rate between the U.S. dollars and the yen; provided, however, that such factors as may affect results of operations are not limited to those enumerated above.

## (2) Financial Position

	<u>Millions of Yen</u>			
	<u>For the period ended</u>			Increase (Decrease) (A-B)
	Apr.-Sep. '06	Apr. '05 - Mar. '06	Apr.-Sep. '05	
(A)		(B)		
Cash and cash equivalents at beginning of fiscal year	373,863	317,733	317,733	56,130
Cash flows from operating activities	132,344	220,592	100,994	31,350
Cash flows from investing activities	(83,486)	(138,813)	(50,051)	(33,435)
Cash flows from financing activities	(19,702)	(42,496)	(24,754)	5,052
Effect of foreign exchange and others	(2,616)	16,847	7,723	(10,339)
Net increase in cash and cash equivalents	26,538	56,130	33,912	(7,374)
Cash and cash equivalents at end of period	400,402	373,863	351,646	48,756

The balance of cash and cash equivalents at end of the first half of this fiscal year increased by 7.1% (¥26,538million) over that of the prior year, to become ¥400,402 million.

### **Cash flows from operating activities**

The Increase in cash flows provided by operating activity amounted to ¥132,344 million. This was mainly due to income before income tax of ¥120,043 million, depreciation expense of ¥58,873 million and income tax payment of ¥57,831 million.

### **Cash flows from investing activities**

Net cash used for investing activities amounted to ¥83,486 million. This was mainly due to expenditures for purchase of tangible fixed assets of ¥76,107 million.

### **Cash flows from financing activities**

Net cash used for financing activities amounted to ¥19,702 million. This was mainly due to payment by conversion of convertible debenture of ¥8,000 million and payment of cash dividends of ¥7,536 million.

The trend of cash flow indices is as follows

	For the period ended				
	Sep. 30, '06	Mar. 31, '06	Sep. 30, '05	Mar. 31, '05	Sep. 30, '04
Shareholder's equity ratio(%)	70.0	70.2	69.4	67.5	66.1
Shareholder's equity ratio on market value basis(%)	185.0	164.7	137.0	117.6	117.0
Redemption years for debt	0.3	0.4	0.5	0.7	0.7
Interest coverage ratio	87.9	78.5	75.4	57.2	54.0

(Notes)

Shareholder's equity ratio:  $(\text{Net assets} - \text{Minority interest in consolidated subsidiaries} - \text{Share purchase warrant}) / \text{total assets}$

Shareholder's equity ratio at market value:

$\text{Aggregate market value of common stock} / \text{total assets}$

Debt repayment period:  $\text{interest-bearing liabilities} / \text{cash flows from operating activities}$

Interest coverage ratio:  $\text{cash flows from operating activities} / \text{interest payments}$

1. All indices based on consolidated financial figures.
2. Aggregate market value of common stock:  
 $\text{Market price at the period end} \times \text{number of shares outstanding at the period end}$   
(excluding treasury stock)
3. Cash flow from operating activities corresponds to the cash flow from operating activities in the consolidated statement of cash flows. Interest-bearing liabilities include all liabilities for which the Company is paying interest among the liabilities reported on the consolidated balance sheet. Interest expenses correspond to the interest expenses in the consolidated statement of cash flows.
4. Cash flow from operating activities is doubled into yearly basis to calculate the redemption years for debt for the six months period of each year.

### **(3)Business Risk Statement**

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

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

As of the end of the first half of FY 2007, the types of risks listed below are those that the Shin-Etsu Group considers most significant. This list does not represent an attempt to discuss all possible risks that could impact on the Shin-Etsu Group.

#### **1) Influence of economic trends and product markets**

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

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

#### **2) Influence of fluctuations in foreign exchange rates**

Overseas sales accounted for 69% of the total consolidated sales of the Shin-Etsu Group in the first half of FY 2007. It is expected that this ratio will remain at a high level. The yen conversion amount of such items included in the Shin-Etsu 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 Shin-Etsu Group. In addition, for transactions in foreign currencies, to reduce risks Shin-Etsu is taking such measures as making forward-exchange contracts; 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 Shin-Etsu 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 Shin-Etsu Group's business operations results.

#### **4) Influence of public regulatory requirements and law**

In the countries or local areas where the Shin-Etsu 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 Shin-Etsu Group's business operations results.

#### **5) Influence of supply factors on procurement of materials**

The Shin-Etsu 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 of supplies in these materials occur, resulting in price increases, there is a possibility of a major impact on the Shin-Etsu Group's business operations results.

**6) Influence on development of new products and technologies**

Development of new products and technologies in the electronics industry is very rapid, and this industry is an important market for some of the products of Shin-Etsu Group companies. Accordingly, Shin-Etsu is continuously striving to develop the most advanced materials so it can meet customers' needs for speedy technological innovation. However, if the Shin-Etsu 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 Shin-Etsu Group's business operations results.

**7) Influence of environmental problems**

The Shin-Etsu 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 Shin-Etsu Group's business operations results.

**8) Influence of product liability**

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

## **4. Consolidated Financial Statements**

### **4-1 Comparative Consolidated Balance Sheets**

As of September 30, 2006, March 31, 2006 and September 30, 2005.

	<u>Millions of Yen</u>			
	<u>Sep. 30, 2006 (A)</u>	<u>Mar. 31, 2006 (B)</u>	<u>Sep. 30, 2005</u>	<u>Increase (Decrease) (A-B)</u>
ASSETS				
Current Assets:				
Cash and time deposits	290,308	262,145	246,474	28,163
Notes and accounts receivable-trade	308,435	277,874	251,115	30,561
Securities	204,688	178,555	149,430	26,133
Inventories	145,575	147,367	139,394	(1,792)
Deferred taxes, current	39,696	34,103	31,419	5,593
Others	37,471	32,175	33,834	5,296
less: Allowance for doubtful accounts	(5,750)	(5,233)	(4,953)	(517)
Total current assets	<u>1,020,424</u>	<u>926,987</u>	<u>846,716</u>	<u>93,437</u>
Fixed Assets:				
Property, plant and equipment				
Buildings and structures	157,228	158,298	155,896	(1,070)
Machinery and equipment	197,146	208,213	206,200	(11,067)
Land	60,064	57,237	52,864	2,827
Construction in progress	57,854	34,524	27,728	23,330
Others	10,361	10,509	10,152	(148)
Total property, plant and equipment	<u>482,655</u>	<u>468,783</u>	<u>452,842</u>	<u>13,872</u>
Intangible fixed assets	<u>25,003</u>	<u>25,347</u>	<u>25,237</u>	<u>(344)</u>
Investments and other assets				
Investments in securities	184,792	216,227	190,995	(31,435)
Deferred taxes, non-current	20,505	13,267	15,337	7,238
Others	20,210	20,691	20,699	(481)
Less: Allowance for doubtful accounts	(20)	(25)	(19)	5
Total investments and other assets	<u>225,487</u>	<u>250,162</u>	<u>227,012</u>	<u>(24,675)</u>
Total fixed assets	<u>733,146</u>	<u>744,293</u>	<u>705,093</u>	<u>(11,147)</u>
TOTAL ASSETS	<u>1,753,571</u>	<u>1,671,280</u>	<u>1,551,809</u>	<u>82,291</u>

	<u>Millions of Yen</u>			Increase (Decrease) (A-B)
	Sep. 30, 2006 (A)	Mar. 31, 2006 (B)	Sep. 30, 2005	
<b>LIABILITIES</b>				
Current Liabilities:				
Notes and accounts payable-trade	143,433	132,673	122,069	10,760
Short-term borrowings	26,842	18,168	21,765	8,674
Debentures of redemption within one year	8,000	8,000	7,212	-
Accounts payable-others	71,333	56,068	49,123	15,265
Accrued income taxes	46,892	47,259	36,220	(367)
Accrued expenses	90,046	77,314	77,684	12,732
Others	13,276	13,405	12,142	(129)
Total current liabilities	<u>399,824</u>	<u>352,889</u>	<u>326,218</u>	<u>46,935</u>
Long-term Liabilities:				
Debentures	-	8,000	22,000	(8,000)
Long-term borrowings	41,600	49,670	45,848	(8,070)
Deferred taxes, non-current	33,792	40,734	39,492	(6,942)
Accrued retirement benefits	11,127	10,397	8,442	730
Others	2,459	1,689	1,445	770
Total long-term liabilities	<u>88,979</u>	<u>110,491</u>	<u>117,228</u>	<u>(21,512)</u>
<b>TOTAL LIABILITIES</b>	<u>488,803</u>	<u>463,381</u>	<u>443,447</u>	<u>25,422</u>

	<u>Millions of Yen</u>			Increase (Decrease) (A-B)
	Sep. 30, '06 (A)	Mar. 31, '06 (B)	Sep. 30, '05	
<b>NET ASSETS</b>				
Stockholders' Equity				
Common stock	119,419	-	-	-
Additional paid-in capital	128,177	-	-	-
Retained earnings	949,201	-	-	-
Less: Treasury stock, at cost	(9,878)	-	-	-
<b>Total Stockholders' Equity</b>	<b>1,186,919</b>	<b>-</b>	<b>-</b>	<b>-</b>
Valuation and translation adjustment				
Unrealized gains(losses) on available-for-sale Securities	31,808	-	-	-
Foreign currency translation adjustment	9,523	-	-	-
<b>Total Valuation and translation adjustment</b>	<b>41,331</b>	<b>-</b>	<b>-</b>	<b>-</b>
Share purchase warrant	704	-	-	-
Minority interests in consolidated subsidiaries	35,811	-	-	-
<b>TOTAL NET ASSETS</b>	<b>1,264,767</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>1,753,571</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES</b>	<b>-</b>	<b>34,219</b>	<b>31,288</b>	<b>-</b>
<b>STOCKHOLDERS' EQUITY</b>				
Common stock	-	119,419	119,419	-
Additional paid-in capital	-	128,178	128,178	-
Retained earnings	-	882,412	831,121	-
Unrealized gain(loss) on available-for-sale Securities	-	38,599	23,684	-
Foreign currency translation adjustment	-	11,369	(14,396)	-
Less: Treasury stock, at cost	-	(6,300)	(10,934)	-
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>-</b>	<b>1,173,679</b>	<b>1,077,074</b>	<b>-</b>
<b>TOTAL LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY</b>	<b>-</b>	<b>1,671,280</b>	<b>1,551,809</b>	<b>-</b>

## **4-2 Comparative Consolidated Income Statements**

For the six months period ended September 30, 2006 and 2005, and the fiscal year ended March 31, 2006.

	<u>Millions of Yen</u>			
	Apr.-Sep. '06 (A)	Apr. '05- Mar. '06	Apr.-Sep. '05 (B)	Increase (Decrease) (A-B)
<b>Operating Income and Expenses:</b>				
Net sales	639,049	1,127,915	535,103	103,946
Cost of sales	457,187	831,333	391,173	66,014
Gross profit	181,862	296,582	143,929	37,933
Selling, general and administrative expenses	61,837	111,262	53,638	8,199
Operating income	120,024	185,320	90,291	29,733
<b>Non-operating Income:</b>				
Interest income	3,669	5,572	2,661	1,008
Dividend income	581	1,199	581	(0)
Equity in earnings of affiliates	2,105	3,995	1,182	923
Other income	1,606	2,140	810	796
	7,963	12,906	5,236	2,727
<b>Non-operating Expenses:</b>				
Interest expenses	1,489	2,706	1,318	171
Loss on disposal of property, plant and equipment	2,189	1,225	269	1,920
Foreign exchange loss	2,446	6,055	2,134	312
Other expenses	1,817	3,199	1,767	50
	7,943	13,186	5,489	2,454
Ordinary income	120,043	185,040	90,037	30,006
Income before income taxes	120,043	185,040	90,037	30,006
Income taxes-Current	57,440	82,639	38,660	18,780
Income taxes-Deferred	(14,587)	(16,714)	(6,135)	(8,452)
Minority interest in earnings of consolidated subsidiaries	2,258	4,070	1,900	358
Net income	74,932	115,045	55,611	19,321

### **4-3 Comparative Consolidated statements of additional paid-in capital and retained earnings**

For the six months period ended September 30, 2005, and the fiscal year ended March 31, 2006.

	<u>Millions of Yen</u>	
	<u>For the period ended</u>	
	<u>Mar. 31, '06</u>	<u>Sep. 30, '05</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance at beginning of period	<u>126,274</u>	<u>126,274</u>
Conversion of convertible debentures	<u>1,904</u>	<u>1,904</u>
Total increase	<u>1,904</u>	<u>1,904</u>
Balance at end of period	<u>128,178</u>	<u>128,178</u>
<b>RETAINED EARNINGS</b>		
Balance at beginning of period	<u>780,198</u>	<u>780,198</u>
Net income	115,045	55,611
Effect of increase in consolidated subsidiaries	<u>9</u>	<u>9</u>
Total increase	<u>115,054</u>	<u>55,620</u>
Cash dividends	11,792	4,275
Directors' and statutory auditors' bonuses	351	351
Loss on disposal sales of treasury stocks	109	70
Effect of change of accounting standard at an overseas consolidated subsidiary	<u>586</u>	<u>-</u>
Total decrease	<u>12,840</u>	<u>4,697</u>
Balance at end of period	<u>882,412</u>	<u>831,121</u>

#### 4-4 Statement of changes in Stockholders' Equity

For the six months period ended September 30, 2006

(Millions of yen)

	<u>Stockholders' Equity</u>				Total
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	
Balance as of March 31, 2006	119,419	128,178	882,412	(6,300)	1,123,711
Changes during the current period					
Cash dividends	-	-	(7,536)	-	(7,536)
Bonuses to directors and statutory auditors	-	-	(485)	-	(485)
Net Income	-	-	74,932	-	74,932
Increase of treasury stock	-	-	-	(5,034)	(5,034)
Decrease of treasury stock	-	-	(121)	1,456	1,334
Others	-	(1)	-	-	(1)
Changes other than stockholders' equity	-	-	-	-	-
Total changes during the current period	-	(1)	66,788	(3,578)	63,208
Balance as of September 30, 2006	119,419	128,177	949,201	(9,878)	1,186,919

	<u>Valuation and translation adjustment</u>		
	Unrealized gains (losses) on available-for-sale Securities	Foreign currency translation adjustment	Total
Balance as of March 31, 2006	38,599	11,369	49,968
Changes during the current period			
Cash dividends	-	-	-
Bonuses to directors and statutory auditors	-	-	-
Net Income	-	-	-
Increase of treasury stock	-	-	-
Decrease of treasury stock	-	-	-
Others	-	-	-
Changes other than stockholders' equity	(6,790)	(1,846)	(8,637)
Total changes during the current period	(6,790)	(1,846)	(8,637)
Balance as of September 30, 2006	31,808	9,523	41,331

	Share purchase warrant	Minority Interests in consolidated subsidiaries	Total Net Assets
	Balance as of March 31, 2006	-	34,219
Changes during the current period			
Cash dividends	-	-	(7,536)
Bonuses to directors and statutory auditors	-	-	(485)
Net Income	-	-	74,932
Increase of treasury stock	-	-	(5,034)
Decrease of treasury stock	-	-	1,334
Others	-	-	(1)
Changes other than stockholders' equity	704	1,592	(6,340)
Total changes during the current period	704	1,592	56,868
Balance as of September 30, 2006	704	35,811	1,264,767

#### **4-5 Comparative Consolidated statements of cash flows**

For the six months period ended September 30, 2006 and 2005, and the fiscal year ended March 31, 2006.

	<u>Millions of Yen</u>			Increase (Decrease) (A-B)
	Apr.-Sep. '06 (A)	Apr. '05- Mar. '06	Apr.-Sep. '05 (B)	
<b>1. Cash flows from operating activities</b>				
Income before income taxes	120,043	185,040	90,037	30,006
Depreciation and amortization	58,873	111,637	49,065	9,808
Increase in accrued retirement benefits	691	1,948	748	(57)
Loss on write-down of investment securities	320	119	-	320
Interest and dividend income	(4,250)	(6,771)	(3,243)	(1,007)
Interest expenses	1,489	2,706	1,318	171
Exchange gain	(493)	(27)	(484)	(9)
Equity in earnings of affiliates	(2,105)	(3,995)	(1,182)	(923)
Increase in notes and accounts receivable	(31,132)	(30,505)	(10,856)	(20,276)
(Increase) decrease in inventories	2,148	(7,797)	(2,231)	4,379
Increase in notes and accounts payable	24,364	21,671	5,868	18,496
Other, net	17,039	14,363	8,342	8,697
Subtotal	<u>186,988</u>	<u>288,389</u>	<u>137,382</u>	<u>49,606</u>
Proceeds from interest and dividends	4,692	6,612	3,268	1,424
Payment of interest	(1,505)	(2,809)	(1,338)	(167)
Payment of income taxes	(57,831)	(71,600)	(38,317)	(19,514)
Net cash provided by operating activities	<u>132,344</u>	<u>220,592</u>	<u>100,994</u>	<u>31,350</u>
<b>2. Cash flows from investing activities</b>				
Net (increase) decrease in marketable securities	(15,473)	(5,151)	117	(15,590)
Purchase of property, plant and equipment	(76,107)	(126,661)	(52,631)	(23,476)
Proceeds from sales of property, plant and equipment	10	1,351	1,383	(1,373)
Purchase of intangible fixed assets	(824)	(1,045)	(523)	(301)
Purchase of investment securities	(1,809)	(52,708)	(26,886)	25,077
Proceeds from sales and redemption of investment securities	19,665	47,070	27,246	(7,581)
Payments of loans	(3)	(31)	(1)	(2)
Proceeds from collection of loans	194	3,187	1,532	(1,338)
Other, net	(9,140)	(4,823)	(287)	(8,853)
Net cash used for investing activities	<u>(83,486)</u>	<u>(138,813)</u>	<u>(50,051)</u>	<u>(33,435)</u>
<b>3. Cash flows from financing activities</b>				
Net decrease in short term debt	(2,509)	(17,717)	(16,248)	13,739
Proceeds from long-term debt	6,213	5,738	1,060	5,153
Repayment of long-term debt	(3,784)	(9,392)	(4,878)	1,094
Payment of debentures on redemption	(8,000)	(13,209)	(5)	(7,995)
Cash dividends paid	(7,536)	(11,792)	(4,275)	(3,261)
Other, net	(4,086)	3,877	(406)	(3,680)
Net cash used for financing activities	<u>(19,702)</u>	<u>(42,496)</u>	<u>(24,754)</u>	<u>5,052</u>
4. Effect of exchange rate changes on cash and cash equivalents	(2,616)	16,607	7,484	(10,100)
5. Net increase in cash and cash equivalents	26,538	55,890	33,673	(7,135)
6. Cash and cash equivalents at beginning of period	373,863	317,733	317,733	56,130
7. Net increase in cash and cash equivalents by change of consolidation scope	-	239	239	(239)
8. Cash and cash equivalents at end of period	<u>400,402</u>	<u>373,863</u>	<u>351,646</u>	<u>48,756</u>

## 4-6 Basis of Presenting Consolidated Financial Statement

### 1. Scope of Consolidation

Consolidated Subsidiaries	69	Shintech, Inc.(Overseas subsidiary) Shin-Etsu Handotai Co., Ltd. Shin-Etsu Handotai America, Inc.(Overseas subsidiary) Shin-Etsu Polymer Co., Ltd. S.E.H. Malaysia Sdn. Bhd.(Overseas subsidiary) Shin-Etsu PVC B.V.(Overseas subsidiary) Shin-Etsu Engineering Co., Ltd. SE Tylose GmbH&Co.KG (Overseas subsidiary) Shin-Etsu Handotai Europe, Ltd. (Overseas subsidiary) Nagano Electronics Industrial Co., Ltd. Shin-Etsu Handotai Taiwan Co., Ltd. (Overseas subsidiary) Naoetsu Electronics Co., Ltd. Shin-Etsu Astech Co., Ltd. 56 other subsidiaries
Unconsolidated Subsidiaries	23	

### 2. Application of Equity Method

The Company had 23 unconsolidated subsidiaries and 15 affiliates. The equity method is applied to the investments in 7 major affiliates – Mimasu Semiconductor Industry Co., Ltd., Shin-Etsu Quartz Products Co., Ltd., Kashima Vinyl Chloride Monomer Co., Ltd. and 4 other affiliates.

### 3. Fiscal Year of Consolidated Subsidiaries

42 subsidiaries adopt six months period ending on June 30, and 7 subsidiaries adopt that ending on August 31, respectively. For consolidation of these subsidiaries whose fiscal years do not correspond to the Company's ones, necessary adjustments are made on significant inter-company transactions which occurred during the periods between the fiscal period-end of respective consolidated subsidiaries and that of the Company.

### 4. Significant Accounting Policies

#### (1) Valuation policy and method of significant assets

##### a)Securities

Bonds held to maturity	...	Amortized cost method(Straight-line method)
Available-for-sale securities		
Marketable securities	...	Market value method based on the fair market value as of the balance sheet date. (Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at net-of-tax amount. Costs of sales of these securities are principally calculated based on a moving average cost method)
Non-marketable securities	...	Mainly moving average cost method

b)Inventories ... Mainly average cost method

c)Derivatives ... Market value method

#### (2) Depreciation method of significant depreciable assets

... Mainly declining-balance method

#### (Additional information)

In the prior fiscal years, the period of depreciation for semiconductor silicon manufacturing facilities at domestic consolidated subsidiaries was five years. Because of the need for more rapid upgrading of manufacturing facilities and inspection equipment which was triggered by the strong demand for high-quality silicon wafers, from the first half of "fiscal year ended March 31, 2007 (FY2007)", the period of depreciation has been changed from five to three years. Consequently, the depreciation expenses for the first half of FY2007, when compared with the figures calculated for the previous depreciable years, increased by ¥7,041 million, and operating income, ordinary income and income before income taxes all decreased by ¥5,924 million.

(3) Calculation method of significant allowances

- a) Allowance for doubtful accounts ... The Company and consolidated subsidiaries provide the allowance for doubtful accounts by the method which uses the percentage of its own actual experience of bad debt loss written off against the balance of general receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.
- b) 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 current fiscal year. The actuarial difference is amortized over five-year period, which is within the average remaining service period, using straight-line method from the fiscal year when the difference was generated. The prior service cost is amortized over ten-year period, which is within the average remaining service period using straight-line method from the time when the difference was generated.

(4) Accounting method of significant lease transactions

Accounting method in connection with the contracts of finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees is mainly according to that of operating lease transactions.

5. Nature of Fund on Interim Consolidated Cash Flow Statement

Fund (cash and cash equivalents) on the consolidated statements of cash flows consists of cash on hand, deposit that can be withdrawn without limitation and liquid investment which are easily convertible into cash, and are matured within approximately three months since acquisition date, and has insignificant risk exposure in terms of fluctuation on value of the investments.

#### **4-7 Changes in Basis of Presenting Consolidated Financial Statement**

##### **1. Accounting standard for Directors' bonus**

Effective from the first half of FY2007, the Company and its domestic consolidated subsidiaries adopted Accounting Standards Board of Japan Statement No.4 "Accounting Standard for Directors' bonus", issued by the Accounting Standards Board of Japan on November 29, 2005. As a result of the adoption of this new standard, operating income, ordinary income and income before income taxes decreased by ¥230 million, respectively.

##### **2. Accounting Standard for Presentation of Net Assets in the Balance Sheet**

Effective from the first half of FY2007, the Company and its domestic subsidiaries adopted Accounting Standards Board of Japan Statement No. 5 "Accounting Standard for Presentation of Net Assets in the Balance Sheet", issued by the Accounting Standards Board of Japan on December 9, 2005 and Accounting Standards Board of Japan Guidance No. 8 "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet", issued by the Accounting Standards Board of Japan on December 9, 2005. The amount corresponding to conventional "total stockholders' equity" in the balance sheet is ¥1,228,251 million. "Net assets" in the balance sheet for the first half of FY2007 is stated in accordance with the new accounting standard.

##### **3. Accounting Standard for Stock Options**

Effective from the first half of FY2007, the Company and its domestic subsidiaries adopted Accounting Standards Board of Japan Statement No. 8 "Accounting Standard for Stock-based Compensation", which was issued on December 27, 2005 and Accounting Standards Board of Japan Guidance No. 11 "Guidance on Accounting Standard for Stock-based Compensation", which was issued on May 31, 2006. Both of these statements was issued by the Accounting Standards Board of Japan. The effect of the adoption of this new standard on operating income, ordinary income and income before income taxes was a decrease of ¥704 million each.

**(Note to Consolidated Balance Sheet)**

	<u>Millions of Yen</u>		
	<u>Sep. 30, '06</u>	<u>Mar. 31, '06</u>	<u>Sep. 30, '05</u>
1. Accumulated depreciation of property, plant and equipment	1,047,701	1,009,857	957,142
2. Contingent liabilities for guarantee	143	279	1,178

**(Notes to Consolidated Statement of changes in Stockholders' Equity)**

## 1. Type and numbers of shares outstanding and treasury stocks (Unit:shares)

	<u>Mar. 31, '06</u>	<u>Apr. – Sep. 06</u>		<u>Sep. 30, '06</u>
		<u>Increase(*1)</u>	<u>Decrease(*2)</u>	
Type of Shares outstanding				
Common stock	432,106,693	-	-	432,106,693
Type of Treasury stock				
Common stock	1,465,968	776,337	316,006	1,926,299

(\*1)The reasons for increase are as follows;

Acquisition of treasury stock based on a provision in certificate of incorporation in accordance with Commercial Code, Article 165, Paragraph 2.	770,000 shares
Purchase of less-than-one-unit shares	6,337 shares

(\*2) The reasons for decrease are as follows;

Execution of stock option	315,700 shares
Purchase of less-than-one-unit shares by shareholders	306 shares

## 2. Shares purchase warrant (Millions of Yen)

		<u>Detail</u>	<u>Balance as of Sep. 30, 2006</u>
Shin-Etsu Chemical Co., Ltd	Shares purchase warrant as stock option		570
Subsidiaries	Shares purchase warrant as stock option		133
	(Total)		704

## 3. Dividend

## (1)Payment of dividend

<u>Resolution</u>	<u>Type of share</u>	<u>Total amount of dividends</u>	<u>Dividends per share</u>	<u>Reference Date</u>	<u>Effective Date</u>
Annual shareholders meeting held on June 29, 2006	Common stock	7,536 million yen	17.50 yen	March 31, 2006	June 30, 2006

(2)Dividend which will be paid in the second half of FY2007, but belongs to the first Half of FY2007

<u>Resolution</u>	<u>Type of share</u>	<u>Total amount of dividends</u>	<u>Source of dividends</u>	<u>Dividends per share</u>	<u>Reference Date</u>	<u>Effective Date</u>
Board of Directors meeting held on Oct 23, 2006	Common stock	10,754 million yen	Retained earnings	25.00 yen	September 30, 2006	November 20, 2006

## (Segment Information)

### 1. Business Segment Information

	Millions of Yen					
	Apr. '06 – Sep. '06					
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Total	Elimination or Common assets	Consolidated total
Sales to outside customers	353,051	225,354	60,642	639,049	-	639,049
Intersegment sales	5,245	1,363	38,803	45,412	(45,412)	-
Total	358,297	226,717	99,446	684,461	(45,412)	639,049
Operating costs and expenses	303,170	176,261	85,134	564,566	(45,541)	519,025
Operating income	55,127	50,455	14,312	119,895	129	120,024
Depreciation	13,881	41,040	4,043	58,966	(92)	58,873
Capital expenditures	40,629	33,999	3,970	78,598	(216)	78,382

	Millions of Yen					
	Apr. '05 – Sep. '05					
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Total	Elimination or Common assets	Consolidated Total
Sales to outside customers	302,406	168,915	63,781	535,103	-	535,103
Intersegment sales	4,706	2,029	29,127	35,863	(35,863)	-
Total	307,113	170,944	92,908	570,966	(35,863)	535,103
Operating costs and expenses	260,221	139,461	80,880	480,563	(35,751)	444,811
Operating income	46,891	31,483	12,028	90,403	(111)	90,291
Depreciation	12,805	32,348	3,962	49,116	(50)	49,065
Capital expenditures(Footnote)	19,618	25,265	3,235	48,119	(135)	47,983

(Footnote) Mimasu Semiconductor Industry Co., Ltd., which is under the Electronics Materials segment, is included in the affiliates where the equity method accounting was applied at the end of six months period, as a result of the additional acquisition of shares during this six months period, ended September 30, 2005. Payment for this acquisition was ¥10,710 million, which is not included in the “Capital expenditures” in the chart above. If this amount were included, capital expenditures for the first half of this fiscal year would be ¥58,693 million.

	Millions of Yen					
	Apr. '05 – Mar. '06					
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Total	Elimination or Corporate assets	Consolidated total
Sales to outside customers	636,491	361,452	129,970	1,127,915	-	1,127,915
Intersegment sales	9,502	3,567	59,691	72,761	(72,761)	-
Total	645,994	365,020	189,662	1,200,677	(72,761)	1,127,915
Operating costs and expenses	549,822	299,744	165,639	1,015,207	(72,611)	942,595
Operating income	96,171	65,275	24,022	185,470	(149)	185,320
Depreciation	27,666	75,815	8,360	111,843	(205)	111,637
Capital expenditures(Footnote)	46,241	65,656	8,353	120,251	(443)	119,808

(Footnote) Mimasu Semiconductor Industry Co., Ltd., which is under the Electronics Materials segment, is included in the affiliates where the equity method accounting was applied at the end of the year, as a result of the additional acquisition of shares during the year, ended March 31,2006. Payment for this acquisition was ¥25,521 million, which is not included in the “Capital expenditures” in the chart above. If this amount were included, capital expenditures for this fiscal year would be ¥145,329 million.

(Notes)

1. The following three lines of business are divided from point of view of kinds of products and markets.

Organic and Inorganic Chemicals business segment	Polyvinyl chloride, Silicones, Methanol, Chloromethanes, Cellulose derivatives, Caustic soda, Silicon metal and Poval
Electronics Materials business segment	Semiconductor silicon, Organic materials for the electronics industry, Rare earth magnets for the electronics industry and Photoresists
Functional Materials and Others business segment	Synthetic quartz products, Oxide single crystals, Rare earths and rare earth magnets, Liquid fluoroelastomers, Export of technology and plants, Export and import of goods, Construction and plant engineering and Information processing

2. As mentioned under section 4-6. Changes in Basis of Presenting Consolidated Financial Statement, 4.(2) additional information, from the first half of FY2007, the period of depreciation for semiconductor silicon manufacturing facilities was shortened. With this change, when compared with the figures calculated for the previous depreciable years, depreciation expenses for the first Half of FY2007 listed in “Electronics Materials business segment” increased by ¥7,041 million. Consequently, operating expenses increased by ¥5,924 million and operating income decrease by the same amount.

## 2. Geographical Segment information

	Millions of Yen						
	Apr. – Sep. '06						
	Japan	North America	Asia/Oceania	Europe	Total	Elimination or Corporate assets	Consolidated total
Sales to outside customers	310,224	161,154	87,642	80,028	639,049	-	639,049
Intersegment sales	111,031	17,462	31,330	357	160,180	(160,180)	-
Total	421,255	178,616	118,972	80,385	799,230	(160,180)	639,049
Operation costs and expenses	341,297	155,088	110,508	73,464	680,359	(161,334)	519,025
Operating income	79,958	23,527	8,464	6,920	118,870	1,153	120,024

	Millions of Yen						
	Apr. – Sep. '05						
	Japan	North America	Asia/Oceania	Europe	Total	Elimination or Corporate assets	Consolidated Total
Sales to outside customers	276,428	129,626	60,790	68,256	535,103	-	535,103
Intersegment sales	85,418	11,560	28,097	313	125,389	(125,389)	-
Total	361,847	141,187	88,888	68,570	660,492	(125,389)	535,103
Operation costs and expenses	298,953	124,530	83,783	62,137	569,405	(124,593)	444,811
Operating income	62,893	16,656	5,104	6,432	91,086	(795)	90,291

	Millions of Yen						
	Apr. '05– Mar. '06						
	Japan	North America	Asia/Oceania	Europe	Total	Elimination or Corporate assets	Consolidated Total
Sales to outside customers	574,447	287,477	130,027	135,963	1,127,915	-	1,127,915
Intersegment sales	184,832	23,198	61,736	676	270,444	(270,444)	-
Total	759,280	310,675	191,764	136,640	1,398,360	(270,444)	1,127,915
Operation costs and expenses	620,501	284,078	182,164	126,767	1,213,512	(270,916)	942,595
Operating income	138,778	26,596	9,600	9,872	184,847	472	185,320

(Notes) 1. Main countries or areas other than Japan

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

2. As mentioned under section 4-6. Changes in Basis of Presenting Consolidated Financial Statement, 4.(2) additional information, from the first half of FY 2007, the period of depreciation for semiconductor silicon manufacturing facilities was shortened. With this change, when compared with the figures calculated for the previous depreciable years, operating expenses listed in “Japan” in the geographical segment increased by ¥5,924 million and its operating income decreased by the same amount.

### 3. Overseas sales information

Millions of Yen					
Apr. - Sep. '06					
	North America	Asia/Oceania	Europe	Other Area	Total
Overseas sales	151,898	185,340	78,993	24,341	440,574
Consolidated sales					639,049
Percentage of overseas sales over consolidated sales	23.8	29.0	12.3	3.8	68.9

Millions of Yen					
Apr. - Sep. '05					
	North America	Asia/Oceania	Europe	Other Area	Total
Overseas sales	121,998	152,569	63,506	18,581	356,657
Consolidated sales					535,103
Percentage of overseas sales over consolidated sales	22.8	28.5	11.9	3.5	66.7

Millions of Yen					
Apr. '05- Mar. '06					
	North America	Asia/Oceania	Europe	Other Area	Total
Overseas sales	278,342	310,609	131,724	31,949	752,625
Consolidated sales					1,127,915
Percentage of overseas sales over consolidated sales	24.7	27.5	11.7	2.8	66.7

(Notes) 1. Main countries or areas

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

2. "Overseas sales" means sales to outside Japan by the Company and its consolidated subsidiaries.
3. Sales to China included in "Asia/Oceania" were ¥42,737 million for "Apr.-Sep. '06", ¥38,560 million for "Apr. - Sep. 05" and ¥77,203 million for "Apr. '05- Mar. '06", respectively.

**[Supplementary data: Details of Business Segment Information (Net Sales and Operating Income)]**

	Billions of Yen					
	Net Sales			Operating Income		
	Apr.-Sep.06	Apr.-Sep.05	Increase (Decrease)	Apr.-Sep.06	Apr.-Sep.05	Increase (Decrease)
Polyvinyl chloride	<b>190.7</b>	160.9	29.8	<b>24.5</b>	18.2	6.3
Silicones	<b>96.6</b>	86.2	10.4	<b>20.0</b>	19.3	0.7
Others	<b>65.7</b>	55.3	10.4	<b>10.6</b>	9.4	1.2
Total Organic and inorganic chemicals Segment	<b>353.0</b>	302.4	[16.7%] 50.6	<b>55.1</b>	46.9	[17.6%] 8.2
Semiconductor silicon	<b>190.2</b>	142.9	47.3	<b>42.1</b>	25.8	16.3
Others	<b>35.2</b>	26.0	9.2	<b>8.4</b>	5.7	2.7
Total Electronics materials Segment	<b>225.4</b>	168.9	[33.4%] 56.5	<b>50.5</b>	31.5	[60.3%] 19.0
Synthetic quartz products	<b>17.9</b>	15.8	2.1	<b>7.9</b>	6.7	1.2
Rare earth magnets and other Functional materials	<b>17.1</b>	14.8	2.3	<b>3.7</b>	2.8	0.9
Others	<b>25.6</b>	33.2	(7.6)	<b>2.7</b>	2.5	0.2
Total Functional materials and Others Segment	<b>60.6</b>	63.8	[(4.9%) (3.2)]	<b>14.3</b>	12.0	[19.0%] 2.3
Elimination or Common assets	-	-	-	<b>0.1</b>	(0.1)	0.2
Total	<b>639.0</b>	535.1	[19.4%] 103.9	<b>120.0</b>	90.3	[32.9%] 29.7

### (Lease Transactions)

Information about Lease transactions is being omitted from this report because it is disclosed through EDINET.

### (Securities)

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

	Millions of Yen								
	<u>Sep. 30, '06</u>			<u>Mar. 31, '06</u>			<u>Sep. 30, '05</u>		
	<u>Book value</u>	<u>Market value</u>	<u>Unrealized gain(loss)</u>	<u>Book value</u>	<u>Market value</u>	<u>Unrealized gain(loss)</u>	<u>Book value</u>	<u>Market value</u>	<u>Unrealized gain(loss)</u>
National and local government bonds and others	21,677	21,647	(30)	1,724	1,714	(10)	1,613	1,614	1
Debentures	37,995	37,903	(91)	41,117	40,949	(167)	40,154	40,141	(12)
Others	20,210	20,193	(17)	20,021	19,982	(38)	18,940	18,953	12
Total	79,884	79,744	(139)	62,862	62,646	(216)	60,708	60,710	1

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

	Millions of Yen								
	<u>Sep. 30, '06</u>			<u>Mar. 31, '06</u>			<u>Sep. 30, '05</u>		
	<u>Acquisition cost</u>	<u>Book value</u>	<u>Unrealized gain(loss)</u>	<u>Acquisition cost</u>	<u>Book value</u>	<u>Unrealized gain(loss)</u>	<u>Acquisition cost</u>	<u>Book value</u>	<u>Unrealized gain(loss)</u>
1.Stocks	29,600	82,880	53,280	29,593	94,139	64,546	29,123	68,616	39,492
2.Others	-	-	-	-	-	-	1,808	1,922	113
Total	29,600	82,880	53,280	29,593	94,139	64,546	30,932	70,538	39,606

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

	Millions of Yen		
	<u>Sep. 30, '06</u>	<u>Mar. 31, '06</u>	<u>Sep. 30, '05</u>
	<u>Book value</u>	<u>Book value</u>	<u>Book value</u>
1. Bonds held to maturity			
Non-listed domestic bonds	0	0	1
Non-listed overseas bonds	26,000	31,573	35,999
2. Investments in non-consolidated subsidiaries and affiliates	62,029	58,944	40,292
3. Available-for-sale securities			
Non-listed shares	1,976	2,380	2,653
Non-listed overseas bonds	131,239	141,692	126,762
Others	5,469	3,188	3,469

### (Derivative Transactions)

Information about Derivative Transactions is being omitted from this report because it is disclosed through EDINET.

### (Stock Options)

Information about Stock Options is being omitted from this report because it is disclosed through EDINET.