Eleven-year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 1996 through 2006

(Millions of Yen, except per share)	2006	2005	2004	2003
For the Year:				
Net sales	**¥1,127,916**	¥ 967,486	¥ 832,805	¥ 797,523
Operating income	**185,320**	151,734	125,626	122,150
Net income	**115,045**	93,161	74,806	73,016
Per Share (Yen):				
Net income—primary	**266.63**	219.10	177.25	173.13
Net income—fully diluted	**266.07**	216.11	173.52	169.36
Cash dividends	**35.00**	20.00	16.00	14.00
Capital expenditures	**145,330**	110,278	113,591	75,211
Depreciation and amortization	**111,637**	90,875	73,582	66,566
At Year-End:				
Total assets	**¥1,671,281**	¥1,476,249	¥1,386,216	¥1,310,875
Working capital	**572,206**	444,935	401,879	409,262
Common stock	**119,420**	117,513	110,493	110,272
Stockholders' equity	**1,173,680**	996,307	900,724	846,962
Stockholders' equity per share (Yen)	**2,730.94**	2,329.47	2,140.23	2,014.11
General:				
Number of employees	**18,888**	18,151	17,384	16,573
Number of shares issued (Thousands)	**432,107**	430,119	422,798	422,568

(Thousands of U.S. Dollars, except per share)	2006	2005	2004	2003
For the Year:				
Net sales	**$ 9,640,308**	$ 8,269,111	$ 7,117,991	$ 6,816,436
Operating income	**1,583,932**	1,296,872	1,073,726	1,044,017
Net income	**983,291**	796,248	639,368	624,068
Per Share (Dollars):				
Net income—primary	**2.279**	1.873	1.515	1.480
Net income—fully diluted	**2.274**	1.847	1.483	1.448
Cash dividends	**0.299**	0.171	0.137	0.120
Capital expenditures	**1,242,137**	942,547	970,863	642,829
Depreciation and amortization	**954,162**	776,709	628,906	568,940
At Year-End:				
Total assets	**$14,284,453**	$12,617,513	$11,848,000	$11,204,060
Working capital	**4,890,649**	3,802,863	3,434,863	3,497,966
Common stock	**1,020,684**	1,004,385	944,385	942,496
Stockholders' equity	**10,031,453**	8,515,445	7,698,496	7,238,991
Stockholders' equity per share (Dollars)	**23.341**	19.910	18.293	17.215
General:				
Number of employees	**18,888**	18,151	17,384	16,573
Number of shares issued (Thousands)	**432,107**	430,119	422,798	422,568

Note: The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥117=US$1, the approximate rate of exchange on March 31, 2006.

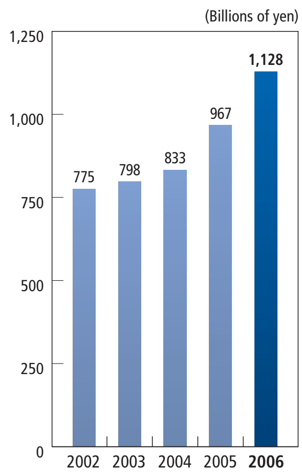
2002	2001	2000	1999	1998	1997	1996
¥ 775,097	¥ 807,485	¥ 678,859	¥ 642,796	¥ 693,275	¥ 624,405	¥575,176
114,724	112,677	87,465	86,323	90,860	82,024	73,427
68,519	64,505	48,229	43,363	42,027	40,614	37,825
162.93	153.58	116.56	109.36	110.73	118.24	116.51
159.38	150.24	113.46	103.17	101.69	103.95	106.66
12.00	12.00	10.00	9.00	8.50	7.50	7.50
81,543	96,770	80,003	73,641	136,384	92,844	66,791
70,878	70,767	61,384	56,196	62,144	52,191	45,647
¥1,288,432	¥1,265,799	¥1,168,729	¥1,060,973	¥1,083,780	¥ 931,159	¥708,637
363,677	350,273	273,193	261,691	221,869	195,729	118,936
110,260	110,247	107,664	98,243	83,957	44,256	36,440
812,068	714,996	651,261	564,067	497,312	374,726	320,987
1,930.30	1,699.74	1,557.48	1,380.43	1,265.39	1,071.97	988.59
16,456	19,398	18,754	18,384	19,238	18,896	17,106
422,555	422,542	419,848	410,015	393,722	349,569	324,691

2002	2001	2000	1999	1998	1997	1996
$ 6,624,761	$ 6,901,581	$5,802,214	$5,493,983	$5,925,427	$5,336,795	$4,916,034
980,547	963,051	747,564	737,803	776,581	701,060	627,581
585,632	551,325	412,214	370,624	359,205	347,128	323,291
1.393	1.313	0.996	0.935	0.946	1.011	0.996
1.362	1.284	0.970	0.882	0.869	0.888	0.912
0.103	0.103	0.085	0.077	0.073	0.064	0.064
696,949	827,094	683,786	629,410	1,165,675	793,538	570,863
605,795	604,846	524,650	480,308	531,145	446,077	390,145
$11,012,239	$10,818,795	$9,989,137	$9,068,145	$9,263,077	$7,958,624	$6,056,726
3,108,350	2,993,786	2,334,983	2,236,675	1,896,316	1,672,897	1,016,547
942,393	942,282	920,205	839,684	717,581	378,256	311,453
6,940,752	6,111,077	5,566,333	4,821,085	4,250,530	3,202,786	2,743,479
16.498	14.528	13.312	11.799	10.815	9.162	8.449
16,456	19,398	18,754	18,384	19,238	18,896	17,106
422,555	422,542	419,848	410,015	393,722	349,569	324,691

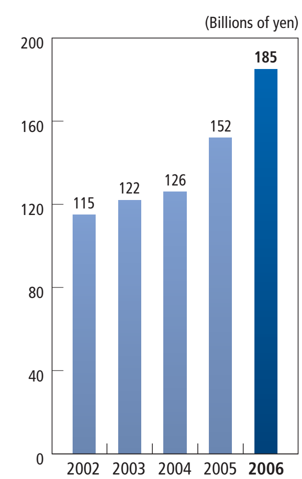
Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

Net Sales



Operating Income



Overview of the Shin-Etsu Group

The Shin-Etsu Group (the "Group") is composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 92 subsidiaries and 16 affiliates, as of March 31, 2006. The Group's operations are divided into three business segments according to product type, sales markets and other factors. The Organic and Inorganic Chemicals segment focuses on the manufacture and sale of polyvinyl chloride (PVC), silicones and other products. The Electronics Materials segment concentrates on the manufacture and sale of semiconductor silicon and other materials, and the Functional Materials and Others segment focuses on the manufacture and sale of synthetic quartz, rare earth magnets and other products as well as providing a variety of other services, including construction and repair. The Company develops business activities in mutual cooperation with Group companies in the areas of manufacturing and sales.

Consolidated Operating Performance

During fiscal 2006, 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 steep rise in crude oil prices and the after-effects of the big autumn hurricanes, the U.S. economy continued along a steady growth path. In addition, the economies of Southeast Asia and China continued their growth trends.

Under these circumstances, the Group, by making the most of 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 as well as developing and commercializing new products.

As a result, the consolidated business results for fiscal 2006 show that net sales increased by 16.6% (¥160.4 billion) compared to the previous fiscal year, to ¥1,127.9 billion. Compared to the performance of the previous fiscal year, operating income increased 22.1% (¥33.6 billion) to ¥185.3 billion and net income increased 23.5% (¥21.9 billion) to ¥115.0 billion.

Factors increasing net sales and operating income included strong performance by the PVC business in the United States and steady sales in the semiconductor silicon business, centered on 300mm wafers. In the silicones business, an export price adjustment substantially improved sales and earnings. In addition, ongoing rationalization of production costs at each Shin-Etsu Group company contributed to increased sales and earnings.

Net non-operating expenses totaled ¥0.3 billion, as an improvement in interest expenses and an increase in equity in earnings of affiliates covered foreign exchange loss.

Operating performance by business segment is presented as follows.

Summary of Net Sales, Operating Costs and Income

(Millions of yen)

Years ended March 31,	**2006**	2005	2004	% Change **2006**/2005
Net Sales	**1,127,916**	967,486	832,805	16.6%
Cost of Sales	**831,334**	715,143	619,085	16.2%
SG&A Expenses	**111,262**	100,609	88,094	10.6%
Operating Income	**185,320**	151,734	125,626	22.1%

Organic and Inorganic Chemicals

The PVC business expanded substantially, due to the continued high level of shipments by Shintech Inc. (the Company's U.S. PVC base) in response 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 the Company's domestic PVC business, although sales increased as efforts were made to maintain the price of PVC, operating income decreased due to a downturn in export prices from the latter half of fiscal 2006.

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, sales of silicone-related products, such as keypads for mobile phones made by 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 the Group's consolidated business statement as a subsidiary company from the end of fiscal 2005 (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% (¥87.5 billion) compared to the previous fiscal year to ¥636.5 billion. Operating income also increased 23.5% (¥18.3 billion) to ¥96.2 billion.

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 build-up of the Company'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, the Company has strengthened its capital relationship with Mimasu Semiconductor Industry Co., Ltd., which the Company 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 drive applications, particularly in applications for PCs. Net sales and operating income both increased. Sales of photoresist products continued to be strong. In addition to applications of KrF resists, full-scale adoption of ArF resists for semiconductor devices started. Sales of organic materials for the electronics industry were also good.

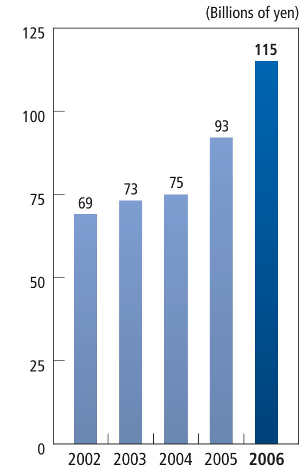
As a result, the net sales of this business segment increased 17.8% (¥54.5 billion) compared to the previous fiscal year, reaching ¥361.5 billion. Operating income increased 21.6% (¥11.6 billion) compared to the previous fiscal year to reach ¥65.3 billion.

Functional Materials and Others

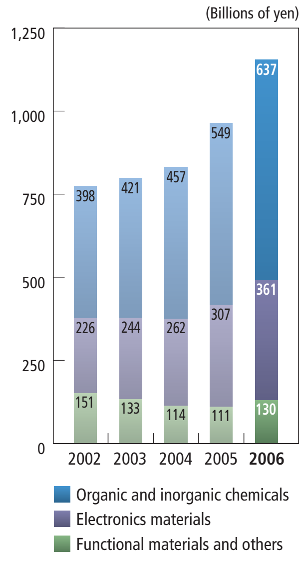
The synthetic quartz products business greatly increased for large-size photomask substrates used for LCDs, as LCD panel manufacturers are expanding their facilities.

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.

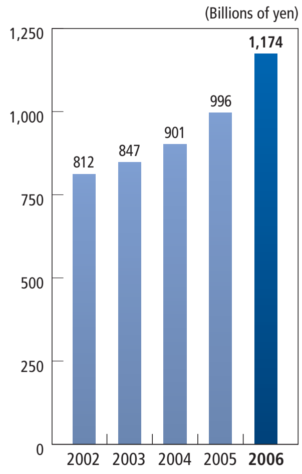
Net Income



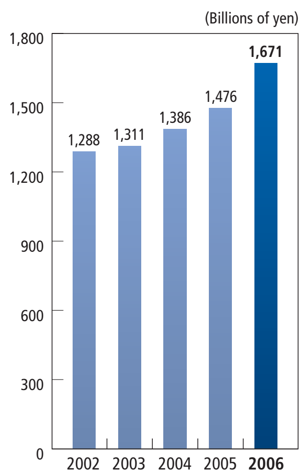
Net Sales by Business Segment



Stockholders' Equity



Total Assets



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 16.4% (¥18.4 billion) compared to the previous fiscal year to become ¥130.0 billion. Operating income increased 19.4% (¥3.9 billion) compared to the previous fiscal year to reach ¥24.0 billion.

Analysis of Financial Position

Assets, Liabilities and Stockholders' Equity

As of March 31, 2006, total assets increased ¥195.0 billion from a year earlier to ¥1,671.3 billion. Trade notes and accounts receivable increased ¥43.9 billion as a result of the increase in net sales. Securities increased ¥72.7 billion from a year earlier. Cash and time deposits increased ¥15.4 billion from a year earlier to ¥262.1 billion.

As of March 31, 2006, total liabilities increased ¥12.5 billion from a year earlier to ¥463.4 billion, due to factors such as an increase of ¥8.5 billion in trade notes and accounts payable in connection with the expanded scope of transactions.

In addition, retained earnings increased ¥102.2 billion from a year earlier. As a result, total stockholders' equity increased ¥177.4 billion to ¥1,173.7 billion. The stockholders' equity ratio increased 2.7 percentage points from a year earlier to 70.2%. Stockholders' equity per share increased ¥401.47 from a year earlier to ¥2,730.94.

Cash Flows

The balance of cash and cash equivalents at the end of fiscal 2006 increased ¥56.1 billion compared with the end of the previous fiscal year, to ¥373.9 billion.

Net cash provided by operating activities amounted to ¥220.6 billion due to increases in income before income taxes and depreciation and amortization compared with the end of the previous fiscal year. Net cash used for investing activities increased to ¥138.8 billion. This was mainly due to purchases of property, plant and equipment, including expansion of production facilities for 300mm silicon wafers for semiconductors, and payment for an additional acquisition of shares of Mimasu Semiconductor Industry Co., Ltd. Net cash used for financing activities amounted to ¥42.5 billion, due mainly to repayment of short term debt and payment of debentures on redemption.

Business Risks

The risks discussed hereinafter could potentially influence such key business matters as the Group's business operations results, financial status and cash flow.

The 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 Group's business operations results. As of the end of the current fiscal year, the types of risks listed below are those that the Group considers most significant. This list does not represent an attempt to discuss all possible risks that could impact on the Group.

1) Influence of Economic Trends and Product Markets

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

In addition, among the Group's key products, some products could be affected by large price fluctuations due to the global supply and demand environment. Although the 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 Group's business operations.

2) Influence of Fluctuations in Foreign Exchange Rates

Overseas sales accounted for 66.7% of the total consolidated sales of the Group in fiscal 2006. It is expected that this ratio will remain at a high level. The yen conversion amount of such items included in the 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 Group. In addition, for transactions in foreign currencies, to reduce risks the Company 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 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 Group's business operations results.

4) Influence of Public Regulatory Requirements and Law

In the countries or local areas where the 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 Group's business operations results.

5) Influence of Supply Factors on Procurement of Materials

The 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 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 Group companies. Accordingly, the Company is continuously striving to develop the most advanced materials so it can meet customers' needs for speedy technological innovation. However, if the 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 Group's business operations results.

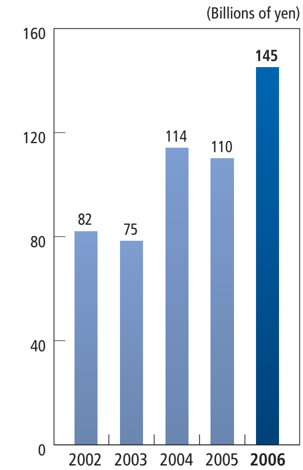
7) Influence of Environmental Problems

The 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 Group's business operations results.

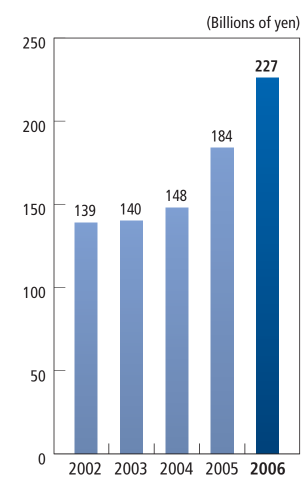
8) Influence of Product Liability

The 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 Group's business operations results.

Capital Expenditures



Net Cash Flow*



* Net cash flow = Net income + Depreciation and amortization

Consolidated Balance Sheets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

As of March 31, 2006 and 2005	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	**2006**	2005	**2006**
Current Assets:			
Cash and time deposits (Note 16)	**¥ 262,145**	¥ 246,741	**$ 2,240,556**
Securities (Notes 5 and 16)	**178,555**	105,839	**1,526,111**
Notes and accounts receivable:			
Trade	**272,173**	228,229	**2,326,264**
Unconsolidated subsidiaries and affiliates	**16,540**	15,298	**141,368**
Others	**5,778**	5,877	**49,385**
Less: Allowance for doubtful accounts (Note 2 (5))	**(5,233)**	(4,784)	**(44,726)**
	289,258	244,620	**2,472,291**
Inventories (Note 4)	**147,368**	135,225	**1,259,554**
Deferred taxes, current (Note 15)	**34,103**	27,761	**291,479**
Others	**13,667**	15,929	**116,812**
Total current assets	**925,096**	776,115	**7,906,803**
Property, Plant and Equipment (Note 2 (8)):			
Buildings and structures	**330,379**	313,065	**2,823,751**
Machinery and equipment	**1,056,500**	974,916	**9,029,915**
Less: Accumulated depreciation	**(1,009,857)**	(909,532)	**(8,631,256)**
	377,022	378,449	**3,222,410**
Land	**57,237**	48,663	**489,205**
Construction in progress	**34,524**	21,072	**295,077**
Total property, plant and equipment	**468,783**	448,184	**4,006,692**
Intangible Fixed Assets	**25,347**	28,637	**216,642**
Investments and Other Assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 7)	**61,237**	33,635	**523,393**
Investments in securities (Note 5)	**157,283**	152,735	**1,344,299**
Long-term loans	**1,030**	931	**8,803**
Deferred taxes, non-current (Note 15)	**13,268**	14,842	**113,402**
Others	**19,262**	21,189	**164,633**
Less: Allowance for doubtful accounts (Note 2 (5))	**(25)**	(19)	**(214)**
Total investments and other assets	**252,055**	223,313	**2,154,316**
Total assets	**¥1,671,281**	¥ 1,476,249	**$14,284,453**

The accompanying notes are an integral part of the statements.

Liabilities and Stockholders' Equity	Millions of yen 2006	2005	Thousands of U.S. dollars (Note 3) 2006
Current Liabilities:			
Short-term borrowings (Note 8)	¥ 12,906	¥ 30,439	$ 110,308
Current portion of long-term debt (Note 8)	13,262	13,078	113,350
Notes and accounts payable:			
Trade	110,736	102,257	946,462
Unconsolidated subsidiaries and affiliates	24,397	12,775	208,521
Others	54,869	53,182	468,966
	190,002	168,214	1,623,949
Accrued income taxes	47,260	35,974	403,932
Accrued expenses	80,683	80,855	689,598
Advances received	1,039	694	8,880
Others (Note 15)	7,738	1,926	66,137
Total current liabilities	352,890	331,180	3,016,154
Long-Term Liabilities:			
Long-term debt (Note 8)	57,670	76,905	492,906
Accrued retirement benefits (Note 9)	10,398	7,677	88,872
Deferred taxes, non-current (Note 15)	40,735	33,417	348,162
Lease obligations	119	147	1,017
Others	1,570	1,551	13,419
Commitment and Contingent Liabilities (Note 10)			
Total long-term liabilities	110,492	119,697	944,376
Minority Interests in Consolidated Subsidiaries	34,219	29,065	292,470
Stockholders' Equity:			
Common stock:	119,420	117,513	1,020,684
Authorized: 1,720,000,000 shares			
Issued: 432,106,693 shares and 430,118,735 shares as of March 31, 2006 and 2005, respectively			
Additional paid-in capital	128,179	126,274	1,095,547
Retained earnings (Note 11)	882,413	780,199	7,541,991
Unrealized gain on available-for-sale securities (Note 2 (7))	38,599	13,688	329,906
Foreign currency translation adjustment (Note 2 (4))	11,369	(30,275)	97,171
	1,179,980	1,007,399	10,085,299
Less: Treasury stock, at cost (Note 11)	(6,300)	(11,092)	(53,846)
Total stockholders' equity	1,173,680	996,307	10,031,453
Total liabilities and stockholders' equity	¥1,671,281	¥ 1,476,249	$14,284,453

Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2006, 2005, and 2004	Millions of yen 2006	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 3) 2006
Net Sales (Notes 14 and 17)	¥1,127,916	¥967,486	¥832,805	$9,640,308
Cost of Sales (Notes 9, 12 and 14)	831,334	715,143	619,085	7,105,419
Gross profit	296,582	252,343	213,720	2,534,889
Selling, General and Administrative Expenses (Notes 9 and 12)	111,262	100,609	88,094	950,957
Operating income (Note 17)	185,320	151,734	125,626	1,583,932
Other Income (Expenses):				
Interest and dividend income	6,771	4,627	3,797	57,871
Gain on early settlement of finance leases	—	—	2,055	—
Gains on sales of property, plant and equipment	21	12	535	179
Equity in earnings of affiliates	3,996	1,616	301	34,154
Interest expenses	(2,706)	(3,014)	(4,168)	(23,128)
Loss on disposal of property, plant and equipment	(1,226)	(3,297)	(2,837)	(10,479)
Foreign exchange gain (loss)	(6,055)	934	(742)	(51,752)
Other, net	(1,081)	(1,109)	1,050	(9,239)
Income before income taxes	185,040	151,503	125,617	1,581,538
Income Taxes (Note 15):				
Current	82,639	63,754	47,332	706,316
Deferred	(16,714)	(8,535)	1,069	(142,855)
	65,925	55,219	48,401	563,461
Income after income taxes	119,115	96,284	77,216	1,018,077
Minority Interests in Earnings of Consolidated Subsidiaries	(4,070)	(3,123)	(2,410)	(34,786)
Net Income	¥ 115,045	¥ 93,161	¥ 74,806	$ 983,291
	Yen			U.S. dollars (Note 3)
Per Share (Note 2 (14)):				
Net income—primary	¥266.63	¥219.10	¥177.25	$2.279
Net income—fully diluted	266.07	216.11	173.52	2.274
Cash dividends	35.00	20.00	16.00	0.299
Weighted-Average Number of Shares Outstanding (Thousands)	429,587	423,519	420,484	429,587

The accompanying notes are an integral part of the statements.

Consolidated Statements of Stockholders' Equity

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2006, 2005 and 2004	Millions of yen			Thousands of U.S. dollars (Note 3)
	2006	2005	2004	**2006**
Common Stock				
Balance at beginning of year	**¥117,513**	¥110,493	¥110,272	**$1,004,385**
Conversion of convertible debentures	**1,907**	7,020	221	**16,299**
Balance at end of year	**119,420**	117,513	110,493	**1,020,684**
Additional Paid-in Capital				
Balance at beginning of year	**126,274**	119,262	119,041	**1,079,265**
Conversion of convertible debentures	**1,905**	7,012	221	**16,282**
Balance at end of year	**128,179**	126,274	119,262	**1,095,547**
Retained Earnings				
Balance at beginning of year	**780,199**	694,997	626,142	**6,668,368**
Net income	**115,045**	93,161	74,806	**983,291**
Effect of increase in consolidated subsidiaries	**9**	—	574	**77**
Cash dividends (Note 11)	**(11,793)**	(7,600)	(6,307)	**(100,795)**
Directors' and statutory auditors' bonuses	**(352)**	(316)	(189)	**(3,009)**
Loss on disposal of treasury stocks	**(109)**	(43)	(29)	**(932)**
Effect of change of accounting standard at an overseas consolidated subsidiary	**(586)**	—	—	**(5,009)**
Balance at end of year	**882,413**	780,199	694,997	**7,541,991**
Unrealized Gain (Loss) on Available-for-Sale Securities				
Balance at beginning of year	**13,688**	11,928	(1,482)	**116,991**
Balance at end of year	**38,599**	13,688	11,928	**329,906**
Foreign Currency Translation Adjustment				
Balance at beginning of year	**(30,275)**	(26,737)	2,626	**(258,761)**
Balance at end of year	**11,369**	(30,275)	(26,737)	**97,171**
Treasury Stock, at Cost				
Balance at beginning of year	**(11,092)**	(9,219)	(9,637)	**(94,803)**
Net change during the year	**4,792**	(1,873)	418	**40,957**
Balance at end of year	**(6,300)**	(11,092)	(9,219)	**(53,846)**

Number of Shares of Common Stock Issued

	Thousands of shares		
	2006	2005	2004
Balance at beginning of year	**430,119**	422,798	422,568
Conversion of convertible debentures	**1,988**	7,321	230
Balance at end of year	**432,107**	430,119	422,798

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

	Millions of yen			Thousands of U.S. dollars (Note 3)
For the years ended March 31, 2006, 2005 and 2004	**2006**	2005	2004	**2006**
Cash Flows from Operating Activities:				
Income before income taxes	**¥ 185,040**	¥ 151,503	¥ 125,617	**$ 1,581,538**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	**111,637**	90,875	73,582	**954,162**
Increase (decrease) in accrued retirement benefits	**1,948**	1,385	(1,360)	**16,650**
Loss on write-down of investment securities	**119**	41	668	**1,017**
Interest and dividend income	**(6,771)**	(4,627)	(3,797)	**(57,871)**
Interest expenses	**2,706**	3,014	4,168	**23,128**
Exchange gain	**(27)**	(14)	(188)	**(231)**
Equity in earnings of affiliates	**(3,996)**	(1,616)	(301)	**(34,154)**
Changes in assets and liabilities:				
Increase in notes and accounts receivable	**(30,505)**	(11,647)	(23,631)	**(260,726)**
(Increase) decrease in inventories	**(7,798)**	(16,706)	4,237	**(66,649)**
Increase in notes and accounts payable	**21,672**	7,688	4,804	**185,231**
Other, net	**14,364**	13,384	3,301	**122,768**
Subtotal	**288,389**	233,280	187,100	**2,464,863**
Proceeds from interest and dividends	**6,613**	4,773	4,225	**56,521**
Payment of interest	**(2,809)**	(3,099)	(4,075)	**(24,008)**
Payment of income taxes	**(71,600)**	(57,577)	(31,246)	**(611,966)**
Net cash provided by operating activities	**220,593**	177,377	156,004	**1,885,410**
Cash Flows from Investing Activities:				
Net (increase) decrease in marketable securities	**(5,151)**	4,262	4,975	**(44,026)**
Purchases of property, plant and equipment	**(126,661)**	(95,501)	(68,578)	**(1,082,572)**
Proceeds from sales of property, plant and equipment	**1,351**	726	1,226	**11,547**
Purchases of intangible fixed assets	**(1,046)**	(1,270)	(2,594)	**(8,940)**
Purchases of investment securities	**(52,708)**	(45,291)	(66,721)	**(450,496)**
Proceeds from sales and redemption of investment securities	**47,070**	44,350	33,005	**402,308**
Payment for purchases of newly consolidated subsidiaries' shares and acquisition of business	**—**	(5,705)	(30,213)	**—**
Proceeds from sales of consolidated subsidiaries' shares	**—**	385	—	**—**
Payments of loans	**(32)**	(384)	(6,833)	**(274)**
Proceeds from collection of loans	**3,187**	2,100	480	**27,239**
Increase in long-term time deposits	**—**	(10,000)	—	**—**
Other, net	**(4,823)**	(2,428)	6,216	**(41,222)**
Net cash used for investing activities	**(138,813)**	(108,756)	(129,037)	**(1,186,436)**
Cash Flows from Financing Activities:				
Net decrease in short-term debt	**(17,718)**	(18,873)	(18,028)	**(151,436)**
Proceeds from long-term debt	**5,738**	2,426	20,645	**49,043**
Repayment of long-term debt	**(9,393)**	(13,133)	(12,105)	**(80,282)**
Proceeds from issuance of debentures	**—**	8,000	10,000	**—**
Payment of debentures on redemption	**(13,209)**	(10,165)	(5,000)	**(112,897)**
Payments for early settlement of finance leases	**—**	—	(15,589)	**—**
Cash dividends paid	**(11,793)**	(7,600)	(6,307)	**(100,795)**
Other, net	**3,878**	(2,566)	(311)	**33,145**
Net cash used for financing activities	**(42,497)**	(41,911)	(26,695)	**(363,222)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**16,608**	(1,955)	(10,008)	**141,949**
Net Increase (Decrease) in Cash and Cash Equivalents	**55,891**	24,755	(9,736)	**477,701**
Cash and Cash Equivalents at Beginning of Year	**317,733**	292,978	302,370	**2,715,667**
Net Increase in Cash and Cash Equivalents by Change of Consolidation Scope	**240**	—	344	**2,051**
Cash and Cash Equivalents at End of Year (Note 16)	**¥ 373,864**	¥ 317,733	¥ 292,978	**$ 3,195,419**

The accompanying notes are an integral part of the statements.

Notes to Consolidated Financial Statements

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2006, 2005 and 2004

1. Basis of presenting financial statements

The accompanying consolidated financial statements have been prepared from accounts and records maintained by Shin-Etsu Chemical Co., Ltd. (the "Company") and its subsidiaries. The Company and its domestic consolidated subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with generally accepted accounting principles prevailing in Japan. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries. In general, no adjustments to the accounts of overseas consolidated subsidiaries have been reflected in the accompanying consolidated financial statements to present them in compliance with Japanese accounting principles followed by the Company.

The accompanying consolidated financial statements of the Company and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company, as required by the Securities and Exchange Law of Japan.

The presentation of the accompanying consolidated financial statements is made in conformity with the Consolidated Financial Statements Regulation (ordinance promulgated by the Ministry of Finance) and meets the requirements for disclosure of financial information of the Company on a consolidated basis. However, certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

2. Summary of significant accounting policies

(1) Principles of consolidation

The Company had 92 majority-owned subsidiaries as of March 31, 2006 (90 as of March 31, 2005 and 2004). The consolidated financial statements include the accounts of the Company and 68 (67 for 2005 and 2004) majority-owned subsidiaries (the Companies), of which the principal firms are listed on page 45 with their respective fiscal year-ends.

The remaining 24 (23 for 2005 and 2004) unconsolidated subsidiaries whose combined assets, net sales, net income and retained earnings in the aggregate are not significant compared with those of the consolidated financial statements of the Companies, therefore, have not been consolidated with the Company. For consolidation of the accounts of subsidiaries whose fiscal year-ends are not in agreement with that of the Company, necessary adjustments are made on significant intercompany transactions which took place during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

Unrealized intercompany profits and losses among the Companies are entirely eliminated, and the portion thereof attributable to minority interests is charged to the minority interests.

Elimination of cost of investments in consolidated subsidiaries with underlying equity in the net assets of such subsidiaries has been made by the Company to include equity in the net income (loss) of subsidiaries earned subsequent to the acquisition of each block of shares. Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is treated as an asset or a liability, as the case may be, and amortized within 20 years on a straight-line basis.

Legal reserve of consolidated subsidiaries provided subsequent to the acquisition of such subsidiaries by the Company is included in retained earnings and is not shown separately in the consolidated financial statements.

(2) Accounting for investments in unconsolidated subsidiaries and affiliates

The Company had 24 (23 for 2005 and 2004) unconsolidated subsidiaries (majority-owned) and 16 (15 for 2005 and 2004) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 7 major affiliates and the cost method is applied to investments in the remaining unconsolidated subsidiaries and affiliates since they are not material for the consolidated financial statements.

The major unconsolidated subsidiaries and affiliates accounted for by the equity method are listed below:

Mimasu Semiconductor Industry Co., Ltd.
Shin-Etsu Quartz Products Co., Ltd.
Kashima Vinyl Chloride Monomer Co., Ltd.

(3) Translation of foreign currency transactions

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates effective at the respective transaction dates.

Foreign currency deposits, receivables and payables denominated in foreign currencies are translated into yen at the exchange rate prevailing at the respective balance sheet dates and the resulting translation gain or loss is included in the determination of net income for the year.

However, all of the overseas consolidated subsidiaries apply the current rate method to translate transactions and account balances in foreign currencies into their respective home currencies.

(4) Translation of foreign currency financial statements (accounts of overseas subsidiaries)

The translation of foreign currency financial statements of overseas subsidiaries into yen for consolidation purposes is made by the method of translation prescribed by the statements issued by the Business Accounting Council (BAC) of Japan.

Under the BAC method, all assets and liabilities are translated into yen at current exchange rates while capital accounts and retained earnings are translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year. The resulting translation adjustments are, as before, shown as "Foreign currency translation adjustment" in the accompanying balance sheets as of March 31, 2006 and 2005.

(5) Allowance for doubtful accounts

The Company and consolidated subsidiaries provide an 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 total receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.

(6) Inventories

Inventories are valued principally at cost determined by the average-cost method.

(7) Financial instruments

Securities:

Bonds held to maturity are stated at amortized cost using the straight-line method. Available-for-sale securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the stockholders' equity at net-of-tax amounts. Other securities for which market quotations are unavailable are stated at cost, which is determined by the moving-average cost method.

Derivatives:

Derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments."

Hedge accounting:

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are interest swaps. The related hedged items are long-term bank loans, and debt securities issued by consolidated subsidiaries.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of interest rate fluctuation. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items and not for speculation or dealing purposes.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(8) Property, plant and equipment

Depreciation of the Company and its domestic subsidiaries is principally computed by the declining-balance method, based on the estimated useful lives of assets. Depreciation of foreign subsidiaries is principally computed by the straight-line method over the estimated useful lives of the assets. The cost of property, plant and equipment retired or otherwise disposed of and accumulated depreciation are eliminated from the related accounts, and the resulting profit or loss is reflected in income.

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, net" in "Other Expenses" for the current fiscal year increased by ¥365 million ($3,120 thousand), 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.

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 ($85,103 thousand), and operating income, ordinary income and net income before income taxes each decreased by ¥9,505 million ($81,239 thousand).

(9) Repairs and maintenance

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(10) Accounting for leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

However, all leases, whether transfer of ownership or not, relating to the overseas consolidated subsidiaries are recognized as sales/purchases of assets on installment payments.

(11) 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 the fiscal year. The actuarial difference is amortized over a five-year period, which is within the average remaining service period, using the straight-line method from the fiscal year when the difference was generated. The prior service cost is amortized over a ten-year period, which is within the average remaining service period, using the straight-line method from the time when the difference was generated (see Note 9).

(12) Income taxes

Income taxes are provided based on amounts required by the tax return for the period. Tax effect is recorded for temporary differences in recognition of certain expenses between tax and financial reporting on the consolidated financial statements.

(13) Research and development costs

Research and development costs are charged to income as incurred.

(14) Income and dividends per share

Net income per share is based upon the weighted-average number of shares of common stock outstanding during each fiscal year. Net income per share adjusted for dilution represents net income per share assuming full conversation of all convertible debentures of the Company outstanding with related reduction in interest expenses.

Cash dividends per share represent actual dividends per share declared as applicable to the respective years.

From the year ended March 31, 2003, the Company and its subsidiaries adopted the new Japanese accounting standard "Accounting Standard for Earnings per Share" and "Implementation Guidance for application of Accounting Standard for Earnings per Share," which are effective for periods beginning on or after April 1, 2002. However, the effect of adopting the new standard was not material.

(15) Dividends

Dividends are proposed by the Board of Directors and approved by the stockholders at meetings held subsequent to the fiscal year to which the dividends are applicable, and registered stockholders as of the end of such fiscal year are entitled to the subsequently declared dividends. Interim cash dividends are also paid (see Note 11).

Dividends charged to retained earnings in the accompanying consolidated statements of stockholders' equity represent dividends approved and paid during the year.

(16) Appropriation of retained earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (primarily for cash dividend payments) proposed by the Board of Directors should be approved by the stockholders' meeting which must be held within three months after the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the results of such appropriations which relate to the immediately preceding fiscal year but were approved by the stockholders' meeting and disposed of during that year. As is customary practice in Japan, the payment of bonuses to directors and statutory auditors is made out of retained earnings instead of being charged to income for the year and constitutes a part of appropriations cited above.

(17) Consumption tax

The consumption tax withheld by the Company on sales of products is not included in the amount of net sales in the accompanying consolidated statements of income. The consumption tax borne by the Company on purchases of goods and services, and on expenses, is not included in the related amounts in the accompanying consolidated statements of income, either.

(18) Reclassifications

Certain reclassifications have been made in the 2005 and 2004 financial statements to conform to the presentation for 2006.

3. United States dollar amounts

The Company prepares its consolidated financial statements in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥117 to US$1, the approximate effective rate of exchange on March 31, 2006. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥117 to US$1 or at any other rate.

4. Inventories

Inventories as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Merchandise	**¥ 12,134**	¥ 10,682	**$ 103,709**
Finished products	**59,633**	57,323	**509,684**
Semifinished products	**22,131**	18,649	**189,154**
Raw materials	**39,484**	30,903	**337,470**
Supplies	**10,762**	12,567	**91,983**
Others	**3,224**	5,101	**27,554**
Total	**¥147,368**	¥135,225	**$1,259,554**

5. Securities

Securities as of March 31, 2006 consisted of the following:

(1) Market value of bonds held to maturity

	Millions of yen		
Description	Book value	Market value	Difference
Securities with fair value that exceeds book value	**¥23,507**	**¥23,515**	**¥ 8**
Securities with fair value that does not exceed book value	**39,356**	**39,132**	**(224)**
Total	**¥62,863**	**¥62,647**	**¥(216)**

	Thousands of U.S. dollars		
Description	Book value	Market value	Difference
Securities with fair value that exceeds book value	**$200,915**	**$200,983**	**$ 68**
Securities with fair value that does not exceed book value	**336,376**	**334,461**	**(1,915)**
Total	**$537,291**	**$535,444**	**$(1,847)**

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

	Millions of yen		
Description	Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value that exceeds acquisition cost:			
Stocks	**¥29,345**	**¥93,904**	**¥64,559**
Subtotal	**¥29,345**	**¥93,904**	**¥64,559**
Securities with book value that does not exceed acquisition cost:			
Stocks	**¥ 248**	**¥ 236**	**¥ (12)**
Subtotal	**¥ 248**	**¥ 236**	**¥ (12)**
Total	**¥29,593**	**¥94,140**	**¥64,547**

	Thousands of U.S. dollars		
Description	Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value that exceeds acquisition cost:			
Stocks	**$250,812**	**$802,598**	**$551,786**
Subtotal	**$250,812**	**$802,598**	**$551,786**
Securities with book value that does not exceed acquisition cost:			
Stocks	**$ 2,120**	**$ 2,017**	**$ (103)**
Subtotal	**$ 2,120**	**$ 2,017**	**$ (103)**
Total	**$252,932**	**$804,615**	**$551,683**

(3) Available-for-sale securities sold during the fiscal year ended March 31, 2006

Available-for-sale securities sold during the fiscal year ended March 31, 2006 are assumed insignificant.

(4) 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	¥12,476	¥12,476	¥ —

	Thousands of U.S. dollars		
	Cost of sales	Sales amount	Realized gain (loss)
Non-listed overseas bonds	$106,632	$106,632	$ —

Note: One consolidated subsidiary sold bonds after reviewing its surplus fund investment strategy.

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

	Book value	
	Millions of yen	Thousands of U.S. dollars
Bonds held to maturity	¥ 31,574	$ 269,863
Investments in unconsolidated subsidiaries and affiliates	58,944	503,795
Available-for-sale securities	147,261	1,258,641

(6) Repayment schedule of available-for-sale securities with maturity and bonds held to maturity

	Millions of yen	Thousands of U.S. dollars
Within one year	¥178,499	$1,525,632
Over one year within five years	59,636	509,709
Over five years within ten years	604	5,162

6. Derivative transactions

Derivative financial instruments were as follows:

As of March 31, 2006

Currency related:

	Millions of yen		
Description	Contract amounts	Market value	Unrealized gain (loss)
Foreign exchange contracts			
Sales Contracts:			
US$	¥135,097	¥139,806	¥(4,709)
EUR	1,738	1,759	(21)
Buys Contracts:			
US$	2,720	2,672	(48)
Foreign currency option contracts			
Buys Contracts:			
US$	216	8	8
Foreign currency swap contracts			
Received Japanese Yen, pay Thai Baht	3,709	(186)	(186)
Received Japanese Yen, pay U.S. Dollars	780	(44)	(44)
Total	¥ —	¥ —	¥(5,000)

	Thousands of U.S. dollars		
Description	Contract amounts	Market value	Unrealized gain (loss)
Foreign exchange contracts			
Sales Contracts:			
US$	$1,154,675	$1,194,923	$(40,248)
EUR	14,855	15,034	(179)
Buys Contracts:			
US$	23,248	22,838	(410)
Foreign currency option contracts			
Buys Contracts:			
US$	1,846	68	68
Foreign currency swap contracts			
Received Japanese Yen, pay Thai Baht	31,701	(1,590)	(1,590)
Received Japanese Yen, pay U.S. Dollars	6,667	(376)	(376)
Total	$ —	$ —	$(42,735)

Notes: 1. Market rate represents the foreign exchange rate prevailing as of March 31, 2006.
2. The market value is provided by financial institutions with which we made the currency swap contracts.
3. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

Interest related:

	Millions of yen		
Description	Contract amounts	Market value	Unrealized gain (loss)
Interest swap contracts:			
Receive floating, pay fixed	¥11,856	¥(26)	¥(26)
Receive fixed, pay floating	10,224	12	12
Total	¥22,080	¥(14)	¥(14)

Description	Contract amounts	Market value	Unrealized gain (loss)
	Thousands of U.S. Dollars		
Interest swap contracts:			
Receive floating, pay fixed	**$101,333**	**$(222)**	**$(222)**
Receive fixed, pay floating	**87,385**	**103**	**103**
Total	**$188,718**	**$(119)**	**$(119)**

Notes: 1. The market value is provided by financial institutions with which we made the interest swap contracts.
2. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

As of March 31, 2005

Currency related:

Description	Contract amounts	Market value	Unrealized gain (loss)
	Millions of yen		
Foreign exchange contracts			
Sales Contracts:			
US$	¥92,714	¥91,516	¥1,198
EUR	1,201	1,209	(8)
Buys Contracts:			
US$	1,034	1,025	(9)
EUR	159	165	6
Foreign currency swaps			
Received Japanese Yen, pay Thai Baht	3,709	88	88
Received Japanese Yen, pay U.S. Dollars	316	26	26
Total	¥ —	¥ —	¥1,301

Notes: 1. Market rate represents the forward foreign exchange rate prevailing as of March 31, 2005.
2. The market value is provided by financial institutions with which we made the currency swap contracts.
3. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

Interest related:

Description	Contract amounts	Market value	Unrealized gain (loss)
	Millions of yen		
Interest swap contracts:			
Receive floating, pay fixed	¥11,856	¥(95)	¥(95)
Receive fixed, pay floating	10,316	45	45
Total	¥22,172	¥(50)	¥(50)

Notes: 1. The market value is provided by financial institutions with which we made the interest swap contracts.
2. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

7. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Held Directly by the Company:			
Affiliates:			
Four affiliates for 2006 and three affiliates for 2005 accounted for by the equity method (See Note 2 (2))*	**¥40,453**	¥13,780	**$345,752**
Kashima Denkai Co., Ltd.	**805**	805	**6,880**
Others	**228**	228	**1,949**
	41,486	14,813	**354,581**
Unconsolidated subsidiaries:			
Shin-Etsu Electronics Malaysia Sdn. Bhd.	**1,400**	1,400	**11,966**
Shin-Etsu Magnetics Philippines, Inc.	**184**	184	**1,573**
Zhejiang Shin-Etsu High-Tech Chemical Co., Ltd.	**332**	332	**2,838**
Others	**175**	175	**1,495**
	2,091	2,091	**17,872**
Held Indirectly through Subsidiaries:			
Unconsolidated subsidiaries and affiliates:			
Three affiliates accounted for by the equity method (See Note 2 (2))*	**¥13,048**	¥ 9,689	**$111,521**
Others	**2,720**	2,040	**23,248**
	¥15,768	¥11,729	**$134,769**
Advances:	**1,892**	5,002	**16,171**
	¥61,237	¥33,635	**$523,393**

*Accounted for by the equity method. Others are carried at cost or less.

8. Short-term borrowings and long-term debt

Short-term borrowings outstanding as of March 31, 2006 and 2005 are represented generally by one-year notes issued by the Companies to banks. Substantially all of the notes are issued to banks which have written basic agreements with the Companies to the effect that, with respect to all present or future loans with such banks, the Companies shall provide collateral (including sums on deposit with such banks), or guarantors for such loans, immediately upon the banks' request, and that any collateral furnished pursuant to such agreements or otherwise will be applicable to all indebtedness to such banks.

Long-term debt as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans with Banks and Other Financial Institutions:			
Secured	¥ 9,479	¥ 4,106	$ 81,017
Unsecured	45,453	52,977	388,487
Unsecured Debentures:			
4.2% debentures issued by a consolidated subsidiary, due July 2005	—	2,084	—
2.6% debentures issued by a consolidated subsidiary, due December 2007	3,000	3,000	25,641
0.7% debentures issued by a consolidated subsidiary, due June 2007 (Note)	—	6,000	—
0.7% debentures issued by a consolidated subsidiary, due August 2009	5,000	5,000	42,735
0.4% debentures issued by a consolidated subsidiary, due July 2006 (Note)	—	5,000	—
0.4% debentures issued by a consolidated subsidiary, due February 2007	8,000	8,000	68,376
Unsecured Convertible Debentures:			
0.4% convertible debentures, due September 2005	—	3,816	—
	70,932	89,983	606,256
Less Portion Due within One Year	(13,262)	(13,078)	(113,350)
	¥ 57,670	¥ 76,905	$ 492,906

Note: These debentures are made off-balance sheet by debt assumption.

As of March 31, 2006, assets pledged as collateral for short-term loans, mortgage debentures and long-term loans were as follows:

	Millions of yen	Thousands of U.S. dollars
Net book value of property, plant and equipment	¥63,611	$543,684

The aggregate annual maturities of long-term debt are as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,		
2007	¥13,262	$113,350
2008	27,049	231,188
2009	15,005	128,248
2010	7,062	60,359
2011	233	1,991
2012 and thereafter	8,321	71,120
	¥70,932	$606,256

9. Retirement and pension plans

The Company and its domestic consolidated subsidiaries have defined contribution pension plans (DC pension plans), tax-qualified pension plans and lump-sum severance payment plans as their defined benefit pension plans.

Certain overseas consolidated subsidiaries have defined pension plans while others have defined contribution pension plans.

Additionally, the Company has a "Retirement Benefit Trust."

In October 2004, some domestic consolidated subsidiaries terminated the tax-qualified pension plan, and transferred to defined contribution pension plans and lump-sum severance payment plans.

The reserves for retirement benefits as of March 31, 2006 and 2005 are analyzed as follows:

Benefit Obligations

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
(a) Benefit obligations	¥(30,131)	¥(18,091)	$(257,530)
(b) Pension assets	22,751	12,463	194,453
(c) Unfunded benefit obligations [(a)+(b)]	(7,380)	(5,628)	(63,077)
(d) Unrecognized actuarial differences	(581)	(233)	(4,966)
(e) Unrecognized prior service cost (negative) (Note 1)	(743)	(696)	(6,350)
(f) Amount shown on balance sheet [(c)+(d)+(e)]	(8,704)	(6,557)	(74,393)
(g) Prepaid pension expenses	1,694	1,120	14,479
(h) Accrued retirement benefits [(f)-(g)]	¥(10,398)	¥ (7,677)	$ (88,872)

Notes: 1. The Company and certain consolidated subsidiaries changed system from tax-qualified pension plans to defined contribution pension plans before prior fiscal year, so that prior service cost is generated.
2. Some subsidiaries adopt a simplified method for the calculation of benefit obligations.

Retirement Benefit Costs

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
(a) Service costs (Note 1)	¥2,511	¥2,236	$21,462
(b) Interest costs	1,004	470	8,581
(c) Expected return on plan assets	(777)	(294)	(6,641)
(d) Recognized actuarial loss	(778)	(43)	(6,650)
(e) Amortization of prior service cost	(151)	(51)	(1,291)
(f) Other (Note 2)	1,580	1,536	13,505
(g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)]	¥3,389	¥3,854	$28,966
(h) (Gain) loss on transfer to DC pension plans	—	(82)	—
(i) Total [(g)+(h)]	¥3,389	¥3,772	$28,966

Notes: 1. Retirement benefit costs for subsidiaries adopting a simplified method are reported in "Service costs."
2. "Other" is contributions for defined contribution pension plans.

Basic Assumptions for Calculating Benefit Obligations

(a) Period allocation method for estimating retirement benefit	Benefit/years of service approach
(b) Discount rate	Principally 2.5%
(c) Expected rate of return on plan assets	Principally 2.5%
(d) Amortization of prior service cost	Principally 10 years
(e) Amortization of actuarial differences	Principally 5 years

10. Commitment and contingent liabilities

As of March 31, 2006, the Companies were contingently liable as a guarantor of housing loans for employees and loans to unconsolidated subsidiaries, affiliates and others in the aggregate amount of ¥280 million ($2,393 thousand) and had contingent liabilities arising from notes discounted by banks in the amounts of ¥152 million ($1,299 thousand).

In addition, one of the Companies was contingently liable, as of March 31, 2006, in accordance with a contract of debt assumption with a bank for debentures issued by itself in the amounts of ¥11,000 million ($94,017 thousand)

11. Retained earnings

The Company's Board of Directors, with subsequent approval by stockholders, has made annual appropriations of retained earnings for various purposes. Any dispositions of such appropriations shall be at the discretion of the Board of Directors and stockholders. Such administrative appropriations have not been segregated from retained earnings in the accompanying consolidated financial statements.

The Japanese Commercial Code provides that interim cash dividends (payable to stockholders of record as of September 30 of each year in the case of the Company on a semiannual basis) may be distributed upon approval by the Board of Directors. The Company paid interim dividends during the years ended March 31, 2006, 2005 and 2004 in the amounts of ¥7,517 million ($64,248 thousand) (¥17.5 per share), ¥4,234 million and ¥3,364 million, respectively, which were actually paid to stockholders on November 18, 2005, November 18, 2004 and November 18, 2003, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended March 31, 2006, 2005 and 2004, respectively.

There were 1,465,968 shares and 2,578,655 shares of treasury stock as at March 31, 2006 and 2005, respectively.

12. Research and development costs

Research and development costs incurred and charged to income for the years ended March 31, 2006, 2005 and 2004 were ¥32,003 million ($273,530 thousand), ¥27,925 million and ¥26,329 million, respectively.

13. Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2006 and 2005 amounted to ¥373 million ($3,188 thousand) and ¥427 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2006, which was computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value, amounted to ¥373 million ($3,188 thousand).

Pro forma information regarding leased property such as acquisition cost and accumulated depreciation is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Acquisition cost	**¥1,905**	¥1,851	**$16,282**
Accumulated depreciation	**1,209**	1,218	**10,333**
Net book value	**¥ 696**	¥ 633	**$ 5,949**

The amount of outstanding future lease payments due in respect of finance lease contracts at March 31, 2006 and 2005, which included the portion of interest thereon, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Future Lease Payments:			
Within one year	**¥309**	¥348	**$2,641**
Over one year	**387**	285	**3,308**
	¥696	¥633	**$5,949**

The amount of outstanding future lease payments due in respect of operating lease contracts at March 31, 2006 and 2005 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Future Lease Payments:			
Within one year	**¥4,436**	¥ 6,480	**$37,914**
Over one year	**3,912**	6,507	**33,436**
	¥8,348	¥12,987	**$71,350**

14. Related party transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2006, 2005 and 2004 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Sales	¥ 9,363	¥16,224	¥21,060	$ 80,026
Purchases	86,659	64,110	60,628	740,675

15. Income taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended March 31, 2006, 2005 and 2004 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	2006	2005	2004
Corporate income tax	30.0%	30.0%	30.0%
Enterprise tax	7.2	7.2	9.6
Resident income taxes	6.1	6.1	6.1
	43.3%	43.3%	45.7%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid (unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid)	40.4%	40.4%	41.7%

Tax effects of material temporary differences and loss carryforwards which resulted in deferred tax assets or liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred Tax Assets:			
Depreciation	¥15,881	¥11,783	$135,735
Unsettled accounts receivable and payable	6,944	6,263	59,350
Maintenance cost	5,140	2,891	43,932
Unrealized profit	4,632	4,317	39,590
Accrued bonus allowance	3,944	3,755	33,709
Special provision for accrued retirement benefits	3,614	3,080	30,889
Accrued enterprise taxes	3,248	2,181	27,761
Tax loss carryforwards	1,668	1,235	14,256
Others	21,294	17,855	182,000
Valuation allowance	(4,339)	(4,278)	(37,085)
Total	¥62,026	¥49,082	$530,137
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	¥25,939	¥ 9,177	$221,701
Depreciation	24,249	25,770	207,256
Reserve for special depreciation	2,245	2,465	19,188
Others	2,966	2,484	25,351
Total	¥55,399	¥39,896	$473,496
Net deferred tax assets	¥ 6,627	¥ 9,186	$ 56,641

Net Deferred Tax Assets are included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current assets: Deferred tax assets	¥ 34,103	¥ 27,761	$ 291,479
Non-current assets: Deferred tax assets	13,268	14,842	113,402
Current liabilities: Others	(9)	—	(78)
Non-current liabilities: Deferred tax liabilities	(40,735)	(33,417)	(348,162)

Reconciliation of the difference between the statutory tax rate and effective rate on taxable income is as follows:

	2006	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 and other not taxable	(0.5)	(0.5)
Entertainment and other non-deductible expenses	0.2	0.2
Other, net	(0.2)	(0.4)
Effective tax rate	35.6	36.4

16. Supplemental cash flow information

(1) Cash and cash equivalents on the consolidated statements of cash flows consist of cash on hand, deposits that can be withdrawn without limitation and liquid investments which are easily convertible into cash, and that mature within approximately three months from the acquisition date and have insignificant risk exposure in terms of fluctuation on value of the investments.

Reconciliation between cash and equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2006, 2005, and 2004 are presented below:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Cash and time deposits	¥262,145	¥246,741	¥210,323	$2,240,556
Marketable securities	178,555	105,839	131,216	1,526,111
Time deposits for which maturities are approximately over three months	(8,928)	(2,205)	(717)	(76,308)
Marketable securities (maturities approximately over three months)	(57,908)	(32,642)	(47,844)	(494,940)
Cash and cash equivalents	¥373,864	¥317,733	¥292,978	$3,195,419

(2) Purchase of newly consolidated subsidiaries' shares and acquisition of business

During the fiscal year ended March 31, 2005, the Company acquired shares of JAPAN VAM & POVAL Co., Ltd.

Upon consolidation, a net cash flow of ¥5,705 million, representing the excess of the cash consideration of ¥6,999 million paid for acquisition over the "Cash and cash equivalents" of ¥1,294 million held by JAPAN VAM & POVAL Co., Ltd. as at the date of a commencement of consolidation, was disclosed as "Payment for purchase of newly consolidated subsidiaries' shares and acquisition of business" in the consolidated statements of cash flows for the fiscal year ended March 31, 2005.

During the fiscal year ended March 31, 2004, the Company acquired shares of Nagano Electronics Industrial Co., Ltd., SE Tylose Holding GmbH, SE Tylose GmbH & Co. KG and SE Tylose Verwaltungs GmbH.

Upon consolidation, a net cash flow of ¥24,512 million, representing the excess of the cash consideration of ¥28,075 million paid for acquisition over the "Cash and cash equivalents" of ¥3,545 million held by the above four companies as at the date of commencement of consolidation, was disclosed as part of "Payment for purchases of newly consolidated subsidiaries' shares and acquisition of business" in the consolidated statements of cash flows for the fiscal year ended March 31, 2004.

The cash consideration of ¥6,999 million and ¥28,057 million paid for the acquisition during the fiscal years ended March 31, 2006 and 2005, respectively, were allocated as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Current assets	**¥ —**	¥ 6,134	¥ 15,765	**$ —**
Non-current assets	**—**	5,617	12,502	**—**
Consolidation adjustments	**—**	2,943	15,459	**—**
Current liabilities	**¥ —**	¥(5,622)	¥(12,349)	**$ —**
Non-current liabilities	**—**	(2,073)	(2,649)	**—**
Minority interests	**—**	—	(671)	**—**
Cash consideration	**—**	6,999	28,057	**—**
Cash and cash equivalents acquired	**—**	(1,294)	(3,545)	**—**
Net cash flow	**¥ —**	¥ 5,705	¥ 24,512	**$ —**

(3) Important non-cash transactions were as follows

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Increase of common stock by conversion of convertible debentures	**¥1,907**	¥ 7,020	¥ —	**$16,299**
Increase of additional paid-in capital by conversion of convertible debentures	**1,905**	7,012	—	**16,282**
Decrease of convertible debentures by conversion	**¥3,812**	¥14,032	¥ —	**$32,581**

17. Segment information

(1) Business segment information

The Companies operate principally in the following three lines of business: "Organic and Inorganic Chemicals," "Electronics Materials" and "Functional Materials and Others." These lines of business deal in the following main products and merchandise:

Organic and inorganic chemicals business segments: Polyvinyl chloride, Silicones, Methanol, Chloromethanes, Cellulose derivatives, Caustic soda, Silicon metal

Electronics materials business segments: Semiconductor silicon, Organic materials for the electronics industry, Rare earth magnets for the electronics industry, Photoresists

Functional materials and others business segment: Synthetic quartz products, Oxide single crystals, Rare earths and rare earth magnets, Export of technology and plants, Export and import of goods, Construction and plant engineering, Information processing

Sales, related operating costs and expenses, operating income, assets, depreciation and capital expenditure of the Companies at March 31, 2006, 2005 and 2004 and for the years then ended, classified by business segment, are presented as follows:

	Millions of yen				
	2006				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[4]	Consolidated Total
Sales:					
Sales to outside customers	**¥636,492**	**¥361,453**	**¥129,971**	**¥ —**	**¥1,127,916**
Intersegment sales	**9,503**	**3,567**	**59,692**	**(72,762)**	**—**
Total	**645,995**	**365,020**	**189,663**	**(72,762)**	**1,127,916**
Operating costs and expenses	**549,823**	**299,745**	**165,640**	**(72,612)**	**942,596**
Operating income	**¥ 96,172**	**¥ 65,275**	**¥ 24,023**	**¥ (150)**	**¥ 185,320**
Assets	**¥664,381**	**¥516,974**	**¥165,225**	**¥324,701**	**¥1,671,281**
Depreciation	**27,667**	**75,816**	**8,360**	**(206)**	**111,637**
Capital expenditures[1]	**46,241**	**65,656**	**8,354**	**(443)**	**119,808**

	Millions of yen				
	2005				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[3]	Consolidated Total
Sales:					
Sales to outside customers	¥548,950	¥306,925	¥111,611	¥ —	¥ 967,486
Intersegment sales	8,476	2,472	66,552	(77,500)	—
Total	557,426	309,397	178,163	(77,500)	967,486
Operating costs and expenses	479,531	255,713	158,039	(77,531)	815,752
Operating income	¥ 77,895	¥ 53,684	¥ 20,124	¥ 31	¥ 151,734
Assets	¥631,467	¥448,725	¥167,822	¥228,235	¥1,476,249
Depreciation	26,076	55,031	9,998	(230)	90,875
Capital expenditures[2]	30,342	66,764	9,369	(253)	106,222

	Millions of yen				
	2004				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[3]	Consolidated Total
Sales:					
Sales to outside customers	¥457,009	¥262,246	¥113,550	¥ —	¥ 832,805
Intersegment sales	8,285	1,539	54,480	(64,304)	—
Total	465,294	263,785	168,030	(64,304)	832,805
Operating costs and expenses	400,182	221,602	149,860	(64,465)	707,179
Operating income	¥ 65,112	¥ 42,183	¥ 18,170	¥ 161	¥ 125,626
Assets	¥548,264	¥422,075	¥166,790	¥249,087	¥1,386,216
Depreciation	21,979	42,419	9,455	(271)	73,582
Capital expenditures[3]	50,520	46,485	5,090	(234)	101,861

	Thousands of U.S. dollars				
	2006				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets[3]	Consolidated Total
Sales:					
Sales to outside customers	**$5,440,103**	**$3,089,342**	**$1,110,863**	**$ —**	**$ 9,640,308**
Intersegment sales	**81,222**	**30,487**	**510,188**	**(621,897)**	**—**
Total	**5,521,325**	**3,119,829**	**1,621,051**	**(621,897)**	**9,640,308**
Operating costs and expenses	**4,699,342**	**2,561,923**	**1,415,726**	**(620,615)**	**8,056,376**
Operating income	**$ 821,983**	**$ 557,906**	**$ 205,325**	**$ (1,282)**	**$ 1,583,932**
Assets	**$5,678,471**	**$4,418,581**	**$1,412,179**	**$2,775,222**	**$14,284,453**
Depreciation	**236,470**	**648,000**	**71,453**	**(1,761)**	**954,162**
Capital expenditures[1]	**395,222**	**561,162**	**71,402**	**(3,786)**	**1,024,000**

Notes: 1. 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 the current fiscal year, as a result of the additional acquisition of shares during the current fiscal year. Payment for this acquisition was ¥25,521 million ($218,128 thousand), 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 ¥145,330 million ($1,242,137 thousand).

2. 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 a 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 ¥6,999 million. Only ¥2,943 million, which is equivalent to the consolidated adjustment account, is included in the above Capital expenditures. If the remaining ¥4,056 million were included, the total amount of Capital expenditures would come to ¥110,278 million.

3. Under the Organic and Inorganic Chemicals segment, Capital expenditures of our affiliate Asia Silicones Monomer Limited was ¥5,887 million, which corresponds to our share of ownership of the affiliate. Payment for the acquisition of working capital and other assets of the cellulose business in Europe, now known as SE Tylose, was ¥5,843 million, which is included in the total purchase price.

Though these figures are not included in the above Capital expenditures, if these amounts were to be included, the total amount of the Capital expenditures would come to ¥113,591 million.

4. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2006, 2005, and 2004 were ¥360,148 million ($3,078,188 thousand), ¥328,568 million and ¥330,652 million, respectively, which mainly consisted of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

5. As previously mentioned in (8) Property, plant and equipment in Note 2, 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 ($85,103 thousand). Operating expenses increased by ¥9,505 million, ($81,239 thousand) and accordingly, operating income decreased by the same amount

(2) Geographical segment information

The analysis of the sales, operating costs and expenses, operating income and assets of the Companies by geographical segments as of March 31, 2006, 2005 and 2004 and for the years then ended are presented below:

	Millions of yen					
	2006					
	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets[2]	Consolidated Total
Sales:						
Sales to outside customers	**¥574,448**	**¥287,478**	**¥130,027**	**¥135,963**	**¥ —**	**¥1,127,916**
Intersegment sales	**184,833**	**23,198**	**61,737**	**677**	**(270,445)**	**—**
Total	**759,281**	**310,676**	**191,764**	**136,640**	**(270,445)**	**1,127,916**
Operating costs and expenses	**620,502**	**284,079**	**182,164**	**126,768**	**(270,917)**	**942,596**
Operating income	**¥138,779**	**¥ 26,597**	**¥ 9,600**	**¥ 9,872**	**¥ 472**	**¥ 185,320**
Assets	**¥807,041**	**¥362,521**	**¥151,300**	**¥131,265**	**¥ 219,154**	**¥1,671,281**

	Millions of yen					
	2005					
	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets[2]	Consolidated Total
Sales:						
Sales to outside customers	¥494,851	¥236,525	¥110,174	¥125,936	¥ —	¥ 967,486
Intersegment sales	147,772	31,253	45,902	913	(225,840)	—
Total	642,623	267,778	156,076	126,849	(225,840)	967,486
Operating costs and expenses	533,230	245,029	145,572	117,243	(225,322)	815,752
Operating income	¥109,393	¥ 22,749	¥ 10,504	¥ 9,606	¥ (518)	¥ 151,734
Assets	¥730,263	¥294,054	¥130,114	¥124,309	¥ 197,509	¥1,476,249

	Millions of yen					
	2004					
	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets[2]	Consolidated Total
Sales:						
Sales to outside customers	¥451,026	¥212,786	¥ 90,969	¥ 78,024	¥ —	¥ 832,805
Intersegment sales	123,368	19,512	37,646	979	(181,505)	—
Total	574,394	232,298	128,615	79,003	(181,505)	832,805
Operating costs and expenses	484,956	208,440	120,365	74,763	(181,345)	707,179
Operating income	¥ 89,438	¥ 23,858	¥ 8,250	¥ 4,240	¥ (160)	¥ 125,626
Assets	¥663,055	¥284,358	¥121,464	¥104,897	¥ 212,442	¥1,386,216

	Thousands of U.S. dollars					
	2006					
	Japan	North America	Asia/ Oceania	Europe	Elimination or Common Assets[2]	Consolidated Total
Sales:						
Sales to outside customers	**$4,909,812**	**$2,457,077**	**$1,111,342**	**$1,162,077**	**$ —**	**$ 9,640,308**
Intersegment sales	**1,579,769**	**198,274**	**527,667**	**5,786**	**(2,311,496)**	**—**
Total	**6,489,581**	**2,655,351**	**1,639,009**	**1,167,863**	**(2,311,496)**	**9,640,308**
Operating costs and expenses	**5,303,435**	**2,428,026**	**1,556,958**	**1,083,487**	**(2,315,530)**	**8,056,376**
Operating income	**$1,186,146**	**$ 227,325**	**$ 82,051**	**$ 84,376**	**$ 4,034**	**$ 1,583,932**
Assets	**$6,897,787**	**$3,098,470**	**$1,293,162**	**$1,121,923**	**$ 1,873,111**	**$14,284,453**

Notes: 1. Main countries or other areas other than Japan:
North America................ U.S.
Asia/Oceania.................. Malaysia, Singapore, South Korea, Taiwan, Thailand, Australia
Europe........................... U.K., Netherlands, Germany
2. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2006, 2005, and 2004 were ¥360,148 million ($3,078,188 thousand), ¥328,568 million and ¥330,652 million, respectively, which mainly consisted of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.
3. In the fiscal year ended March 31, 2005, the Company revised the classification of geographic areas due to increased business in Europe, which was previously included in "Other Areas."
Current classification of regions: "Japan," "North America," "Asia/Oceania," "Europe"
Previous classification of regions: "Japan," "North America," "Asia," "Other Areas"
The above information for the fiscal year ended March 31, 2004 have been restated to conform to the current classification.
4. As mentioned in (8) Property, plant and equipment in Note 2, 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 ($11,248 thousand), ¥5,656 million ($48,342 thousand), ¥1,381 million ($11,803 thousand) and ¥1,151 million ($9,838 thousand), respectively, compared with the figures calculated for the previous depreciable years. Accordingly, operating income decreased by the same amounts.

(3) Overseas sales information

Overseas sales of the Companies for the years ended March 31, 2006, 2005 and 2004 are summarized as follows:

	Millions of yen				
	2006				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	**¥278,342**	**¥310,610**	**¥131,724**	**¥31,950**	**¥ 752,626**
Consolidated sales	**—**	**—**	**—**	**—**	**1,127,916**
Percentage of overseas sales over consolidated sales	**24.7%**	**27.5%**	**11.7%**	**2.8%**	**66.7%**

	Millions of yen				
	2005				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	¥216,704	¥280,851	¥119,152	¥31,895	¥648,602
Consolidated sales	—	—	—	—	967,486
Percentage of overseas sales over consolidated sales	22.4%	29.0%	12.3%	3.3%	67.0%

	Millions of yen				
	2004				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	¥203,210	¥218,413	¥82,041	¥25,632	¥529,296
Consolidated sales	—	—	—	—	832,805
Percentage of overseas sales over consolidated sales	24.4%	26.2%	9.9%	3.1%	63.6%

	Thousands of U.S. dollars				
	2006				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	**$2,378,991**	**$2,654,786**	**$1,125,846**	**$273,078**	**$6,432,701**
Consolidated sales	**—**	**—**	**—**	**—**	**9,640,308**
Percentage of overseas sales over consolidated sales	**24.7%**	**27.5%**	**11.7%**	**2.8%**	**66.7%**

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 years ended March 31, 2006, 2005 and 2004 were ¥77,203 million ($659,855 thousand), ¥77,933 million ($666,094 thousand) and ¥62,820 million ($536,923 thousand), respectively.
4. In the fiscal year ended March 31, 2005, the Company revised the classification of geographic areas due to increased business in Europe, which was previously included in "Other Areas."
Current classification of regions: "North America," "Asia/Oceania," "Europe" "Other Areas."
Previous classification of regions: "North America," "Asia," "Other Areas."
The above information for the fiscal year ended March 31, 2004 has been restated to conform to the current classification.

18. Subsequent event

Appropriation of retained earnings

Subsequent to March 31, 2006, the Company's Board of Directors, with the subsequent approval of stockholders on June 29, 2006 declared a cash dividend of ¥7,536 million ($64,412 thousand) equal to ¥17.50 ($0.150) per share, applicable to earnings of the year ended March 31, 2006 and payable to stockholders on the stockholders' register on March 31, 2006.

Consolidated Subsidiaries

As of March 31, 2006

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shintech Inc.(1)	100.0	December 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31
Shin-Etsu Handotai America, Inc. (1)	100.0	December 31
Shin-Etsu Polymer Co., Ltd.	53.2	March 31
S.E.H. Malaysia Sdn. Bhd. (1)(2)	100.0	December 31
Shin-Etsu PVC B.V.(1)	100.0	December 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31
SE Tylose GmbH & Co. KG(1)	100.0	December 31
Shin-Etsu-Handotai Europe, Ltd.(1)	100.0	December 31
Nagano Electronics Industrial Co., Ltd.	90.0	February 28
Shin-Etsu Handotai Taiwan Co., Ltd.(1)	70.0	December 31
Naoetsu Electronics Co., Ltd.	100.0	February 28
Shin-Etsu Astech Co., Ltd.	99.6	March 31
S-E, Inc.(1)	100.0	December 31
Shin-Etsu Electronics Materials Singapore Pte. Ltd.(1)	100.0	December 31
Shin-Etsu Fintech Co., Ltd.	100.0	March 31
JAPAN VAM & POVAL Co., Ltd.	100.0	March 31
Shin-Etsu Singapore Pte. Ltd.(1)	100.0	December 31
Shin-Etsu Silicone Korea Co., Ltd.(1)	100.0	December 31
Shinano Polymer Co., Ltd.	100.0	March 31
Shin-Etsu Silicones Thailand Ltd.(1)	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd.(1)	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 28
Shin-Etsu MicroSi, Inc.(1)	100.0	December 31
Shin-Etsu Silicone Taiwan Co., Ltd.(1)	93.3	December 31
Shin-Etsu Silicones of America, Inc.(1)	100.0	December 31
Shin-Etsu Silicones Europe B.V.(1)	100.0	December 31
Shin-Etsu Sealant Co., Ltd.	100.0	March 31
Shin-Etsu Unit Co., Ltd.	100.0	March 31
Shin-Etsu Opto Electronics Co., Ltd.(1)	80.0	December 31
Shin-Etsu Polymer (Malaysia) Sdn. Bhd.(1)	100.0	December 31

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shin-Etsu Polymer Europe B.V.(1)	100.0	December 31
Shin-Etsu International Europe B.V.(1)	100.0	December 31
Nihon Resin Co., Ltd.	100.0	December 31
Naoetsu Precision Co., Ltd.	100.0	February 28
Skyward Information Systems Co., Ltd.	100.0	March 31
Shinano Electric Refining Co., Ltd.	75.3	March 31
Fukui Environmental Analysis Center Co., Ltd.	100.0	February 28
Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu Technology Service Co., Ltd.	76.9	February 28
Urawa Polymer Co., Ltd.	100.0	March 31
Shin-yo Home Service Company	100.0	March 31
Niigata Polymer Company Limited	100.0	March 31
Shin-Etsu Polymer America, Inc.(1)	100.0	December 31
Naoetsu Sangyo Limited	100.0	March 31
San-Ace Co., Ltd.	100.0	March 31
Shinken Total Plant Co., Ltd.	100.0	February 28
Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Magnet Co., Ltd.	100.0	March 31
Shin-Etsu Polymer Mexico S.A. de. C.V.(1)	100.0	December 31
PT. Shin-Etsu Polymer Indonesia(1)	100.0	December 31
Shin-Etsu Polymer Shanghai Co., Ltd.(1)	100.0	December 31
Shin-Etsu Polymer Hungary Kft.(1)	100.0	December 31
Human Create Co., Ltd.	100.0	March 31
Suzhou Shin-Etsu Polymer Co., Ltd.(1)	83.6	December 31
S.E.H. (Shah Alam) Sdn. Bhd.(1)	100.0	December 31
Simcoa Operations Pty. Ltd.(1)	100.0	December 31
Shincor Silicones, Inc.(1)	100.0	December 31
K-Bin, Inc.(1)	100.0	December 31

8 other consolidated subsidiaries

(1) Overseas subsidiary
(2) S.E.H. Malaysia Sdn. Bhd. issues non-voting shares

Report of Independent Auditors

To the Board of Directors
Shin-Etsu Chemical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Shin-Etsu Chemical Co., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2006, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin-Etsu Chemical Co., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2006, and the consolidated results of their operations and cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama Pricewaterhouse Coopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 29, 2006