

# Financial Summary

(For the six months ended September 30, 2006)

October 23, 2006

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

### **(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 result 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 business 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.

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# 1. Operating Performance

(Billions of Yen)

(times)

	Consolidated			Non-consolidated			Ratio (Consolidated/Non-consolidated)	
	Six months 05/4-05/9	Six months 06/4-06/9	Increase (Decrease)	Six months 05/4-05/9	Six months 06/4-06/9	Increase (Decrease)	Six months 05/4-05/9	Six months 06/4-06/9
Sales	535.1	639.0	19.4% 103.9	276.1	334.7	21.2% 58.6	1.94	1.91
Operating Income	90.3	120.0	32.9% 29.7	35.6	40.2	13.0% 4.6	2.54	2.98
Ordinary Income	90.0	120.0	33.3% 30.0	36.0	39.7	10.2% 3.7	2.50	3.02
Net Income	55.6	74.9	34.7% 19.3	22.8	25.3	11.1% 2.5	2.44	2.96
Total Assets	1,551.8	1,753.6	201.8	823.7	889.9	66.2	1.88	1.97
Net Assets	1,077.1	1,264.8	187.7	618.7	656.4	37.7	1.74	1.93
Equity Ratio	69.4%	70.0%	0.6%	75.1%	73.7%	(1.4%)		
Per share (in Yen)								
Net Income	129.68	174.08	44.40	53.14	58.80	5.66		
Net Assets	2,507	2,855	348	1,440	1,525	85		
Cash dividend				17.50	25.00	7.50		
ROE (yearly basis)	10.7%	12.5%	1.8%	7.6%	7.8%	0.2%		
ROA (yearly basis)	11.9%	14.0%	2.1%	9.0%	9.0%	0.0%		

ROA:Return(Ordinary income) On total Assets

## 2. Financial Highlights

(Billions of Yen)

	Consolidated		Non-consolidated	
	Six months 05/4-05/9	Six months 06/4-06/9	Six months 05/4-05/9	Six months 06/4-06/9
Capital expenditures	58.7	78.4	9.8	10.9
Depreciation	49.1	58.9	9.0	10.8
Balance of liabilities with interest	96.8	76.4	27.0	21.1
Net financial revenue	1.9	2.8	2.5	3.4
R&D costs	15.4	17.6	9.4	12.1
Number of employees	18,436	18,864	2,506	2,509
Exchange rate Jan-June(Ave.)	106.1	115.7	-	-
(Yen/US\$) Apr-Sep(Ave.)	109.5	115.4	109.5	115.4

Notes; 1)Breakdown of Consolidated Capital Expenditures and Depreciation for the six months ended September 30, 2006

	<u>Capital Expenditures</u>	<u>Depreciation</u>
	Billions of Yen	Billions of Yen
Organic and inorganic chemicals	40.6	13.9
Electronics materials	34.0	* 41.0
Functional materials and Others	4.0	4.0

\* It is included that depreciation expenses increased by 7 billion yen because of shortening depreciation years for semiconductor silicon manufacturing facilities in Japan.

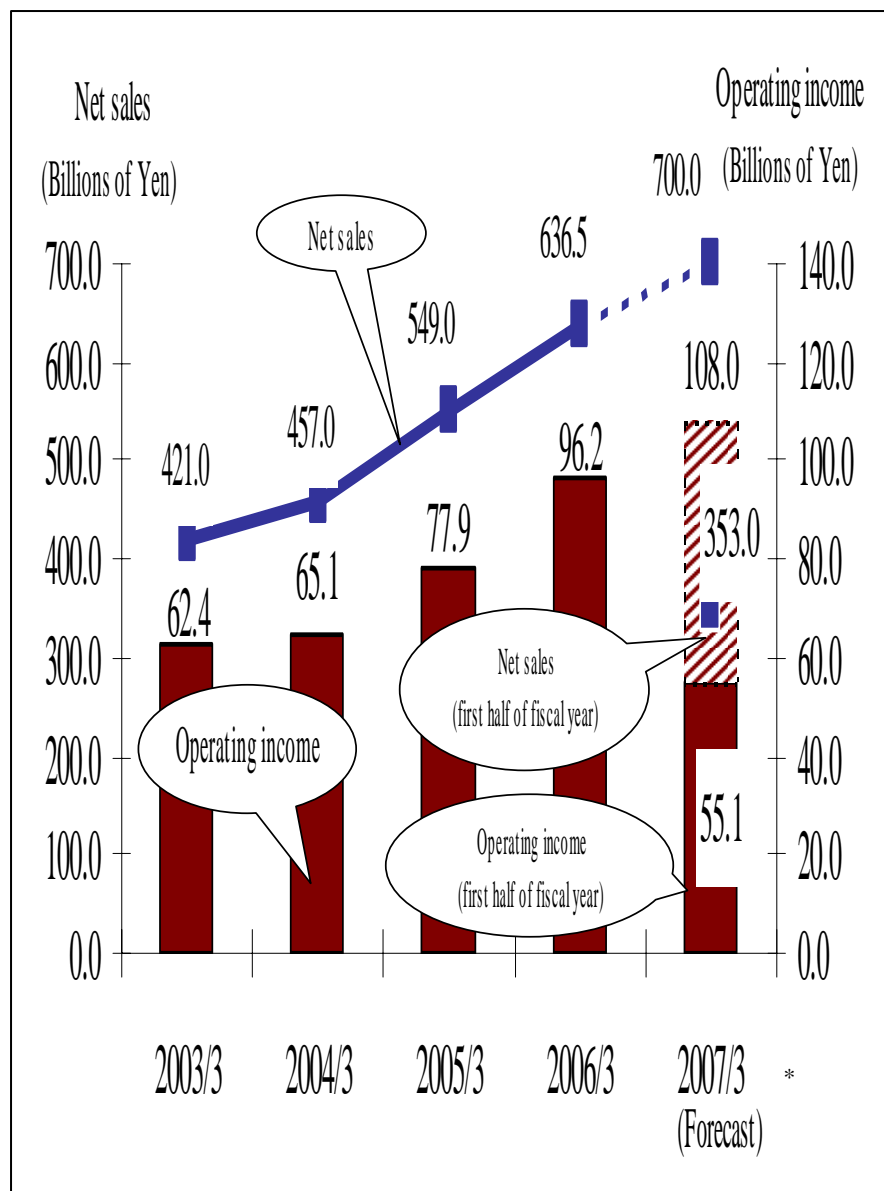
2)An average exchange rate between January and June was used in order to convert overseas subsidiaries results by US\$ into Consolidated Income Statements by Japanese Yen.

### 3. Business Segment Information (Consolidated)

(Billions of Yen)

	Net Sales			Operating Income		
	Six months 05/4-05/9	Six months 06/4-06/9	Increase (Decrease)	Six months 05/4-05/9	Six months 06/4-06/9	Increase (Decrease)
Organic and inorganic chemicals	302.4	353.0	16.7% 50.6	46.9	55.1	17.6% 8.2
Polyvinyl chloride	160.9	190.7	29.8	18.2	24.5	6.3
Silicones	86.2	96.6	10.4	19.3	20.0	0.7
Others	55.3	65.7	10.4	9.4	10.6	1.2
Electronics materials	168.9	225.4	33.4% 56.5	31.5	50.5	60.3% 19.0
Semiconductor silicon	142.9	190.2	47.3	25.8	42.1	16.3
Others	26.0	35.2	9.2	5.7	8.4	2.7
Functional materials and Others	63.8	60.6	(4.9%) (3.2)	12.0	14.3	19.0% 2.3
Synthetic quartz products	15.8	17.9	2.1	6.7	7.9	1.2
Rare earth magnets, other functional materials	14.8	17.1	2.3	2.8	3.7	0.9
Others	33.2	25.6	(7.6)	2.5	2.7	0.2
Elimination	-	-	-	(0.1)	0.1	0.2
<b>Total</b>	<b>535.1</b>	<b>639.0</b>	<b>19.4%</b> <b>103.9</b>	<b>90.3</b>	<b>120.0</b>	<b>32.9%</b> <b>29.7</b>

## 4. "Organic and Inorganic chemicals" Business Segment (Consolidated)



### •PVC

Shintech Inc. in the U.S. increased both its sales and profit due to vigorous demand mainly in the North American market and to the continued high level of PVC product prices.

Supported by good demand throughout Europe, Shin-Etsu PVC B.V. in The Netherlands also increased its net sales and profit.

In the domestic PVC business, sales increased as an upward adjustment in the price of PVC was implemented as a result of the large increase in the price of crude oil; however, because of the deterioration in profitability of exports to China, operating income decreased.

### •Silicones

With regard to the silicone business, in addition to steady exports to China and the U.S., domestic sales of silicones, such as for electric, electronics and automobile applications, were generally bullish. The result was increased sales and profits.

Moreover, sales of silicone-related products, such as keypads for mobile phones supplied by Shin-Etsu Polymer Co., Ltd., were also firm.

### •Cellulose derivatives

In addition to continued strong domestic sales of cellulose derivatives, mainly for such application areas as pharmaceuticals, SE Tylose in Germany did well in cellulose sales for building material applications.

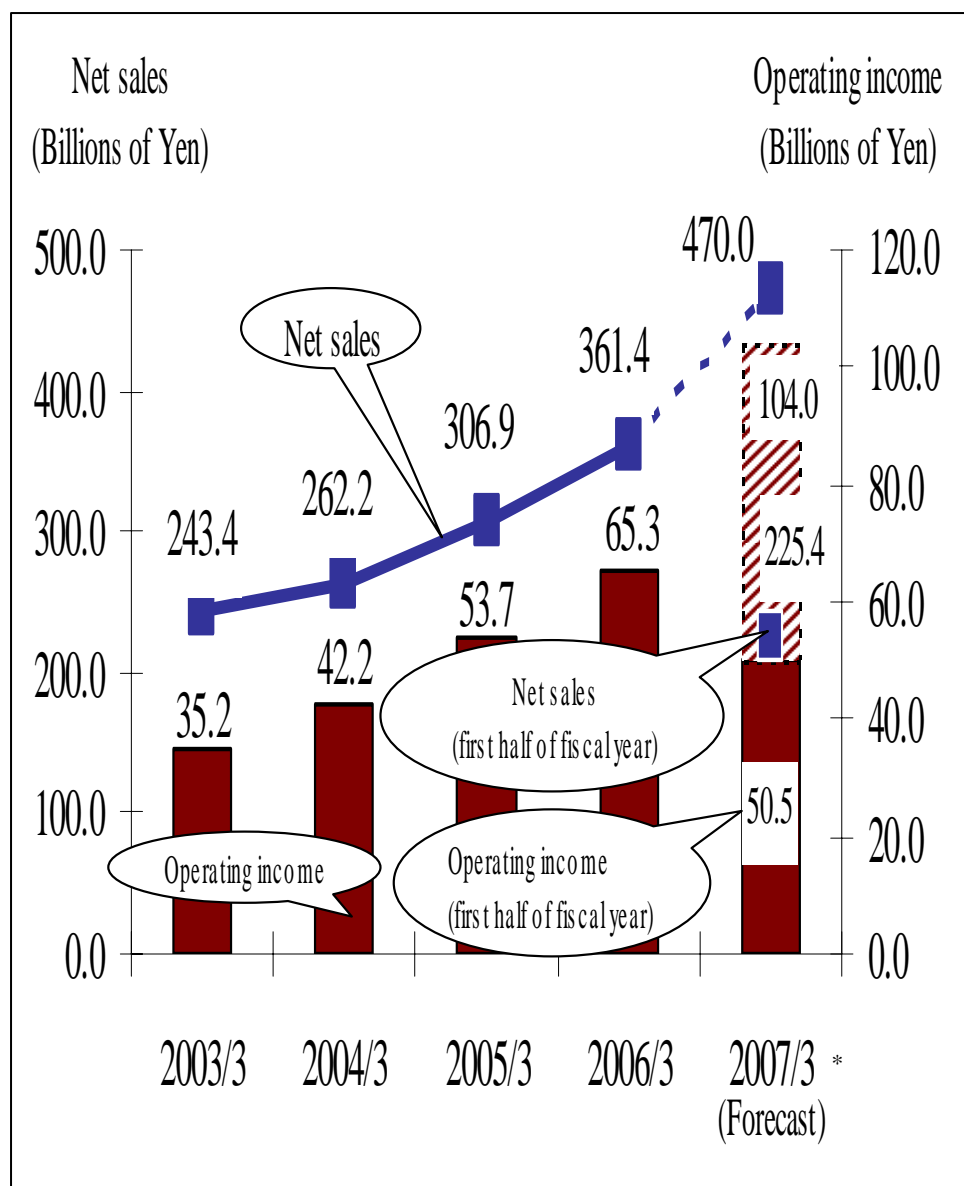
### • Other organic chemicals

JAPAN VAM & POVAL Co., Ltd., also did well in their product shipments.

(\*) Overseas subsidiaries' calculations are based on the period from January through June 2006 because their fiscal year ends in December.

**\*Please see the note on this document's cover, concerning forecasts**

## 5. "Electronics materials" Business Segment (Consolidated)



### •Semiconductor silicon

In the semiconductor silicon business, amid expanding demand from device makers in a wide range of application fields such as mobile phones, PCs, digital home appliances and automobiles, Shin-Etsu, accurately anticipating the expanding demand for 300mm wafers, increased the production capacity at its multiple production bases and effectively met the continued increase in demand for 300mm wafers.

Demand for 200mm wafers also maintained a high level, and as a result, the semiconductor silicon business attained a large increase in both sales and profit.

With regard to depreciation of domestic semiconductor silicon manufacturing facilities, in the first half of this fiscal year, the number of years for the depreciation period was shortened from the previous period of five years to three years. (Increase in depreciation expenses, caused by shortening of useful life ; 7 billion yen/six months)

### •Rare earth magnets for electronics industry

Sales of rare earth magnets for the electronics industry increased greatly with robust demand for use in such applications as hard disk drives for desktop PCs, servers and visual recording media.

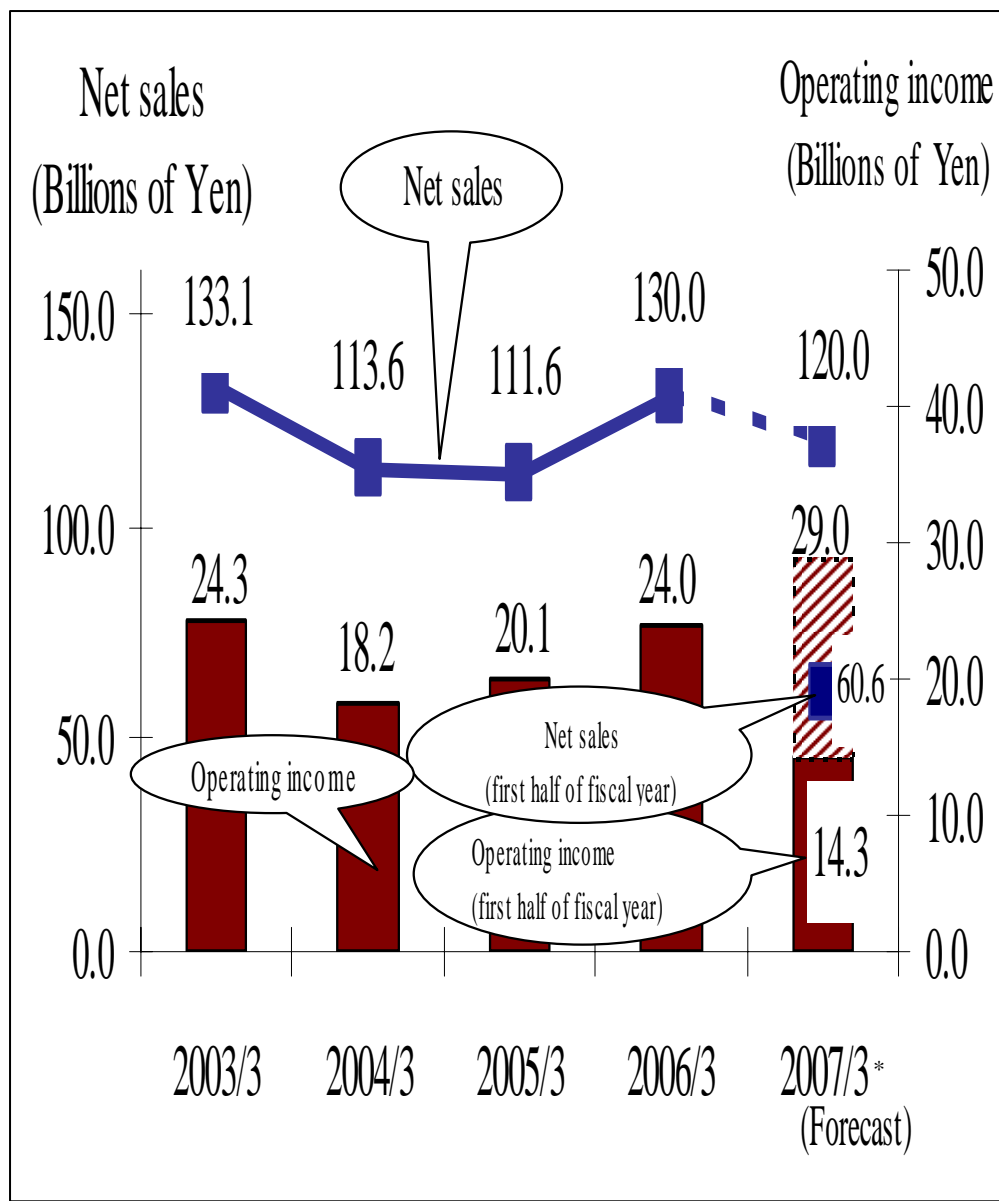
### •Other products

Sales of photoresists for semiconductors were good, particularly of ArF resists, which began to be widely adopted for cutting-edge electronic devices. Both the sales and operating income of this business greatly increased.

(\*) Overseas subsidiaries' calculations are based on the period from January through June 2006 because their fiscal year ends in December.

**\*Please see the note on this document's cover, concerning forecasts**

## 6. “Functional materials and Others” Business Segment (Consolidated)



### •Synthetic quartz

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

### •Rare earth magnets, Rare earth

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

### •Others

In the Other business area, sales of commodity products decreased.

(\* ) Overseas subsidiaries' calculations are based on the period from January through June 2006 because their fiscal year ends in December.

**\*Please see the note on this document's cover, concerning forecasts**



## 7. Operating Performance of Shintech, Inc.

### Shintech, Inc.

	Six months 05/1-05/6		Six months 06/1-06/6	
	Millions of US\$	Billions of Yen	Millions of US\$	Billions of Yen
Net Sales	997	105.8	1,126	130.3
Ordinary Income	160	17.0	217	25.1
Net Income	106	11.2	145	16.8
Net Assets	1,802	199.3	2,065	238.0
Total Assets	2,083	230.4	2,417	278.6

- With the record-high level of basic raw materials prices, such as for crude oil and natural gas, the U.S. sales price of PVC remained at a high level.
- There was vigorous demand for PVC, mainly in the North American market. We carried out painstaking sales activities aimed at a wide range of customers and continued a high level of shipments. Both sales and profit increased greatly.

## 8. Operating Performance of Shin-Etsu Handotai Group

### Shin-Etsu Handotai Group(Consolidated)

(Shin-Etsu Handotai , SEH-America, SEH-Malaysia, SEH-Europe, SEH-Taiwan)

(Billions of Yen)

	Six months 05/4-05/9	Six months 06/4-06/9
Net Sales	141.2	187.1
Ordinary Income	20.0	36.1
Net Income	12.0	23.0
Net Assets	167.0	215.5
Total Assets	372.1	398.4

Notes; The financial statements of the overseas Shin-Etsu Handotai Group companies are calculated based on the six months period ended June 2005 and 2006.

- Semiconductor silicon sales were strong with the expanding demand for semiconductor devices in such diverse application fields as mobile phones, PCs, digital home appliances and automobiles.
- With regard to 300mm wafers, Shin-Etsu, accurately anticipating expanding demand, increased production capacity at its multiple production bases and effectively met the continued increase in demand for 300mm wafers.
- Demand for 200mm wafers also maintained a high level, resulting in high-capacity operation at the company's manufacturing facilities.
- As a result, both net sales and ordinary income far exceeded those of the previous fiscal year's first half.
- With regard to depreciation of domestic semiconductor silicon manufacturing facilities, the number of years for the depreciation period was shortened from the previous period of five years to three years.
- To respond decisively to the rapidly increasing worldwide demand for 300mm wafers, Shin-Etsu is making investments in a total of five production bases, both in Japan and in the U.S. and is planning to expand its global 300mm silicon wafer production capacity from its present level of 700,000 wafers/month to 1,000,000 wafers/month in the fall of 2007.

## 9. Comparative Income Statements (Consolidated)

(Billions of Yen)

	Six months 05/4-05/9	Six months 06/4-06/9	Increase	Rate of increase
<b>Net sales</b>	535.1	639.0	103.9	19.4%
Cost of sales	391.2	457.2	66.0	
Selling, General and Administrative Expenses	53.6	61.8	8.2	
<b>Operating income</b>	90.3	120.0	29.7	32.9%
Non-operating income / expenses	(0.3)	0.0	0.3	
<b>Ordinary income (Income before income taxes)</b>	90.0	120.0	30.0	33.3%
Income taxes	32.5	42.8	10.3	
Minority interest in earnings of consolidated subsidiaries	1.9	2.3	0.4	
<b>Net income</b>	55.6	74.9	19.3	34.7%

## 10. Comparative Balance Sheets (Consolidated)

(Billions of Yen)

	March 31 2006	September 30 2006	Increase (Decrease)		March 31 2006	September 30 2006	Increase (Decrease)
<u>Current assets</u>	<u>927.0</u>	<u>1,020.4</u>	<u>93.4</u>	<u>Current liabilities</u>	<u>352.9</u>	<u>399.8</u>	<u>46.9</u>
Cash and time deposits	262.1	290.3	28.2	Notes and accounts payable-trade	132.7	143.4	10.7
Notes and accounts receivable-trade	277.9	308.4	30.5	Short-term borrowings	18.2	26.8	8.6
Securities	178.6	204.7	26.1	Debentures	8.0	8.0	0.0
Inventories	147.4	145.6	(1.8)	Accrued expenses and accounts payable-others	133.4	161.4	28.0
Deferred tax, current	34.1	39.7	5.6	Accrued income taxes	47.3	46.9	(0.4)
Others	26.9	31.7	4.8	Others	13.4	13.3	(0.1)
<u>Fixed assets</u>	<u>744.3</u>	<u>733.1</u>	<u>(11.2)</u>	<u>Long-term liabilities</u>	<u>110.5</u>	<u>89.0</u>	<u>(21.5)</u>
<u>Property, plant and equipment</u>	<u>468.8</u>	<u>482.7</u>	<u>13.9</u>	Debentures	8.0	-	(8.0)
Buildings and structures	158.3	157.2	(1.1)	Long-term borrowings	49.7	41.6	(8.1)
Machinery and equipment	208.2	197.1	(11.1)	Deferred tax, non-current	40.7	33.8	(6.9)
Others	102.3	128.3	26.0	Accrued retirement benefits	10.4	11.1	0.7
<u>Intangible fixed assets</u>	<u>25.3</u>	<u>25.0</u>	<u>(0.3)</u>	Others	1.7	2.5	0.8
<u>Investments and Other Assets</u>	<u>250.2</u>	<u>225.5</u>	<u>(24.7)</u>	<u>Total liabilities</u>	<u>463.4</u>	<u>488.8</u>	<u>25.4</u>
Investments in securities	216.2	184.8	(31.4)	<u>Stockholders' equity</u>	<u>1,123.7</u>	<u>1,186.9</u>	<u>63.2</u>
Deferred tax, non current	13.3	20.5	7.2	Common stock	119.4	119.4	0.0
Others	20.7	20.2	(0.5)	Additional paid-in capital	128.2	128.2	0.0
				Retained earnings	882.4	949.2	66.8
				Less : Treasury stock, at cost	(6.3)	(9.9)	(3.6)
				<u>Valuation, transition adjustment and others</u>	<u>50.0</u>	<u>41.3</u>	<u>(8.7)</u>
				<u>Share purchase warrant</u>	-	<u>0.7</u>	<u>0.7</u>
				<u>Minority interests in consolidated subsidiaries</u>	<u>34.2</u>	<u>35.8</u>	<u>1.6</u>
				<u>Total net assets</u>	<u>1,207.9</u>	<u>1,264.8</u>	<u>56.9</u>
<u>Total assets</u>	<u>1,671.3</u>	<u>1,753.6</u>	<u>82.3</u>	<u>Total liabilities and net assets</u>	<u>1,671.3</u>	<u>1,753.6</u>	<u>82.3</u>

## 11. Comparative Statements of Cash Flows (Consolidated)

(Billions of Yen)

	Six months 05/4-05/9	Six months 06/4-06/9	Increase (Decrease)
<u>(1) Cash flows from operating activities</u>			
Net income	55.6	74.9	19.3
Depreciation	49.1	58.9	9.8
Others	(3.7)	(1.5)	2.2
Total	101.0	132.3	31.3
<u>(2) Cash flows from investing activities</u>			
Expenditure for purchase of tangible and intangible fixed assets	(53.2)	(76.9)	(23.7)
Others	3.1	(6.6)	(9.7)
Total	(50.1)	(83.5)	(33.4)
<u>(3) Cash flows from financing activities</u>			
Decrease in debentures and borrowings	(20.1)	(8.1)	12.0
Cash dividends	(4.3)	(7.5)	(3.2)
Others	(0.4)	(4.1)	(3.7)
Total	(24.8)	(19.7)	5.1
(4) Effect of exchange rate changes and others	7.8	(2.6)	(10.4)
Net increase(decrease) in cash and cash equivalents	33.9	26.5	(7.4)
Balance of cash and cash equivalents	351.6	400.4	48.8
Balance of liabilities with interest	96.8	76.4	(20.4)

12. Forecast of operating performance  
for the entire fiscal year (April 2006-March 2007)

	<b>Consolidated</b>		Non-consolidated	
	<b>Billions of Yen</b>	<b>Ratio of increase over prior FY</b>	Billions of Yen	Ratio of increase over prior FY
Net sales	<b>1,290.0</b>	<b>14.4%</b>	690.0	18.5%
Operating income	<b>241.0</b>	<b>30.0%</b>	80.0	8.6%
Ordinary income	<b>241.0</b>	<b>30.2%</b>	80.0	10.9%
Net income	<b>150.0</b>	<b>30.4%</b>	50.0	11.0%
Net income per share (in Yen)	<b>348.69</b>	<b>82.06</b>	116.23	12.02
Annual cash dividend per share (in Yen)	<b>50.00</b>	<b>15.00</b>		

**\*Please see the note on this document's cover, concerning forecasts**

### 13. Comparative Income Statements (Non-consolidated)

(Billions of Yen)

	Six months 05/4-05/9	Six months 06/4-06/9	Increase (Decrease)	Rate of increase
<b>Net sales</b>	276.1	334.7	58.6	21.2%
Cost of sales	224.0	275.4	51.4	
Selling, General and Administrative Expenses	16.5	19.0	2.5	
<b>Operating income</b>	35.6	40.2	4.6	13.0%
Non-operating income / expenses	0.4	(0.5)	(0.9)	
<b>Ordinary income (Income before income taxes)</b>	36.0	39.7	3.7	10.2%
Income taxes	13.2	14.4	1.2	
<b>Net income</b>	22.8	25.3	2.5	11.1%

## 14. Comparative Balance Sheets (Non-consolidated)

(Billions of Yen)

	March 31 2006	September 30 2006	Increase (Decrease)		March 31 2006	September 30 2006	Increase (Decrease)
<u>Current assets</u>	<u>483.0</u>	<u>532.0</u>	<u>49.0</u>	<u>Current liabilities</u>	<u>194.7</u>	<u>217.5</u>	<u>22.8</u>
Cash and time deposits	154.9	146.6	(8.3)	Notes and accounts payable-trade	120.7	137.7	17.0
Notes and accounts receivable-trade	177.9	205.3	27.4	Short-term borrowings	11.1	18.6	7.5
Securities	34.0	68.4	34.4	Accrued expenses and accounts payable-others	39.2	39.4	0.2
Inventories	44.4	46.6	2.2	Accrued income taxes	20.2	18.0	(2.2)
Others	71.7	65.2	(6.5)	Others	3.5	3.9	0.4
<u>Fixed assets</u>	<u>391.2</u>	<u>357.9</u>	<u>(33.3)</u>	<u>Long-term liabilities</u>	<u>32.4</u>	<u>16.0</u>	<u>(16.4)</u>
<u>Property, plant and equipment</u>	<u>108.6</u>	<u>107.4</u>	<u>(1.2)</u>	Long-term borrowings	13.8	2.5	(11.3)
Buildings and structures	35.2	34.8	(0.4)	Deffered income tax -liability	17.9	12.5	(5.4)
Machinery and equipment	45.8	45.1	(0.7)	Others	0.8	1.0	0.2
Others	27.6	27.4	(0.2)				
<u>Intangible fixed assets</u>	<u>0.8</u>	<u>0.7</u>	<u>(0.1)</u>	<u>Total liabilities</u>	<u>227.1</u>	<u>233.5</u>	<u>6.4</u>
<u>Investments and Other Assets</u>	<u>281.7</u>	<u>249.8</u>	<u>(31.9)</u>	<u>Stockholders' equity</u>	<u>618.7</u>	<u>632.5</u>	<u>13.8</u>
Investments in securities	134.1	103.6	(30.5)	Common stock	119.4	119.4	0.0
Investments in capital stock of subsidiaries and affiliates	129.2	129.2	0.0	Additional paid-in capital	120.8	120.8	0.0
Others	18.4	16.9	(1.5)	Retained earnings	384.8	402.2	17.4
				Less : Treasury stock, at cost	(6.3)	(9.9)	(3.6)
				<u>Valuation, transition adjustment and others</u>	<u>28.3</u>	<u>23.3</u>	<u>(5.0)</u>
				<u>Share purchase warrant</u>	<u>-</u>	<u>0.6</u>	<u>0.6</u>
				<u>Total net assets</u>	<u>647.1</u>	<u>656.4</u>	<u>9.3</u>
<u>Total assets</u>	<u>874.2</u>	<u>889.9</u>	<u>15.7</u>	<u>Total liabilities and net assets</u>	<u>874.2</u>	<u>889.9</u>	<u>15.7</u>



## Recent Topics

Oct. 2005 Shintech Inc. was honored as recipient of the 2005 Nikkei 'Monozukuri' Grand Prize\*.

Dec. 2005 – Feb. 2006

Shin-Etsu Chemical acquired additional shares of Mimasu Semiconductor by means of a tender offer.

(The Shin-Etsu Group's share holding ratio of Mimasu Semiconductor's shares increased to 41.3% as of Mar. 31, 2006.)

Jun. 2006 Announcement of a price increase on our silicone products.

Jun. 2006 Shin-Etsu Chemical and several of its Group Companies in Japan contributed to help promote the goals of World Refugee Day.

Aug. 2006 Announcement of a price increase on our rare earth magnets.

Sep. 2006 80-Year Anniversary of Shin-Etsu Chemical.

Sep. 2006 Completion of Shin-Etsu PVC's expansion project at Pernis, Netherlands.

Sep. 2006 Completion of major expansion of our 300mm silicon wafer production capacity in early anticipation.

Sep. 2006 Publication of Shin-Etsu Chemical Environmental and Social Report.

Oct. 2006 Completion of expansion of SE Tylose's cellulose production capacity at Wiesbaden, Germany.

\*'Monozukuri' Grand Prize

Prize granted annually by the Nihon Keizai Shimbun, Inc. newspaper company, to commend excellence in a factory, business establishment, research institute or a particular industrial system.