Press Release of Consolidated Financial Data

For the year ended March 31, 2006

May 15, 2006

Shin-Etsu Chemical Co., Ltd.
The seat of headquarters : Tokyo
Listing Code No. 4063
(URL http://www.shinetsu.co.jp/)
Listing Stock Exchange : Tokyo, Osaka, Nagoya
Representative:
Chihiro Kanagawa (Mr.)
Representative Director-President
Personnel to contact :
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Date of Board of Directors Meeting
For the authorization of the consolidated financial statements
for the current fiscal year …… May 15, 2006

Adoption of U.S. GAAP : No

1. Consolidated Operating Performance for the Current Fiscal Year ended March 31, 2006

(From April 1, 2005 to March 31, 2006)

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

(1) Results of Consolidated operations

	Millions of Yen	
	Current fiscal year Apr ‘05 - Mar ‘06	Prior fiscal year Apr ‘04 - Mar ‘05
Net sales	1,127,915	967,486
Ratio of increase over the preceding year	16.6%	16.2%
Operating income	185,320	151,734
Ratio of increase over the preceding year	22.1%	20.8%
Ordinary income	185,040	151,503
Ratio of increase over the preceding year	22.1%	20.6%
Net income	115,045	93,160
Ratio of increase over the preceding year	23.5%	24.5%
Net income per share (in yen)	266.63	219.10
Diluted net income per share (in yen)	266.07	216.11
Ratio of net income over total stockholders’ equity	10.6%	9.8%
Ratio of ordinary income over total assets employed	11.8%	10.6%
Ratio of ordinary income over net sales	16.4%	15.7%

(Notes)

1. Equity in earnings of Affiliates	3,995	1,615
2. Average number of shares outstanding (in shares)	429,587,219	423,518,768

3. Changes in accounting policies applied : No

(2) Consolidated financial position

	Millions of Yen	
	March 31, 2006	March 31, 2005
Total assets	1,671,280	1,476,248
Total stockholders' equity	1,173,679	996,307
Equity ratio	70.2%	67.5%
Stockholders' equity per share (in yen)	2,730.94	2,329.47

(Note)

Number of shares outstanding at year end (in shares)	430,640,725	427,540,080

(3) Consolidated statement of cash flows

	Millions of Yen	
	For the year ended March 31, 2006	For the year ended March 31, 2005
Cash flows from operating activities	220,592	177,377
Cash flows from investing activities	(138,813)	(108,756)
Cash flows from financing activities	(42,496)	(41,911)
Cash & Cash Equivalents at end of fiscal year	373,863	317,733

(4) Application of consolidation 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 ended March 31, 2007
(From April 1, 2006 to March 31, 2007)

	Millions of Yen	
	Six months Apr – Sep '06	Fiscal year Apr '06 – Mar '07
Net sales	600,000	1,210,000
Ordinary income	107,000	215,000
Net income	66,000	133,000

(Reference)
The forecast of "Net income per share" (from April 1, 2006 to March 31, 2007) …… 308.84 yen per share

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

1. Corporate Overview

The Shin-Etsu Group is composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 92 subsidiaries, and 16 affiliates as of March 31, 2006. Business is divided into three segments: Organic and Inorganic Chemicals Segment, which consists mainly of the manufacture and sale of polyvinyl chloride (PVC) and silicones; Electronics Materials Segment, which consists mainly of the manufacture and sale of semiconductor silicon; and Functional Materials and Others Segment, which manufactures and sells synthetic quartz and other materials as well as providing various other services, such as construction and repair. The Company, its subsidiaries and affiliates share responsibility for sales, manufacturing, and other operations, and co-operate with each other to develop business activities.

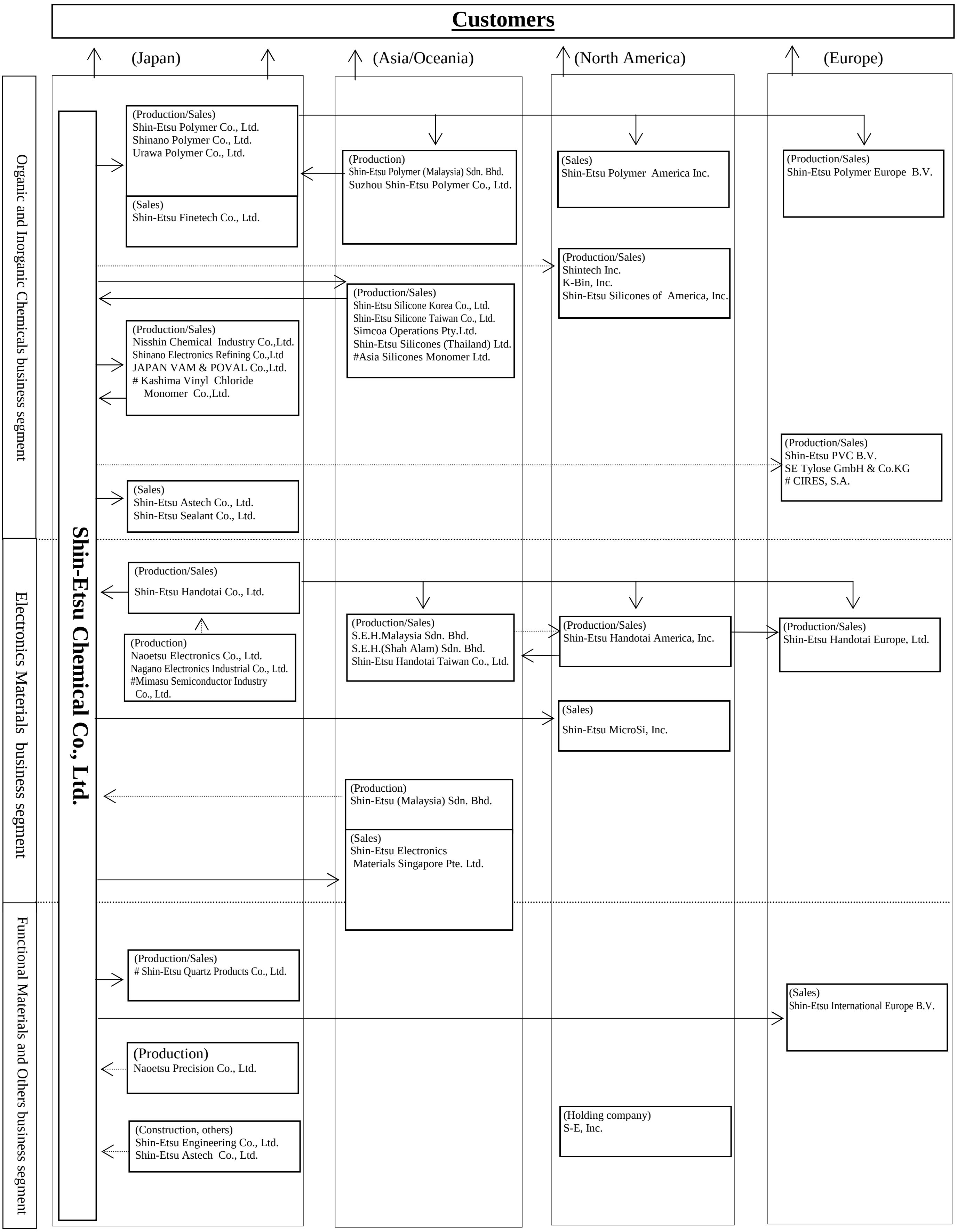
The Group's business activities, the role and functions of the Company and major subsidiaries and affiliates are described below.

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

<table>
<tr><td rowspan="2">Electronics Materials business segment</td><td rowspan="2">Semiconductor silicon
Organic materials
for the electronics industry
Rare earth magnets
for the electronics industry
Photoresists</td><td>Domestic</td><td>Shin-Etsu Chemical Co., Ltd.
Shin-Etsu Handotai Co., Ltd.
Nagano Electronics Industrial Co., Ltd.
Naoetsu Electronics Co., Ltd.
Mimasu Semiconductor Industry Co., Ltd.*
(*Listed in Tokyo Stock Exchange)
7 other companies
Total number of companies: 12</td></tr>
<tr><td>Overseas</td><td>Shin-Etsu Handotai America, Inc.
S.E.H. Malaysia Sdn. Bhd.
Shin-Etsu Handotai Europe, Ltd.
Shin-Etsu Handotai Taiwan Co., Ltd.
Shin-Etsu Electronics Materials Singapore Pte. Ltd.
Shin-Etsu (Malaysia) Sdn. Bhd.
Shin-Etsu MicroSi, Inc.
S.E.H. (Shah Alam) Sdn. Bhd.
7 other companies
Total number of companies: 15</td></tr>
<tr><td rowspan="2">Functional Materials and Others business segment</td><td rowspan="2">Synthetic quartz products
Oxide single crystals
Rare Earth and rare earth magnets
Liquid Fluoroelastomers
Export of technology and plants
Export and import of goods
Construction and Plant engineering
Information processing
And others</td><td>Domestic</td><td>Shin-Etsu Chemical Co., Ltd.
Shin-Etsu Engineering Co., Ltd.
Shin-Etsu Astech Co., Ltd.
Naoetsu Precision Co., Ltd.
Shin-Etsu Quartz Products Co., Ltd.
22 other companies
Total number of companies: 27</td></tr>
<tr><td>Overseas</td><td>S-E, Inc.
Shin-Etsu Electronics Materials Singapore Pte. Ltd.
Shin-Etsu (Malaysia) Sdn. Bhd.
Shin-Etsu International Europe B.V.
3 other companies
Total number of companies: 7</td></tr>
</table>

(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 — Products (solid arrow)

Marked # : Affiliates which are applied to equity method — Processing, technology, service and other (dotted arrow)

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 world market conditions.

(2) Basic Policy Regarding Dividends

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

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

With regard to the dividend for the second half of FY 2006 (April 1, 2005 to March 31, 2006), Shin-Etsu has declared a dividend of ¥17.5 per share, the same amount as the interim dividend paid out after the end of the first half of the fiscal year. With this announcement, the dividend for FY 2006 will become ¥35 per share, an increase of ¥15 compared to that of the previous fiscal year.

Regarding the dividend for FY2007 (April 1, 2006 to March 31, 2007), Shin-Etsu is planning a further increase of ¥15 over the dividend declared for FY 2006; thus, the full-year dividend will become ¥50 per share (¥25 for the interim dividend and ¥25 for the dividend at the end of the fiscal year).

(3) Policy concerning the reduction in the trading unit for shares of Shin-Etsu Chemical’s stock

Shin-Etsu Chemical reduced the trading unit for shares of its stock from 1000 to 100 in August 2001, and at the present time, the company is not considering a near-term further reduction of the trading unit. However, with regard to the future necessity or timing of such a policy step, Shin-Etsu will carefully consider this matter by systematically taking into account such factors as trends in the stock market.

(4) Policy implementation

At present, the issues concerning which Shin-Etsu needs to take appropriate policy measures are in the following areas:

In the PVC business, because demand is increasing worldwide, Shintech, Inc. in the U.S. is constructing a large-scale integrated PVC manufacturing facility from electrolysis to PVC resin. Shin-Etsu PVC B.V. in the Netherlands is also successively increasing its PVC production capabilities.

In Asia, on the other hand, in recent years a large number of PVC manufacturing plants have been constructed in China, whose production capacity is well over China’s domestic demand level, and this is a matter of concern. Shin-Etsu will closely observe the situation and will take appropriate policy measures.

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

In the cellulose business, Shin-Etsu will strive to expand its cellulose derivatives business through its expansion of facilities at SE Tylose GmbH & Co.KG in Germany, and at the same time, will work to assure the stable operation of its manufacturing plant in Japan that was completed last year.

In the semiconductor silicon business, to cope with the increase in demand for 300mm wafers, Shin-Etsu is expanding its domestic and U.S. 300mm wafer production capacity and will build a stable 300mm wafer supply system through its multiple production bases. For those wafers up to 200mm, the company will focus on strengthening its competitive power by differentiating its products and providing higher-quality products. The semiconductor industry has been subject to cyclical market change fluctuations – the so-called “silicon-cycle” – and these types of cycles, large or small, are expected in the future as well. Shin-Etsu will take various policy measures to be prepared for such phases.

In the synthetic quartz products business, large-size photomask substrates used for LCDs continue to do well, and Shin-Etsu will implement appropriate measures in anticipation of future demand expansion.

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

To deal with its concerns about any negative effects of the sharp rise in crude oil prices on the economy, Shin-Etsu will strengthen its business base by the timely adjustment of product prices and securing and diversifying the supply of raw materials. In addition, Shin-Etsu will strive to diversify its product structure.

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

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

(5) Information on parent company

Not applicable.

3. Results of Operations and Financial Position

(1) Results of Operations

1). General Overview

During consolidated FY 2006 (April 1, 2006 to March 31, 2007), the Japanese economy followed a steady basic path of recovery. Along with improvement in corporate profits came such positive trends as increases in facility investment and consumer spending. On the other hand, while there were concerns regarding the impact of the step rise in crude oil prices and the aftereffects of the big autumn hurricanes, the American economy continued along a steady growth path. In addition, the economies in Southeast Asia and China continued their growth trends.

Under these circumstances, the Shin-Etsu Group, by making the most of its Group companies' collective strength, expanded its positive sales efforts to a wide range of customers worldwide, and at the same time, strenuously worked on strengthening its production capacities and also developing and commercializing new products.

As a result, the consolidated business results for FY 2006 show that net sales increased by 16.6% (¥160,429 million) compared to the previous fiscal year to become ¥1,127,915 million. Compared to the performance of the previous fiscal year, operating income increased 22.1% (¥33,586 million) to ¥185,320 million, ordinary income increased 22.1% (¥33,537 million) to ¥185,040 million and net income increased 23.5%(¥21,885 million) to ¥115,045 million.

2). Business Segment Overview

Organic and Inorganic Chemicals

The PVC business expanded substantially, due to Shintech's (Shin-Etsu's U.S. PVC base) continued high level of PVC shipments responding to vigorous demand for housing construction as well as to the implementation of an upward price adjustment following the steep rise in raw materials costs. Furthermore, Shin-Etsu PVC B.V. in the Netherlands, supported by the demand throughout Europe, continued its strong sales performance. On the other hand, in Shin-Etsu's domestic PVC business, sales increased as efforts were made to maintain the price of PVC, however, due to a downturn in export prices from the latter half of FY 2006, operating income decreased.

With regard to the silicone business, in addition to increased domestic sales, mainly in such application fields as automobiles and cosmetics, export earnings greatly improved with the implementation of a price revision. Moreover, the 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 to be strong in the domestic market, mainly in such application areas as pharmaceuticals as well as automobile-related applications. In addition, SE Tylose GmbH & Co.KG in Germany did well in sales in product applications for building materials. JAPAN VAM & POVAL Co., Ltd., whose business results were incorporated into Shin-Etsu Group's consolidated business statement as a subsidiary company from the end of FY2005(April 1, 2004 to March 31, 2005), also contributed to the good business results.

As a result, the net sales of this business segment increased 15.9% (¥87,541 million) compared to the previous fiscal year to ¥636,491 million. Operating income also increased 23.5% (¥18,277 million) to ¥96,171 million.

Electronics Materials

In the semiconductor silicon business, sales of 300mm silicon wafers greatly increased as a result of the expansion in demand for wafers from semiconductor device makers in such application fields as PCs, mobile phones and digital home appliances as well as the built-up of Shin-Etsu's production capacity. In addition, 200mm wafers and specialty wafers such as SOI wafers also continued to do well. Accordingly, both net sales and operating income increased greatly.

To further strengthen its silicon wafer business, Shin-Etsu has strengthen its capital relationship with Mimasu Semiconductor Industry Co., Ltd., a company that Shin-Etsu has been commissioning to process its semiconductor silicon wafers, by obtaining a large percentage of shares in the company by underwriting a full third-party allocation of newly issued shares and additionally acquiring shares through a tender offer bid.

Sales of rare earth magnets for the electronics industry did well in their various hard disk drives applications, particularly in applications for PCs. Net sales and operating income both increased. Sales of photoresists products continued to be strong. In addition to applications of KrF resists, full-scale adoption of ArF resists for semiconductor devices has started. Sales of organic materials for the electronics industry were also good.

As a result, the net sales of this business segment increased 17.8% (¥54,527 million) compared to the previous fiscal year, reaching ¥361,452 million. Operating income increased 21.6% (¥11,591 million) to ¥65,275 million.

Functional Materials and Others

The synthetic quartz products business greatly increased for large-size photomask substrates used for LCDs, as LCD panel manufacturers are expanding their facilities.

Sales of rare earth magnets continued to be strong mainly for applications in home appliances such as air-conditioners and automobile-related products. In addition, sales of liquid fluoroelastomers also did well.

Other businesses, such as the design and construction of various kinds of plants, were bullish.

As a result, the net sales of this business segment increased 16.5% (¥18,360 million) compared to previous fiscal year to become ¥129,970 million, operating income increased 19.4% (¥3,899 million) compared to previous fiscal year to reach ¥24,022 million.

3). Business prospects

Regarding Shin-Etsu's business forecast for FY 2007 (April 1, 2006 to March 31, 2007), although, supported by the strong private-sector demand, the economic recovery trend in Japan expected to continue, there are concerns about the effects of raw material prices staying at a high level and the trend of both U.S. and Chinese economies in the coming year. Accordingly the business outlook for the fiscal year that began in April 2006 is quite uncertain.

Under these circumstances, the Shin-Etsu group will continue to make strong sales efforts with regard to their 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 will aggressively promote efforts for the further growth and development of its business by making strategic facility investments and pursuing the rationalization and the achievement of higher efficiency of management system.

Our business forecast FY 2007 is as follows:

	Billions of Yen			
	Consolidated		Non-consolidated	
	Six months	Fiscal year	Six months	Fiscal year
Net sales	600.0	1,210.0	310.0	630.0
Ratio of increase over the prior fiscal year	12.1%	7.3%	12.3%	8.2%
Ordinary income	107.0	215.0	38.0	76.0
Ratio of increase over the prior fiscal year	18.8%	16.2%	5.5%	5.4%
Net income	66.0	133.0	24.0	48.0
Ratio of increase over the prior fiscal year	18.7%	15.6%	5.3%	6.5%

The annual dividend is scheduled to be 50 yen per share, an increase of 15 yen per share over the previous year's dividend.

(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

	Millions of Yen		
	For the fiscal year ended		
	March 31, 2006	March 31, 2005	Increase (Decrease)
Cash and cash equivalents at beginning of year	317,733	292,978	24,755
Cash flows from operating activities	220,592	177,377	43,215
Cash flows from investing activities	(138,813)	(108,756)	(30,057)
Cash flows from financing activities	(42,496)	(41,911)	(585)
Effect of foreign exchange and others	16,847	(1,955)	18,802
Net Increase (decrease) in cash and cash equivalents	56,130	24,755	31,375
Cash and cash equivalents at end of year	373,863	317,733	56,130

The balance of cash and cash equivalents at the end of this fiscal year increased by 17.7% (¥56,130 million)over that of prior fiscal year, to become ¥373,863 million.

Cash flows from operating activities

The Increase in cash flow provided by operating activities amounted to ¥220,592 million. This was mainly due to income before income tax of ¥185,040 million, depreciation and amortization of ¥111,637 million and income taxes payments of ¥71,600 million.

Cash flows from investing activities

Net cash used for investing activities amounted to ¥138,813 million. This was mainly due to expenditures for purchase of tangible fixed assets of ¥126,661 million.

Cash flows from financing activities

Net cash used for financing activities amounted to ¥42,496 million. This was mainly due to both net decrease in short term debt of ¥17,717 million and payment of debentures on redemption of ¥13,209 million.

The trend of cash flow indices

	For the fiscal year ended				
	March 31, 2006	March 31, 2005	March 31, 2004	March 31, 2003	March 31, 2002
Shareholders' equity ratio (%)	70.2	67.5	65.0	64.6	63.0
Shareholders' equity ratio on market value basis (%)	164.7	117.6	132.9	118.3	178.1
Redemption years for debt	0.4	0.7	1.0	1.3	1.5
Interest coverage ratio	78.5	57.2	38.3	28.9	18.5

(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:
   Market price at the period end x 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.

(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 current fiscal year, the types of risks listed below are those that the Shin-Etsu Group considers most significant. This list does not represent an attempt to discuss all possible risks that could impact on the Shin-Etsu Group.

1). Influence of economic trends and product markets

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

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

2). Influence of fluctuations in foreign exchange rates

Overseas sales accounted for 67% of the total consolidated sales of the Shin-Etsu Group in FY 2006. It is expected that this ratio will remain at a high level. The yen conversion amount of such items included in the Shin-Etsu Group's consolidated financial statements related to the results of the Group's consolidated subsidiary companies are influenced by the exchange rate. In case of a large fluctuation in exchange rates, there is a possibility of a major impact on the business operations results of the whole Shin-Etsu Group. In addition, for transactions in foreign currencies, to reduce risks Shin-Etsu is taking such measures as making forward-exchange contracts; however, a similar major impact might occur.

3). Influence of natural disasters, unexpected disasters or unforeseen accidents

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

4). Influence of public regulatory requirements and law

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

5). Influence of supply factors on procurement of materials

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

6). Influence on development of new products and technologies

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

7). Influence of environmental problems

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

8). Influence of product liability

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

4. Consolidated Financial Statements

4-1. Comparative Consolidated Balance Sheets

As of March 31, 2006 and 2005

Millions of Yen

ASSETS	March 31, 2006	March 31, 2005	Increase (Decrease)
Current Assets:			
Cash and time deposits	262,145	246,741	15,404
Notes and accounts receivable-trade	277,874	236,366	41,508
Securities	178,555	105,839	72,716
Inventories	147,367	135,225	12,142
Deferred taxes, current	34,103	27,760	6,343
Others	32,175	33,684	(1,509)
Less: Allowance for doubtful accounts	(5,233)	(4,784)	(449)
Total current assets	926,987	780,833	146,154
Fixed Assets:			
Property, plant and equipment			
Buildings and structures	158,298	154,920	3,378
Machinery and equipment	208,213	213,238	(5,025)
Land	57,237	48,662	8,575
Construction in progress	34,524	21,072	13,452
Others	10,509	10,291	218
Total property, plant and equipment	468,783	448,184	20,599
Intangible fixed assets	25,347	28,637	(3,290)
Investments and other assets			
Investments in securities	216,227	180,588	35,639
Deferred taxes, non-current	13,267	14,842	(1,575)
Others	20,691	23,181	(2,490)
Less: Allowance for doubtful accounts	(25)	(19)	(6)
Total investments and other assets	250,162	218,593	31,569
Total fixed assets	744,293	695,415	48,878
TOTAL ASSETS	1,671,280	1,476,248	195,032

	Millions of Yen		
	March 31, 2006	March 31, 2005	Increase (Decrease)
LIABILITIES			
Current Liabilities:			
Notes and accounts payable-trade	132,673	114,667	18,006
Short-term borrowings	18,168	37,616	(19,448)
Debentures of redemption within one year	8,000	2,084	5,916
Convertible debentures of redemption within one year	-	3,816	(3,816)
Accrued income taxes	47,259	35,974	11,285
Accrued expenses	77,314	76,869	445
Others	69,473	60,151	9,322
Total current liabilities	352,889	331,179	21,710
Long-term Liabilities:			
Debentures	8,000	27,000	(19,000)
Long-term borrowings	49,670	49,905	(235)
Deferred taxes, non-current	40,734	33,416	7,318
Accrued retirement benefits	10,397	7,677	2,720
Others	1,689	1,697	(8)
Total long-term liabilities	110,491	119,697	(9,206)
TOTAL LIABILITIES	463,381	450,876	12,505
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	34,219	29,065	5,154
STOCKHOLDERS' EQUITY			
Common stock	119,419	117,513	1,906
Additional paid-in capital	128,178	126,274	1,904
Retained earnings	882,412	780,198	102,214
Unrealized gain on available-for-sale Securities	38,599	13,687	24,912
Foreign currency translation adjustment	11,369	(30,275)	41,644
Less: Treasury stock, at cost	(6,300)	(11,091)	4,791
TOTAL STOCKHOLDERS' EQUITY	1,173,679	996,307	177,372
TOTAL LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY	1,671,280	1,476,248	195,032

(Notes)	1. Accumulated depreciation of Property, plant and equipment (in millions of yen)	1,009,857	909,532
	2. Contingent liabilities for guarantee (in millions of yen)	279	393
	3. Treasury stock (in shares)	1,465,968	2,578,655

4-2. Comparative Consolidated Income Statements

For the fiscal year ended March 31, 2006 and 2005

	Millions of Yen		
	For the fiscal year ended		
	March 31, 2006	March 31, 2005	Increase (Decrease)
Operating Income and Expenses:			
Net sales	1,127,915	967,486	160,429
Cost of sales	831,333	715,143	116,190
Gross profit	296,582	252,343	44,239
Selling, general and administrative expenses	111,262	100,608	10,654
Operating income	185,320	151,734	33,586
Non-operating Income:			
Interest income	5,572	3,852	1,720
Dividend income	1,199	773	426
Equity in earnings of affiliates	3,995	1,615	2,380
Foreign exchange gain	-	934	(934)
Other income	2,140	1,898	242
	12,906	9,075	3,831
Non-operating Expenses:			
Interest expenses	2,706	3,014	(308)
Loss on disposal of property, plant and equipment	1,225	3,296	(2,071)
Foreign exchange loss	6,055	-	6,055
Other expenses	3,199	2,994	205
	13,186	9,305	3,881
Ordinary income	185,040	151,503	33,537
Income before income taxes	185,040	151,503	33,537
Income taxes-Current	82,639	63,754	18,885
Income taxes-Deferred	(16,714)	(8,535)	(8,179)
Minority interest in earnings of consolidated subsidiaries	4,070	3,123	947
Net income	115,045	93,160	21,885

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

For the fiscal year ended March 31, 2006 and 2005

	Millions of Yen		
	For the fiscal year ended		
	March 31, 2006	March 31, 2005	Increase (Decrease)
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	126,274	119,261	7,013
Conversion of convertible debentures	1,904	7,012	(5,108)
Total increase	1,904	7,012	(5,108)
Balance at end of year	128,178	126,274	1,904
RETAINED EARNINGS			
Balance at beginning of year	780,198	694,996	85,202
Net income	115,045	93,160	21,885
Effect of increase of consolidated subsidiaries	9	-	9
Total increase	115,054	93,160	21,894
Cash dividends	11,792	7,600	4,192
Directors' and statutory auditors' bonuses	351	315	36
Loss on disposal of treasury stocks	109	42	67
Effect of change of accounting standard in an overseas consolidated subsidiary	586	-	586
Total decrease	12,840	7,958	4,882
Balance at end of year	882,412	780,198	102,214

4-4. Comparative Consolidated statements of cash flows

For the fiscal year ended March 31, 2006 and 2005

	Millions of Yen		
	For the fiscal year ended		
	March 31, 2006	March 31, 2005	Increase (Decrease)
1. Cash flows from operating activities			
Income before income taxes	185,040	151,503	33,537
Depreciation and amortization	111,637	90,874	20,763
Increase in accrued retirement benefits	1,948	1,384	564
Loss on write-down of investment securities	119	40	79
Interest and dividend income	(6,771)	(4,626)	(2,145)
Interest expenses	2,706	3,014	(308)
Foreign Exchange loss (gain)	(27)	(14)	(13)
Equity in earnings of affiliates	(3,995)	(1,615)	(2,380)
Increase in notes and accounts receivable	(30,505)	(11,646)	(18,859)
Increase in inventories	(7,797)	(16,706)	8,909
Increase in notes and accounts payable	21,671	7,687	13,984
Other, net	14,363	13,384	979
Subtotal	288,389	233,279	55,110
Proceeds from interest and dividends	6,612	4,773	1,839
Payment of interest	(2,809)	(3,099)	290
Payment of income taxes	(71,600)	(57,576)	(14,024)
Net cash provided by operating activities	220,592	177,377	43,215
2. Cash flows from investing activities			
Net (increase) decrease in marketable securities	(5,151)	4,261	(9,412)
Purchase of property, plant and equipment	(126,661)	(95,501)	(31,160)
Proceeds from sales of property, plant and equipment	1,351	726	625
Purchase of intangible fixed asset	(1,045)	(1,270)	225
Purchase of investment securities (*Footnote)	(52,708)	(44,711)	(7,997)
Proceeds from sales and redemption of investment securities	47,070	44,349	2,721
Payment for purchase of new consolidated subsidiaries' shares	-	(5,705)	5,705
Payments of loans	(31)	(383)	352
Proceeds from collection of loans	3,187	2,100	1,087
Deposits in long-term time deposits	-	(10,000)	10,000
Other, net	(4,823)	(2,622)	(2,201)
Net cash used for investing activities	(138,813)	(108,756)	(30,057)
3. Cash flows from financing activities			
Net decrease in short-term debt	(17,717)	(18,873)	1,156
Proceeds from long-term debt	5,738	2,426	3,312
Repayment of long-term debt	(9,392)	(13,132)	3,740
Proceeds from issuance of debentures	-	8,000	(8,000)
Payment of debentures on redemption	(13,209)	(10,164)	(3,045)
Cash dividends paid	(11,792)	(7,600)	(4,192)
Other, net	3,877	(2,566)	6,443
Net cash used for financing activities	(42,496)	(41,911)	(585)
4. Effect of exchange rate change on cash and cash equivalents	16,607	(1,955)	18,562
5. Net increase in cash and cash Equivalents	55,890	24,755	31,135
6. Cash and cash equivalents at beginning of year	317,733	292,978	24,755
7. Net increase (decrease) in cash and cash equivalents by change of consolidation scope	239	-	239
8. Cash and cash equivalents at end of year	373,863	317,733	56,130

(*Footnote) Payment of ¥25,521 million for the additional acquisition of shares in Mimasu Semiconductor Industry Co., Ltd. is included in the amount for the fiscal year ended March 31, 2006.

4-5. Basis of Presenting Consolidated Financial Statement

1. Scope of Consolidation

Consolidated Subsidiaries	68	Shintech, Inc. (Overseas subsidiary) Shin-Etsu Handotai Co., Ltd. Shin-Etsu Handotai America, Inc. (Overseas subsidiary) Shin-Etsu Polymer Co., Ltd. S.E.H. Malaysia Sdn. Bhd. (Overseas subsidiary) Shin-Etsu PVC B.V. (Overseas subsidiary) Shin-Etsu Engineering Co., Ltd. SE Tylose GmbH&Co.KG (Overseas subsidiary) Shin-Etsu Handotai Europe, Ltd. (Overseas subsidiary) Nagano Electronics Industrial Co., Ltd. Shin-Etsu Handotai Taiwan Co.,Ltd.(Overseas subsidiary) Naoetsu Electronics Co., Ltd. Shin-Etsu Astech Co., Ltd. 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 – Mimasu Semiconductor Industry Co., Ltd., Shin-Etsu Quartz Products Co., Ltd., Kashima Vinyl Chloride Monomer Co., Ltd. and 4 other affiliates.

3. Fiscal Year of Consolidated Subsidiaries

40 subsidiaries adopt fiscal year ending on December 31, and 7 subsidiaries adopt that ending on February 28, respectively. For consolidation of these subsidiaries whose fiscal years do not correspond to the Company's one, necessary adjustments are made on significant inter-company transactions which occurred during the periods between the fiscal year-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) Derivatives	....	Market value method
c) Inventories	....	Mainly average cost method

(2) Depreciation method of significant depreciable assets*

.... Mainly declining-balance method

*Additional information

In the prior fiscal years, the period of depreciation for semiconductor silicon manufacturing facilities at overseas consolidated subsidiaries was ten years, and the period of depreciation was seven years for manufacturing facilities of single crystal silicon among the semiconductor silicon facilities at domestic consolidated subsidiaries. However, in view of the recent rapid changes in the business environment in this field, which have caused the obsolescence of some facilities/equipment in our plants, from the current fiscal year the periods of depreciation have been changed from ten and seven to five years. Consequently, the depreciation expense for the current fiscal year, when compared with the figures calculated for the previous depreciable years, increased by ¥9,957 million, and operating income, ordinary income and net income before income taxes each decreased by ¥9,505 million.

(3) Calculation method of significant allowances

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

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. Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries are valued on the basis of the full fair value accounting method.

6. Amortization of consolidated adjustment account

Excess of investment cost over equity in net assets of consolidated subsidiaries is amortized within 20 years according to the straight-line method.

7. Distribution of profits

Consolidated statement of retained earnings is based on the distribution of profits defined in this fiscal year.

8. Nature of fund on consolidated statement of cash flows

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 Statements

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 current fiscal year.

As a result of adopting these new accounting standards, “Other Expenses” in “Non-operating Expenses” for the current 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 Consolidated Financial Statements.

(Segment Information)

For the fiscal year ended March 31, 2006 and 2005

1. Business Segment Information

	Millions of Yen					
	For the fiscal year ended March 31, 2006					
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	**Total**	Elimination or Corporate assets	**Consolidated Total**
Sales to outside customers	636,491	361,452	129,970	1,127,915	-	1,127,915
Intersegment sales	9,502	3,567	59,691	72,761	(72,761)	-
Total	645,994	365,020	189,662	1,200,677	(72,761)	1,127,915
Operating costs and expenses	549,822	299,744	165,639	1,015,207	(72,611)	942,595
Operating income	96,171	65,275	24,022	185,470	(149)	185,320
Assets	664,380	516,974	165,224	1,346,580	324,700	1,671,280
Depreciation	27,666	75,815	8,360	111,843	(205)	111,637
Capital expenditure (Footnote)	46,241	65,656	8,353	120,251	(443)	119,808

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

	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
Assets	631,467	448,724	167,821	1,248,014	228,234	1,476,248
Depreciation	26,075	55,030	9,998	91,104	(230)	90,874
Capital expenditure (Footnote)	30,341	66,764	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 expenditure. If the remaining ¥4,055 million would be included, the total amount of the capital expenditure would come to ¥110,277 million.

(Notes)

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

Organic and Inorganic Chemicals business Segment	Polyvinyl chloride, Silicones, Methanol, Chloromethanes, Cellulose derivatives, Caustic soda, 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. The amounts of the corporate assets included in the column “Elimination or corporate assets” for the fiscal year ended March 31, 2006 and 2005 were ¥360,148 million and ¥328,568 million, respectively, which mainly consist of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

3. As previously mentioned in *Additional information provided about the depreciation method of significant depreciable assets in section 4-5, the period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the current fiscal year. With this change, the depreciation expenses under the Electronics Materials business segment for the current fiscal year, when compared with the figures calculated for the previous depreciable years, increased by ¥9,957 million. Operating expenses increased by ¥9,505 million, and accordingly, operating income decreased by the same amount.

2. Geographic Segment information

	Japan	North America	Asia/ Oceania	Europe	**Total**	Elimination or Corporate assets	**Consolidated Total**
	Millions of Yen						
	For the fiscal year ended March 31, 2006						
Sales to outside customers	574,447	287,477	130,027	135,963	1,127,915	-	1,127,915
Intersegment sales	184,832	23,198	61,736	676	270,444	(270,444)	-
Total	759,280	310,675	191,764	136,640	1,398,360	(270,444)	1,127,915
Operating costs and expenses	620,501	284,078	182,164	126,767	1,213,512	(270,916)	942,595
Operating income	138,778	26,596	9,600	9,872	184,847	472	185,320
Assets	807,041	362,520	151,300	131,265	1,452,127	219,153	1,671,280

	Japan	North America	Asia/ Oceania	Europe	**Total**	Elimination or Corporate assets	**Consolidated Total**
	Millions of Yen						
	For the fiscal year ended March 31, 2005						
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
Operating 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
Assets	730,262	294,053	130,113	124,309	1,278,739	197,508	1,476,248

(Notes)

1. Main countries or areas other than Japan

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

2. The amounts of the corporate assets included in the column “Elimination or corporate assets” for the fiscal year ended March 31, 2006 and 2005 were ¥360,148 million and ¥328,568 million, respectively, which mainly consist of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

3. As mentioned in *Additional information provided about the depreciation method of significant depreciable assets in section 4-5, the period of depreciation for a portion of the semiconductor silicon manufacturing facilities/equipment was shortened in the current fiscal year. As a result, operating expenses for Japan, North America, Asia/Oceania and Europe for the current fiscal year, increased by ¥1,316 million, ¥5,656 million, ¥1,381 million and ¥1,151 million, respectively, compared with the figures calculated for the previous depreciable years. Accordingly, operating income decreased by the same amounts.

3. Overseas sales information

	Millions of Yen — For the fiscal year ended March 31, 2006				
	North America	Asia/ Oceania	Europe	Other Areas	**Total**
Overseas sales	278,342	310,609	131,724	31,949	752,625
Consolidated sales					1,127,915
Percentage of overseas sales over consolidated sales	24.7	27.5	11.7	2.8	66.7

	Millions of Yen — For the fiscal year ended March 31, 2005				
	North America	Asia/ Oceania	Europe	Other Areas	**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, South Korea, Singapore, Thailand, Malaysia
   - Europe : Germany, France, Portugal
   - Other Areas : Latin America, Middle East

2. "Overseas sales" means sales to outside Japan by the Company and its consolidated subsidiaries.

3. Sales to China included in "Asia/Oceania" for the fiscal year ended March 31, 2006 and 2005 were ¥77,203 million and ¥77,933 million respectively.

(Lease Transactions)

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

(Related Party Transactions)

Not Applicable.

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

	Billions of Yen					
	Net Sales			Operating Income		
	For the fiscal year ended		Increase (Decrease)	For the fiscal year ended		Increase (Decrease)
	March 31, 2006	March 31, 2005		March 31, 2006	March 31, 2005	
Polyvinyl chloride	345.3	296.5	48.8	38.0	30.8	7.2
Silicones	176.5	155.9	20.6	38.7	29.4	9.3
Others	114.7	96.6	18.1	19.5	17.7	1.8
			[%]15.9			[%]23.5
Total Organic and Inorganic Chemicals Segment	636.5	549.0	87.5	96.2	77.9	18.3
Semiconductor silicon	305.7	256.6	49.1	52.9	45.2	7.7
Others	55.7	50.3	5.4	12.4	8.5	3.9
			[%]17.8			[%]21.6
Total Electronics Materials Segment	361.4	306.9	54.5	65.3	53.7	11.6
Synthetic quartz products	34.5	26.5	8.0	13.2	10.8	2.4
Rare earth magnets and Other functional materials	30.6	28.2	2.4	5.7	4.9	0.8
Others	64.9	56.9	8.0	5.1	4.4	0.7
			[%]16.5			[%]19.4
Total Functional Materials and Others Segment	130.0	111.6	18.4	24.0	20.1	3.9
Elimination	-	-	-	(0.2)	0.0	(0.2)
			[%]16.6			[%]22.1
Total	1,127.9	967.5	160.4	185.3	151.7	33.6

(Deferred Tax)

1. Factors of deferred tax assets and liabilities

	Millions of Yen	
	As of March 31, 2006	As of March 31, 2005
Deferred Tax Assets		
Depreciation	15,881	11,783
Unsettled accounts receivable and payable	6,943	6,262
Maintenance cost	5,139	2,891
Unrealized profit	4,631	4,316
Accrued bonus allowance	3,943	3,754
Special provision for accrued retirement benefits	3,614	3,079
Accrued enterprise taxes	3,248	2,181
Tax loss carry forwards	1,667	1,235
Others	21,294	17,855
Deferred Tax Assets sub-total	66,365	53,360
Valuation allowance	(4,339)	(4,278)
Deferred Tax Assets Total	62,026	49,082
Deferred Tax Liabilities		
Unrealized gain on available-for-sale securities	25,939	9,176
Depreciation	24,248	25,770
Reserve for special depreciation	2,245	2,464
Others	2,965	2,484
Deferred Tax Liabilities Total	55,398	39,895
Net Deferred Tax Assets	6,627	9,186

(Notes) Net Deferred Tax Assets are included in the following accounts.

		Millions of Yen	
		As of March 31, 2006	As of March 31, 2005
Current assets	: Deferred taxes, current	34,103	27,760
Fixed assets	: Deferred taxes, non-current	13,267	14,842
Current liabilities	: Others	(9)	-
Long-term liabilities	: Deferred taxes, non-current	(40,734)	(33,416)

2. Reconciliation of the difference between the statutory tax rate and effective tax rate on taxable income

	As of March 31, 2006	As of March 31, 2005
Statutory tax rate	40.4%	40.4%
Rate difference from foreign subsidiaries	(3.4)	(2.3)
Tax deduction for research expenses	(0.9)	(1.0)
Dividend income not taxable	(0.5)	(0.5)
Entertainment and other non-deductible expenses	0.2	0.2
Others, net	(0.2)	(0.4)
Effective tax rate	35.6	36.4

(Securities)

As of March 31, 2006

(1) Market value of bonds held to maturity

	Millions of Yen		
	Book Value	Market value	Unrealized gain (loss)
Securities with fair value that exceed book value			
National and local government bonds and others	0	0	0
Debentures	17,704	17,711	7
Others	5,803	5,803	0
Subtotal	23,507	23,515	7
Securities with fair value that do not exceed book value			
National and local government bonds and others	1,723	1,713	(10)
Debentures	23,413	23,238	(175)
Others	14,217	14,179	(38)
Subtotal	39,355	39,131	(224)
Total	62,862	62,646	(216)

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

	Millions of Yen		
	Acquisition Cost	Book value	Unrealized gain(loss)
Securities with book value that exceed acquisition cost			
Stocks	29,345	93,903	64,558
Subtotal	29,345	93,903	64,558
Securities with book value that do not exceed acquisition cost			
Stocks	247	236	(11)
Subtotal	247	236	(11)
Total	29,593	94,139	64,546

(3) Bonds held to maturity sold in the fiscal year ended March 31, 2006

	Millions of Yen		
	Cost of sales	Sales amount	Realized Gain/Loss
Non-listed overseas bonds	12,475	12,475	-

(Note) One of consolidated subsidiaries sold the bonds due to reviewing strategy of its surplus fund investment.

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

	Millions of Yen
	Book value
1. Bonds held to maturity	
Non-listed domestic bonds	0
Non-listed overseas bonds	31,573
2. Investments in non-consolidated subsidiaries and affiliates	58,944
3. Available-for-sale securities	
Non-listed shares	2,380
Non-listed overseas bonds	141,692
Others	3,188

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

	Millions of Yen		
	Within one year	Over one year within five years	Over five years within ten years
Bonds			
National and Local government bonds and others	118,827	717	257
Debentures	12,709	10,612	-
Others	44,918	47,511	-
Others	2,043	794	346
Total	178,499	59,636	604

As of March 31, 2005

(1) Market value of bonds held to maturity

	Millions of Yen		
	Book Value	Market value	Unrealized gain(loss)
Securities with fair value that exceed book value			
National and local government bonds and others	0	0	0
Debentures	32,358	32,413	54
Others	17,959	17,982	23
Subtotal	50,318	50,396	78
Securities with fair value that do not exceed book value			
National and local government bonds and others	1,235	1,235	(0)
Debentures	3,436	3,427	(8)
Others	1,008	1,008	(0)
Subtotal	5,680	5,671	(9)
Total	55,998	56,067	68

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

	Millions of Yen		
	Acquisition Cost	Book value	Unrealized gain(loss)
Securities with book value that exceed acquisition cost			
Stocks	29,752	52,756	23,003
Bonds			
National and local government bonds and others	-	-	-
Debentures	4	4	0
Others	10	10	0
Subtotal	29,766	52,770	23,003
Securities with book value that do not exceed acquisition cost			
Stocks	75	62	(12)
Bonds			
National and local government bonds and others	-	-	-
Debentures	-	-	-
Others	1,829	1,640	(188)
Subtotal	1,904	1,702	(201)
Total	31,671	54,473	22,802

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

	Millions of Yen
	Book value
1. Bonds held to maturity	
Non-listed domestic bonds	1
Non-listed overseas bonds	49,449
2. Investments in non-consolidated subsidiaries and affiliates	27,853
3. Available-for-sale securities	
Non-listed shares	2,225
Non-listed overseas bonds	92,421
Others	4,004

(4) Redemption schedule of available-for-sale securities with maturity and bonds held to maturity

	Millions of Yen		
	Within one year	Over one year within five years	Over five years within ten years
Bonds			
National and local government bonds and others	105	901	230
Debentures	8,406	21,392	-
Others	96,910	73,480	-
Total	105,422	95,773	230

(Derivative Transactions)

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

(Retirement Benefit)

1. Overview of Retirement Benefit Plan

The Company and its domestic consolidated subsidiaries have defined contribution pension plan (DC pension plan), tax-qualified pension plan and lump-sum severance payment plans as their defined benefit pension plan. Certain overseas consolidated subsidiaries also have defined benefit pension plans besides defined contribution pension plans. Additionally, the Company has "Retirement Benefit Trust". In October 2004, some domestic consolidated subsidiaries abolished the tax-qualified pension plan and moved to defined contribution pension plan and lump-sum severance payment plans.

2. Benefit Obligations

	Millions of Yen	
	As of March 31, 2006	As of March 31, 2005
(a) Benefit obligations	(30,131)	(18,091)
(b) Pension assets	22,751	12,463
(c) Unfunded benefit obligations [(a)+(b)]	(7,379)	(5,627)
(d) Unrecognized actuarial differences	(580)	(233)
(e) Unrecognized prior service cost (negative) (Note1)	(743)	(696)
(f) Amount shown on balance sheet [(c)+(d)+(e)]	(8,703)	(6,557)
(g) Prepaid pension expenses	1,694	1,120
(h)Accrued retirement benefits [(f)-(g)]	(10,397)	(7,677)

(Notes) 1. The Company and certain consolidated subsidiaries changed system from tax-qualified pension plan into defined contribution pension plan from prior fiscal year, so that prior service cost is generated.

2. Effect amounts from partial transfer from tax-qualified pension plan to defined contribution pension plan as follows.

	Millions of Yen	
	As of March 31, 2006	As of March 31, 2005
Decrease in Benefit obligation	-	2,013
Estimated amounts of pension assets to be transferred	-	(1,919)
Unrecognized actuarial differences	-	(12)
Decrease in Accrued retirement benefit	-	82

3. Some subsidiaries adopt a simplified method for calculations of benefit obligation.

3. Retirement Benefit Costs

	Millions of Yen	
	For the fiscal year ended	
	March 31, 2006	March 31, 2005
(a) Service costs (Note1)	2,510	2,236
(b) Interest costs	1,003	470
(c) Expected return on plan assets	(777)	(293)
(d) Recognized actuarial loss	(777)	(42)
(e) Amortization of prior service cost	(150)	(51)
(f) Other (Note2)	1,579	1,534
(g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)]	3,388	3,853
(h) (Gain) loss related to the transfer to DC pension plan	-	(82)
(i) Total [(g)+(h)]	3,388	3,771

(Notes) 1. Retirement benefit costs for subsidiaries adopting a simplified method are reported in "Service costs".

2. "Other" is contribution for Defined Contribution pension plans.

4. Basic Assumptions for Calculating Benefit Obligation

	For the fiscal year ended	
	March 31,2006	March 31,2005
(a) Period allocation method for estimated retirement benefits	Benefit / years of service approach	Same as left
(b) Discount rate	Principally 2.5%	Same as left
(c) Expected rate of return on plan assets	Principally 2.5%	Same as left
(d) Period of amortizing prior service costs	Principally 10 years (expensed from the time when the cost was generated based on straight- line method)	Same as left
(e) Period of amortizing actuarial differences	Principally 5 years (expensed from the fiscal year when the cost was generated based on straight-line method)	Same as left