

Financial Summary

(For the year ended March 31, 2006)

May 15, 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.

CONTENTS

Consolidated

1. Operating Performance
2. Financial Highlights
3. Business Segment Information
4. "Organic and Inorganic chemicals" Business Segment
5. "Electronics materials" Business Segment
6. "Functional materials and Others" Business Segment
7. Operating Performance of Shintech, Inc.
8. Operating Performance of Shin-Etsu Handotai Group
9. Comparative Income Statements
10. Comparative Balance Sheets
11. Comparative Statements of Cash Flows
12. Forecast of operating performance for the next fiscal year

Non-consolidated

13. Comparative Income Statements
14. Comparative Balance Sheets

1. Operating Performance

(Billions of Yen)

(times)

	Consolidated			Non-consolidated			Ratio (Consolidated/Non-consolidated)	
	Fiscal year 04/4-05/3	Fiscal year 05/4-06/3	Increase (Decrease)	Fiscal year 04/4-05/3	Fiscal year 05/4-06/3	Increase (Decrease)	Fiscal year 04/4-05/3	Fiscal year 05/4-06/3
Sales	967.5	1,127.9	16.6% 160.4	520.3	582.4	11.9% 62.1	1.86	1.94
Operating Income	151.7	185.3	22.1% 33.6	63.1	73.7	16.8% 10.6	2.41	2.52
Ordinary Income	151.5	185.0	22.1% 33.5	62.0	72.1	16.3% 10.1	2.44	2.57
Net Income	93.2	115.0	23.5% 21.8	39.0	45.1	15.5% 6.1	2.39	2.55
Total Assets	1,476.2	1,671.3	195.1	777.9	874.2	96.3	1.90	1.91
Stockholders' Equity	996.3	1,173.7	177.4	588.0	647.1	59.1	1.69	1.81
Equity Ratio	67.5%	70.2%	2.7%	75.6%	74.0%	(1.6%)		
Per share (in Yen)								
Net Income	219.10	266.63	47.53	91.73	104.21	12.48		
Stockholders' Equity	2,329	2,731	402	1,375	1,506	131		
Cash dividend				20.00	35.00	15.00		
ROE	9.8%	10.6%	0.8%	6.9%	7.3%	0.4%		
ROA	10.6%	11.8%	1.2%	8.1%	8.7%	0.6%		

ROA:Return(Ordinary income) on total assets

2. Financial Highlights

(Billions of Yen)

	Consolidated		Non-consolidated	
	Fiscal year 04/4-05/3	Fiscal year 05/4-06/3	Fiscal year 04/4-05/3	Fiscal year 05/4-06/3
Capital expenditures	110.3	145.3	17.2	23.8
Depreciation	90.9	111.6	21.0	20.2
R&D costs	27.9	32.0	17.5	19.8
Balance of liabilities with interest	120.4	83.9	33.2	24.9
Number of employees at end of year	18,151	18,888	2,517	2,514
Exchange rate Jan.-Dec.(Ave.)	108.2	110.2	-	-
(Yen/US\$) Apr.-Mar.(Ave.)	107.5	113.3	107.5	113.3

Notes; 1) Breakdown of Consolidated Capital Expenditures and Depreciation for the year ended March 31, 2006

	<u>Capital Expenditures</u>	<u>Depreciation</u>
	Billions of Yen	Billions of Yen
Organic and Inorganic chemicals	46.2	27.7
Electronics materials	91.2	75.8
Functional materials and Others	8.4	8.4

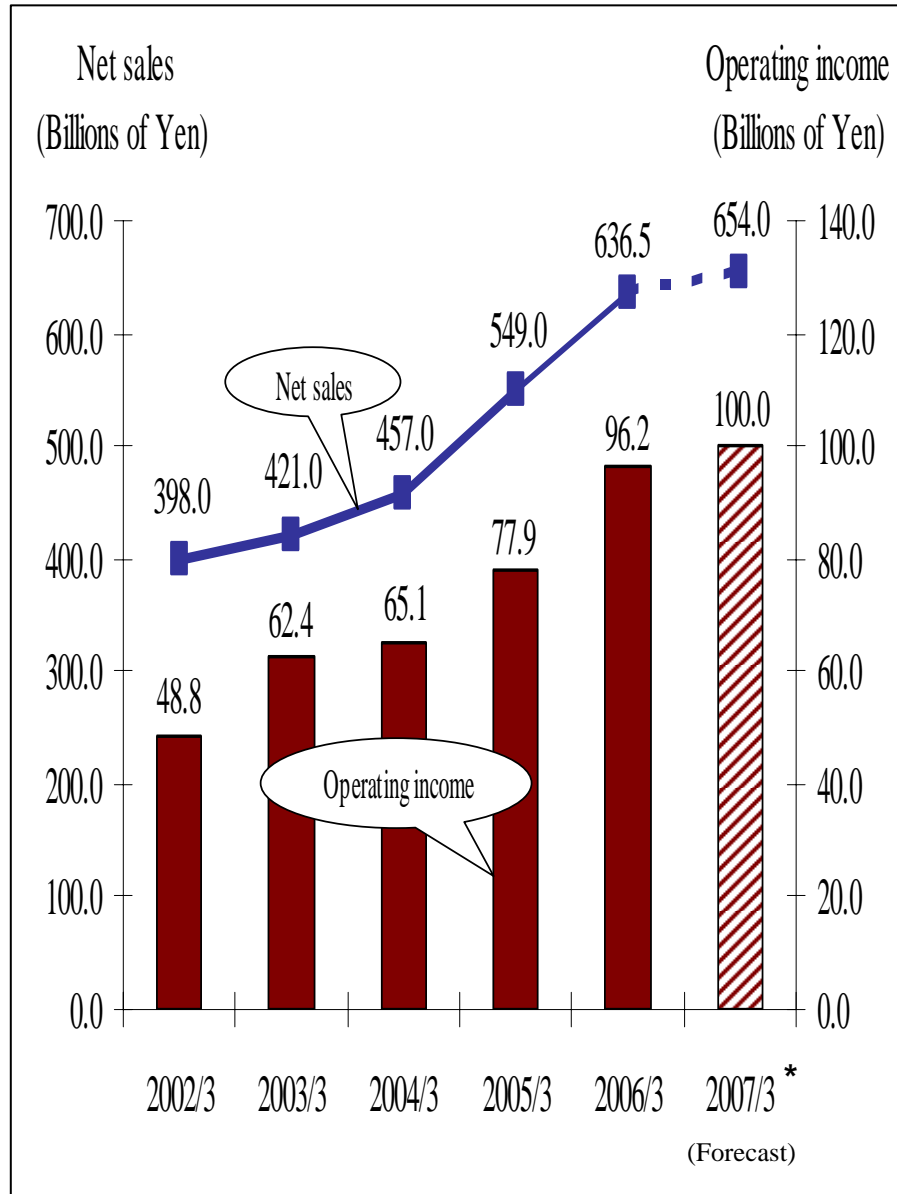
2) An average exchange rate between January and December was used for the Consolidated Income Statements of overseas subsidiaries.

3. Business Segment Information (Consolidated)

(Billions of Yen)

	Net Sales			Operating Income		
	Fiscal year 04/4-05/3	Fiscal year 05/4-06/3	Increase (Decrease)	Fiscal year 04/4-05/3	Fiscal year 05/4-06/3	Increase (Decrease)
Organic and Inorganic chemicals	549.0	636.5	15.9% 87.5	77.9	96.2	23.5% 18.3
Polyvinyl chloride	296.5	345.3	48.8	30.8	38.0	7.2
Silicones	155.9	176.5	20.6	29.4	38.7	9.3
Others	96.6	114.7	18.1	17.7	19.5	1.8
Electronics materials	306.9	361.4	17.8% 54.5	53.7	65.3	21.6% 11.6
Semiconductor silicon	256.6	305.7	49.1	45.2	52.9	7.7
Others	50.3	55.7	5.4	8.5	12.4	3.9
Functional materials and Others	111.6	130.0	16.5% 18.4	20.1	24.0	19.4% 3.9
Synthetic quartz products	26.5	34.5	8.0	10.8	13.2	2.4
Rare earth magnets, other functional materials	28.2	30.6	2.4	4.9	5.7	0.8
Others	56.9	64.9	8.0	4.4	5.1	0.7
Elimination	-	-	-	0.0	(0.2)	(0.2)
Total	967.5	1,127.9	16.6% 160.4	151.7	185.3	22.1% 33.6

4. “Organic and Inorganic chemicals” Business Segment (Consolidated)



•PVC

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.

Shin-Etsu PVC B.V. in the Netherlands, supported by the demand throughout Europe, continued its strong sales performance.

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 (April 1, 2005 to March 31, 2006), operating income decreased.

Shintech Inc. is currently constructing a large-scale integrated PVC manufacturing facility from electrolysis to PVC resin. Shin-Etsu PVC B.V. is also successively increasing its PVC production capabilities to meet the growth in market demand.

•Silicones

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.

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

•Cellulose derivatives

Sales of cellulose derivatives continued to be strong in the domestic market, mainly in such application fields 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.

Shin-Etsu is striving to expand its cellulose derivatives business with the expansion of facilities at SE Tylose GmbH & Co.KG in Germany and working to assure the stable operation of the manufacturing plant in Japan that was completed last year.

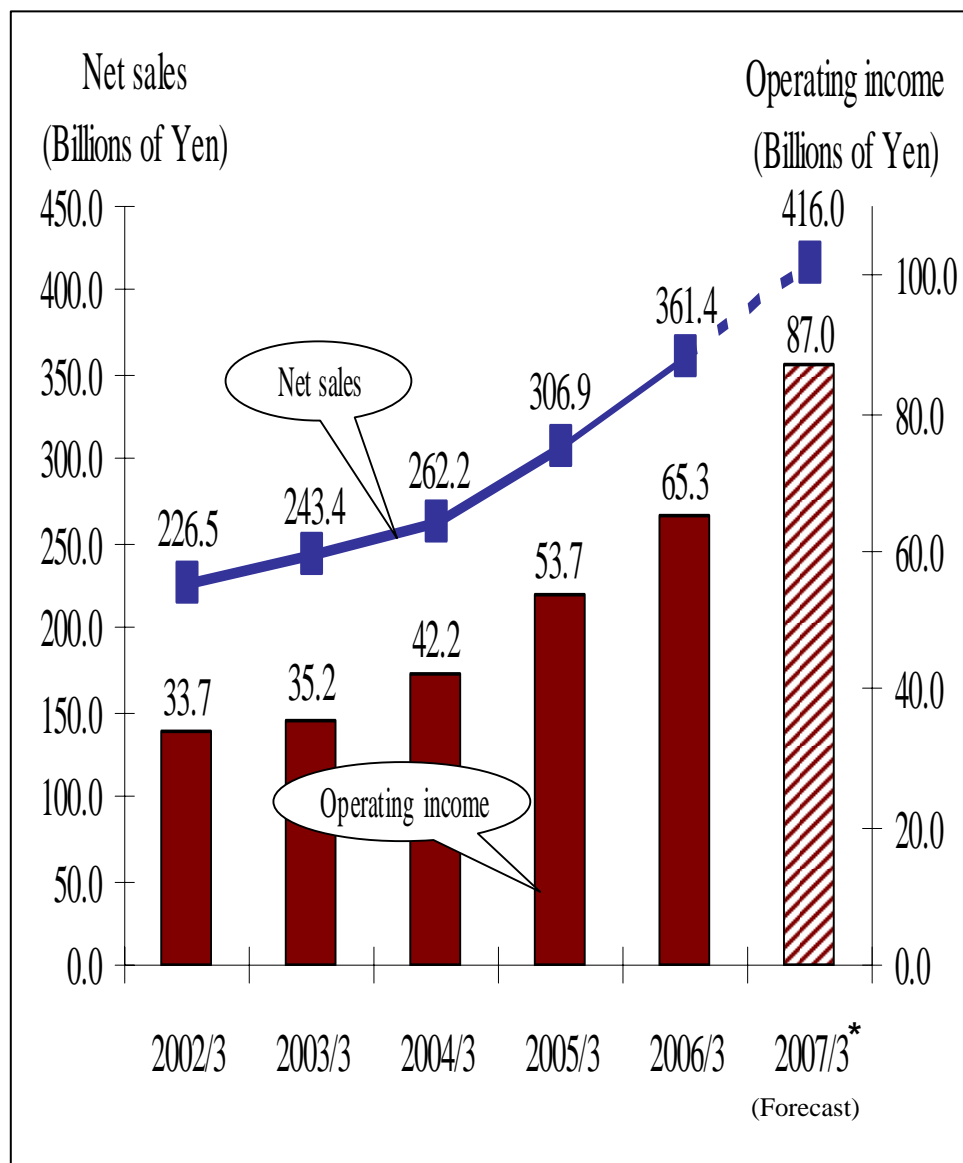
•Other organic chemicals

JAPAN VAM & POVAL Co., Ltd., whose business results were 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.

(Note: The fiscal year of overseas subsidiary companies begins in January and ends in December. Thus the fiscal year results included here are those from January to 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, sales of 300mm silicon wafers greatly increased as a result of the expansion in demand for wafers from semiconductor device makers in such applications fields as PCs, mobile phones and digital home appliances as well as the build-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 strengthened its capital relationship with Mimasu Semiconductor Industry Co.,Ltd , a company that it 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.

To cope with the increase in demand for 300mm wafers, Shin-Etsu is expanding its domestic and U.S. production capacity and is building 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.

•Rare earth magnets for electronics industry

Sales of rare earth magnets for the electronics industry did well in their various hard disk drive (HDD) applications, particularly in applications for PCs. Net sales and operating income both increased.

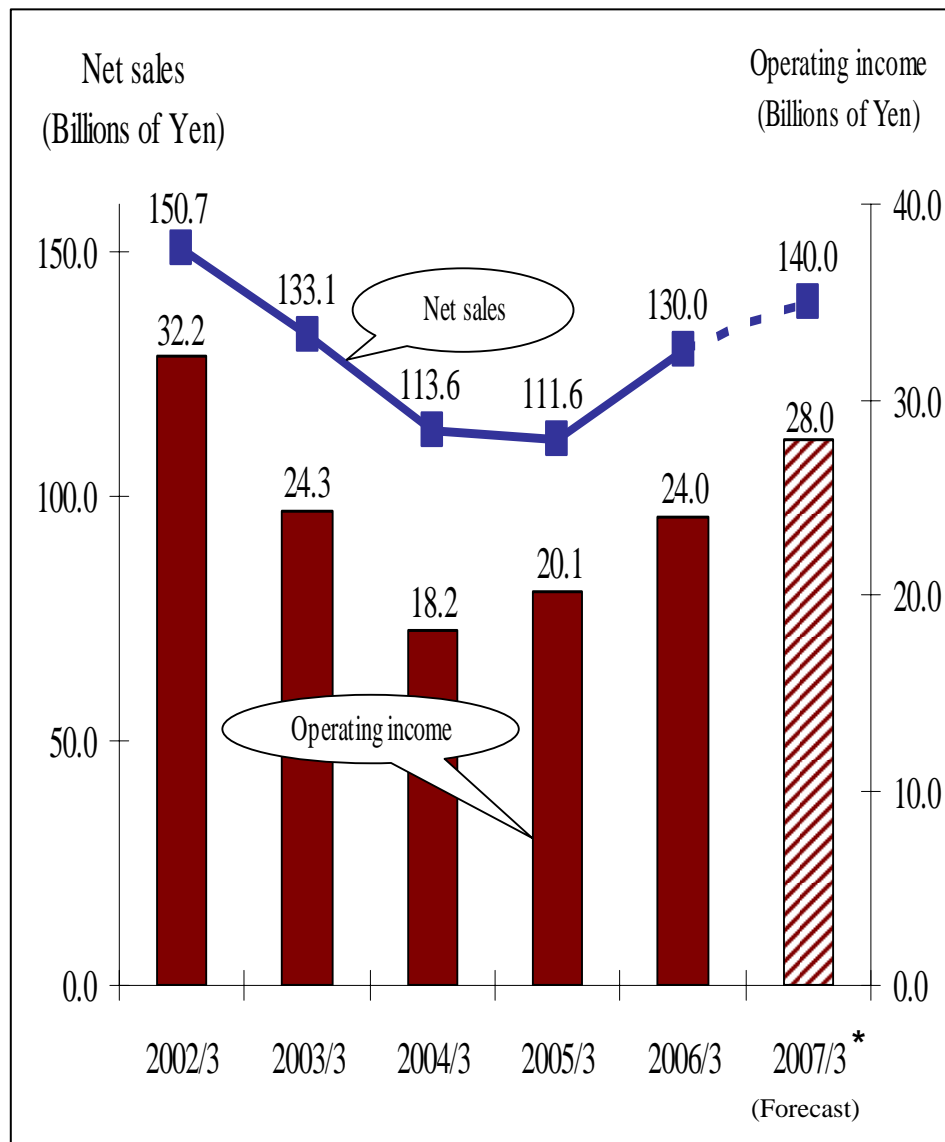
Shin-Etsu will successively increase its production capacity for this product area.

•Other electronics materials

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.

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

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



•Synthetic quartz

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

•Rare earth magnets, and other functional materials

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.

•Others

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

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

7. Operating Performance of Shintech, Inc.

Shintech, Inc.

	Fiscal year 04/1-04/12		Fiscal year 05/1-05/12	
	Millions of US\$	Billions of Yen	Millions of US\$	Billions of Yen
Net Sales	1,821	197.1	2,114	233.0
Ordinary Income	251	27.1	338	37.3
Net Income	165	17.9	225	24.8
Stockholders' Equity	1,696	176.7	1,920	226.7
Total Assets	1,979	206.2	2,234	263.8

- Supported by vigorous housing investment within North America, demand for PVC continued to be firm.
- Following the steep rise in the prices of such raw-materials as crude oil, natural gas and ethylene, Shintech implemented an upward PVC price adjustment.
- By painstakingly carrying out sales activities to a wide range of customers, mainly in the North American business region, Shintech continued a high level of PVC shipments, and although there was the impact of the early autumn hurricanes to cope with, net sales and ordinary income 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)

	Fiscal year 04/4-05/3	Fiscal year 05/4-06/3
Net Sales	250.4	301.2
Ordinary Income	36.1	40.0
Net Income	23.1	25.2
Stockholders' Equity	149.2	191.3
Total Assets	351.2	379.6

Notes; The financial statements of the overseas Shin-Etsu Handotai group of companies are calculated based on the FY ending in December 2004 and 2005.

- Semiconductor silicon sales were strong with the expanding demand for semiconductor devices in such application fields as mobile phones, digital home appliances and automobiles in addition to that for PCs.
- Shin-Etsu Handotai Group increased production of 300mm wafers, accurately anticipating the demand of major semiconductor device makers, and increased its sales volume.
- Demand for wafers 200mm also greatly expanded from the latter half of the fiscal year, and the company continued to maintain a high-level operation at its manufacturing facilities.
- Specialty wafers such as SOI wafers and annealed wafers also continued to do well.
- While the changeover to 300mm wafers is accelerating, a temporary expenditure of approximately 10.0 billion, mainly because of the shortening of the years of depreciation of wafer production facilities of up to 200mm in overseas subsidiaries companies, was included in FY 2006 business expenses.
- As a result, both net sales and ordinary income exceeded the achievements of the previous fiscal year.

9. Comparative Income Statements (Consolidated)

(Billions of Yen)

	Fiscal year 04/4-05/3	Fiscal year 05/4-06/3	Increase (Decrease)	Rate of increase (decrease)
Net Sales	967.5	1,127.9	160.4	16.6%
Cost of Sales	715.1	831.3	116.2	
Selling, General and Administrative Expenses	100.6	111.3	10.7	
Operating Income	151.7	185.3	33.6	22.1%
Non-Operating Income/Expenses	(0.2)	(0.3)	(0.1)	
Ordinary Income (Income before income taxes)	151.5	185.0	33.5	22.1%
Income Taxes	55.2	65.9	10.7	
Minority Interests in Earnings of Consolidated Subsidiaries	3.1	4.1	1.0	
Net Income	93.2	115.0	21.8	23.5%

10. Comparative Balance Sheets (Consolidated)

(Billions of Yen)

	March 31 2005	March 31 2006	Increase (Decrease)		March 31 2005	March 31 2006	Increase (Decrease)
<u>Current Assets</u>	<u>780.8</u>	<u>927.0</u>	<u>146.2</u>	<u>Current Liabilities</u>	<u>331.2</u>	<u>352.9</u>	<u>21.7</u>
Cash and time deposits	246.7	262.1	15.4	Notes and accounts payable-trade	114.7	132.7	18.0
Notes and accounts receivable-trade	236.4	277.9	41.5	Short-term borrowings	37.6	18.2	(19.4)
Securities	105.8	178.6	72.8	Debentures and convertible debentures	5.9	8.0	2.1
Inventories	135.2	147.4	12.2	Accrued expenses and accounts payable-others	129.2	133.4	4.2
Deferred taxes, current	27.8	34.1	6.3	Accrued income taxes	36.0	47.3	11.3
Others	28.9	26.9	(2.0)	Others	7.8	13.4	5.6
<u>Fixed Assets</u>	<u>695.4</u>	<u>744.3</u>	<u>48.9</u>	<u>Long-Term Liabilities</u>	<u>119.7</u>	<u>110.5</u>	<u>(9.2)</u>
<u>Property, Plant and Equipment</u>	<u>448.2</u>	<u>468.8</u>	<u>20.6</u>	Debentures	27.0	8.0	(19.0)
Buildings and structures	154.9	158.3	3.4	Long-term borrowings	49.9	49.7	(0.2)
Machinery and equipment	213.2	208.2	(5.0)	Deferred taxes, non-current	33.4	40.7	7.3
Others	80.0	102.3	22.3	Accrued retirement benefits	7.7	10.4	2.7
<u>Intangible Fixed Assets</u>	<u>28.6</u>	<u>25.3</u>	<u>(3.3)</u>	Others	1.7	1.7	0.0
<u>Investments and Other Assets</u>	<u>218.6</u>	<u>250.2</u>	<u>31.6</u>	<u>Total liabilities</u>	<u>450.9</u>	<u>463.4</u>	<u>12.5</u>
Investments in securities	180.6	216.2	35.6	<u>Minority Interests in Consolidated Subsidiaries</u>	<u>29.1</u>	<u>34.2</u>	<u>5.1</u>
Deferred taxes, non-current	14.8	13.3	(1.5)	<u>Common stock</u>	<u>117.5</u>	<u>119.4</u>	<u>1.9</u>
Others	23.2	20.7	(2.5)	<u>Additional paid-in capital</u>	<u>126.3</u>	<u>128.2</u>	<u>1.9</u>
				<u>Retained earnings</u>	<u>780.2</u>	<u>882.4</u>	<u>102.2</u>
				<u>Unrealized gain on available-for-sale securities</u>	<u>13.7</u>	<u>38.6</u>	<u>24.9</u>
				<u>Foreign currency translation adjustment</u>	<u>(30.3)</u>	<u>11.4</u>	<u>41.7</u>
				<u>Treasury stock, at cost</u>	<u>(11.1)</u>	<u>(6.3)</u>	<u>4.8</u>
				<u>Total stockholders' equity</u>	<u>996.3</u>	<u>1,173.7</u>	<u>177.4</u>
<u>Total assets</u>	<u>1,476.2</u>	<u>1,671.3</u>	<u>195.1</u>	<u>Total liabilities and stockholders' equity</u>	<u>1,476.2</u>	<u>1,671.3</u>	<u>195.1</u>

11. Comparative Statements of Cash flows (Consolidated)

(Billions of Yen)

	Fiscal year 04/4-05/3	Fiscal year 05/4-06/3	Increase (Decrease)
<u>(1) Cash Flows from Operating Activities</u>			
Net Income	93.2	115.0	21.8
Depreciation and amortization	90.9	111.6	20.7
Others	(6.7)	(6.0)	0.7
Total	177.4	220.6	43.2
<u>(2) Cash Flows from Investing Activities</u>			
Expenditure for purchase of tangible and intangible fixed assets	(96.8)	(127.7)	(30.9)
Payment for purchase of new consolidated subsidiaries stock	(5.7)	-	5.7
Payment for purchase of Mimasu Semiconductor Industry stock	-	(25.5)	(25.5)
Decrease in securities	3.9	14.7	10.8
Deposits in long-term time deposits	(10.0)	-	10.0
Others	(0.2)	(0.3)	(0.1)
Total	(108.8)	(138.8)	(30.0)
<u>(3) Cash Flows from Financing Activities</u>			
Decrease in debentures and borrowings	(31.7)	(34.6)	(2.9)
Cash dividends paid	(7.6)	(11.8)	(4.2)
Others	(2.6)	3.9	6.5
Total	(41.9)	(42.5)	(0.6)
<u>(4) Effect of Exchange Rate Changes on Cash and Cash Equivalents</u>	(2.0)	16.8	18.8
Net Increase in Cash and Cash Equivalents	24.7	56.1	31.4
Balance of cash and cash equivalents	317.7	373.8	56.1
Balance of liabilities with interest	120.4	83.9	(36.5)

12.Forecast of Operating Performance for the next fiscal year

	Consolidated			
	Billions of Yen	Ratio of increase over prior FY	First half	
			Billions of Yen	Ratio of increase over of prior First half
Net Sales	1,210.0	7.3%	600.0	12.1%
Operating Income	215.0	16.0%	107.0	18.5%
Ordinary Income	215.0	16.2%	107.0	18.8%
Net Income	133.0	15.6%	66.0	18.7%
Net Income per Share (in Yen)	308.84	42.21	153.26	23.58
Annual Cash Dividend per Share (in Yen)	50.00	15.00	25.00	7.50

Non-consolidated			
Billions of Yen	Ratio of increase over prior FY	First half	
		Billions of Yen	Ratio of increase over of prior First half
630.0	8.2%	310.0	12.3%
76.0	3.1%	38.0	6.7%
76.0	5.4%	38.0	5.5%
48.0	6.5%	24.0	5.3%
111.46	7.25	55.73	2.59

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

13. Comparative Income Statements (Non-consolidated)

(Billions of Yen)

	Fiscal year 04/4-05/3	Fiscal year 05/4-06/3	Increase (Decrease)	Rate of increase (decrease)
Net Sales	520.3	582.4	62.1	11.9%
Cost of Sales	424.3	474.4	50.1	
Selling, General and Administrative Expenses	32.9	34.3	1.4	
Operating Income	63.1	73.7	10.6	16.8%
Non-Operating Income/Expenses	(1.1)	(1.6)	(0.5)	
Ordinary Income (Income before income taxes)	62.0	72.1	10.1	16.3%
Income Taxes	23.0	27.0	4.0	
Net Income	39.0	45.1	6.1	15.5%

14. Comparative Balance Sheets (Non-consolidated)

(Billions of Yen)

	March 31 2005	March 31 2006	Increase (Decrease)		March 31 2005	March 31 2006	Increase (Decrease)
<u>Current Assets</u>	<u>438.6</u>	<u>483.0</u>	<u>44.4</u>	<u>Current Liabilities</u>	<u>166.5</u>	<u>194.7</u>	<u>28.2</u>
Cash and time deposits	144.3	154.9	10.6	Notes and accounts payable-trade	93.0	120.7	27.7
Notes and accounts receivable-trade	157.7	177.9	20.2	Short-term borrowings	14.4	11.1	(3.3)
Securities	32.5	34.0	1.5	Convertible debentures of redemption within one year	3.8	-	(3.8)
Inventories	39.9	44.4	4.5	Accrued expenses and accounts payable-others	38.3	39.2	0.9
Others	64.2	71.7	7.5	Accrued income taxes	16.1	20.2	4.1
				Others	0.9	3.5	2.6
<u>Fixed Assets</u>	<u>339.3</u>	<u>391.2</u>	<u>51.9</u>	<u>Long-Term Liabilities</u>	<u>23.4</u>	<u>32.4</u>	<u>9.0</u>
<u>Property, Plant and Equipment</u>	<u>105.6</u>	<u>108.6</u>	<u>3.0</u>	Long-term borrowings	15.0	13.8	(1.2)
Buildings and structures	35.5	35.2	(0.3)	Deferred taxes, non-current	7.9	17.9	10.0
Machinery and equipment	44.9	45.8	0.9	Others	0.6	0.8	0.2
Others	25.2	27.6	2.4				
<u>Intangible Fixed Assets</u>	<u>1.0</u>	<u>0.8</u>	<u>(0.2)</u>	<u>Total liabilities</u>	<u>189.9</u>	<u>227.1</u>	<u>37.2</u>
<u>Investments and Other Assets</u>	<u>232.8</u>	<u>281.7</u>	<u>48.9</u>	Common stock	117.5	119.4	1.9
Investments in securities	111.3	134.1	22.8	Additional paid-in capital	118.9	120.8	1.9
Investments in capital stock of subsidiaries and affiliates	102.5	129.2	26.7	Retained earnings	351.8	384.8	33.0
Others	19.0	18.4	(0.6)	Unrealized gain on available-for-sale securities	10.9	28.3	17.4
				Treasury stock, at cost	(11.1)	(6.3)	4.8
				<u>Total stockholders' equity</u>	<u>588.0</u>	<u>647.1</u>	<u>59.1</u>
<u>Total assets</u>	<u>777.9</u>	<u>874.2</u>	<u>96.3</u>	<u>Total liabilities and stockholders' equity</u>	<u>777.9</u>	<u>874.2</u>	<u>96.3</u>

Recent Topics

- Apr. 2005 Establishment of our formal Corporate Social Responsibility (CSR) Promotion Committee.
- May. 2005 Establishment of Business Audit Department as a separate entity.
- Aug. 2005 Shin-Etsu Chemical underwrote the full third-party allocation of newly issued shares by Mimasu Semiconductor Industry Co., Ltd. , which then became an affiliate of Shin-Etsu Chemical.
- Aug. 2005 Installation of an improved, innovative waste-recycling system at our Naoetsu Plant in Japan.
- Aug. 2005 Announcement of a price increase on our PVC resin in Japan.
- Sep. 2005 Shintech Inc. made a very substantial monetary contribution to the State of Louisiana, in the U.S., which suffered damage from a large-scale hurricane.
- 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.)

*'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.