Press Release of Consolidated Operating Results

For the nine months ended December 31, 2006

Shin-Etsu Chemical Co., Ltd.
Listing Code No. 4063 (Listing Stock Exchange: Tokyo, Osaka, Nagoya)
(URL: http://www.shinetsu.co.jp/)
Representative: Chihiro Kanagawa (Mr.), Representative Director-President
Personnel to contact: Toshiyuki Kasahara (Mr.), Director, General Manager of Finance & Accounting Department
Telephone: +81-3-3246-5051

1). Notes to Consolidated Operating Results
(1) Adoption of simplified accounting methods : Yes
   (Details) Depreciation method, Income taxes and others
(2) Changes in accounting policies : None
(3) Changes in scope of consolidation or application of equity method : Yes
   Consolidation Increase 2 Decrease 2
   Equity method Increase 0 Decrease 0

2). Consolidated Operating Results for the nine months ended December 31, 2006
(From April 1, 2006 to December 31, 2006)
(Amounts are stated in millions of Yen by discarding fractional amounts less than 1 million.)

Results of Consolidated Operations

<table>
<thead>
<tr>
<th></th>
<th>For the nine months ended December 31</th>
<th>Fiscal year ended March 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2005</td>
</tr>
<tr>
<td>Net sales</td>
<td>971,343</td>
<td>1,127,915</td>
</tr>
<tr>
<td>Operating income</td>
<td>180,132</td>
<td>185,320</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>181,755</td>
<td>185,040</td>
</tr>
<tr>
<td>Net income</td>
<td>113,198</td>
<td>115,045</td>
</tr>
<tr>
<td>Net income per share</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(in yen)</td>
<td>262.99</td>
<td>266.63</td>
</tr>
<tr>
<td>Diluted net income per share</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(in yen)</td>
<td>262.64</td>
<td>266.07</td>
</tr>
<tr>
<td>Net income ratio on equity (p.a.)</td>
<td>12.4%</td>
<td>10.6%</td>
</tr>
</tbody>
</table>

(Note) 1. The percentage in the net sales, operating income, ordinary income and net income represents increase compared with corresponding period of the previous year.
2. The net income ratio on equity for the same period in the previous year was not reported because disclosure of consolidated financial position started from this fiscal year.

Qualitative Information Related to the Results of Consolidated Operations

In the PVC business, Shintech in the U.S. continued a high level of shipments and increased its sales and profit greatly. Shin-Etsu PVC in the Netherlands continued steady production and sales. On the other hand, the domestic PVC business was sluggish because raw material costs continued at a high level and export prices remained low. With regard to the silicone business, as a result of efforts made to expand sales to a wide range of customers in such industrial fields as electric, electronics and automobiles, both domestic sales and exports were strong. In addition, sales of Shin-Etsu Polymer’s keypads for mobile phones were good. Sales of cellulose derivatives were firm in Japan, mainly of special-purpose products such as those for applications in pharmaceuticals, and SE Tylose in Europe also continued strong sales, mainly for applications as construction materials.

Silicon wafers continued to do well. Demand continued to be strong for 300mm wafers, mainly for semiconductor memory devices, and a high level of shipments also continued for 200mm wafers. At the same time, Shin-Etsu is now implementing a policy of shortening the depreciation period of semiconductor silicon manufacturing facilities to mostly three years. (Overseas Group companies recorded the total amount of increase of depreciation expenses for the year incurred as a result of this shortened depreciation period in their 3rd and 4th quarter of this fiscal year.) Shipments of rare earth magnets used by the electronics industry for hard disk drives continued good, and sales of ArF photoresists greatly expanded.

In the synthetic quartz business, an adjustment phase for large-size photomask substrates for LCDs has continued since the second quarter of the current fiscal year. Sales of rare earth magnets for general-purpose applications were strong as applications expanded in home appliances such as air conditioners and in automobiles.
Consolidated financial position

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2006</th>
<th>December 31, 2005</th>
<th>March 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>1,804,393</td>
<td>-</td>
<td>1,671,280</td>
</tr>
<tr>
<td>Total net assets</td>
<td>1,307,416</td>
<td>-</td>
<td>1,173,679</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>70.3%</td>
<td>-</td>
<td>70.2%</td>
</tr>
<tr>
<td>Net assets per share (in yen)</td>
<td>2,948.83</td>
<td>-</td>
<td>2,730.94</td>
</tr>
</tbody>
</table>

(Note) Consolidated financial data for the same period in the previous year was not reported.

Qualitative Information Related to the Fluctuation of Consolidated Financial Position

As of December 31, 2006, total assets increased ¥133,113 million from the end of the previous fiscal year to ¥1,804,393 million, mainly due to increases in the balance of notes and accounts receivable and tangible fixed assets. On the other hand, total liabilities increased ¥33,596 million to ¥496,977 million, mainly because of an increase in the balance of notes and accounts payable. Net assets amounted to ¥1,307,416 million, due to an increase in retained earnings, mainly resulting from net income of ¥113,198 million.

(Reference)
The Forecast of Consolidated Operating Results for the Fiscal Year Ending March 31, 2007 (From April 1, 2006 to March 31, 2007)

The company is not revising its business forecast, which was disclosed on October 23, 2006.
# Comparative Consolidated Balance Sheets

As of December 31, 2006 and March 31, 2006

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>December 31, 2006</th>
<th>March 31, 2006</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2006</td>
<td></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and time deposits</td>
<td>272,272</td>
<td>262,145</td>
<td>10,127</td>
</tr>
<tr>
<td>Notes and accounts receivable-trade</td>
<td>321,268</td>
<td>277,874</td>
<td>43,394</td>
</tr>
<tr>
<td>Securities</td>
<td>215,693</td>
<td>178,555</td>
<td>37,138</td>
</tr>
<tr>
<td>Inventories</td>
<td>156,629</td>
<td>147,367</td>
<td>9,262</td>
</tr>
<tr>
<td>Others</td>
<td>75,388</td>
<td>61,044</td>
<td>14,344</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,041,252</td>
<td>926,987</td>
<td>114,265</td>
</tr>
<tr>
<td>Fixed Assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>508,828</td>
<td>468,783</td>
<td>40,045</td>
</tr>
<tr>
<td>Intangible fixed assets</td>
<td>24,992</td>
<td>25,347</td>
<td>(355)</td>
</tr>
<tr>
<td>Investments and other assets</td>
<td>189,272</td>
<td>216,227</td>
<td>(26,955)</td>
</tr>
<tr>
<td>Investments in securities</td>
<td>40,047</td>
<td>33,934</td>
<td>6,113</td>
</tr>
<tr>
<td>Others</td>
<td>229,320</td>
<td>250,162</td>
<td>(20,842)</td>
</tr>
<tr>
<td><strong>Total fixed assets</strong></td>
<td>763,140</td>
<td>744,293</td>
<td>18,847</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>1,804,393</td>
<td>1,671,280</td>
<td>133,113</td>
</tr>
</tbody>
</table>
## LIABILITIES

### Current Liabilities:

- **Notes and accounts payable-trade**: 
  - December 31, 2006: 168,743
  - March 31, 2006: 132,673
  - Increase: 36,070
- **Short-term borrowings**: 
  - December 31, 2006: 34,546
  - March 31, 2006: 18,168
  - Increase: 16,378
- **Debentures of redemption within one year**: 
  - December 31, 2006: 8,000
  - March 31, 2006: 8,000
  - Increase: -
- **Others**: 
  - December 31, 2006: 217,728
  - March 31, 2006: 194,048
  - Increase: 23,680

### Total current liabilities:

- December 31, 2006: 429,019
- March 31, 2006: 352,889
- Increase: 76,130

### Long-term Liabilities:

- **Debentures**: 
  - December 31, 2006: 8,000
  - March 31, 2006: -8,000
  - Decrease: 16,000
- **Long-term borrowings**: 
  - December 31, 2006: 20,873
  - March 31, 2006: 49,670
  - Decrease: 28,797
- **Others**: 
  - December 31, 2006: 47,084
  - March 31, 2006: 52,821
  - Decrease: 5,737

### Total long-term liabilities:

- December 31, 2006: 67,957
- March 31, 2006: 110,491
- Decrease: 42,534

### TOTAL LIABILITIES

- December 31, 2006: 496,977
- March 31, 2006: 463,381
- Increase: 33,596

## NET ASSETS

### Stockholders’ equity:

- **Common stock**: 
  - December 31, 2006: 119,419
  - March 31, 2006: -
  - Decrease: -
- **Additional paid-in capital**: 
  - December 31, 2006: 128,177
  - March 31, 2006: -
  - Decrease: -
- **Retained earnings**: 
  - December 31, 2006: 976,573
  - March 31, 2006: -
  - Decrease: -
- **Less: Treasury stock, at cost**: 
  - December 31, 2006: (8,537)
  - March 31, 2006: -
  - Decrease: -

### Total stockholders’ equity:

- December 31, 2006: 1,215,634
- March 31, 2006: -
- Decrease: -

### Valuation, translation adjustment and others:

- December 31, 2006: 53,671
- March 31, 2006: -
- Decrease: -

### Share purchase warrant:

- December 31, 2006: 676
- March 31, 2006: -
- Decrease: -

### Minority interests in consolidated subsidiaries:

- December 31, 2006: 37,435
- March 31, 2006: -
- Decrease: -

### TOTAL NET ASSETS:

- December 31, 2006: 1,307,416
- March 31, 2006: -
- Decrease: -

### TOTAL LIABILITIES AND NET ASSETS:

- December 31, 2006: 1,804,393
- March 31, 2006: -
- Decrease: -

## MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES

- December 31, 2006: -
- March 31, 2006: 34,219

## STOCKHOLDERS’ EQUITY

### Common stock:

- December 31, 2006: -
- March 31, 2006: 119,419
- Decrease: -

### Additional paid-in capital:

- December 31, 2006: -
- March 31, 2006: 128,178
- Decrease: -

### Retained earnings:

- December 31, 2006: -
- March 31, 2006: 882,412
- Decrease: -

### Less: Treasury stock, at cost:

- December 31, 2006: -
- March 31, 2006: (6,300)
- Decrease: -

### Others:

- December 31, 2006: -
- March 31, 2006: 49,968
- Decrease: -

### TOTAL STOCKHOLDERS’ EQUITY:

- December 31, 2006: -
- March 31, 2006: 1,173,679
- Decrease: -

### TOTAL LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS’ EQUITY:

- December 31, 2006: -
- March 31, 2006: 1,671,280
- Decrease: -
### Consolidated Income Statements (Summary)

<table>
<thead>
<tr>
<th></th>
<th>For the nine months ended Dec.31, 2006</th>
<th>For the nine months ended Dec.31, 2005</th>
<th>Increase</th>
<th>Fiscal year ended March 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>971,343</td>
<td>815,914</td>
<td>155,429</td>
<td>1,127,915</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>699,468</td>
<td>596,669</td>
<td>102,799</td>
<td>831,333</td>
</tr>
<tr>
<td>Gross profit</td>
<td>271,875</td>
<td>219,244</td>
<td>52,631</td>
<td>296,582</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>91,742</td>
<td>82,428</td>
<td>9,314</td>
<td>111,262</td>
</tr>
<tr>
<td>Operating income</td>
<td>180,132</td>
<td>136,816</td>
<td>43,316</td>
<td>185,320</td>
</tr>
<tr>
<td>Net non-operating income (expenses)</td>
<td>1,623</td>
<td>(284)</td>
<td>1,907</td>
<td>(279)</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>181,755</td>
<td>136,531</td>
<td>45,224</td>
<td>185,040</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>181,755</td>
<td>136,531</td>
<td>45,224</td>
<td>185,040</td>
</tr>
<tr>
<td>Income taxes</td>
<td>64,833</td>
<td>49,457</td>
<td>15,376</td>
<td>65,924</td>
</tr>
<tr>
<td>Minority interest in earnings of consolidated subsidiaries</td>
<td>3,723</td>
<td>3,033</td>
<td>690</td>
<td>4,070</td>
</tr>
<tr>
<td>Net income</td>
<td>113,198</td>
<td>84,040</td>
<td>29,158</td>
<td>115,045</td>
</tr>
</tbody>
</table>

### Business Segment Information

<table>
<thead>
<tr>
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<th>Fiscal year ended March 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales</td>
<td>Operating income</td>
<td>Sales</td>
</tr>
<tr>
<td>Organic and inorganic Chemicals</td>
<td>533,114</td>
<td>82,199</td>
<td>458,104</td>
</tr>
<tr>
<td>Electronics Materials</td>
<td>350,680</td>
<td>77,214</td>
<td>262,980</td>
</tr>
<tr>
<td>Functional materials and Others</td>
<td>87,547</td>
<td>20,591</td>
<td>94,829</td>
</tr>
<tr>
<td>Elimination</td>
<td>-</td>
<td>127</td>
<td>-</td>
</tr>
<tr>
<td>Consolidated total</td>
<td>971,343</td>
<td>180,132</td>
<td>815,914</td>
</tr>
</tbody>
</table>

(*Note) Some overseas subsidiaries shortened the depreciation period for semiconductor silicon manufacturing facilities retroactively to the beginning of this fiscal year, and thus depreciation expenses increased by an additional ¥4,888 million. This additional increase in depreciation expenses was recorded in the 3rd quarter of this fiscal year; consequently the operating income of the Electronics Materials business segment decreased by the same amount.