

# Financial Summary

(For the six months ended September 30, 2007)

October 24, 2007

## **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.

## **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 entire 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)	
	Six months 06/4-06/9	Six months 07/4-07/9	Increase (Decrease)	Six months 06/4-06/9	Six months 07/4-07/9	Increase (Decrease)	Six months 06/4-06/9	Six months 07/4-07/9
Sales	639.0	687.7	7.6% 48.7	334.7	359.4	7.4% 24.7	1.91	1.91
Operating Income	120.0	140.0	16.7% 20.0	40.2	41.3	2.6% 1.1	2.98	3.39
Ordinary Income	120.0	146.0	21.6% 26.0	39.7	46.6	17.4% 6.9	3.02	3.13
Net Income	74.9	95.2	27.0% 20.3	25.3	32.5	28.3% 7.2	2.96	2.93
Total Assets	1,753.6	1,923.0	169.4	889.9	876.2	(13.7)	1.97	2.19
Net Assets	1,264.8	1,453.1	188.3	656.4	676.7	20.3	1.93	2.15
Equity Ratio	70.0%	73.3%	3.3point	73.7%	77.1%	3.4point		
ROE (yearly basis)	12.5%	13.9%	1.4point	7.8%	9.6%	1.8point		
ROA (yearly basis)	14.0%	15.4%	1.4point	9.0%	10.5%	1.5point		
Per share (in Yen)								
Net Income	174.08	221.16	47.08	58.80	75.44	16.64		
Net Assets	2,855	3,277	422	1,525	1,570	45		
Cash dividend	25.00	40.00	15.00					

ROA:Return(Ordinary income) On total Assets

## 2. Financial Highlights

(Billions of Yen)

	Consolidated		Non-consolidated	
	Six months 06/4-06/9	Six months 07/4-07/9	Six months 06/4-06/9	Six months 07/4-07/9
Capital expenditures	78.4	135.6	10.9	19.5
Depreciation	58.9	65.4	10.8	9.6
Balance of liabilities with interest	76.4	34.4	21.1	13.5
Net financial revenue	2.8	4.0	3.4	9.7
R&D costs	17.6	25.2	12.1	19.3
Number of employees	18,864	19,113	2,509	2,555
Exchange rate    Jan-June(Ave.)	115.7	120.2	-	-
(Yen/US\$)        Apr-Sep(Ave.)	115.4	119.3	115.4	119.3

Notes; 1) Breakdown of Consolidated Capital Expenditures and Depreciation for the six months ended September 30, 2007

	<u>Capital Expenditures</u>	<u>Depreciation</u>
	Billions of Yen	Billions of Yen
Organic and inorganic chemicals	68.1	14.8
Electronics materials	63.2	46.9
Functional materials and Others	4.7	3.8

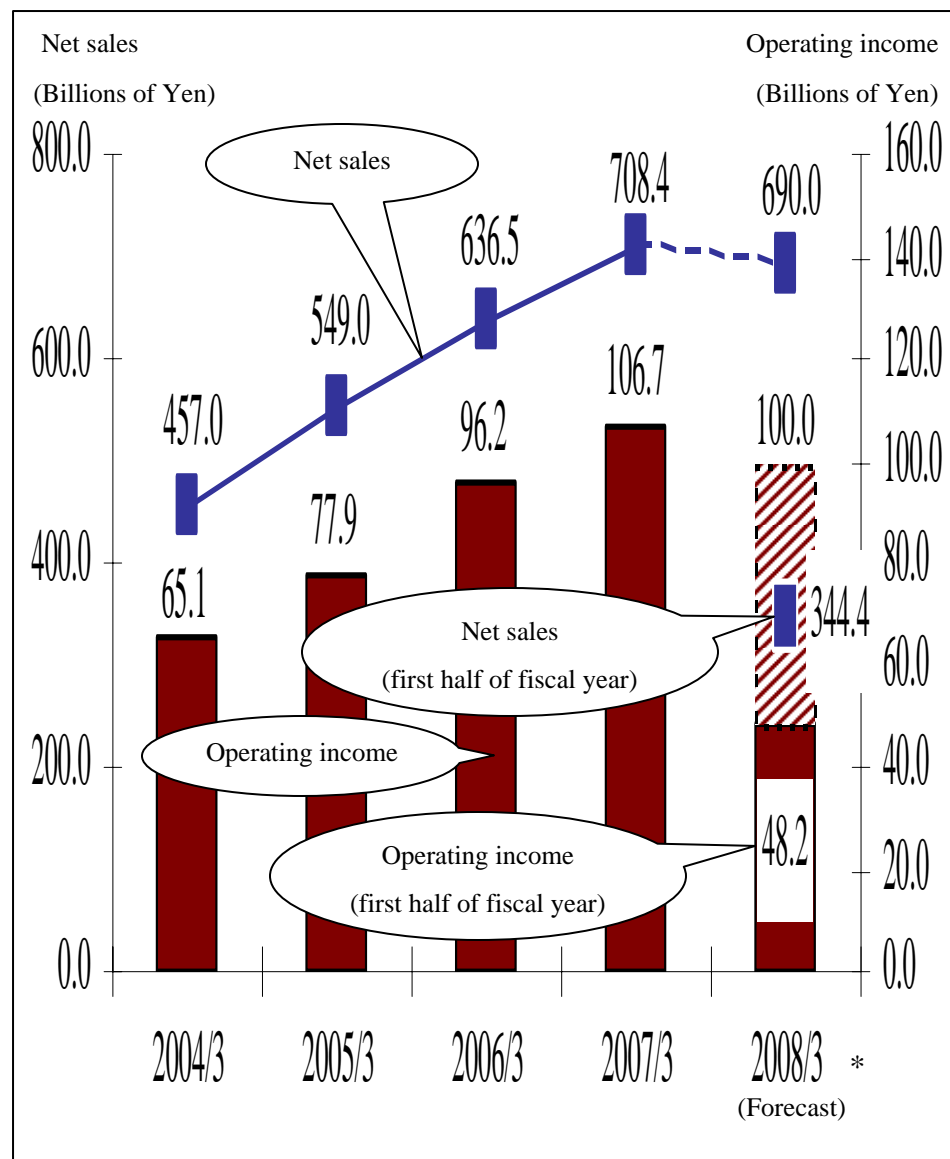
2) An average exchange rate between January and June was used in order to convert overseas subsidiaries results by US\$ into Consolidated Income Statements by Japanese Yen.

### 3. Business Segment Information (Consolidated)

(Billions of Yen)

	Net Sales			Operating Income		
	Six months 06/4-06/9	Six months 07/4-07/9	Increase (Decrease)	Six months 06/4-06/9	Six months 07/4-07/9	Increase (Decrease)
Organic and Inorganic chemicals	353.0	344.4	(2.4%) (8.6)	55.1	48.2	(12.5%) (6.9)
Polyvinyl chloride	190.7	179.5	(11.2)	24.5	16.3	(8.2)
Silicones	96.6	98.7	2.1	20.0	21.1	1.1
Others	65.7	66.2	0.5	10.6	10.8	0.2
Electronics materials	225.4	285.5	26.7% 60.1	50.5	79.0	56.6% 28.5
Semiconductor silicon	190.2	244.4	54.2	42.1	69.5	27.4
Others	35.2	41.1	5.9	8.4	9.5	1.1
Functional materials and Others	60.6	57.8	(4.7%) (2.8)	14.3	13.0	(9.2%) (1.3)
Synthetic quartz products	17.9	15.7	(2.2)	7.9	5.9	(2.0)
Rare earth magnets and other functional materials	17.1	18.6	1.5	3.7	4.4	0.7
Others	25.6	23.5	(2.1)	2.7	2.7	0.0
Elimination	-	-	-	0.1	(0.2)	(0.3)
<b>Total</b>	<b>639.0</b>	<b>687.7</b>	<b>7.6%</b> <b>48.7</b>	<b>120.0</b>	<b>140.0</b>	<b>16.7%</b> <b>20.0</b>

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



### ●PVC

As a result of the decline in housing construction in the North America, demand for PVC in the North American market decreased, and while other companies in the same business saw their profits greatly decrease, Shintech in the U.S. continued its high level of operations by making strenuous sales efforts aimed at its worldwide customers as well as its North American customers. Although Shintech's profit dropped below that of the comparable period of the previous year, the company maintained a high level of profit.

Shin-Etsu PVC in the Netherlands continued its strong business performance, supported by brisk demand in Europe.

In Japan, domestic demand continued to lag, and the PVC business had to cope with the sharp increase in the cost of raw materials.

### ●Silicones

Sales in the Japanese market were good in such application areas as automobiles and cosmetics as well as in applications for the electric and electronics industries. Furthermore, there was vigorous demand for exports of silicones, mainly to China. Accordingly, the business continued to grow. The sales and profit of Shin-Etsu Polymer decreased due to the effect of a drop in the price of keypads for mobile phones.

### ●Cellulose derivatives

Although the cellulose derivatives business in Japan is on a path towards recovery from the explosion and subsequent fire accident that occurred in March 2007, sales in the first half decreased.

SE Tylose in Europe did well, mainly in the application area of building materials.

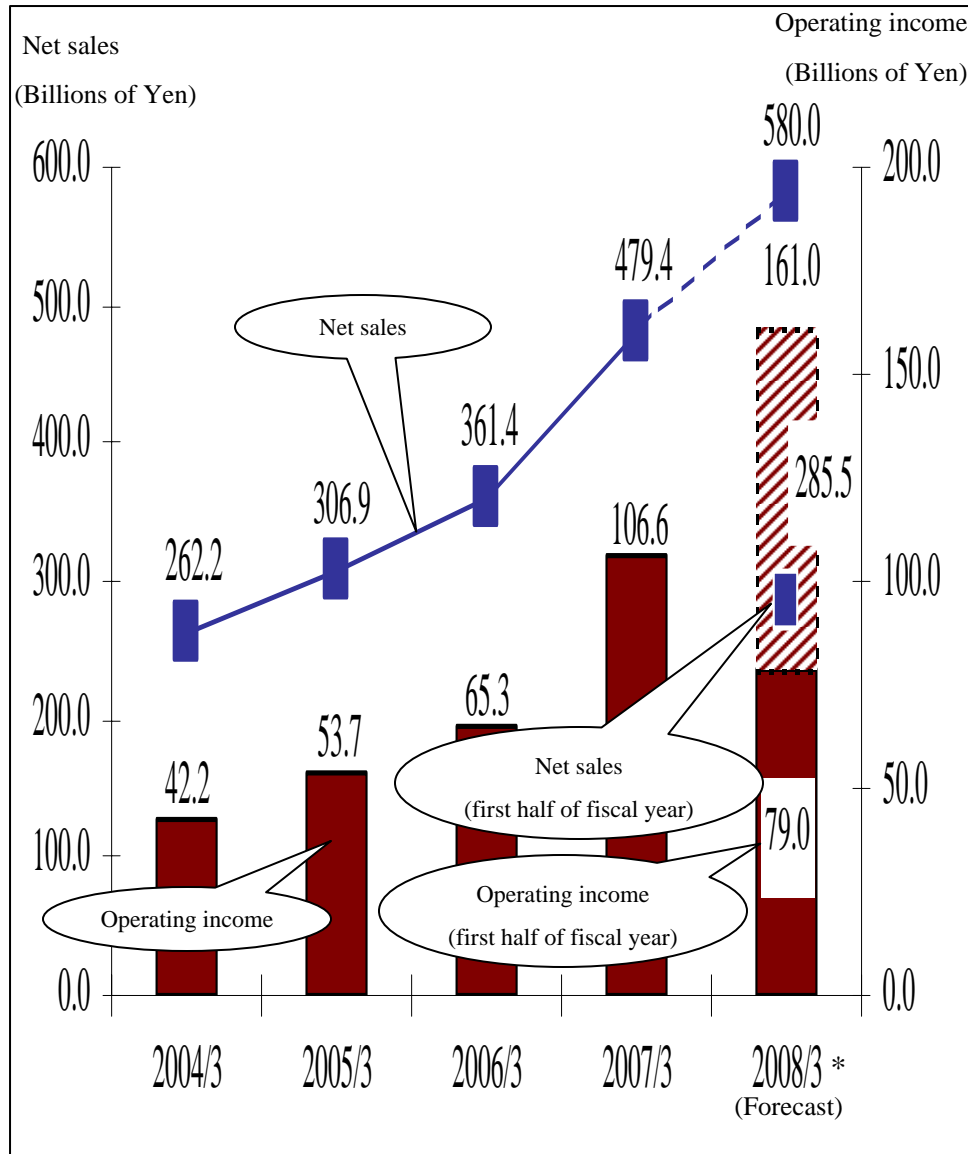
### ●Other organic chemicals

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

(Note: Overseas subsidiaries' calculations are based on the period from January through June 2007 because their fiscal year ends in December.)

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

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



### ● Semiconductor silicon

The demand for 300mm wafers increased, supported by continued strong demand for semiconductor devices in a wide range of applications fields worldwide, including applications for memory devices, mobile phones, PCs, digital home appliances and automobiles. As a result, the semiconductor silicon business achieved a large increase in both sales and profit.

### ● Rare earth magnets for the electronics industry

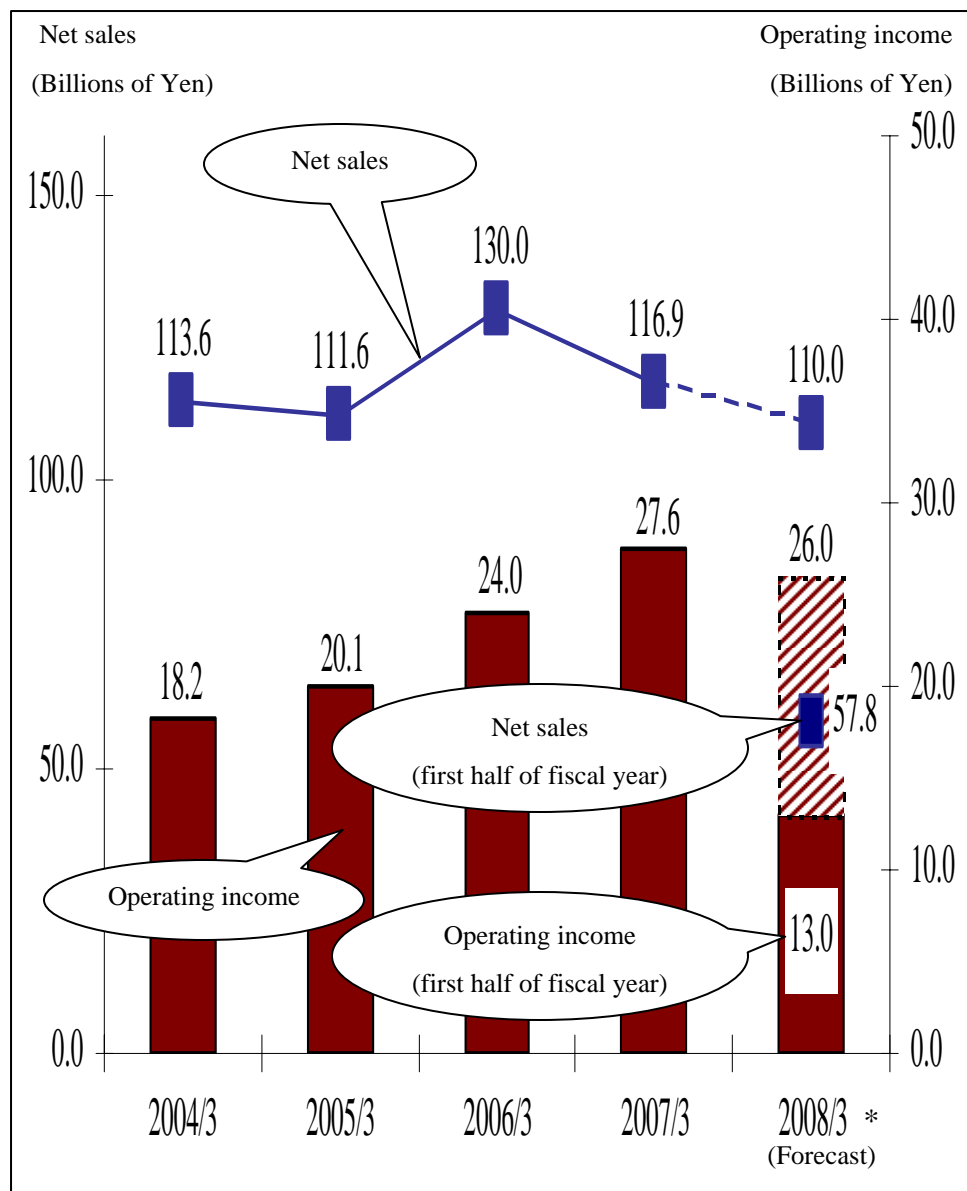
Sales for applications in hard disk drives did well, and as a result, sales of this product remained strong.

### ● Other electronics materials

Among photoresists products, sales of ArF resists, a product which is contributing to the development of finer-pitch semiconductor devices, increased greatly.

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

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



### ●Synthetic quartz

The demand for preform for optical fiber recovered and net sales increased; however, the market for large-size photomask substrates used for LCDs continued in an adjustment phase, and sales and profit decreased.

### ●Rare earth magnets and other functional materials

Sales of general-purpose rare earth magnets continued bullish for applications in such fields as air-conditioners, industrial-use robots and automobiles, where energy-saving and lighter weight are required. Moreover, shipments of liquid fluoroelastomers and pellicles were firm.

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



## 7. Operating Performance of Shintech, Inc.

### Shintech, Inc.

	Six months 06/1-06/6		Six months 07/1-07/6	
	Millions of US\$	Billions of Yen	Millions of US\$	Billions of Yen
Net Sales	1,126	130.3	951	114.3
Ordinary Income	217	25.1	134	16.1
Extraordinary Gain	-	-	30	3.6
Income Before Income Taxes	217	25.1	164	19.7
Net Income	145	16.8	115	13.8
Net Assets	2,065	238.0	2,285	281.6
Total Assets	2,417	278.6	2,700	332.9

As a result of the decline in housing construction in the North America, demand for PVC in the North American market decreased, and while other companies in the same business saw their profits greatly decrease, Shintech in the U.S. continued its high level of operations by making strenuous sales efforts aimed at its worldwide customers as well as its North American customers. Although Shintech's profit dropped below that of the comparable period of the previous year, the company maintained a high level of profit.

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

### **Shin-Etsu Handotai Group(Consolidated)**

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

(Billions of Yen)

	Six months 06/4-06/9	Six months 07/4-07/9
Net Sales	187.1	241.0
Ordinary Income	36.1	66.7
Net Income	23.0	41.3
Net Assets	215.5	285.0
Total Assets	398.4	479.1

- The demand for 300mm wafers increased, supported by continued strong demand for semiconductor devices in a wide range of applications fields worldwide, including applications for memory devices, mobile phones, PCs, digital home appliances and automobiles. As a result, the semiconductor silicon business achieved a large increase in both sales and profit.

- To respond to increasing worldwide demand, increase production of 300mm silicon wafers and diversify risk, Shin-Etsu, as the world's largest manufacturer supplying 300mm wafers, has continued to expand its facilities at its total of five production bases in Japan and the U.S., and this summer, ahead of the schedule, the company has established a production system of 1,000,000 wafers per month. In the future as well, Shin-Etsu will respond to demand and continue to carry out further expansions as long as they meet the requirements of the company's investment standards.

Notes; The financial statements of the overseas Shin-Etsu Handotai Group companies are calculated based on the six months period ended June 2006 and 2007.

## 9. Comparative Income Statements (Consolidated)

(Billions of Yen)

	Six months 06/4-06/9	Six months 07/4-07/9	Increase	Rate of increase
<b>Net sales</b>	639.0	687.7	48.7	7.6%
Cost of sales	457.2	473.3	16.1	
Selling, General and Administrative Expenses	61.8	74.3	12.5	
<b>Operating income</b>	120.0	140.0	20.0	16.7%
Non-operating income / expenses	0.0	6.0	6.0	
<b>Ordinary income</b>	120.0	146.0	26.0	21.6%
Extraordinary gains	-	5.1	5.1	
<b>Income before income taxes</b>	120.0	151.1	31.1	25.9%
Income taxes	42.8	53.6	10.8	
Minority interest in earnings of consolidated subsidiaries	2.3	2.3	0.0	
<b>Net income</b>	74.9	95.2	20.3	27.0%

## 10. Comparative Balance Sheets (Consolidated)

(Billions of Yen)

	March 31 2007	September 30 2007	Increase (Decrease)		March 31 2007	September 30 2007	Increase (Decrease)
<u>Current assets</u>	<u>1,063.5</u>	<u>1,058.2</u>	<u>(5.3)</u>	<u>Current liabilities</u>	<u>432.9</u>	<u>400.3</u>	<u>(32.6)</u>
Cash and time deposits	296.9	241.5	(55.4)	Notes and accounts payable-trade	155.5	148.4	(7.1)
Notes and accounts receivable-trade	315.7	338.2	22.5	Short-term borrowings	24.5	10.0	(14.5)
Securities	207.2	221.8	14.6	Accrued expenses and accounts payable-others	178.2	180.5	2.3
Inventories	169.2	176.7	7.5	Accrued income taxes	60.0	49.6	(10.4)
Deferred taxes, current	40.7	42.3	1.6	Other	14.7	11.8	(2.9)
Other	33.9	37.7	3.8				
<u>Fixed assets</u>	<u>796.5</u>	<u>864.7</u>	<u>68.2</u>	<u>Long-term liabilities</u>	<u>66.8</u>	<u>69.6</u>	<u>2.8</u>
<u>Property, plant and equipment</u>	<u>545.4</u>	<u>626.2</u>	<u>80.8</u>	Long-term borrowings	20.7	24.4	3.7
Buildings and structures	174.4	177.5	3.1	Deferred taxes, non-current	28.8	24.9	(3.9)
Machinery and equipment	217.7	221.7	4.0	Accrued retirement benefits	10.9	11.9	1.0
Other	153.3	227.0	73.7	Other	6.4	8.4	2.0
<u>Intangible fixed assets</u>	<u>26.0</u>	<u>26.5</u>	<u>0.5</u>	<u>Total liabilities</u>	<u>499.7</u>	<u>469.9</u>	<u>(29.8)</u>
<u>Investments and Other Assets</u>	<u>225.1</u>	<u>212.1</u>	<u>(13.0)</u>	<u>Stockholders' equity</u>	<u>1,257.3</u>	<u>1,327.0</u>	<u>69.7</u>
Investments in securities	176.2	165.2	(11.0)	Common stock	119.4	119.4	-
Deferred tax, non current	26.3	31.0	4.7	Additional paid-in capital	128.2	128.2	-
Other	22.7	15.9	(6.8)	Retained earnings	1,017.3	1,093.0	75.7
				Less : Treasury stock, at cost	(7.6)	(13.5)	(5.9)
				<u>Valuation, translation adjustments and others</u>	<u>62.9</u>	<u>82.4</u>	<u>19.5</u>
				<u>Share subscription rights</u>	<u>0.7</u>	<u>1.6</u>	<u>0.9</u>
				<u>Minority interests in consolidated subsidiaries</u>	<u>39.4</u>	<u>42.0</u>	<u>2.6</u>
				<u>Total net assets</u>	<u>1,360.3</u>	<u>1,453.1</u>	<u>92.8</u>
<u>Total assets</u>	<u>1,860.0</u>	<u>1,923.0</u>	<u>63.0</u>	<u>Total liabilities and net assets</u>	<u>1,860.0</u>	<u>1,923.0</u>	<u>63.0</u>

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

(Billions of Yen)

	Six months 06/4-06/9	Six months 07/4-07/9	Increase (Decrease)
<u>(1) Cash flows from operating activities</u>			
Net income	74.9	95.2	20.3
Depreciation	58.9	65.4	6.5
Decrease in working capital	(4.6)	(30.5)	(25.9)
Others	3.1	(27.6)	(30.7)
Total	132.3	102.5	(29.8)
<u>(2) Cash flows from investing activities</u>			
Expenditure for purchase of tangible and intangible fixed assets	(76.9)	(136.0)	(59.1)
Others	(6.6)	14.4	21.0
Total	(83.5)	(121.6)	(38.1)
<u>(3) Cash flows from financing activities</u>			
Decrease in debentures and borrowings	(8.1)	(12.1)	(4.0)
Cash dividends	(7.5)	(19.4)	(11.9)
Others	(4.1)	(6.7)	(2.6)
Total	(19.7)	(38.2)	(18.5)
(4) Effect of exchange rate changes and others	(2.6)	6.8	9.4
Net increase(decrease) in cash and cash equivalents	26.5	(50.5)	(77.0)
Balance of cash and cash equivalents	400.4	354.1	(46.3)
Balance of liabilities with interest	76.4	34.4	(42.0)

12. Forecast of operating performance  
for the entire fiscal year (April 2007-March 2008)

	<b>Consolidated</b>		Non-consolidated	
	<b>Billions of Yen</b>	<b>Ratio of increase over prior FY</b>	Billions of Yen	Ratio of increase over prior FY
Net sales	<b>1,380.0</b>	<b>5.8%</b>	730.0	4.7%
Operating income	<b>287.0</b>	<b>19.1%</b>	83.0	2.2%
Ordinary income	<b>300.0</b>	<b>21.4%</b>	88.0	9.9%
Net income	<b>187.0</b>	<b>21.4%</b>	57.0	11.6%
Net income per share (in Yen)	<b>434.84</b>	<b>77.06</b>	132.54	13.87
Annual cash dividend per share (in Yen)	<b>80.00</b>	<b>10.00</b>		

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

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

(Billions of Yen)

	Six months 06/4-06/9	Six months 07/4-07/9	Increase	Rate of increase
<b>Net sales</b>	334.7	359.4	24.7	7.4%
Cost of sales	275.4	291.8	16.4	
Selling, General and Administrative Expenses	19.0	26.3	7.3	
<b>Operating income</b>	40.2	41.3	1.1	2.6%
Non-operating income / expenses	(0.5)	5.3	5.8	
<b>Ordinary income</b>	39.7	46.6	6.9	17.4%
Extraordinary gains	-	1.5	1.5	
<b>Income before income taxes</b>	39.7	48.1	8.4	21.1%
Income taxes	14.4	15.6	1.2	
<b>Net income</b>	25.3	32.5	7.2	28.3%

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

(Billions of Yen)

	March 31 2007	September 30 2007	Increase (Decrease)		March 31 2007	September 30 2007	Increase (Decrease)
<u>Current assets</u>	<u>540.5</u>	<u>536.1</u>	<u>(4.4)</u>	<u>Current liabilities</u>	<u>213.0</u>	<u>186.4</u>	<u>(26.6)</u>
Cash and time deposits	141.5	98.3	(43.2)	Accounts payable-trade	126.2	117.7	(8.5)
Notes and accounts receivable-trade	210.1	204.1	(6.0)	Short-term borrowings	18.4	7.3	(11.1)
Securities	75.5	119.4	43.9	Accrued expenses and accounts payable-others	45.7	43.0	(2.7)
Inventories	50.2	56.3	6.1	Accrued income taxes	18.8	17.0	(1.8)
Other	63.3	57.9	(5.4)	Other	3.8	1.4	(2.4)
<u>Fixed assets</u>	<u>357.9</u>	<u>340.1</u>	<u>(17.8)</u>	<u>Long-term liabilities</u>	<u>13.2</u>	<u>13.1</u>	<u>(0.1)</u>
<u>Property, plant and equipment</u>	<u>110.6</u>	<u>120.4</u>	<u>9.8</u>	Long-term borrowings	2.5	6.2	3.7
Buildings and structures	35.6	36.8	1.2	Deffered income tax -liability	9.7	4.6	(5.1)
Machinery and equipment	45.2	47.0	1.8	Other	0.9	2.3	1.4
Other	29.8	36.6	6.8				
<u>Intangible fixed assets</u>	<u>0.7</u>	<u>0.7</u>	<u>0.0</u>	<u>Total liabilities</u>	<u>226.1</u>	<u>199.5</u>	<u>(26.6)</u>
<u>Investments and Other Assets</u>	<u>246.7</u>	<u>219.0</u>	<u>(27.7)</u>	<u>Stockholders' equity</u>	<u>649.6</u>	<u>656.6</u>	<u>7.0</u>
Investments in securities	90.9	72.2	(18.7)	Common stock	119.4	119.4	-
Investments in capital stock of subsidiaries and affiliates	129.2	129.3	0.1	Additional paid-in capital	120.8	120.8	-
Other	26.6	17.5	(9.1)	Retained earnings	416.9	429.9	13.0
				Less : Treasury stock, at cost	(7.6)	(13.5)	(5.9)
				<u>Valuation, tranlaiton adjustments and others</u>	<u>22.2</u>	<u>18.7</u>	<u>(3.5)</u>
				<u>Share subscription rights</u>	<u>0.5</u>	<u>1.4</u>	<u>0.9</u>
				Total net assets	672.3	676.7	4.4
<u>Total assets</u>	<u>898.4</u>	<u>876.2</u>	<u>(22.2)</u>	<u>Total liabilities and net assets</u>	<u>898.4</u>	<u>876.2</u>	<u>(22.2)</u>



# Income Before Income Taxes of US PVC Manufactures

(Millions of US\$)

	2006		2007	Percentage of declining profit (A)vs(B)	Jan.-Dec.'06
	Jan.-Jun. (A)	Jul.-Dec.	Jan.-Jun. (B)		
OxyVinyls	170.0	74.6	2.7	98% decline	244.6
Georgia Gulf	114.9	(31.7)	(35.5)	Plunge into red figures	83.3
Westlake Vinyls Segment	98.8	59.4	28.7	71% decline	158.1
Polyone	95.4	24.5	1.4	99% decline	119.9



## Recent Topics

- Oct. 2007 Shin-Etsu announced the present status of recovery from the March 2007 accident at Naoetsu
- Sep. 2007 Shin-Etsu Chemical developed various silicone die-bond materials for high-luminance LEDs.
- Sep. 2007 Shin-Etsu announced a plan for SE Tylose in Germany to start production of pharmaceutical-use methylcellulose around April 2009.
- Jul. 2007 Shin-Etsu announced construction of a new rare earth plant for separation and refinement, in Fukui Prefecture of Japan.
- Jul. 2007 Shin-Etsu Chemical developed a new silicone deformer of self-emulsifying type, which has excellent alkaliresistance characteristics.
- Jul. 2007 Shin-Etsu Chemical adopted a subsidy program to encourage its employees to play a part in global warming prevention measures.
- Jun. 2007 The Annual Meeting of stockholders approved the Handling Policy (Anti-takeover Precautionary Plan) regarding sudden, unexpected large-scale purchases of our company's shares and other securities.
- May. 2007 Shintech applies for permits for Vinyl Chloride Monomer (VCM) manufacturing facility in Texas.
- May. 2007 Shin-Etsu announced partial resumption of operating the Cellulose manufacturing facilities at Naoetsu Plant.
- Apr. 2007 Shin-Etsu announced a price increase on our PVC resin in Japan.
- Apr. 2007 *Moody's* upgraded Shin-Etsu Chemical's rating from A1 to Aa3, being the No.1 among chemical companies worldwide.
- Apr. 2007 Forecast of FY2007 year-end dividend was raised to 45yen/ share.  
(Accordingly the total annual dividend for FY2007 became 70 yen/share. This annual dividend was approved at the annual stockholders meeting in June 2007.)
- Mar. 2007 Explosion accident occurred in the cellulose derivatives manufacturing facility at Naoetsu Plant, Japan.