

## Press Release of Consolidated Financial Data



For the six months ended September 30, 2005

October 24, 2005

### 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 :

Toshiyuki Kasahara (Mr.)

Director, General Manager of Finance & Accounting Department

Telephone : +81-3-3246-5051

Date of Board of Directors Meeting

For the authorization of the consolidated financial statements

for the first half of the current fiscal year ... October 24, 2005

Adoption of U.S. GAAP : No

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

(From April 1, 2005 to September 30, 2005)

(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>Six months</u><br><u>2005/4-2005/9</u> | <u>Six months</u><br><u>2004/4-2004/9</u> | <u>Prior fiscal year</u><br><u>2004/4-2005/3</u> |
| Net sales   | 535,103                                   | 468,532                                   | 967,486  |
| Ratio of increase (decrease)<br>over the first half of the prior year | 14.2%                                     | 15.0%                                     |  |
| Operating income  | 90,291                                    | 76,774                                    | 151,734  |
| Ratio of increase (decrease)<br>over the first half of the prior year | 17.6%                                     | 20.2%                                     |  |
| Ordinary income   | 90,037                                    | 75,815                                    | 151,503  |
| Ratio of increase (decrease)<br>over the first half of the prior year | 18.8%                                     | 20.3 %                                    |  |
| Net income  | 55,611                                    | 46,477                                    | 93,160   |
| Ratio of increase (decrease)<br>over the first half of the prior year | 19.7%                                     | 23.1%                                     |  |
| Net income per share (in yen)   | 129.68                                    | 110.37                                    | 219.10   |
| Diluted net income per share (in yen)                                 | 129.48                                    | 108.18                                    | 216.11   |
| (Notes)   |   |   |  |
| 1. Equity in earnings of Affiliates<br>(in millions of yen)           | 1,182                                     | 178                                       | 1,615  |
| 2. Average number of consolidated shares issued<br>(in share)         | 428,836,397                               | 421,103,701                               | 423,518,768                                      |
| 3. Changes in accounting policies applied : No                        |   |   |  |

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

|   | <u>Millions of Yen</u>        |                               |                           |
|---|-------------------------------|-------------------------------|---------------------------|
|   | <u>September 30,<br/>2005</u> | <u>September 30,<br/>2004</u> | <u>March 31,<br/>2005</u> |
| Total assets                                    | 1,551,809                     | 1,433,188                     | 1,476,248                 |
| Total stockholders' equity                      | 1,077,074                     | 947,701                       | 996,307                   |
| Equity ratio                                    | 69.4%                         | 66.1%                         | 67.5%                     |
| Stockholders' equity per share (in yen)         | 2,507.40                      | 2,238.06                      | 2,329.47                  |
| (Notes)   |                               |                               |                           |
| Number of shares issued at year end (in shares) | 429,558,242                   | 423,447,630                   | 427,540,080               |

## **(3) Consolidated Cash flows statement**

|  |          |          |           |
|--|----------|----------|-----------|
| Cash flows from operating activities     | 100,994  | 91,737   | 177,377   |
| Cash flows from investing activities     | (50,051) | (69,105) | (108,756) |
| Cash flows from financing activities     | (24,754) | (29,990) | (41,911)  |
| Cash & Cash Equivalents at end of period | 351,646  | 286,294  | 317,733   |

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

|  |       |    |
|--|-------|----|
| Number of consolidated subsidiaries                              | ..... | 68 |
| 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 | 1 | Decrease | 0 |
| Equity method | Increase | 1 | Decrease | 0 |

## **2).The Forecast of Consolidated Operating Performance for the Fiscal Year ending March 31, 2006 (From April 1, 2005 to March 31, 2006)**

|                 | <u>Millions of Yen</u> |
|-----------------|------------------------|
|                 | <u>Fiscal year</u>     |
|                 | <u>2005/4-2006/3</u>   |
| Net sales       | 1,070,000              |
| Ordinary income | 180,000                |
| Net income      | 110,000                |

### **(Reference)**

The forecast of "Net income per share" (from April 1, 2005 to March 31, 2006) ..... 255.22 yen per share

### **(Notes)**

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 16 affiliates as of September 30, 2005. 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.

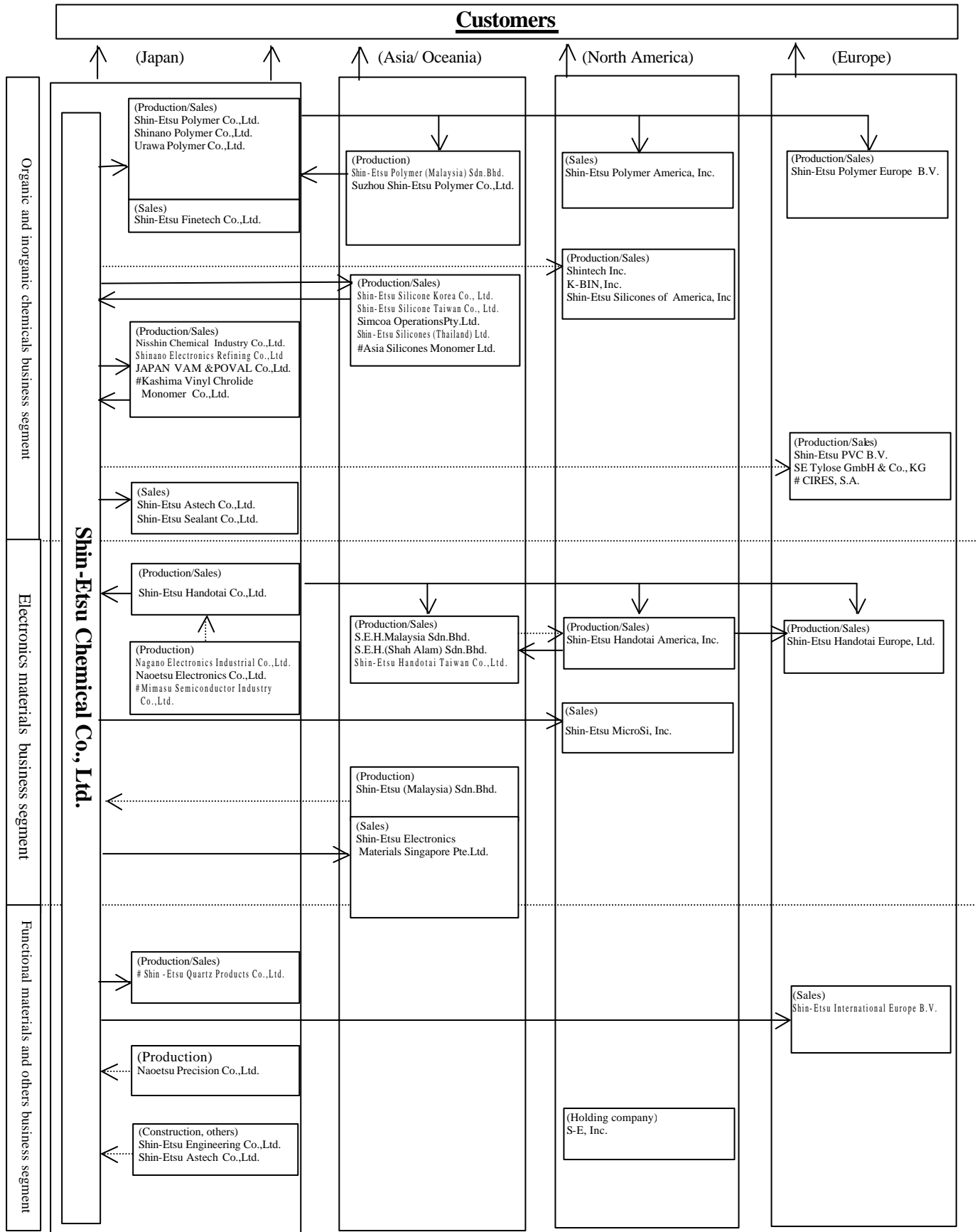
The Group’s business activities, the role and functions of the Company and major subsidiaries and affiliates are described below.

|  |  |          |  |
|--|--|----------|--|
| Organic and Inorganic Chemicals business segment | Polyvinyl chloride<br>Silicone<br>Methanol<br>Chloromethanes<br>Cellulose derivatives<br>Caustic soda<br>Silicon metal | Domestic | Shin-Etsu Chemical Co., Ltd.<br>Shin-Etsu Polymer Co., Ltd.<br>Shin-Etsu Astech Co., Ltd.<br>JAPAN VAM & POVAL Co., Ltd.<br>Shin-Etsu Finetech Co., Ltd.<br>Shinano Polymer Co., Ltd.<br>Nissin Chemical Industry Co., Ltd.<br>Shin-Etsu Sealant Co., Ltd.<br>Shinano Electric Refining Co., Ltd.<br>Urawa Polymer Co., Ltd.<br>Kashima Vinyl Chloride Monomer Co., Ltd.<br>13 other companies<br>Total number of companies: 24  |
|  |  | Overseas | Shintech Inc.<br>Shin-Etsu PVC B.V.<br>Shin-Etsu Silicone Korea Co., Ltd.<br>Shin-Etsu Silicones (Thailand) Ltd.<br>Shin-Etsu Silicone Taiwan Co., Ltd.<br>Shin-Etsu Silicones of America, Inc.<br>Shin-Etsu Polymer (Malaysia) Sdn. Bhd.<br>Shin-Etsu Polymer Europe B.V.<br>Shin-Etsu Polymer America, Inc.<br>Suzhou Shin-Etsu Polymer Co., Ltd.<br>Simcoa Operations Pty. Ltd.<br>SE Tylose GmbH & Co. KG<br>K-Bin, Inc.<br>Asia Silicones Monomer Ltd.<br>CIRES, S.A.<br>19 other subsidiaries<br>Total number of companies: 34 |

|  |   |          |   |
|--|---|----------|---|
| Electronics materials business segment           | Semiconductor silicon,<br>Organic materials<br>for the electronics industry<br>Rare earth magnets<br>for the electronics industry<br>Photo resists  | Domestic | Shin-Etsu Chemical Co., Ltd.<br>Shin-Etsu Handotai Co., Ltd.<br>Nagano Electronics Industrial Co., Ltd.<br>Naoetsu Electronics Industrial Co., Ltd.<br>Mimasu Semiconductor Industry Co., Ltd.<br>7 other companies<br>Total number of companies: 12  |
|  |   | Overseas | Shin-Etsu Handotai America, Inc.<br>S.E.H. Malaysia Sdn.Bhd.<br>Shin-Etsu Handotai Europe, Ltd.<br>Shin-Etsu Handotai Taiwan Co., Ltd.<br>Shin-Etsu Electronics Materials Singapore Pte.Ltd.<br>Shin-Etsu (Malaysia) Sdn. Bhd.<br>Shin-Etsu MicroSi, Inc.<br>S.E.H.(Shah Alam) Sdn.Bhd.<br>7 other companies<br>Total number of companies: 15 |
| Functional materials and others business segment | Synthetic quartz products<br>Oxide single crystals<br>Rare Earth and rare earth magnets<br>Liquid fluoroelastomers<br>Export of technology and plants<br>Export and import of goods<br>Construction and Plant engineering<br>Information processing | Domestic | Shin-Etsu Chemical Co., Ltd.<br>Shin-Etsu Engineering Co., Ltd.<br>Shin-Etsu Astech Co., Ltd.<br>Naoetsu Precision Co., Ltd.<br>Shin-Etsu Quartz Products Co., Ltd.<br>22 other companies<br>Total number of companies: 27  |
|  |   | Overseas | S-E, Inc.<br>Shin-Etsu Electronics Materials Singapore Pte.Ltd.<br>Shin-Etsu (Malaysia) Sdn. Bhd.<br>Shin-Etsu International Europe B.V.<br>3 other companies<br>Total number of companies: 7   |

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) Main Management Practices**

PVC (polyvinyl chloride) is a general-purpose resin that depends less on oil and natural gas resources, and it is a product that has superior properties. It is easy to process and is economical as well. PVC demand is firmly growing not only in China and Southeast Asia but also in North America and Europe. To meet the increase in demand for PVC in the U.S. and the world, Shintech Inc. in the U.S. is now proceeding with its plan to construct a large-scale integrated manufacturing plant from electrolysis to PVC resin. Moreover, Shin-Etsu PVC in The Netherlands is increasing its business steadily and is step-by-step increasing its production capacity to meet the needs of the growing PVC market. By making optimal use its three regional bases – in Japan, the U.S. and Europe – and fully utilizing its sales capabilities nurtured in the world market, Shin-Etsu is striving to further strengthen its world-leading PVC business.

Shin-Etsu's silicone business has a wide diversity of product applications in such industries as electric, electronics, automobile, construction, cosmetics and toiletries, and has expanded its silicone business along with the development of these industries. Shin-Etsu will continue to promote development of new products by making the most of silicone's characteristics, and Shin-Etsu will endeavor to further expand its silicone business globally, by focusing on stable operation of its silicones manufacturing facilities not only in Japan but also in Thailand as well as at its specialty silanes manufacturing facility in the U.S.

In the cellulose business, Shin-Etsu is pursuing the expansion of business by making use of its strength in having a wide range of cellulose products and operating two world production bases – in Japan and Germany. The production capacity of each base is being expanded.

In the semiconductor silicon business, by accurately anticipating the increase in demand for 300mm silicon wafers and going ahead with the expansion of production capacity at Shin-Etsu Handotai's Shirakawa Plant in Japan, and at the same time, by beginning crystal production from May 2005 in the U.S., Shin-Etsu will further strengthen its ability to provide stable product supply from its multiple global production bases. With regard to wafer products of up to 200mm, Shin-Etsu will continue to strive for steady business growth by providing products that can be differentiated from those of its competitors. To further strengthen its silicon wafer business, Shin-Etsu has deepened its capital relationship with Mimasu Semiconductor Industry, a company that it has been commissioning to process its semiconductor silicon wafers. In addition, it is working to expand sales of specialty wafers.

In the synthetic quartz business, sales of large-size photomask substrates used for production of liquid-crystal displays continued to be strong, and Shin-Etsu is endeavoring to implement appropriate measures so as to be ready for future demand expansion. At the same time, Shin-Etsu is working to expand and strengthen its rare earth magnets business, whose product applications are expanding into home appliances and automobiles in addition to product applications for hard disk drives (HDDs), which are in strong demand.

In addition, Shin-Etsu is also aggressively cultivating new businesses aiming towards further business development and growth.

Shin-Etsu makes it a fundamental management principle to pursue the goals of safety-first and environmental conservation. As a basic set of guidelines for the Shin-Etsu Group in carrying out its environmental conservation policies, Shin-Etsu adopted a Basic Environmental Charter, and the Shin-Etsu Group is carrying out its business activities in strict conformity with the principles embodied in this charter.

In all of Shin-Etsu's domestic manufacturing facilities and in the manufacturing facilities in the main Shin-Etsu Group companies, we have obtained ISO-14001 certification, the international standard for environmental management systems. Shin-Etsu endeavors to make useful contributions to the entire society, including the local communities, and to promote environmental conservation.

Furthermore, Shin-Etsu is actively participating in CSR (corporate social responsibility) activities by means of establishing a CSR promotion committee and making efforts to maintain and develop corporate values and to strive to be a corporation that is trusted by society.

An important task to foster the development of a company is to create a work environment in which employees can perform their jobs easily and effectively, and Shin-Etsu is committed to a merit system of employment under which staff members can fully realize their potential.

### **(3) 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.

### **(4) Basic Position on Corporate Governance and its Implementation**

By following corporate policies based on the spirit of respecting the law, the basic stance of Shin-Etsu Chemical Co., Ltd. is to proactively carry out corporate information disclosure policies and PR activities aimed at shareholders and investors. These policies and activities all embody the basic principles that Shin-Etsu is following regarding corporate governance, and the company considers these activities to be one of the most important tasks of management.

Shin-Etsu employs a statutory auditor system. Presently there are 16 members of Shin-Etsu Chemical's Board of Directors (including 2 external directors) and there are 4 statutory auditors (including 3 external statutory auditors). With regard to the investigative/decision-making level of business execution, a Managing Directors Committee meeting and a meeting of the Board of Directors carefully hold discussions, deliberations, and make decisions on important matters. Moreover, Frank Peter Popoff, the former CEO of The Dow Chemical Company in the United States, and Shunji Kono, counselor of The Tokio Marine & Nichido Fire Insurance Co., Ltd., are serving Shin-Etsu as external directors. In this way, Shin-Etsu is obtaining not only an independent audit perspective but also a great deal of useful advice on global corporate management.

Statutory Auditors attend not only meetings of the Board of Directors but also other important in-company meetings, and they carry out audits concerning Shin-Etsu's business operations. They also exchange information and opinions with accounting auditors from the Chuo Aoyama Audit Corp. With regard to decisions about reviewing and recognizing board members' remuneration, Shin-Etsu has an officers' remuneration committee that is chaired by Mr. Popoff.

Shin-Etsu has also established a risk management committee to effectively ascertain risk and take preventive measures regarding the various kinds of risks that could possibly occur during its business operations.

In addition, the Auditing Department is a specific department dedicated to taking charge of matters concerning internal company business auditing and internal control systems. In these ways, Shin-Etsu is striving to further strengthen its corporate governance.



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

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

##### **General Overview**

During the first half of the current fiscal year, FY 2006 consolidated business results term (April 1, 2005 to September 30, 2005), the Japanese economy showed a modest recovery supported by improvement in the employment environment in addition to strength in facility investment as well as a trend toward increased personal consumption. At the same time, economic growth continued in the economies of the U.S., China and Southeast Asia.

Under these circumstances, the Shin-Etsu Group continued its strong sales efforts with regard to its worldwide customers by emphasizing the special features of Shin-Etsu's products and also by utilizing to the maximum the Group companies' sales power that was nurtured in the world market. At the same time, Shin-Etsu aggressively promoted efforts for the further growth and development of its businesses by making strategic investments and pursuing rationalization and higher efficiency of management systems.

Both domestically and overseas, business was generally good in each of the Group's business fields. The Shin-Etsu Group accurately anticipated the market changes in the chemicals and electronics materials industries, and through the cumulative effects of various management policies, including those strategic investments that were targeted to increase profit, the Group achieved substantially increased earnings.

As a result, the consolidated business results for the first half of the current fiscal year show that net sales increased by 14.2% (¥66,571 million) compared to the first half of the previous fiscal year to become ¥535,103 million. Compared to the performance of the first half of the previous fiscal year, operating income increased 17.6% (¥13,517 million) to ¥90,291 million, ordinary income increased 18.8% (¥14,222 million) to ¥90,037 million and net income increased 19.7% (¥9,134 million) to ¥55,611 million.

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

###### **Organic and Inorganic Chemicals**

In the PVC business, Shintech Inc., Shin-Etsu's U.S. PVC base, supported by vigorous demand mainly for construction and housing applications in North America, continued full production at its plants in Texas and Louisiana. In addition, while Shintech was carrying out sales activities that accurately anticipated market trends, the sales price of PVC moved up to a higher level due to the rise in raw materials prices, such as for crude oil and natural gas. As a result, Shintech greatly increased its net sales and operating income. Shin-Etsu PVC B.V. in The Netherlands did well supported by bullish demand throughout Europe. With regard to Shin-Etsu's domestic PVC business, domestic demand remained at the same level as the first half of the previous fiscal year. However, there was a slight slowdown in the growth of exports from Japan to China. Furthermore, costs rose due to the steep rise in the price of crude oil, and so earnings gradually declined. At this time, Shin-Etsu Chemical is

implementing an upward PVC price adjustment in Japan, starting from October 2005.

As a result, in the first half of FY 2006, net sales of the Shin-Etsu Group's PVC business favorably increased, and a large increase in operating income was also attained.

Silicones are used in a wide range of applications. Domestic silicones sales during the first half of FY 2006 were generally bullish, starting with such application fields as electric and electronics and extending to automobiles and cosmetics, and the implementation of an upward price revision for exports combined to result in a great increase in net sales and net income for the silicone business. Shin-Etsu's silicones plant in Thailand, which is now in its second year of its operations, also increased its earnings. Sales of silicone-related products, such as the keypads for mobile phones of Shin-Etsu Polymer Co., Ltd., were also firm.

Sales of cellulose derivatives continued strong in the domestic market for such application areas as pharmaceuticals as well as automobile-related applications. SE Tylose in Germany continued full production, mainly for building materials applications. Accordingly, both Shin-Etsu's operations in Japan and Europe contributed to achieving good business results. Moreover, JAPAN VAM & POVAL Co., Ltd., whose business results were newly incorporated into the Shin-Etsu Group's consolidated business statement as a subsidiary company from the end of FY 2005 (April 1, 2004 to March 31, 2005), also contributed to the good business results achieved in first half of FY 2006.

Accordingly, the net sales of this business segment increased 15.7% (¥41,008 million) to ¥302,406 million, compared to the first half of the previous fiscal year. Operating income increased 22.2% (¥8,517 million) to ¥46,891 million.

### **Electronics Materials**

In the semiconductor silicon business, demand for wafers expanded from semiconductor device makers in a wide range of application fields such as PCs, mobile phones, digital home appliances and automobiles. Shin-Etsu's aggressive strategic investments to strengthen its production system for 300mm wafers were based on its accurate reading of future market trends and enabled Shin-Etsu to meet increases in market demand. In addition, for wafer products up to 200mm, towards the latter quarter of this first half of FY 2006 there was a heightened sense of a surge in business. Both net sales and operating income of the semiconductor silicon business increased greatly.

In addition, sales of rare earth magnets for the electronics industry did well in their various hard disk drive (HDD) applications, such as for mobile digital audio players, as well as in their applications for PCs, servers and visual recording media. Organic materials for the electronics industry and photoresists products also increased in earnings because Shin-Etsu accurately anticipated the technical advances in the semiconductor device application field.

As a consequence, net sales of this business segment increased 12.0% (¥18,128 million), compared to the first half of the previous fiscal year, to ¥168,915 million. Operating income increased 14.6% (¥4,005 million) to ¥31,483 million.

### **Functional Materials and Others**

The synthetic quartz products business increased its net sales and operating income mainly as a result of good demand for large-size photomask substrates used for LCDs.

Sales of general-purpose rare earth magnets continued to be strong, mainly for applications in air-conditioners, automobile-related products and FA (factory automation) equipment. In addition, sales of liquid fluoroelastomers, whose applications are expanding into such areas as automobiles, did well.

Furthermore, other businesses, such as the design, construction and shipment of equipment for various kinds of plants, were all bullish.

As a result, the net sales of this business segment increased 13.2% (¥7,435 million), compared to the first half of the previous fiscal year, to ¥63,781 million. Operating income increased 10.6% (¥1,153 million) to ¥12,028 million.

### **Dividends**

The Company has decided to declare an interim dividend of ¥17.5 per share, which is ¥2.5 higher than that announced on May 16, 2005 as an expected interim dividend at the beginning of the fiscal year, and ¥7.5 higher than that paid as an interim dividend of the prior fiscal year.

### **Business prospects**

Regarding Shin-Etsu's business forecast for FY 2006, although the modest economic recovery trend in Japan is expected to continue, there are concerns about the effects of the sharp rise in raw material prices and the future prospects of both the U.S. and Chinese economies. Accordingly, the business outlook for the fiscal year that began in April 2005 is quite uncertain.

Under these circumstances, the Shin-Etsu Group will further strengthen each of its manufacturing, sales and technology spheres and will focus on expanding sales of products for which demand is increasing, such as 300mm wafers. In addition, Shin-Etsu will endeavor to develop products that have unique characteristics, and at the same time, will strive to strengthen its global competitive power in manufacturing cost and aim to further enhance its business structure.

Our business FY 2006 is as follows:

|   | <u>Billions of yen</u> |                         |
|---|------------------------|-------------------------|
|   | <u>Consolidated</u>    | <u>Non-consolidated</u> |
| Net sales   | 1,070                  | 550                     |
| Ratio of increase (decrease) over the prior fiscal year | 10.6%                  | 5.7%                    |
| Ordinary income   | 180                    | 72                      |
| Ratio of increase (decrease) over the prior fiscal year | 18.8%                  | 16.1%                   |
| Net income  | 110                    | 45                      |
| Ratio of increase (decrease) over the prior fiscal year | 18.1%                  | 15.3%                   |

The year-end dividend is expected to be ¥17.5 per share. As a result, the annual dividend will be ¥35 per share, which is ¥5 higher than that announced on May 16, 2005 as an expected annual dividend at the beginning of the fiscal year, and ¥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>       |                   |                              |                                 |
|---|------------------------------|-------------------|------------------------------|---------------------------------|
|   | For the period ended         |                   |                              | Increase<br>(Decrease)<br>(A-B) |
|   | September 30,<br>2005<br>(A) | March 31,<br>2005 | September 30,<br>2004<br>(B) |                                 |
| Cash and cash equivalents at beginning of fiscal year | 317,733                      | 292,978           | 292,978                      | 24,755                          |
| Cash flows from operating activities                  | 100,994                      | 177,377           | 91,737                       | 9,257                           |
| Cash flows from investing activities                  | (50,051)                     | (108,756)         | (69,105)                     | 19,054                          |
| Cash flows from financing activities                  | (24,754)                     | (41,911)          | (29,990)                     | 5,236                           |
| Effect of foreign exchange and others                 | 7,723                        | (1,955)           | 674                          | 7,049                           |
| Net increase(decrease) in cash and cash equivalents   | 33,912                       | 24,755            | (6,684)                      | 40,596                          |
| Cash and cash equivalents at end of period            | 351,646                      | 317,733           | 286,294                      | 65,352                          |

The balance of cash and cash equivalents at end of the first half of this fiscal year increased by 10.7% (¥33,912million) over that of the prior year, to become ¥351,646 million.

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

The Increase in cash flows provided by operating activity amounted to ¥100,994 million. This was mainly due to income before income tax of ¥90,037 million and depreciation expense of ¥49,065 million.

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

Net cash used for investing activities amounted to ¥50,051million. This was mainly due to expenditures for purchase of tangible fixed assets of ¥52,631 million.

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

Net cash used for financing activities amounted to ¥24,754 million. This was mainly due to net decrease in short term debt of ¥16,248 million.

The trend of cash flow indices is as follows

|   | For the period ended  |                   |                       |                   |                       |
|---|-----------------------|-------------------|-----------------------|-------------------|-----------------------|
|   | September 30,<br>2005 | March 31,<br>2005 | September 30,<br>2004 | March 31,<br>2004 | September 30,<br>2003 |
| Shareholder's equity ratio(%)                       | 69.4                  | 67.5              | 66.1                  | 65.0              | 66.2                  |
| Shareholder's equity ratio on market value basis(%) | 137.0                 | 117.6             | 117.0                 | 132.9             | 131.1                 |
| Redemption years for debt                           | 0.5                   | 0.7               | 0.7                   | 1.0               | 1.1                   |
| Interest coverage ratio                             | 75.4                  | 57.2              | 54.0                  | 38.3              | 36.0                  |

(Notes) Shareholder's equity ratio: shareholders' equity / total assets

Shareholder's equity ratio at market value:

Aggregate market value of common stock / total assets

Debt repayment period: interest-bearing liabilities / cash flows from operating activities

Interest coverage ratio: cash flows from operating activities / 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 2006, 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**

The Shin-Etsu Group is actively going forward with the expansion of its global business activities. 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, 2005, March 31, 2005 and September 30, 2004.

Millions of Yen

#### ASSETS

|  | September 30,<br>2005<br>(A) | March 31,<br>2005<br>(B) | September 30,<br>2004 | Increase<br>(Decrease)<br>(A-B) |
|--|------------------------------|--------------------------|-----------------------|---------------------------------|
| <b>Current Assets:</b>                     |                              |                          |                       |                                 |
| Cash and time deposits                     | 246,474                      | 246,741                  | 218,375               | (267)                           |
| Notes and accounts receivable-trade        | 251,115                      | 236,366                  | 241,432               | 14,749                          |
| Securities                                 | 149,430                      | 105,839                  | 112,979               | 43,591                          |
| Inventories                                | 139,394                      | 135,225                  | 118,174               | 4,169                           |
| Deferred taxes, current                    | 31,419                       | 27,760                   | 24,005                | 3,659                           |
| Others                                     | 33,834                       | 33,684                   | 37,498                | 150                             |
| less: Allowance for doubtful accounts      | (4,953)                      | (4,784)                  | (4,958)               | (169)                           |
| <b>Total current assets</b>                | <b>846,716</b>               | <b>780,833</b>           | <b>747,508</b>        | <b>65,883</b>                   |
| <b>Fixed Assets:</b>                       |                              |                          |                       |                                 |
| <b>Property, plant and equipment</b>       |                              |                          |                       |                                 |
| Buildings and structures                   | 155,896                      | 154,920                  | 154,205               | 976                             |
| Machinery and equipment                    | 206,200                      | 213,238                  | 209,201               | (7,038)                         |
| Land                                       | 52,864                       | 48,662                   | 40,061                | 4,202                           |
| Construction in progress                   | 27,728                       | 21,072                   | 32,132                | 6,656                           |
| Others                                     | 10,152                       | 10,291                   | 9,827                 | (139)                           |
| <b>Total property, plant and equipment</b> | <b>452,842</b>               | <b>448,184</b>           | <b>445,428</b>        | <b>4,658</b>                    |
| <b>Intangible fixed assets</b>             | <b>25,237</b>                | <b>28,637</b>            | <b>24,762</b>         | <b>(3,400)</b>                  |
| <b>Investments and other assets</b>        |                              |                          |                       |                                 |
| Investments in securities                  | 190,995                      | 180,588                  | 190,003               | 10,407                          |
| Deferred taxes, non-current                | 15,337                       | 14,842                   | 13,821                | 495                             |
| Others                                     | 20,699                       | 23,181                   | 11,688                | (2,482)                         |
| Less: Allowance for doubtful accounts      | (19)                         | (19)                     | (23)                  | -                               |
| <b>Total investments and other assets</b>  | <b>227,012</b>               | <b>218,593</b>           | <b>215,489</b>        | <b>8,419</b>                    |
| <b>Total fixed assets</b>                  | <b>705,093</b>               | <b>695,415</b>           | <b>685,680</b>        | <b>9,678</b>                    |
| <b>TOTAL ASSETS</b>                        | <b>1,551,809</b>             | <b>1,476,248</b>         | <b>1,433,188</b>      | <b>75,561</b>                   |



Millions of Yen

|  | September 30,<br>2005<br>(A) | March 31,<br>2005<br>(B) | September 30,<br>2004 | Increase<br>(Decrease)<br>(A-B) |
|--|------------------------------|--------------------------|-----------------------|---------------------------------|
| <b>LIABILITIES</b>   |                              |                          |                       |                                 |
| <b>Current Liabilities:</b>                                  |                              |                          |                       |                                 |
| Notes and accounts payable-trade                             | 122,069                      | 114,667                  | 123,614               | 7,402                           |
| Short-term borrowings  | 21,765                       | 37,616                   | 38,678                | (15,851)                        |
| Debentures of redemption within one year                     | 7,212                        | 2,084                    | -                     | 5,128                           |
| Convertible debentures of redemption within one year         | -                            | 3,816                    | 11,599                | (3,816)                         |
| Accounts payable-others                                      | 49,123                       | 52,306                   | 56,294                | (3,183)                         |
| Accrued income taxes   | 36,220                       | 35,974                   | 28,594                | 246                             |
| Accrued expenses   | 77,684                       | 76,869                   | 69,258                | 815                             |
| Others   | 12,142                       | 7,844                    | 8,335                 | 4,298                           |
| <b>Total current liabilities</b>                             | <b>326,218</b>               | <b>331,179</b>           | <b>336,374</b>        | <b>(4,961)</b>                  |
| <b>Long-term Liabilities:</b>                                |                              |                          |                       |                                 |
| Debentures   | 22,000                       | 27,000                   | 29,168                | (5,000)                         |
| Long-term borrowings   | 45,848                       | 49,905                   | 53,639                | (4,057)                         |
| Deferred taxes, non-current                                  | 39,492                       | 33,416                   | 30,678                | 6,076                           |
| Accrued retirement benefits                                  | 8,442                        | 7,677                    | 6,687                 | 765                             |
| Others   | 1,445                        | 1,697                    | 1,305                 | (252)                           |
| <b>Total long-term liabilities</b>                           | <b>117,228</b>               | <b>119,697</b>           | <b>121,479</b>        | <b>(2,469)</b>                  |
| <b>TOTAL LIABILITIES</b>                                     | <b>443,447</b>               | <b>450,876</b>           | <b>457,854</b>        | <b>(7,429)</b>                  |
| <b>MINORITY INTERESTS<br/>IN CONSOLIDATED SUBSIDIARIES</b>   | <b>31,288</b>                | <b>29,065</b>            | <b>27,632</b>         | <b>2,223</b>                    |
| <b>STOCKHOLDERS' EQUITY</b>                                  |                              |                          |                       |                                 |
| Common stock   | 119,419                      | 117,513                  | 113,619               | 1,906                           |
| Additional paid-in capital                                   | 128,178                      | 126,274                  | 122,384               | 1,904                           |
| Retained earnings  | 831,121                      | 780,198                  | 737,760               | 50,923                          |
| Unrealized gain(loss) on available-for-sale Securities       | 23,684                       | 13,687                   | 9,932                 | 9,997                           |
| Foreign currency translation adjustment                      | (14,396)                     | (30,275)                 | (24,762)              | 15,879                          |
| Less: Treasury stock, at cost                                | (10,934)                     | (11,091)                 | (11,233)              | 157                             |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                            | <b>1,077,074</b>             | <b>996,307</b>           | <b>947,701</b>        | <b>80,767</b>                   |
| <b>TOTAL LIABILITIES<br/>AND STOCKHOLDERS' EQUITY</b>        | <b>1,551,809</b>             | <b>1,476,248</b>         | <b>1,433,188</b>      | <b>75,561</b>                   |
| (Notes)  |                              |                          |                       |                                 |
| 1. Accumulated depreciation of property, plant and equipment | 957,142                      | 909,532                  | 862,944               |                                 |
| 2. Contingent liabilities for guarantee                      | 1,178                        | 393                      | 543                   |                                 |

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

For the six months period ended September 30, 2005 and 2004, and the fiscal year ended March 31, 2005.

|  | <u>Millions of Yen</u>              |                          |                                     |  |
|--|-------------------------------------|--------------------------|-------------------------------------|--|
|  | <u>For the period ended</u>         |                          |                                     |  |
|  | <u>September 30,</u><br>2005<br>(A) | <u>March 31,</u><br>2005 | <u>September 30,</u><br>2004<br>(B) | <u>Increase</u><br>(Decrease)<br>(A-B) |
| <b>Operating Income and Expenses:</b>                      |                                     |                          |                                     |  |
| Net sales  | 535,103                             | 967,486                  | 468,532                             | 66,571                                 |
| Cost of sales  | 391,173                             | 715,143                  | 342,865                             | 48,308                                 |
| Gross profit   | 143,929                             | 252,343                  | 125,666                             | 18,263                                 |
| Selling, general and administrative expenses               | 53,638                              | 100,608                  | 48,892                              | 4,746                                  |
| Operating income   | 90,291                              | 151,734                  | 76,774                              | 13,517                                 |
| <b>Non-operating Income:</b>                               |                                     |                          |                                     |  |
| Interest income  | 2,661                               | 3,852                    | 1,652                               | 1,009                                  |
| Dividend income  | 581                                 | 773                      | 497                                 | 84                                     |
| Equity in earnings of affiliates                           | 1,182                               | 1,615                    | 178                                 | 1,004                                  |
| Foreign exchange gain                                      | -                                   | 934                      | 54                                  | (54)                                   |
| Other income   | 810                                 | 1,898                    | 1,238                               | (428)                                  |
|  | 5,236                               | 9,075                    | 3,622                               | 1,614                                  |
| <b>Non-operating Expenses:</b>                             |                                     |                          |                                     |  |
| Interest expenses  | 1,318                               | 3,014                    | 1,653                               | (335)                                  |
| Loss on disposal of property, plant and equipment          | 269                                 | 3,296                    | 2,200                               | (1,931)                                |
| Foreign exchange loss                                      | 2,134                               | -                        | -                                   | 2,134                                  |
| Other expenses   | 1,767                               | 2,994                    | 727                                 | 1,040                                  |
|  | 5,489                               | 9,305                    | 4,581                               | 908                                    |
| Ordinary income  | 90,037                              | 151,503                  | 75,815                              | 14,222                                 |
| Income before income taxes                                 | 90,037                              | 151,503                  | 75,815                              | 14,222                                 |
| Income taxes-Current                                       | 38,660                              | 63,754                   | 31,304                              | 7,356                                  |
| Income taxes-Deferred                                      | (6,135)                             | (8,535)                  | (3,484)                             | (2,651)                                |
| Minority interest in earnings of consolidated subsidiaries | 1,900                               | 3,123                    | 1,519                               | 381                                    |
| Net income   | 55,611                              | 93,160                   | 46,477                              | 9,134                                  |

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

For the six months period ended September 30, 2005 and 2004, and the fiscal year ended March 31, 2005.

|   | <u>Millions of Yen</u>                |                           |                                       |  |
|---|---------------------------------------|---------------------------|---------------------------------------|--|
|   | <u>For the period ended</u>           |                           |                                       | <u>Increase<br/>(Decrease)<br/>(A-B)</u> |
|   | <u>September 30,<br/>2005<br/>(A)</u> | <u>March 31,<br/>2005</u> | <u>September 30,<br/>2004<br/>(B)</u> |  |
| <b>ADDITIONAL PAID-IN CAPITAL</b>               |                                       |                           |                                       |  |
| Balance at beginning of period                  | <u>126,274</u>                        | <u>119,261</u>            | <u>119,261</u>                        | <u>7,013</u>                             |
| Conversion of convertible debentures            | <u>1,904</u>                          | <u>7,012</u>              | <u>3,123</u>                          | <u>(1,219)</u>                           |
| Total increase                                  | <u>1,904</u>                          | <u>7,012</u>              | <u>3,123</u>                          | <u>(1,219)</u>                           |
| Balance at end of period                        | <u>128,178</u>                        | <u>126,274</u>            | <u>122,384</u>                        | <u>5,794</u>                             |
| <b>RETAINED EARNINGS</b>                        |                                       |                           |                                       |  |
| Balance at beginning of period                  | <u>780,198</u>                        | <u>694,996</u>            | <u>694,996</u>                        | <u>85,202</u>                            |
| Net income                                      | <u>55,611</u>                         | <u>93,160</u>             | <u>46,477</u>                         | <u>9,134</u>                             |
| Effect of increase in consolidated subsidiaries | <u>9</u>                              | <u>-</u>                  | <u>-</u>                              | <u>9</u>                                 |
| Total increase                                  | <u>55,620</u>                         | <u>93,160</u>             | <u>46,477</u>                         | <u>9,143</u>                             |
| Cash dividends                                  | <u>4,275</u>                          | <u>7,600</u>              | <u>3,365</u>                          | <u>910</u>                               |
| Directors' and statutory auditors' bonuses      | <u>351</u>                            | <u>315</u>                | <u>315</u>                            | <u>36</u>                                |
| Loss on disposal sales of treasury stocks       | <u>70</u>                             | <u>42</u>                 | <u>31</u>                             | <u>39</u>                                |
| Total decrease                                  | <u>4,697</u>                          | <u>7,958</u>              | <u>3,713</u>                          | <u>984</u>                               |
| Balance at end of period                        | <u>831,121</u>                        | <u>780,198</u>            | <u>737,760</u>                        | <u>93,361</u>                            |

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

For the six months period ended September 30, 2005 and 2004, and the fiscal year ended March 31, 2005.

|   | Millions of Yen              |                   |                              | Increase<br>(Decrease)<br>(A-B) |
|---|------------------------------|-------------------|------------------------------|---------------------------------|
|   | For the period ended         |                   |                              |                                 |
|   | September 30,<br>2005<br>(A) | March 31,<br>2005 | September 30,<br>2004<br>(B) |                                 |
| 1. Cash flows from operating activities   |                              |                   |                              |                                 |
| Income before income taxes  | 90,037                       | 151,503           | 75,815                       | 14,222                          |
| Depreciation and amortization   | 49,065                       | 90,874            | 41,431                       | 7,634                           |
| Increase (decrease) in accrued retirement benefits  | 748                          | 1,384             | 679                          | 69                              |
| Loss on write-down of investment securities   | -                            | 40                | 8                            | (8)                             |
| Interest and dividend income  | (3,243)                      | (4,626)           | (2,150)                      | (1,093)                         |
| Interest expenses   | 1,318                        | 3,014             | 1,653                        | (335)                           |
| Foreign exchange (gain) loss  | (484)                        | (14)              | 1,045                        | (1,529)                         |
| Equity in earnings of affiliates  | (1,182)                      | (1,615)           | (178)                        | (1,004)                         |
| (Increase) decrease in notes and accounts receivable                                      | (10,856)                     | (11,646)          | (17,242)                     | 6,386                           |
| (Increase) decrease in inventories  | (2,231)                      | (16,706)          | (1,616)                      | (615)                           |
| Increase (decrease) in notes and accounts payable   | 5,868                        | 7,687             | 21,835                       | (15,967)                        |
| Other, net  | 8,342                        | 13,384            | 2,167                        | 6,175                           |
| Subtotal  | 137,382                      | 233,279           | 123,448                      | 13,934                          |
| Proceeds from interest and dividends  | 3,268                        | 4,773             | 2,237                        | 1,031                           |
| Payment of interest   | (1,338)                      | (3,099)           | (1,698)                      | 360                             |
| Payment of income taxes   | (38,317)                     | (57,576)          | (32,249)                     | (6,068)                         |
| Net cash provided by operating activities   | 100,994                      | 177,377           | 91,737                       | 9,257                           |
| 2. Cash flows from investing activities   |                              |                   |                              |                                 |
| Net (increase) decrease in marketable securities  | 117                          | 4,261             | 2,930                        | (2,813)                         |
| Purchase of property, plant and equipment   | (52,631)                     | (95,501)          | (48,779)                     | (3,852)                         |
| Proceeds from sales of property, plant and equipment                                      | 1,383                        | 726               | 135                          | 1,248                           |
| Purchase of intangible fixed asset  | (523)                        | (1,270)           | (626)                        | 103                             |
| Purchase of investment securities   | (26,886)                     | (44,711)          | (39,151)                     | 12,265                          |
| Proceeds from sales and redemption of investment securities                               | 27,246                       | 44,349            | 18,308                       | 8,938                           |
| Payment for purchase of new consolidated subsidiaries' Shares and acquisition of business | -                            | (5,705)           | -                            | -                               |
| Payments of loans   | (1)                          | (383)             | (30)                         | 29                              |
| Proceeds from collection of loans   | 1,532                        | 2,100             | 1,019                        | 513                             |
| Deposits in long-term time deposits   | -                            | (10,000)          | -                            | -                               |
| Other, net  | (287)                        | (2,622)           | (2,911)                      | 2,624                           |
| Net cash used for investing activities  | (50,051)                     | (108,756)         | (69,105)                     | 19,054                          |
| 3. Cash flows from financing activities   |                              |                   |                              |                                 |
| Net increase (decrease) in short term debt  | (16,248)                     | (18,873)          | (16,632)                     | 384                             |
| Proceeds from long-term debt  | 1,060                        | 2,426             | 1,070                        | (10)                            |
| Repayment of long-term debt   | (4,878)                      | (13,132)          | (6,461)                      | 1,583                           |
| Proceeds from issuance of debentures  | -                            | 8,000             | 8,000                        | (8,000)                         |
| Payment of debentures on redemption   | (5)                          | (10,164)          | (10,170)                     | 10,165                          |
| Cash dividends paid   | (4,275)                      | (7,600)           | (3,365)                      | (910)                           |
| Other, net  | (406)                        | (2,566)           | (2,431)                      | 2,025                           |
| Net cash used for financing activities  | (24,754)                     | (41,911)          | (29,990)                     | 5,236                           |
| 4. Effect of exchange rate changes on cash and cash equivalents                           | 7,484                        | (1,955)           | 674                          | 6,810                           |
| 5. Net increase (decrease) in cash and cash equivalents                                   | 33,673                       | 24,755            | (6,684)                      | 40,357                          |
| 6. Cash and cash equivalents at beginning of year   | 317,733                      | 292,978           | 292,978                      | 24,755                          |
| 7. Net increase in cash and cash equivalents by change of consolidation scope             | 239                          | -                 | -                            | 239                             |
| 8. Cash and cash equivalents at end of period   | 351,646                      | 317,733           | 286,294                      | 65,352                          |

## **4-5 Basis of Presenting Consolidated Financial Statement**

### 1. Scope of Consolidation

|                             |    |  |
|-----------------------------|----|--|
| Consolidated Subsidiaries   | 68 | Shintech, Inc.(Overseas subsidiary)<br>Shin-Etsu Handotai Co., Ltd.<br>Shin-Etsu Handotai America, Inc.(Overseas subsidiary)<br>Shin-Etsu Polymer Co., Ltd.<br>S.E.H. Malaysia Sdn. Bhd.(Overseas subsidiary)<br>Shin-Etsu PVC B.V.(Overseas subsidiary)<br>Shin-Etsu Engineering Co., Ltd.<br>SE Tylose GmbH&Co.KG (Overseas subsidiary)<br>Shin-Etsu Handotai Europe, Ltd. (Overseas subsidiary)<br>Nagano Electronics Industrial Co., Ltd.<br>Shin-Etsu Handotai Taiwan Co., Ltd. (Overseas subsidiary)<br>Naoetsu Electronics Co., Ltd.<br>Shin-Etsu Astech Co., Ltd.<br>55 other subsidiaries |
| Unconsolidated Subsidiaries | 24 |  |

### 2. Application of Equity Method

The Company had 24 unconsolidated subsidiaries and 16 affiliates. The equity method is applied to the investments in 7 major affiliates – Shin-Etsu Quartz Products Co., Ltd., Kashima Vinyl Chloride Monomer Co., Ltd., Mimasu Semiconductor Industry Co., Ltd. and 4 other affiliates.

### 3. Fiscal Year of Consolidated Subsidiaries

40 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

#### (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.

#### **4-6 Changes in Basis of Presenting Consolidated Financial Statement**

##### **The accounting standards for impairment of fixed assets**

On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled “Statement of Opinion on the Establishment of Accounting Standards for impairment of Fixed Assets”. Further, on October 31, 2003, the Accounting Standards Boards of Japan issued Financial Accounting Standards Implementation Guidance No 6 “Application Guidance on Accounting Standards for impairment on Fixed Assets”. These new standards have been adopted from the first half of the current fiscal year.

As a result of adopting these new accounting standards, “Other Expenses” in “Non-operating Expenses” for the first half of the fiscal year increased by ¥365 million, and “Ordinary income” and “Income before income taxes” decreased by the same amount. Accumulated impairment losses are directly credited from the related assets under the new rules of The Presentation of Interim Presenting Consolidated Financial Statements.

## (Segment Information)

### 1. Business Segment Information

| Millions of Yen                                    |                                       |                          |                                       |              |                                 |                               |
|--|---------------------------------------|--------------------------|---------------------------------------|--------------|---------------------------------|-------------------------------|
| For the six months period ended September 30, 2005 |                                       |                          |                                       |              |                                 |                               |
|  | Organic and<br>Inorganic<br>Chemicals | Electronics<br>Materials | Functional<br>Materials<br>and Others | <b>Total</b> | Elimination or<br>Common assets | <b>Consolidated<br/>total</b> |
| 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<br>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 now included in the affiliates where the equity method accounting is applied at the end of six months period, as a result of the additional acquisition of shares during this six months period. 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                                    |                                       |                          |                                       |              |                                 |                               |
|--|---------------------------------------|--------------------------|---------------------------------------|--------------|---------------------------------|-------------------------------|
| For the six months period ended September 30, 2004 |                                       |                          |                                       |              |                                 |                               |
|  | Organic and<br>Inorganic<br>Chemicals | Electronics<br>Materials | Functional<br>Materials<br>and Others | <b>Total</b> | Elimination or<br>Common assets | <b>Consolidated<br/>Total</b> |
| Sales to outside customers                         | 261,398                               | 150,787                  | 56,346                                | 468,532      | -                               | 468,532                       |
| Intersegment sales                                 | 4,568                                 | 1,016                    | 32,969                                | 38,554       | (38,554)                        | -                             |
| Total  | 265,966                               | 151,804                  | 89,315                                | 507,086      | (38,554)                        | 468,532                       |
| Operating costs<br>and expenses                    | 227,591                               | 124,325                  | 78,440                                | 430,357      | (38,600)                        | 391,757                       |
| Operating income                                   | 38,374                                | 27,478                   | 10,875                                | 76,728       | 45                              | 76,774                        |
| Depreciation                                       | 11,500                                | 25,242                   | 4,737                                 | 41,480       | (49)                            | 41,431                        |
| Capital expenditures                               | 12,869                                | 36,893                   | 3,212                                 | 52,975       | (54)                            | 52,920                        |

Millions of Yen

For the fiscal year ended March 31, 2005

|                                | Organic and Inorganic Chemicals | Electronics Materials | Functional Materials and Others | Total     | Elimination or Corporate assets | Consolidated total |
|--------------------------------|---------------------------------|-----------------------|---------------------------------|-----------|---------------------------------|--------------------|
| Sales to outside customers     | 548,950                         | 306,925               | 111,610                         | 967,486   | -                               | 967,486            |
| Intersegment sales             | 8,475                           | 2,471                 | 66,552                          | 77,499    | (77,499)                        | -                  |
| Total                          | 557,425                         | 309,397               | 178,162                         | 1,044,985 | (77,499)                        | 967,486            |
| Operating costs and expenses   | 479,531                         | 255,712               | 158,039                         | 893,283   | (77,531)                        | 815,752            |
| Operating income               | 77,894                          | 53,684                | 20,123                          | 151,702   | 32                              | 151,734            |
| Depreciation                   | 26,075                          | 55,030                | 9,998                           | 91,104    | (230)                           | 90,874             |
| Capital expenditures(Footnote) | 30,341                          | 66,674                | 9,369                           | 106,474   | (253)                           | 106,221            |

(Footnote) As a result of additional acquisition of shares at the end of the fiscal year ended March 31, 2005, JAPAN VAM&POVAL Co., Ltd., which is under the Organic and Inorganic Chemicals segment, became wholly owned consolidated subsidiary. Previously, in the fiscal year ended March 31, 2004, as an affiliated company, it was included in the scope of the equity method of accounting. Payment for this acquisition was ¥ 6,998 million. Only ¥2,943 million, which is equivalent to consolidated adjustment account, is included in the above Capital expenditures. If the remaining ¥4,055 million would be included, the total amount of the capital expenditures would come to ¥110,277 million.

(Notes)

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, Silicone, Methanol, Chloromethanes, Cellulose derivatives, Caustic soda, and Silicon metal   |
| 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. Geographical Segment information

|                              | Millions of Yen                                    |               |              |        |         |                                 |                    |
|------------------------------|--|---------------|--------------|--------|---------|---------------------------------|--------------------|
|                              | For the six months period ended September 30, 2005 |               |              |        |         |                                 |                    |
|                              | 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                                    |               |              |        |         |                                 |                    |
|------------------------------|--|---------------|--------------|--------|---------|---------------------------------|--------------------|
|                              | For the six months period ended September 30, 2004 |               |              |        |         |                                 |                    |
|                              | Japan  | North America | Asia/Oceania | Europe | Total   | Elimination or Corporate assets | Consolidated Total |
| Sales to outside customers   | 242,705  | 113,660       | 53,090       | 59,075 | 468,532 | -                               | 468,532            |
| Intersegment sales           | 72,981   | 15,598        | 19,439       | 387    | 108,406 | (108,406)                       | -                  |
| Total                        | 315,687  | 129,259       | 72,530       | 59,462 | 576,938 | (108,406)                       | 468,532            |
| Operation costs and expenses | 261,773  | 115,723       | 67,516       | 54,918 | 499,932 | (108,174)                       | 391,757            |
| Operating income             | 53,913   | 13,535        | 5,014        | 4,544  | 77,006  | (232)                           | 76,774             |

|                              | Millions of Yen                          |               |              |         |           |                                 |                    |
|------------------------------|--|---------------|--------------|---------|-----------|---------------------------------|--------------------|
|                              | For the fiscal year ended March 31, 2005 |               |              |         |           |                                 |                    |
|                              | Japan                                    | North America | Asia/Oceania | Europe  | Total     | Elimination or Corporate assets | Consolidated Total |
| Sales to outside customers   | 494,851                                  | 236,524       | 110,173      | 125,936 | 967,486   | -                               | 967,486            |
| Intersegment sales           | 147,771                                  | 31,252        | 45,901       | 912     | 225,839   | (225,839)                       | -                  |
| Total                        | 642,623                                  | 267,777       | 156,075      | 126,848 | 1,193,325 | (225,839)                       | 967,486            |
| Operation costs and expenses | 533,230                                  | 245,028       | 145,572      | 117,242 | 1,041,073 | (225,321)                       | 815,752            |
| Operating income             | 109,392                                  | 22,749        | 10,503       | 9,606   | 152,251   | (517)                           | 151,734            |

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

North America : U.S.

Asia/ Oceania : Malaysia, Singapore, Korea, Taiwan, Thailand, Australia

Europe : U.K., the Netherlands, Germany

2. In the fiscal year ended March 31, 2005, the Company revised the classification of geographic areas as follows, due to increased business in Europe, which was previously included in "Other Areas". As a result of this change, the previous classification "Japan", "North America", "Asia", and "Other Areas" was revised to the new classification "Japan", "North America", "Asia/Oceania", and "Europe". The above information for the six months period ended September 30, 2004 has been restated to conform to the current classification.

### 3. Overseas sales information

|  | Millions of Yen                                    |              |        |            |         |
|--|--|--------------|--------|------------|---------|
|  | For the six months period ended September 30, 2005 |              |        |            |         |
|  | 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                                    |              |        |            |         |
|--|--|--------------|--------|------------|---------|
|  | For the six months period ended September 30, 2004 |              |        |            |         |
|  | North America                                      | Asia/Oceania | Europe | Other Area | Total   |
| Overseas sales                                       | 107,738  | 133,430      | 56,580 | 10,854     | 308,604 |
| Consolidated sales                                   |  |              |        |            | 468,532 |
| Percentage of overseas sales over consolidated sales | 23.0   | 28.5         | 12.1   | 2.3        | 65.9    |

|  | Millions of Yen                          |              |         |            |         |
|--|--|--------------|---------|------------|---------|
|  | For the fiscal year ended March 31, 2005 |              |         |            |         |
|  | North America                            | Asia/Oceania | Europe  | Other Area | Total   |
| Overseas sales                                       | 216,703                                  | 280,851      | 119,151 | 31,895     | 648,601 |
| Consolidated sales                                   |  |              |         |            | 967,486 |
| Percentage of overseas sales over consolidated sales | 22.4                                     | 29.0         | 12.3    | 3.3        | 67.0    |

(Notes) 1. Main countries or areas

- North America : U.S., Canada
- Asia/ Oceania : China, Taiwan, Korea, Singapore, Thailand, Malaysia
- Europe : Germany, France, Portugal
- Other Areas : Middle South 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" for the six months period ended September 30, 2004 and 2005, and the fiscal year ended March 31, 2005 were ¥40,294 million, ¥38,560 million and ¥77,933 million, respectively.
4. In the fiscal year ended March 31, 2005, the Company revised the classification of geographic areas as follows, due to increased sales in Europe, which was previously included in "Other Areas". As a result of this change, the previous classification "North America", "Asia", and "Other Areas" was revised to the new classification "North America", "Asia/Oceania", "Europe", "Other Areas". The above information for the six months period ended September 30, 2004 has been restated to conform to the current classification.

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

|  | Billions of Yen             |                             |                        |                             |                             |                        |
|--|-----------------------------|-----------------------------|------------------------|-----------------------------|-----------------------------|------------------------|
|  | Net Sales                   |                             |                        | Operating Income            |                             |                        |
|  | Six months<br>2005/4-2005/9 | Six months<br>2004/4-2004/9 | Increase<br>(Decrease) | Six months<br>2005/4-2005/9 | Six months<br>2004/4-2004/9 | Increase<br>(Decrease) |
| Polyvinyl chloride                                   | <b>160.9</b>                | 139.7                       | 21.2                   | <b>18.2</b>                 | 15.9                        | 2.3                    |
| Silicones  | <b>86.2</b>                 | 73.7                        | 12.5                   | <b>19.3</b>                 | 14.0                        | 5.3                    |
| Others   | <b>55.3</b>                 | 48.0                        | 7.3                    | <b>9.4</b>                  | 8.5                         | 0.9                    |
| Total Organic and inorganic<br>chemicals Segment     | <b>302.4</b>                | 261.4                       | [15.7%]<br>41.0        | <b>46.9</b>                 | 38.4                        | [22.2%]<br>8.5         |
| Semiconductor silicon                                | <b>142.9</b>                | 125.8                       | 17.1                   | <b>25.8</b>                 | 23.3                        | 2.5                    |
| Others   | <b>26.0</b>                 | 25.0                        | 1.0                    | <b>5.7</b>                  | 4.2                         | 1.5                    |
| Total Electronics materials<br>Segment               | <b>168.9</b>                | 150.8                       | [12.0%]<br>18.1        | <b>31.5</b>                 | 27.5                        | [14.6%]<br>4.0         |
| Synthetic quartz products                            | <b>15.8</b>                 | 14.1                        | 1.7                    | <b>6.7</b>                  | 5.8                         | 0.9                    |
| Rare earth magnets and other<br>Functional materials | <b>14.8</b>                 | 13.8                        | 1.0                    | <b>2.8</b>                  | 2.8                         | 0.0                    |
| Others   | <b>33.2</b>                 | 28.4                        | 4.8                    | <b>2.5</b>                  | 2.3                         | 0.2                    |
| Total Functional materials<br>and Others Segment     | <b>63.8</b>                 | 56.3                        | [13.2%]<br>7.5         | <b>12.0</b>                 | 10.9                        | [10.6%]<br>1.1         |
| Elimination or Common assets                         | -                           | -                           | -                      | <b>(0.1)</b>                | 0.0                         | (0.1)                  |
| Total  | <b>535.1</b>                | 468.5                       | [14.2%]<br>66.6        | <b>90.3</b>                 | 76.8                        | [17.6%]<br>13.5        |

**(Lease Transactions)**

According to disclosure through EDINET, detailed information about Lease transactions is being omitted from this report.

## (Securities)

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

|  | Millions of Yen           |                     |                              |                       |                     |                              |                           |                     |                              |
|--|---------------------------|---------------------|------------------------------|-----------------------|---------------------|------------------------------|---------------------------|---------------------|------------------------------|
|  | <u>September 30, 2005</u> |                     |                              | <u>March 31, 2005</u> |                     |                              | <u>September 30, 2004</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 | 1,613                     | 1,614               | 1                            | 1,236                 | 1,236               | 0                            | 1,230                     | 1,230               | 0                            |
| Debentures                                     | 40,154                    | 40,141              | (12)                         | 35,794                | 35,840              | 46                           | 15,868                    | 15,886              | 18                           |
| Others   | 18,940                    | 18,953              | 12                           | 18,968                | 18,991              | 22                           | 20,496                    | 20,507              | 11                           |
| Total  | 60,708                    | 60,710              | 1                            | 55,998                | 56,067              | 68                           | 37,595                    | 37,624              | 29                           |

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

|            | Millions of Yen           |                   |                              |                         |                   |                              |                           |                   |                              |
|------------|---------------------------|-------------------|------------------------------|-------------------------|-------------------|------------------------------|---------------------------|-------------------|------------------------------|
|            | <u>September 30, 2005</u> |                   |                              | <u>March 31, 2005</u>   |                   |                              | <u>September 30, 2004</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   | 29,123                    | 68,616            | 39,492                       | 29,827                  | 52,818            | 22,991                       | 29,531                    | 46,355            | 16,824                       |
| 2.Bonds    |                           |                   |                              |                         |                   |                              |                           |                   |                              |
| Debentures | -                         | -                 | -                            | 4                       | 4                 | 0                            | 4                         | 4                 | 0                            |
| 3.Others   | 1,808                     | 1,922             | 113                          | 1,839                   | 1,650             | (188)                        | 1,839                     | 1,593             | (245)                        |
| Total      | 30,932                    | 70,538            | 39,606                       | 31,671                  | 54,473            | 22,802                       | 31,374                    | 47,952            | 16,578                       |

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

|  | Millions of Yen           |                       |                           |
|--|---------------------------|-----------------------|---------------------------|
|  | <u>September 30, 2005</u> | <u>March 31, 2005</u> | <u>September 30, 2004</u> |
|  | <u>Book value</u>         | <u>Book value</u>     | <u>Book value</u>         |
| 1. Bonds held to maturity                                      |                           |                       |                           |
| Discount bond  | -                         | -                     | 14,438                    |
| Non-listed domestic bonds                                      | 1                         | 1                     | 2                         |
| Non-listed overseas bonds                                      | 35,999                    | 49,449                | 59,659                    |
| 2. Investments in non-consolidated subsidiaries and affiliates | 40,292                    | 27,853                | 30,579                    |
| 3. Available-for-sale securities                               |                           |                       |                           |
| Non-listed shares  | 2,653                     | 2,225                 | 2,382                     |
| Non-listed overseas bonds                                      | 126,762                   | 92,421                | 106,091                   |
| Others   | 3,469                     | 4,004                 | 4,281                     |

## (Derivative Transactions)

According to disclosure through EDINET, detailed information about Derivative transactions is being omitted from this report.