



maintain continuous growth

ANNUAL REPORT

2004



HIGHLIGHTS OF FISCAL 2004

- CONSOLIDATED NET SALES: US\$7,857 MILLION
- CONSOLIDATED NET INCOME: US\$706 MILLION
- MARKET CAPITALIZATION: US\$17,755 MILLION (AS OF MARCH 31, 2004)
- U.S. PATENTS GRANTED IN 2003: 173

CONTENTS

Financial Highlights	1
To Our Shareholders	2
Operational Overview	6
Research and Development Activities	12
Environmental Management and Community Relations Activities	14
Year in Review	16
Financial Section	17
Shin-Etsu's Worldwide Network	42
Board of Directors	44
Investor Information	45

Forward-Looking Statements

This Annual Report contains forward-looking statements based on management's assumptions in light of information currently available. Readers are advised that actual results may differ materially from these forward-looking statements.

FINANCIAL HIGHLIGHTS

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

Fiscal years ended March 31, 2004, 2003, and 2002

	Millions of Yen		
	2004	2003	2002
For the Year:			
Net sales	¥ 832,805	¥ 797,523	¥ 775,097
Operating income	125,626	122,150	114,724
Net income	74,806	73,016	68,519
Capital expenditures	113,591	75,221	81,543
Net income per share (Yen)	177.25	173.13	162.93
Cash dividends per share (Yen)	16.00	14.00	12.00
Return on equity (ROE) (%)	8.6	8.8	9.0
At Year-End:			
Total assets	¥1,386,216	¥1,310,875	¥1,288,432
Working capital	401,879	409,262	363,677
Stockholders' equity	900,724	846,962	812,068
Number of employees	17,384	16,573	16,456
	Millions of U.S. Dollars		
	2004	2003	2002
For the Year:			
Net sales	\$ 7,857	\$ 7,524	\$ 7,312
Operating income	1,185	1,152	1,082
Net income	706	689	646
Capital expenditures	1,072	710	769
Net income per share (Dollars)	1.672	1.633	1.537
Cash dividends per share (Dollars)	0.151	0.132	0.113
Return on equity (ROE) (%)	8.6	8.8	9.0
At Year-End:			
Total assets	\$13,078	\$12,367	\$12,155
Working capital	3,791	3,861	3,431
Stockholders' equity	8,497	7,990	7,661
Number of employees	17,384	16,573	16,456

Note: The U.S. dollar amounts represent conversions of yen, for convenience only, at the rate of ¥106=US\$1.



In fiscal 2004, the year ended March 31, 2004, we achieved consolidated net sales of ¥832.8 billion, an increase of 4.4% from the previous fiscal year. Operating income grew by 2.8% to ¥125.6 billion. Net income climbed 2.5% to ¥74.8 billion, marking the 11th consecutive year of increase and a new record-high for the ninth year in a row. Consolidated net income per share rose ¥4.12 to ¥177.25.



Management Policy

The Shin-Etsu Group strives to maintain continuous growth over the long term. Our wide-ranging business activities, based on a policy of strict regulatory compliance and fairness, are designed to benefit local communities and society as a whole. In keeping with this basic underlying precept, we are working to achieve stable revenue and earnings growth, and to maximize corporate value. By these means, we will continue making every effort to fulfill our shareholders' expectations.

Amid a constantly changing business environment and intensifying international competition, the achievement of sustained growth is a real challenge. To sustain growth potential now and in the future, the Shin-Etsu Group is focusing on two basic areas: cultivating businesses with future growth potential from a long-term standpoint, and achieving consistently favorable results in our daily business activities.

With respect to businesses with future growth potential, we are working to develop promising new opportunities focusing on a two to five year time frame. At the same time, we are implementing other meaningful measures, including the creation of a production structure that is alert to future changes in the operating environment.

In order to attain steady results in our daily business activities, we are focusing our efforts on attaining world-class technologies, quality and cost competitiveness, while building stable business relationships with customers around the world. At the same time, we are enhancing our ability to respond to the overall economic environment and short-term changes in market conditions. Through these initiatives, we are primarily concentrating on the expansion of revenues and earnings.

By bolstering our growth potential through these measures, we are endeavoring to avoid a "hardening" of our organizational ways, thereby enhancing flexibility in management in order to swiftly address changes in the operating environment.



Cellulose derivatives business based in Wiesbaden, Germany acquired from Clariant Group and SE Tylose GmbH & Co. KG established

Fiscal 2004 Highlights

In the fiscal year under review, China was an engine of growth for the global economy. However, concerns emerged regarding inflation in materials prices due to the rise in energy prices and other factors. The Japanese economy continued to present a challenging operating environment despite such positive signs as the growth in the digital home-electronics sector.

Amid these operating conditions, the Shin-Etsu Group posted its ninth consecutive year of record-high consolidated net income. Our subsidiary Shintech Inc., the largest PVC manufacturer in the United States, recorded a growth in earnings. The Group's semiconductor silicon wafer businesses, which include specialized wafers, also made a major contribution, thanks to their aggressive development aimed at meeting market needs.

The Shin-Etsu Group also reinforced existing core businesses. A major highlight was our acquisition of the cellulose derivatives business of Clariant Group. As a result, we now have cellulose derivatives operations in Japan and Europe that are in a position to address the needs of industries across a broader geographical base.

In the semiconductor silicon wafer business, as part of an ongoing process, we expanded the production capacity of the Shirakawa plant in Japan during the fiscal year under review. By December 2004, we plan to further increase its capacity to 300,000 pieces per month. While carefully analyzing demand trends, we intend to continue actively expanding the semiconductor silicon wafer business, including the production of specialized wafers.

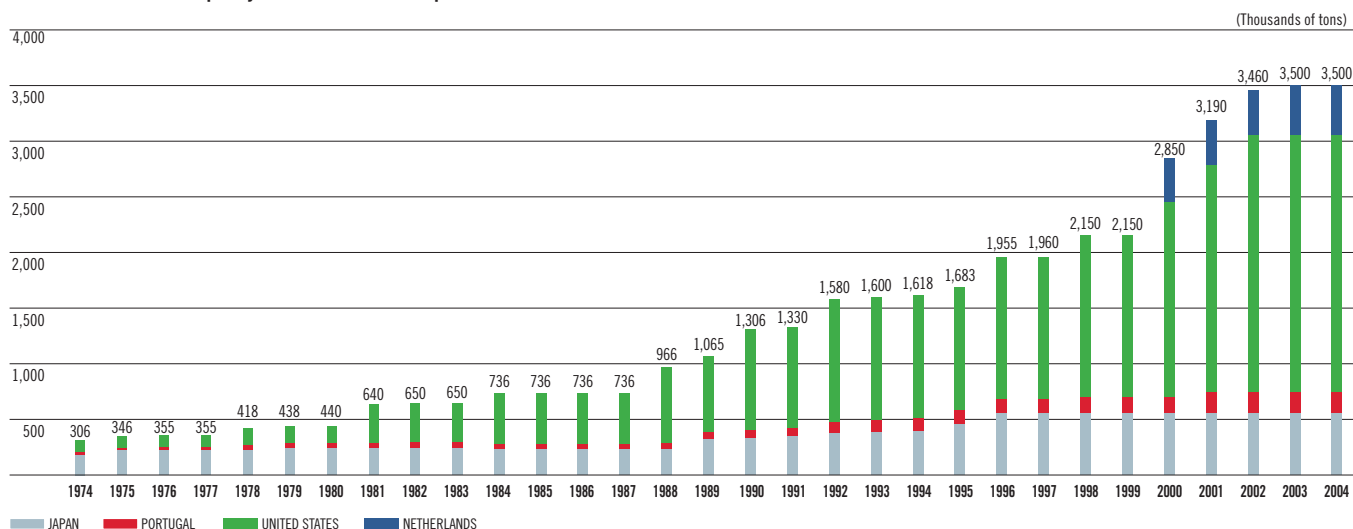


Shin-Etsu Handotai Co., Ltd. Shirakawa plant

Research and Development

Through its ambitious R&D program, the Shin-Etsu Group is focusing on the reinforcement of our existing and peripheral businesses as well as the development of new businesses. Our R&D efforts require a clear view of future technical possibilities and market opportunities. To this end, we have

Total PVC Production Capacity of the Shin-Etsu Group



established the New-Z Committee to exhaustively study the issues and choose the best R&D programs. We are constantly reassessing our R&D methods to find the optimal method to achieve commercialization.

Given the accelerating pace of technological innovation, we are redoubling our efforts in R&D activities, especially in growing markets, in order to quickly develop new products and applications.

Financial Strategies

The Shin-Etsu Group is building a solid earnings structure that generates funds for reinvestment in growth fields. In addition, we are pursuing mergers and acquisitions as well as developing other methods to create a framework that ensures a swift response to the ever-changing business environment.

Key investments made in fiscal 2004 included the acquisition of the aforementioned cellulose derivatives production facility in Europe. The Company also significantly increased its production capacity for 300mm semiconductor silicon wafers.

Our dividend policy is based on a long-term perspective and emphasizes the continued distribution of stable dividends, the expansion of business revenues and reinforcement of the corporate structure. We have steadily increased cash dividends through this policy. For fiscal 2004, for example, we have declared total cash dividends of ¥16.00 per share, an increase of ¥2.00 from the previous fiscal year, and more than double the dividend of ¥7.50 per share distributed in fiscal 1997.

Environmental Protection

Our fundamental policy is to minimize the impact of our business activities on the natural environment. In implementing this policy, we have obtained ISO 14001 certification for environmental management systems at all facilities of the parent company and the principal factories of our other Group companies.



Shintech will mark its 30th anniversary in October 2004

In the production stage, the Shin-Etsu Group concentrates on the manufacture of products that are safe for customers, that effectively use resources that conserve energy and do not emit harmful substances.

As a good citizen, we are strengthening efforts to benefit society by participating in local community programs aimed at protecting the environment. We are committed to continuing the development of technologies that increase product safety and decrease environmental impact.

Corporate Governance

To enhance corporate governance, we have added experienced outside directors to the Board of Directors. In fiscal 2003, we set up the Risk Management Committee to further strengthen risk-management capabilities.

Growing Together

At the Shin-Etsu Group, we are committed to growing together with our customers and suppliers. Accordingly, we constantly strive to achieve short-term targets, cultivate new businesses from a long-term perspective and build a highly efficient production structure.

In conclusion, we would like to express our sincere appreciation for the continued support of our shareholders, customers and suppliers.

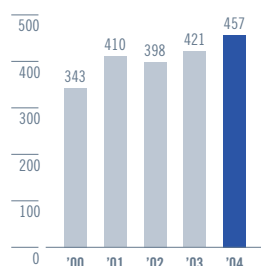
A handwritten signature in black ink, appearing to read 'C. Kanagawa'.

Chihiro Kanagawa
President and CEO

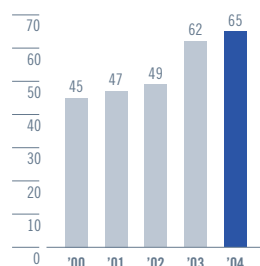
Organic and Inorganic Chemicals

Organic and Inorganic Chemicals

Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Polyvinyl Chloride (PVC)

Comprised of only 40% petroleum, PVC is an outstanding general-purpose resin, offering a wide range of advantages including ease of processing and low cost. PVC is one of the most advanced plastic materials in terms of recycling, where scrap plastic is physically turned back into reusable plastic. PVC also has excellent environmental qualities from a life cycle assessment perspective, which reflects the impact a material has on the environment from resource extraction to final disposal. Moreover, PVC window profiles are attracting attention as a building material for their exceptional heat-retention properties. These fully comply with energy conservation requirements, reduce heating and cooling bills, and prevent condensation from forming around windows for a more comfortable living environment.

In the United States, the use of PVC in pipes and siding is increasing,

with similar growth in applications for pipes and window profiles in Europe and Asia. Particularly in China, where extensive growth centered on building materials and consumer goods is boosting PVC demand, Shin-Etsu is responding to such a demand through mainly exports from Japan. We expect solid growth in demand in regions around the world.

Shintech Inc. in the U.S., which will mark its 30th year of operations in October 2004 and is the hub of the Shin-Etsu Group's PVC business, has established a strong foothold in the market as a world-leading PVC manufacturer. In Europe, Shin-Etsu PVC B.V. in the Netherlands increased its production capacity for PVC resins and monomers during the fiscal year under review. Using its tripolar production structure in Japan, the United States and Europe, the Shin-Etsu Group boasts an annual production capacity of 3.5 million tons. As the world's largest producer of PVC, Shin-Etsu will continue to capitalize on its strengths in production capacity, as well as on the extensive sales networks it is nurturing throughout the global market.

Silicones

Shin-Etsu's silicone business celebrated its 50th anniversary in 2003. Thanks to its reputation for customer-centered responses during that time, Shin-Etsu silicones are now found in more than 4,000 products in the electric machinery, electronics, transportation equipment, construction, cosmetics, toiletries and chemical industries. Shin-Etsu silicones continue to contribute to the high performance, advanced functions and innovative features of products.

Among a variety of applications, silicone serves as an efficient heat



Cellulose derivatives for pharmaceuticals are used as coatings for pills. The material can be adjusted to allow release of the medicine in the stomach or intestines, and to provide sustained release



Simcoa Operations Pty. Ltd. engages in the manufacture of silicon metals



Shown here are white powder-form PVC polymer and pellet-form compounds

Used at fruit orchards, synthetic pheromones control the populations of harmful insects by disrupting the insects' mating behavior



Thanks to its superior adhesiveness, durability and deep hardening qualities, the Company's silicone-based, highly efficient and elastic joint sealing material has produced real results in aquariums and other large-size water tanks around the world



transfer medium in electrical and electronic devices. Shin-Etsu has also produced a multipurpose silicone oil and is continuously developing new modifications and alternatives for plastic applications. In cosmetics, we are pursuing silicone products that enhance skin softness and are easy to apply, in response to market demands. We are also pursuing the development of non-solvent agents for applications in electric machinery, electronics and paper release products in line with heightened concerns over the environment. In the future, Shin-Etsu will promote the development of new products and applications across a wide variety of sectors and maximize the unique properties of this type of product.

Overseas, Shin-Etsu is working to quickly realize the full potential of an integrated production structure in Thailand, beginning with silicone monomer. Shin-Etsu Polymer Co., Ltd., which processes silicone, established a local subsidiary in Hungary, the Group's second manufacturing base in Europe, that began operations in March 2004, to complement its existing base in the Netherlands. The new base will produce key devices for mobile phones and other electric equipment.

Cellulose Derivatives

As environment-friendly materials made from cultivated plants, cellulose derivatives have a vast range of applications that includes applications in construction and civil engineering, agriculture, additives for fine ceramics and paper processing as well as in pharmaceuticals and toiletries, where safety is paramount.

Cellulose derivatives are used for coatings and binders for pharmaceutical tablets and granules. In industrial-use products, cellulose

derivatives are used for binders for shaping ceramic converters that purify automobile exhaust emissions.

At the end of 2003, Shin-Etsu acquired the cellulose operations of Clariant Group. Combined with existing operations, this acquisition has made Shin-Etsu the world's largest producer of methyl cellulose. Shin-Etsu aims to further expand the cellulose business by leveraging the special properties of cellulose derivatives.

Other Products

The Shin-Etsu Group manufactures an abundant lineup of products including synthetic pheromones and acetylene derivatives. In the field of agriculture, synthetic pheromones have been developed as agents to control the populations of harmful insects by disrupting the insects' mating behavior. Their use has increased in many parts of the world such as in the United States and Europe for crops like apples, peaches, pears, and vines. In Japan, our products are also coming into wide use in apples, peaches, pears, cole crops and in tea orchards. Shin-Etsu also produces and markets acetylene derivatives such as synthetic aroma chemicals that are used across a wide range of applications, for example, perfumes, cosmetics, and food flavorings.

Shin-Etsu also manufactures silicon metal. Silicon metal is an essential raw material in such products as silicones, semiconductor silicon, and synthetic quartz, which are among the Group's core businesses. Through its wholly owned subsidiary in Western Australia, Simcoa Operations Pty. Ltd., the Company is securing stable and high-quality supplies of this valuable commodity.

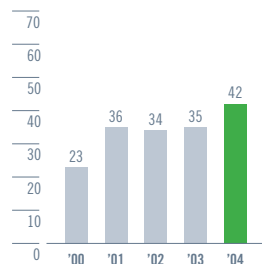
Electronics Materials

Electronics Materials

Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Semiconductor Silicon

As a global leader in the field of silicon wafers, the building blocks of integrated circuits, the Shin-Etsu Group continuously strives to develop cutting-edge technologies for producing larger-diameter, super flat and low-defect silicon wafers. Silicon wafers have been one of Shin-Etsu's conspicuous growth areas in recent years. The Company has manufacturing bases in Japan, Malaysia, Taiwan, the United States, and the United Kingdom, which collectively account for more than 30% of total global sales, representing the top share in the world market.

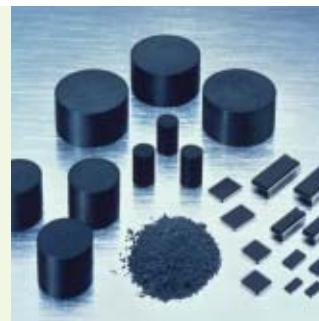
In the second half of the fiscal year ended March 31, 2004, the semiconductor silicon business recorded a new high in shipment volume of mainstay 200mm wafers. This resulted from considerably stronger demand for devices in accordance with firm sales of PCs and digital home electronics.

Shin-Etsu Handotai Co., Ltd. (S.E.H.)'s Shirakawa Plant boasts an approximately half share of the market in the commercial production of cutting-edge 300mm wafers. Owing to steady expansion in the 300mm wafer market, production capacity at the Shirakawa Plant had reached 200,000 wafers per month as of March 31, 2004. Based on the continuing upturn in the semiconductor industry, we expect demand to increase in the future. Accordingly, Shin-Etsu has begun construction of facilities to expand production capacity to 300,000 wafers per month in 2004 in line with that anticipated increase.

Shin-Etsu is also endeavoring to increase sales of new products such as silicon on insulator (SOI) wafers and special wafers, whose applications are expanding to highly functional devices. The Company is working to strengthen competitiveness in 200mm and smaller products through measures to streamline and optimize production as well as improve quality.



Silicon wafers boast a degree of evenness to within 100 nanometers

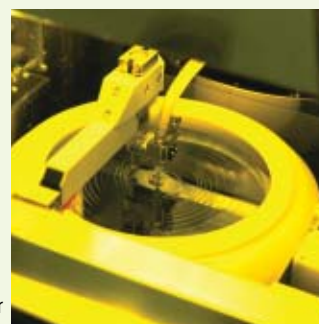


Epoxy molding compounds prevent semiconductor circuit leaks, protect regular and large-scale circuits from humidity, and are outstanding in terms of heat- and shock-resistance

Examples of wide-rimmed single crystal silicon ingots



Examples of voice coil motors for hard disk drives (HDDs)



Photoresist spin-coated onto a wafer

Rare Earth Magnets

Rare earth magnets are characterized by their high efficiency, exhibiting a force ten times that of ferrite magnets. These magnets are supporting efforts to create compact, lightweight, high-performance and energy-saving electric and magnetic components. The largest demand for rare earth magnets is for use in voice coil motors (VCM) for hard disk drives (HDDs) in which we maintain the leading global share. In addition, Shin-Etsu is the only company in the world carrying out integrated production of high-quality rare earth magnets from high-purity rare earth to the finished product. Leveraging this position, we will ensure a stable supply and the highest product quality, while swiftly developing new products and applications that match the needs and objectives of customers.

Epoxy Molding Compounds

Epoxy molding compounds are chip encapsulation materials used in the vast majority of semiconductor products from a single semiconductor to main memories and central processing units (CPUs). Deploying the cutting-edge technologies that it has accumulated through its development of various types of silicone, Shin-Etsu is delivering unique products that distinguish it from competitors. In an effort to adapt to needs for environmental conservation, Shin-Etsu has developed a green epoxy molding compound (EMC) product to fulfill recent application requirements.

Photoresists and Pellicles

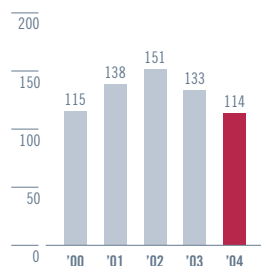
Shin-Etsu has commercialized a photoresist compatible with excimer lasers, a light-sensitive material used in the imprinting of semiconductor circuits. The Company has also successfully developed pellicles and dust covers for photomasks, which are used for excimer laser lithography.

Shin-Etsu maintains a close bond with the semiconductor industry through its number one share of the wafer market, and supplies the main materials essential to the lithography process utilized by semiconductor device manufacturers. To maximize the benefits of this unique position, we are working in parallel with users in the development of the next-generation argon fluoride (ArF) photoresist.

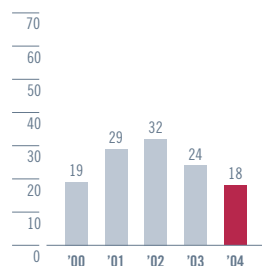
Functional Materials and Others

Functional Materials and Others

Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Synthetic Quartz Products

Synthetic quartz products are key contributors to the spread of optical fiber networks, which support the growth of network computing, and the development of LSIs and liquid-crystal display panel technologies. Our synthetic quartz products — including preforms for optical fibers, photomask substrates for LSIs, large mask substrates for liquid crystals, and others — provide indispensable material for the information technology (IT) industry. Based on our accumulated know-how in silicon chemistry, Shin-Etsu was the first in the world to successfully mass-produce synthetic quartz with a purity greater than that of natural

quartz. We have positioned the synthetic quartz business as one of important businesses in our strategy.

Despite a decline in global demand for preforms for optical fibers, Shin-Etsu is pursuing research into and development of high-quality products for the future.

Moreover, Shin-Etsu aims to respond in step with expected growth in demand for large mask substrates, which are used to manufacture liquid crystal panels, and maintain its leading share of the market.

Rare Earth Magnets for General Applications, and Rare Earths

Rare earth magnets for general applications are contributing to the realization of products that are more compact and lightweight, and have higher outputs, such as motors. Using their outstanding capabilities, these rare earth magnets have various applications in everyday life such as in energy-saving air conditioners, motors for automobiles and optical pickups in CD players. In addition, rare earth magnets have begun to be used in energy-saving and eco-friendly applications, including motors for fuel cell cars, which are becoming more practical as a clean transportation means, as well as in motors for hybrid vehicles that are gaining in popularity.

By using our original high-level separation and refining technologies and physical property control technologies for rare earth products, we



Optical-fiber preforms with diameters of 160mm and lengths of 1,500mm will eventually become roughly 2,000km of optical fiber



Flexible copper-clad laminates essential for flexible printed circuit boards (FPCs)

Rare earths are the general designation for 17 elements, including the 15-element Lanthanides series plus Yttrium and Scandium



Shin-Etsu's rare earth magnets are used in wind turbine generators



SIFEL® is expected to contribute to improved products in numerous fields, including automobiles

have attained rare earths with 99.9999% purity. These rare earths are used for a wide variety of applications, including plasma displays, LCD TVs, the luminescent center of lasers, and oxygen sensors, catalytic converters and capacitors for automobile engines. Looking ahead, we anticipate that the number of applications for these rare earths will grow even further.

Liquid Fluoroelastomers SHIN-ETSU SIFEL®

Shin-Etsu was the first company in the world to successfully develop a liquid fluoroelastomer, SHIN-ETSU SIFEL®, that comes in a liquid or paste form prior to hardening and then becomes elastic after thermal curing. SHIN-ETSU SIFEL® has superior qualities in terms of its resistance to oil, solvents, chemicals and heat, as well as low-temperature and electrical qualities. SHIN-ETSU SIFEL® contributes to increased reliability in the shape of rubber molds and sealants in the automobile, aircraft, electric and electronic, office equipment and chemical industries. Based on its attractive characteristics, we believe SHIN-ETSU SIFEL® will be used in an increasing number of application areas.

Flexible Copper-Clad Laminates

Shin-Etsu has developed flexible copper-clad laminates with superior flexibility by affixing copper foil to polyimide film using its proprietary

technology, thereby contributing to market expansion.

As the principal new material for thin and lightweight flexible printed circuit boards, flexible copper-clad laminates contribute to more compact and lightweight mobile phones, digital cameras, flat-display panel TVs, DVD recorders and players as well as other digital home electronics.

Others

The Electro-Mechanics Division of Shin-Etsu Engineering Co., Ltd., a Shin-Etsu Group company, has enjoyed sharp growth in sales of panel alignment machines for the fast-growing LCD and PDP markets, which are supporting recent rapid growth in the digital home electronics field. As larger panel sizes are key to flat-panel TV market expansion, the Shin-Etsu Group will continue to provide panel alignment machines that meet industry needs.

RESEARCH AND DEVELOPMENT ACTIVITIES



PVC & Polymer Materials Research Center

(Shin-Etsu Chemical, Kashima)

This center supports the technologies of Shin-Etsu Group PVC manufacturing bases worldwide, with research into the manufacturing process focusing on improved productivity and consistent quality of PVC products, in addition to applied research. Further, the center is developing flexible copper-layered laminates that use the Company's proprietary plastic molding technologies.



Silicone-Electronics Materials Research Center

(Shin-Etsu Chemical, Gunma)

As a comprehensive research center for silicones and organic electronics materials, this is the Group's largest research center and engages in a wide spectrum of research, from basic research to application. This center is also in charge of developing SIFEL[®], a new fluoroelelastomer developed with the Group's proprietary synthetic technologies.



Specialty Chemicals Research Center

(Shin-Etsu Chemical, Naoetsu)

Using proprietary organic synthesis technologies, this center is working to develop a variety of cellulose derivatives, synthetic perfumes, synthetic pheromones, and specialty silanes. The center is also active in the development of synthetic quartz substrate materials.



New Functional Materials Research Center

(Shin-Etsu Chemical, Naoetsu)

A base for the development of KrF photoresists for excimer lasers, in which the Group holds a top share in the world market, this center is also presently working on the development of next-generation ArF photoresists.

The Shin-Etsu Group has designated innovative R&D as a crucial asset that will pave the way for future growth. Accordingly, we have established an organization consisting of more than 900 researchers and allocated ¥26.3 billion for R&D activities, which accounts for approximately 3.2% of total annual sales. The Group carries out its vigorous R&D activities primarily through 10 research centers operated by Group companies nationwide.

Our R&D activities are guided by the fundamental policies of selection and concentration, originality, raising value added, and speed. The ultimate goal is to develop high-value-added and original materials and products through the fusion of proprietary technological seeds with up-to-date information on market needs, and to commercialize the results of these R&D efforts in the shortest period of time by undertaking more efficient R&D activities.

Our principal research themes can be broadly divided into two categories. The first category comprises research themes related to existing mainstay businesses that support the Group. The second comprises new research themes that will lead to the creation of new businesses that are expected to contribute to the long-term growth

and future expansion of the Group. Both of these themes require a time horizon of several years.

We place top priority on present research in our existing principal business segments. Based on the close interplay among marketing, research, and manufacturing, we are working to maintain and raise the levels of our world-class technologies, product quality, and cost competitiveness. We also strive to accelerate the development of new products and applications by making every effort to understand our customers' needs, strengthen existing businesses and peripheral operations, and delivering optimal solutions, which will contribute to an expansion of sales and income. To carry out R&D activities in existing businesses more efficiently, the Shin-Etsu Group research laboratories have been established at all manufacturing plants.

In the area of new research themes, the Z Committee headed by the Company president and the New Z Committee select new areas of business for further research based on a process of strict evaluation and deliberation. Upon considering our seeds, such as process technology, characterization and analysis technologies, we select



Advanced Functional Materials Research Center

(Shin-Etsu Chemical, Gunma)
Based on its accumulated single-crystal-growing, fine-processing, and thin-film technologies, this center is undertaking development in a wide range of advanced materials that includes oxide single crystals and synthetic quartz. In addition, this center is in charge of developing optical components for isolators and others.



Semiconductor Research Centers (Shin-Etsu Handotai, Isobe and Shirakawa)

Based on cooperative ties, these centers are working to support improvements in the quality of silicon wafers in such areas as crystallization and flatness. They are also progressing with the development of technologies for the introduction of large-diameter and high-flatness wafers.

Isobe



Magnetic Materials Research Center (Shin-Etsu Chemical, Takefu)

Supporting our rare earth-related businesses, this comprehensive research center engages in a wide spectrum of research ranging from the separation and refining of rare earths to their applications. This center also concentrates on uses for rare earth metals and oxides, and on the development of rare earth magnets that use rare earth as a raw material. In particular, this facility has earned high acclaim from customers for its magnetic field analysis and magnetic circuit design technologies.



Shirakawa

those researchers most qualified to nurture each particular new project along the new research theme. The Z Committee has compiled a solid record of achievement that includes photoresists for excimer lasers and SIFEL[®], a new fluoroelastomer.

Amid acceleration in technological innovation, our research into new business areas will focus on the semiconductor and information communications industries. In an effort to ensure competitive advantage in the 21st century and create new businesses that will drive our future growth, we will actively pursue new research themes in growing markets such as the environment, energy and food.

Moreover, the Shin-Etsu Group engages in joint research initiatives with other companies and universities. To this end, we vigorously carry out research with customers on the application of those materials we develop. To further enhance the efficiency of our R&D activities, we also commission portions of our basic research to universities and research institutes.

In our R&D activities, we must concentrate research efforts on the generation of corporate revenues and earnings. In this context, Shin-Etsu has established an incentive and bonus scheme that

rewards researchers whose activities contribute significantly to the Company's performance.

Legally recognized rights that protect the results of our R&D activities raise the value of our R&D commitment as a management resource. Accordingly, the Shin-Etsu Group considers "the acquisition of patents as the finishing touch to its R&D activities" and concentrates on the acquisition of intellectual property rights.

In particular, Shin-Etsu has been a pioneer in its industry in the development of overseas operations. Consequently, we have established an outstanding track record in the acquisition of overseas patents. As of the end of March 2004, the entire Shin-Etsu Chemical Group in Japan held 4,075 domestic and 4,204 overseas patents, for a total of 8,279. In 2003, two Group companies—Shin-Etsu Chemical Co., Ltd. and Shin-Etsu Handotai Co., Ltd.—acquired 173 patents in the United States, placing us second among Japanese chemical companies. Moreover, approximately 20% of PVC plastic produced throughout the world is manufactured under technology licensed from Shin-Etsu.

ENVIRONMENTAL MANAGEMENT AND COMMUNITY RELATIONS ACTIVITIES

VIGOROUS PROMOTION OF ENVIRONMENTAL MANAGEMENT

In August 1998, the Shin-Etsu Group adopted an Environmental Charter, which serves as a guideline for environmental management toward realizing a society capable of sustainable development, as the Group vigorously carries out its worldwide business activities. As part of the Environmental Charter, the Shin-Etsu Group has formulated this basic philosophy: "Shin-Etsu Chemical Co., Ltd. recognizes global environmental protection as one of the most important issues facing humankind. Shin-Etsu believes in the fundamental principle of giving environmental consideration to every aspect of its business activities as it aims at contributing to a society in which sustainable development is possible." This basic philosophy contains five action guidelines.

In July 1996, our Gunma Complex acquired ISO 14001 certification, the international standard for environmental management systems. This was the first such achievement for a leading chemicals company in Japan. By March 2001, all of Shin-Etsu's production bases as well as its principal subsidiaries and affiliates, including Shin-Etsu Handotai, had also received the certification. Likewise, each production base is responsible for defining its own environmental policies based on the Environmental Charter. Shin-Etsu is dedicated to countering the inevitable results of product manufacturing and the creation of by-products, wastewater, and gases. We work to recycle to the greatest degree possible, reduce the volume of non-recyclable materials, and dispose of harmless materials in specified locations.

Furthermore, in response to various environmental problems ranging from regional to global issues, we have identified the following themes for our continual improvement in reducing environmental burdens: reducing greenhouse gases, conserving energy, cutting waste materials, and properly controlling and managing chemical substances.

Contributing to the Prevention of Global Warming

While working to conserve energy at each production base, Shin-Etsu makes efforts to reduce the discharge of such greenhouse gases as carbon dioxide, methane gas and chlorofluorocarbon gas, which are causes of global warming. In addition to our response to global warming issues, Shin-Etsu abolished the use of specified chlorofluorocarbons in 1995 because of damage to the ozone layer. Shin-Etsu Group is also vigorously promoting the introduction of cogeneration systems, which are currently being commercialized. Through the effective use of energy, we are reducing consumption of fossil fuels and cutting down on emissions of greenhouse gases such as carbon dioxide.

Promoting the Production and Supply of Eco-products

The Shin-Etsu Group is often viewed as a petrochemical manufacturer because it is the world's largest producer of polyvinyl chloride (PVC). However, the raw material used in most of our products, silicon, is found

in abundant quantities around the world, as in, for example, synthetic quartz, which is used in silicones (silicon resin) and optical fiber. PVC is made of 57% sodium chloride and 43% petroleum, a markedly lower amount of petroleum compared with other types of plastic. Among the diverse range of materials and products that we produce and supply to the market are a number that actually help reduce the burden on the environment.

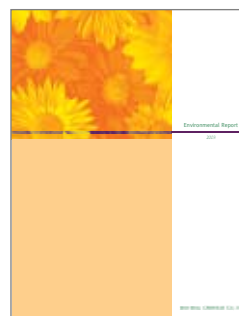
PVC is used in the construction and civil engineering fields because of its superb anticorrosive and weather-resistant properties. Among such products, vinyl sash has attracted attention because of its thermal retention and insulating capabilities that are comparatively better than aluminum sash. When used as a window frame, vinyl sash enables a 50% reduction in energy consumed in heating and cooling processes compared with alternative products.

Synthetic pheromone-type pest killer is a revolutionary product that replaces the use of insecticides, the conventional method for killing pests. Instead, our synthetic pheromone-type pest-killing product is being used increasingly in apple, pear and peach orchards as well as tea plantations. Because synthetic pheromone chemicals are made of synthetic natural substances, their toxicity is minimal compared with conventional insecticides and agricultural chemicals. Moreover, the synthetic pheromone does not cause environmental pollution since decomposition produces only carbon dioxide and water.

Rare earth magnets are used in the motors of energy-saving air conditioner compressors. Silicones reduce the environmental burden by modifying the composition of plastics. This use of silicones to modify rubber in tires contributes to reductions in CO₂ emissions as well as SO_x and NO_x by improving fuel efficiency in automobiles.

Environmental Action Plan

The Shin-Etsu Group establishes individual environmental objectives and targets at each production base in line with its Environmental Charter to vigorously preserve the environment.



Shin-Etsu
Environmental Report 2003

Promoting Measures for Prevention of Environmental Pollution

Shin-Etsu promotes measures to prevent environmental pollution, and strives toward environmental preservation on a global basis, particularly in the preservation of our earth's water and air supplies.

Promoting Energy Saving

Shin-Etsu aims to raise the utilization efficiency of electricity and steam while cutting back on petroleum-based energy.

Achieving Zero Emissions (Waste Reduction)

Shin-Etsu plans to achieve zero emissions by promoting reductions in the volume of raw materials used as well as through recycling and reusing waste.

For more detailed information on our environmental activities, please visit our Web site at <http://www.shinetsu.co.jp/e/profile/kankyo.shtml>.

COMMUNITY RELATIONS ACTIVITIES

Shin-Etsu believes that in addition to maximizing corporate value, companies also have a fundamental responsibility to be good citizens. Our commitment to this ideal goes beyond mere words and into daily activities at Group companies. We focus both on the big issues that have an impact on the world, and on the small issues that affect local communities. Among some of its regular efforts, Shin-Etsu promotes cleanup activities around its production plants and hosts various community events and festivals. The Group aims to continue being a partner to communities around the world.

In 2003, CIRES, a Shin-Etsu subsidiary based in Portugal and a member of the Association of Plastics Manufacturers in Europe (APME), participated in an online fund-raising campaign to help provide African countries with safe water resources. WaterAid and APME together are helping to promote the development of safe water supplies, sanitation, and hygiene in African countries, such as in Nigeria, where only 57% of the population has access to safe drinking water. The funds raised will help some 130,000 people in Nigeria's Plateau and Bauchi states, out of Nigeria's total population of 111 million people, the largest population in Africa.

Shin-Etsu was a major contributor to these efforts and the fund-raising project by visiting the CIRES website at <http://www.cires.pt> during the campaign period, which culminated in June 2003. For every visitor to the website who clicked on the "One Click For Every African Child" link, directing them to the Aquaplastics website, resulted in a 10-cent donation to WaterAid by the European plastics industry. In this way, Shin-Etsu's collaboration helped CIRES reach their goal of 1.5

million clicks, 150,000 euros, thereby saving the lives of thousands of African children.



Water Aid / Caroline Penn

Down under, the Shin-Etsu Australian affiliate Simcoa, previously recognized for its commitment to environmental conservation efforts, takes action again—this time in the Greenhouse Challenge. The Greenhouse Challenge is a joint initiative between the Australian government and industries, including 800 participating Australian companies to abate greenhouse gas emissions. Simcoa took on the challenge early in 2003 to cooperate in one of Australia's most successful responses to climate change, which began in 1995.

Environmental challenges are nothing new to Simcoa, however, as it has been aware of these environmental issues since the 1980s, when the plant was commissioned. Consequently, Simcoa is now reaping the benefits of its continual improvements and initiatives since that time, with increased production and reduced greenhouse gas emissions. Simcoa's achievement of a nearly 20% reduction in greenhouse gases per ton of silicon is impressive, given the fact that electricity is a significant and necessary cost for the plant. Simcoa is excited about future possibilities for the abatement of greenhouse gases and the potential partnerships to be forged with other mining industries, and alternative, greenhouse-friendly power suppliers.

Simcoa strives to be an example for other members of the silicon industry and demonstrate to the community that we are taking action to further reduce emissions and are committed to working toward sustainability.

Shin-Etsu's global community activities are proof of our dedication to being a good citizen. It's the dedication of our employees around the world, creating better lives for everyone, who carry out our mission.



The Greenhouse Challenge Logo

YEAR IN REVIEW

Principal events during the past fiscal year

2003

May

- Started production of silicone at Zhejiang Shin-Etsu High-Tech Chemical Co., Ltd. in China.
- Shin-Etsu exhibited its quartz glass substrates at the 2nd International BIO Expo Japan.
- Exhibited automobile-related products at the JSAE Automotive Engineering Exposition 2003 in Japan.
- Shin-Etsu Polymer Europe B.V. exhibited a range of its silicone products at SENSOR 2003 in Nuremberg, Germany.

June

- Our cellulose derivative product “Metolose SH” was approved as a new food additive by Japan’s Health, Labour and Welfare Ministry.

August

- President and CEO Chihiro Kanagawa was honored with an Outstanding Manager Award at the 19th KKC Corporate Communications Awards of Keizai Koho Center (KKC), the public relations arm of the Japan Business Federation (Nippon Keidanren).
- Established Shin-Etsu Silicone International Trading (Shanghai) Co., Ltd. to sell our silicone products in China.

October

- The semicentennial of our silicone business.
- Shin-Etsu Polymer established a subsidiary in Hungary, Shin-Etsu Polymer Hungary Ltd., to produce keypads, mainly used in mobile phones and electronic equipment for automobiles.

November

- Announcement of agreement made to acquire Clariant’s cellulose business in Europe.
- Shin-Etsu PVC B.V. in the Netherlands increased its VCM/PVC production capacity.
- Shin-Etsu presented silicone products to the public at the 2003 Shanghai Organic Silicone and Fluorine Materials & Applications Exhibition.

December

- Concluded procedures for acquiring Clariant’s cellulose business, starting as SE Tylose GmbH & Co. KG in Germany.
- Exhibited semiconductor materials at SEMICON Japan 2003 held at Makuhari Messe (Nippon Convention Center).

2004

March

- Shin-Etsu Handotai announced a program to increase its 300mm silicon wafer production capacity by 50%, in order to reach an output of 300,000 wafers/month by the end of 2004.
- Shin-Etsu Polymer Hungary Ltd. started production.
- Shin-Etsu exhibited a selection of its silicone products to professionals at Personal Care Ingredients Asia (PCIA), an annual forum in the Asia-Pacific Region in China.

	Contents
18	Ten-Year Summary
20	Management's Discussion and Analysis
23	Consolidated Statements of Income
24	Consolidated Balance Sheets
26	Consolidated Statements of Stockholders' Equity
27	Consolidated Statements of Cash Flows
28	Notes to Consolidated Financial Statements
40	Consolidated Subsidiaries
41	Report of Independent Auditors
42	Shin-Etsu's Worldwide Network
44	Board of Directors
45	Investor Information

TEN-YEAR SUMMARY

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

Years ended March 31

(Millions of Yen, except per share)

	2004	2003	2002	2001
For the Year:				
Net sales	¥ 832,805	¥ 797,523	¥ 775,097	¥ 807,485
Operating income	125,626	122,150	114,724	112,677
Net income	74,806	73,016	68,519	64,505
Per Share (Yen):				
Net income—primary	177.25	173.13	162.93	153.58
Net income—fully diluted	173.52	169.36	159.38	150.24
Cash dividends	16.00	14.00	12.00	12.00
Capital expenditures	113,591	75,221	81,543	96,770
Depreciation	73,582	66,566	70,878	70,767
At Year-End:				
Total assets	¥1,386,216	¥1,310,875	¥1,288,432	¥1,265,799
Working capital	401,879	409,262	363,677	350,273
Common stock	110,493	110,272	110,260	110,247
Stockholders' equity	900,724	846,962	812,068	714,996
Stockholders' equity per share (Yen)	2,140.23	2,014.11	1,930.30	1,699.74
General:				
Number of employees	17,384	16,573	16,456	19,398
Number of shares issued (Thousands)	422,798	422,567	422,555	422,542

(Thousands of U.S. Dollars, except per share)

	2004	2003	2002	2001
For the Year:				
Net sales	\$ 7,856,651	\$ 7,523,802	\$ 7,312,236	\$ 7,617,783
Operating income	1,185,151	1,152,358	1,082,302	1,062,991
Net income	705,717	688,830	646,406	608,538
Per Share (Dollars):				
Net income—primary	1.672	1.633	1.537	1.449
Net income—fully diluted	1.637	1.598	1.504	1.417
Cash dividends	0.151	0.132	0.113	0.113
Capital expenditures	1,071,613	709,632	769,274	912,925
Depreciation	694,170	627,981	668,660	667,613
At Year-End:				
Total assets	\$13,077,509	\$12,366,745	\$12,155,019	\$11,941,500
Working capital	3,791,312	3,860,962	3,430,915	3,304,462
Common stock	1,042,387	1,040,302	1,040,189	1,040,066
Stockholders' equity	8,497,396	7,990,208	7,661,019	6,745,245
Stockholders' equity per share (Dollars)	20.191	19.001	18.210	16.035
General:				
Number of employees	17,384	16,573	16,456	19,398
Number of shares issued (Thousands)	422,798	422,567	422,555	422,542

Note: The U.S. dollar amounts represent conversions of yen, for convenience only, at the rate of ¥106=US\$1.

2000	1999	1998	1997	1996	1995
¥ 678,859	¥ 642,796	¥ 693,275	¥624,405	¥575,176	¥522,917
87,465	86,323	90,860	82,024	73,427	51,914
48,229	43,363	42,027	40,614	37,825	26,862
116.56	109.36	110.73	118.24	116.51	82.80
113.46	103.17	101.69	103.95	106.66	—
10.00	9.00	8.50	7.50	7.50	7.50
80,003	73,641	136,384	92,844	66,791	67,689
61,384	56,196	62,144	52,191	45,647	42,986
¥1,168,729	¥1,060,973	¥1,083,780	¥931,159	¥708,637	¥643,937
273,193	261,691	221,869	195,729	118,936	110,901
107,664	98,243	83,957	44,256	36,440	36,384
651,261	564,067	497,312	374,726	320,987	285,361
1,557.48	1,380.43	1,265.39	1,071.97	988.59	879.06
18,754	18,384	19,238	18,896	17,106	16,075
419,848	410,015	393,722	349,569	324,691	324,621

2000	1999	1998	1997	1996	1995
\$ 6,404,330	\$ 6,064,113	\$ 6,540,330	\$5,890,613	\$5,426,189	\$4,933,179
825,142	814,368	857,170	773,811	692,708	489,755
454,991	409,085	396,481	383,151	356,840	253,415
1.100	1.032	1.045	1.115	1.099	0.781
1.070	0.973	0.959	0.981	1.006	—
0.094	0.085	0.080	0.071	0.071	0.071
754,745	694,726	1,286,642	875,887	630,104	638,575
579,094	530,151	586,264	492,368	430,632	405,528
\$11,025,745	\$10,009,179	\$10,224,340	\$8,784,519	\$6,685,255	\$6,074,877
2,577,292	2,468,783	2,093,104	1,846,500	1,122,038	1,046,236
1,015,698	926,821	792,047	417,509	343,774	343,245
6,143,972	5,321,387	4,691,623	3,535,151	3,028,179	2,692,085
14.693	13.023	11.938	10.113	9.326	8.293
18,754	18,384	19,238	18,896	17,106	16,075
419,848	410,015	393,722	349,569	324,691	324,621

Overview of Consolidation

The Shin-Etsu Group is composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 90 subsidiaries, and 15 affiliates as of March 31, 2004.

The Shin-Etsu 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.

Consolidated Operating Performance

During the consolidated fiscal year (April 1, 2003 to March 31, 2004), the Japanese economy was again impacted by overall difficult operating conditions. Despite signs of a soft recovery in the second half fueled by export activity and private-sector capital investment, the general environment remained weak due to the continued slump in employment markets, sluggish personal consumption, and prolonged deflation. On the world stage, the global economy was favorably impacted by recoveries in the U.S., Southeast Asia and China. This was, however, tempered by concerns over rising crude oil prices.

Against this backdrop, each Shin-Etsu Group company (Shin-Etsu Chemical Co., Ltd., consolidated subsidiaries, and affiliated companies) continued sales efforts toward a broad variety of global customers, utilizing marketing know-how

accumulated across global markets and emphasizing the special features of the Company's products. At the same time, the Group actively promoted efforts to raise efficiency by optimizing use of its global production network, rationalization and other initiatives.

As a result, consolidated net sales for the fiscal year increased 4.4%, or ¥35.3 billion compared to the previous fiscal year, to ¥832.8 billion. Compared to the performance of the previous fiscal year, operating income rose 2.8%, or ¥3.5 billion, to ¥125.6 billion.

Net income for the period edged up 2.5%, or ¥1.8 billion, to ¥74.8 billion.

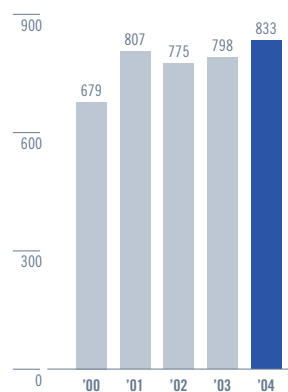
Operating performance by business segment is presented as follows.

Organic and Inorganic Chemicals

The sales price of PVC in the U.S. market, which is a core market for Shin-Etsu Chemical's global PVC business strategy, has continued to rise from early in 2003 due to the soaring and continued high cost of basic raw materials such as crude oil and natural gas and such factors as the strong demand generated by increase in housing construction. Although during the summer period there was a small turnaround, the sales price remained at a high level. Shintech Inc. continued its efficient, high-level and stable operation throughout the fiscal year by leveraging its broad customer base, both domestically and overseas, a significant strength of the company, and carrying out comprehensive and considered sales activities. In addition, as PVC demand increased in Europe, Shin-Etsu PVC B.V. in The Netherlands strengthened its production capabilities and expanded its sales and profit in the fiscal year under review. In Japan, the PVC

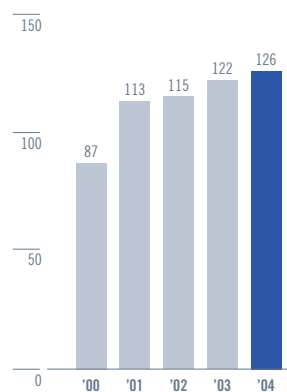
Net Sales

(Billions of yen)



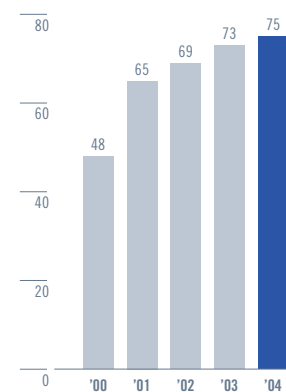
Operating Income

(Billions of yen)



Net Income

(Billions of yen)



NET SALES BY SEGMENT

	Billions of yen	
	Years ended March 31	
	2004	2003
Organic and inorganic chemicals	¥457.0	¥421.0
Polyvinyl chloride	254.9	224.6
Silicones	135.8	130.3
Others	66.3	66.1
Electronics materials	262.2	243.4
Semiconductor silicon	214.1	196.7
Others	48.1	46.7
Functional materials and others	113.6	133.1
Synthetic quartz products	25.7	35.0
Rare earths and rare earth magnets, etc.	26.5	25.3
Others	61.4	72.8
Total	¥832.8	¥797.5

business continued to face harsh operating conditions due to the persistent weakness in construction and housing starts. Toward the end of the fiscal year under review, however, Shin-Etsu implemented an upward price revision. As a result, the Company's PVC business increased sales steadily and was able to substantially increase its operating income.

Silicones have a wide range of application in diverse fields such as electric, electronics, automobiles, chemicals, toiletries, cosmetics and construction. Domestic sales areas such as automobile-related applications, information equipment and cosmetics increased in the fiscal year under review. Although the basic trend in demand was steady in Southeast Asia and China due to economic growth in the region, the adverse effect of SARS toward the beginning of fiscal 2004 and the rising yen in the latter part of 2003 had a negative impact. As a result, despite and increase in sales in the silicone business, Shin-Etsu recorded a decrease in operating income.

Although both domestic and overseas markets saw a decrease in sales of cellulose derivatives products for medical use, sales surged in industrial-use products mainly for automobile-related applications. In addition, Germany-based SE Tylose, a new Shin-Etsu Group company acquired in December 2003, added to Shin-Etsu's world-leading capabilities in the cellulose business mainly through its products for construction materials.

Sales in this business increased 8.5%, or ¥36.0 billion, compared to the previous fiscal year, to ¥457.0 billion. Operating income rose 4.3%, or ¥2.7 billion, to ¥65.1 billion.

Electronics Materials

Results of the semiconductor silicon business were strong reflecting the growth in demand for applications in digital home

OPERATING INCOME BY SEGMENT

	Billions of yen	
	Years ended March 31	
	2004	2003
Organic and inorganic chemicals	¥ 65.1	¥ 62.4
Polyvinyl chloride	23.7	20.5
Silicones	26.6	27.2
Others	14.8	14.7
Electronics materials	42.2	35.2
Semiconductor silicon	34.8	28.7
Others	7.4	6.5
Functional materials and others	18.2	24.3
Synthetic quartz products	9.1	14.5
Rare earths and rare earth magnets, etc.	4.7	5.8
Others	4.4	4.0
Elimination or Common Assets	0.1	0.2
Total	¥125.6	¥122.1

appliances and mobile phones, as well as the recovery in demand for PCs and other digital devices. Shipments of the 200mm wafer, Shin-Etsu's main wafer product, and the cutting-edge 300mm wafer continued to expand throughout fiscal 2004. Small-diameter wafers, comprising those up to 150mm, also saw a general recovery in the second half. Specialty wafers such as SOI wafers, annealed wafers and others, continued to exhibit a steady improvement in sales. As a result, the semiconductor silicon business increased its sales and significantly expanded its operating income.

Rare earth magnets for the electronics industry experienced a steady upward trend in demand for hard disk drive applications for PCs. At the same time, rare earth magnet sales for hard disk drives used in home appliances and in car navigation systems were also brisk, which led to an overall jump in sales. Photoresist products increased in sales, however, organic materials for the electronics industry remained at about the same level as in the previous fiscal year.

Sales of this business rose 7.7%, or ¥18.8 billion, compared to the previous fiscal year, to ¥262.2 billion. Operating income climbed 19.7%, or ¥6.9 billion, to ¥42.2 billion.

Functional Materials and Others

In its synthetic quartz products business, sales of large-size photomask substrates used for the manufacture of LCD panels were robust. This however was more than offset by a substantial drop in optical fiber preform sales reflecting sluggish worldwide demand. Sales of general-purpose rare earth magnets for automobile-related products and for factory automation equipment were strong. Sales however for medical-equipment use were weak. Against this backdrop, overall sales remained on par

with the previous fiscal year. Although rare earth export sales decreased, domestic sales rose for digital home appliance application. Accordingly, sales slightly exceeded the previous fiscal year's performance.

Sales of this business decreased 14.7%, or ¥19.5 billion, compared to the previous fiscal year, to ¥113.6 billion. Operating income fell 25.1%, ¥6.1 billion, to ¥18.2 billion.

In the context of Shin-Etsu's overall operations, overseas sales represent 63.6% of total net sales and as such the Company is susceptible to foreign exchange rate fluctuation. In the fiscal year under review, an increase in the value of the yen contributed to downward pressure on revenues and profits. Shin-Etsu successfully achieved an increase in revenues and profits however, buoyed primarily by increased earnings from its overseas PVC business, solid performance in semiconductor silicon operations both in Japan and overseas and efforts to streamline costs.

Shin-Etsu reported net other expenses of ¥9 million. In fiscal 2003, we incurred a foreign exchange loss totaling ¥3.8 billion due to the sharp appreciation of the yen during the first half. This narrowed to ¥0.7 billion in the fiscal year under review. On the other hand, Shin-Etsu acquired additional stock in affiliated company Nagano Electronics Industrial Co., Ltd., which was subsequently included in the Company's scope of consolidation as a subsidiary company. Accordingly, equity in earnings of affiliates declined ¥1.4 billion year on year. Shin-Etsu also reported a gain on early settlement of finance lease amounting to ¥2.1 billion. This profit was due to the termination of a finance lease agreement and the acquisition of its property, plant and equipment by consolidated subsidiary Shin-Etsu Handotai Europe, Ltd. Shin-Etsu incurred a loss on disposal of property, plant and equipment of ¥2.8 billion representing the write-off of a lump sum amount to cover obsolete plants. This initiative was implemented to transfer a portion of its operations to new facilities with the aim of keeping pace with volatile changes in semiconductor silicon production.

Financial Position

Shin-Etsu's financial standing, its assets, liabilities and stockholders' equity are presented as follows.

As of March 31, 2004, total assets stood at ¥1,386.2 billion, an increase of 5.7%, or ¥75.3 billion, compared to the previous fiscal year-end.

In line with the increase in sales, notes and accounts receivable-trade increased ¥24.6 billion. Intangible fixed assets rose ¥20.1 billion reflecting the acquisition of goodwill related to the purchase of Clariant Group's cellulose business. Investment in securities climbed ¥41.3 billion, which included increases in

market value totaling ¥22.3 billion, driven by the recovery in the stock market.

Total liabilities stood at ¥459.0 billion, an increase of ¥20.6 billion. This increase comprised primarily payments for the construction and upgrade of facilities, accrued income taxes and deferred tax liabilities relating to market valuation of investment in securities. As of the fiscal year-end, interest-bearing debt (short-term borrowings, current portion of long-term debt, convertible debentures, and long-term debt) stood at ¥163.2 billion.

Total stockholders' equity rose ¥53.8 billion to ¥900.7 billion mainly reflecting an increase in retained earnings. The equity ratio was up 0.4 of a percentage point from 64.6% to 65.0%. Stockholders' equity per share rose ¥126.12 from ¥2,014.11 to ¥2,140.23.

Cash Flows

Cash and cash equivalents at the end of the year amounted to ¥293.0 billion, down ¥9.4 billion from the end of the previous fiscal year. Net cash provided by operating activities totaled ¥156.0 billion. This was mainly due to income before income taxes and depreciation and amortization, which exceeded the previous fiscal year's levels. Net cash used for investing activities was ¥129.0 billion. During the fiscal year under review Shin-Etsu undertook purchases of property, plant and equipment and acquired the cellulose business of Clariant Group. Net cash used for financing activities totaled ¥26.7 billion.



CONSOLIDATED STATEMENTS OF INCOME

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2004	2003	2002	2004
Net Sales (Notes 14 and 17)	¥ 832,805	¥ 797,523	¥ 775,097	\$ 7,856,651
Cost of Sales (Notes 9, 12 and 14)	619,085	585,220	572,366	5,840,425
Gross profit	213,720	212,303	202,731	2,016,226
Selling, General and Administrative Expenses (Notes 9 and 12)	88,094	90,153	88,007	831,075
Operating income (Note 17)	125,626	122,150	114,724	1,185,151
Other Income (Expenses):				
Interest and dividend income	3,797	4,130	6,344	35,821
Gain on early settlement of finance leases	2,055	—	—	19,387
Gains on sales of property, plant and equipment	535	2,916	368	5,047
Equity in earnings of affiliates	301	1,727	664	2,840
Reversal of prior year's accrued maintenance expenses	—	3,298	—	—
Settlement income	—	2,528	—	—
Gain on transfer of securities to retirement benefit trust (Note 9)	—	2,364	5,107	—
Loss on write-down of investment securities	—	(10,494)	—	—
Adjustment to prior year's license fee	—	(1,728)	—	—
Special additional payments for early retirement (Note 9)	—	—	(7,997)	—
Interest expenses	(4,168)	(4,956)	(6,125)	(39,321)
Loss on disposal of property, plant and equipment	(2,837)	(780)	(2,583)	(26,764)
Foreign exchange gain (loss)	(742)	(3,848)	5,868	(7,000)
Other, net	1,050	3,196	(3,278)	9,905
Income before income taxes	125,617	120,503	113,092	1,185,066
Income Taxes (Note 15):				
Current	47,332	34,367	36,045	446,528
Deferred	1,069	10,866	7,735	10,085
	48,401	45,233	43,780	456,613
Income after income taxes	77,216	75,270	69,312	728,453
Minority Interests in Earnings of Consolidated Subsidiaries	(2,410)	(2,254)	(793)	(22,736)
Net Income	¥ 74,806	¥ 73,016	¥ 68,519	\$ 705,717
		Yen		U.S. Dollars (Note 3)
Per Share (Note 2 (14)):				
Net income—primary	¥177.25	¥173.13	¥162.93	\$1.672
Net income—fully diluted	173.52	169.36	159.38	1.637
Cash dividends	16.00	14.00	12.00	0.151
Weighted-Average Number of Shares Outstanding (Thousands)	420,484	420,524	420,539	420,484

The accompanying notes are an integral part of the statements.

CONSOLIDATED BALANCE SHEETS

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

As of March 31, 2004 and 2003

Assets	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Current Assets:			
Cash and time deposits (Note 16)	¥ 210,323	¥ 235,647	\$ 1,984,179
Securities (Note 5)	131,216	115,324	1,237,887
Notes and accounts receivable:			
Trade	213,968	189,395	2,018,566
Unconsolidated subsidiaries and affiliates	11,260	11,645	106,226
Others	7,137	5,922	67,330
Less: Allowance for doubtful accounts (Note 2 (5))	(4,727)	(5,183)	(44,594)
	227,638	201,779	2,147,528
Inventories (Note 4)	117,728	119,360	1,110,642
Deferred taxes, current (Note 15)	22,657	21,261	213,745
Others	14,065	13,995	132,689
Total current assets	723,627	707,366	6,826,670
Property, Plant and Equipment (Note 2 (8)):			
Buildings and structures	299,634	293,258	2,826,735
Machinery and equipment	909,773	825,299	8,582,763
Less: Accumulated depreciation	(845,086)	(752,207)	(7,972,509)
	364,321	366,350	3,436,989
Land	39,922	33,286	376,623
Construction in progress	30,646	41,837	289,113
Total property, plant and equipment	434,889	441,473	4,102,725
Intangible Fixed Assets	24,378	4,292	229,981
Investments and Other Assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 7)	36,848	33,123	347,623
Investments in securities (Note 5)	142,362	101,036	1,343,038
Long-term loans	1,188	954	11,208
Deferred taxes, non-current (Note 15)	12,981	13,056	122,462
Others	9,962	9,603	93,981
Less: Allowance for doubtful accounts (Note 2 (5))	(19)	(28)	(179)
Total investments and other assets	203,322	157,744	1,918,133
Total assets	¥ 1,386,216	¥ 1,310,875	\$ 13,077,509

The accompanying notes are an integral part of the statements.

Liabilities and Stockholders' Equity	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2003	2004
Current Liabilities:			
Short-term borrowings (Note 8)	¥ 46,698	¥ 63,174	\$ 440,547
Current portion of long-term debt (Note 8)	19,583	15,338	184,745
Notes and accounts payable:			
Trade	97,720	97,364	921,887
Unconsolidated subsidiaries and affiliates	9,587	13,522	90,443
Others	48,843	35,255	460,783
	156,150	146,141	1,473,113
Accrued income taxes	29,543	12,548	278,708
Accrued expenses	66,017	57,374	622,802
Advances received	1,835	832	17,311
Others	1,922	2,697	18,132
Total current liabilities	321,748	298,104	3,035,358
Long-Term Liabilities:			
Long-term debt (Note 8)	96,885	88,851	914,009
Accrued retirement benefits (Note 9)	6,009	6,239	56,689
Deferred taxes, non-current (Note 15)	33,094	24,703	312,208
Lease obligations	153	19,150	1,443
Others	1,094	1,348	10,321
Contingent Liabilities (Note 10)			
Total long-term liabilities	137,235	140,291	1,294,670
Minority Interests in Consolidated Subsidiaries	26,509	25,518	250,085
Stockholders' Equity:			
Common stock:	110,493	110,272	1,042,387
Authorized: 1,670,000,000 shares			
Issued: 422,798,470 shares and 422,567,911 shares as of March 31, 2004 and 2003, respectively			
Additional paid-in capital	119,262	119,041	1,125,113
Retained earnings (Note 11)	694,997	626,142	6,556,576
Unrealized gain (loss) on available-for-sale securities (Note 2 (7))	11,928	(1,482)	112,528
Foreign currency translation adjustment (Note 2 (4))	(26,737)	2,626	(252,236)
	909,943	856,599	8,584,368
Less: Treasury stock, at cost (Note 11)	(9,219)	(9,637)	(86,972)
Total stockholders' equity	900,724	846,962	8,497,396
Total liabilities and stockholders' equity	¥ 1,386,216	¥ 1,310,875	\$13,077,509

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2004	2003	2002	2004
Common stock				
Balance at beginning of year	¥ 110,272	¥ 110,260	¥ 110,247	\$ 1,040,302
Conversion of convertible debentures	221	12	13	2,085
Balance at end of year	110,493	110,272	110,260	1,042,387
Additional Paid-in Capital				
Balance at beginning of year	119,041	119,029	119,016	1,123,028
Conversion of convertible debentures	221	12	13	2,085
Balance at end of year	119,262	119,041	119,029	1,125,113
Retained Earnings				
Balance at beginning of year	626,142	556,466	493,170	5,907,000
Net income	74,806	73,016	68,519	705,717
Effect of increase in consolidated subsidiaries	574	2,561	—	5,415
Cash dividends (Note 11)	(6,307)	(5,467)	(5,046)	(59,500)
Directors' and statutory auditors' bonuses	(189)	(177)	(177)	(1,783)
Loss on disposal of treasury stocks	(29)	(257)	—	(273)
Balance at end of year	694,997	626,142	556,466	6,556,576
Unrealized Gain (Loss) on Available-for-Sale Securities				
Balance at beginning of year	(1,482)	6,138	9,742	(13,981)
Balance at end of year	11,928	(1,482)	6,138	112,528
Foreign Currency Translation Adjustment				
Balance at beginning of year	2,626	28,531	(9,530)	24,774
Balance at end of year	(26,737)	2,626	28,531	(252,236)
Treasury Stock, at Cost				
Balance at beginning of year	(9,637)	(8,356)	(7,649)	(90,915)
Acquisition	(324)	(2,255)	(3,023)	(3,057)
Exercise of stock options	727	974	1,515	6,858
Resale	15	—	801	142
Balance at end of year	(9,219)	(9,637)	(8,356)	(86,972)
Number of Shares of Common Stock Issued				
	Thousands of shares			
	2004	2003	2002	
Balance at beginning of year	422,567	422,555	422,542	
Conversion of convertible debentures	231	12	13	
Balance at end of year	422,798	422,567	422,555	

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2004	2003	2002	2004
Cash Flows from Operating Activities:				
Income before income taxes	¥ 125,617	¥ 120,503	¥ 113,092	\$1,185,066
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	73,582	66,566	70,878	694,170
Increase (decrease) in accrued retirement benefits	(1,360)	(8,970)	(12,701)	(12,830)
Loss on write-down of investment securities	668	10,494	501	6,302
Interest and dividend income	(3,797)	(4,130)	(6,344)	(35,821)
Interest expenses	4,168	4,956	6,125	39,321
Exchange loss (gain)	(188)	1,905	(3,598)	(1,774)
Equity in earnings of affiliates	(301)	(1,727)	(664)	(2,840)
Transfer of securities to retirement benefit trust	—	3,215	10,930	—
Gains on transfer of securities to retirement benefit trust	—	(2,364)	(5,107)	—
Gains from cancellation of retirement benefit trust	—	(12,096)	—	—
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	(23,631)	(7,732)	35,428	(222,934)
(Increase) decrease in inventories	4,237	(1,886)	2,690	39,972
Increase (decrease) in notes and accounts payable	4,804	16,033	(30,697)	45,321
Other, net	3,301	(18,733)	1,120	31,141
Subtotal	187,100	166,034	181,653	1,765,094
Proceeds from interest and dividends	4,225	4,389	6,354	39,858
Payment of interest	(4,075)	(4,499)	(6,418)	(38,443)
Payment of income taxes	(31,246)	(35,725)	(62,952)	(294,773)
Net cash provided by operating activities	156,004	130,199	118,637	1,471,736
Cash Flows from Investing Activities:				
Net (increase) decrease in marketable securities	4,975	64,957	(50,725)	46,934
Purchases of property, plant and equipment	(68,578)	(62,272)	(81,875)	(646,962)
Proceeds from sales of property, plant and equipment	1,226	4,358	1,240	11,566
Purchases of intangible fixed asset	(2,594)	(2,300)	(1,160)	(24,472)
Purchases of investment securities	(66,721)	(78,922)	(23,952)	(629,443)
Proceeds from sales and redemption of investment securities	33,005	25,860	26,143	311,368
Payment for purchases of new consolidated subsidiaries' stock and acquisition of business	(30,213)	—	—	(285,028)
Payments of loans	(6,833)	(207)	(62)	(64,462)
Proceeds from collection of loans	480	328	4,280	4,528
Other, net	6,216	(5,700)	(1,298)	58,641
Net cash used for investing activities	(129,037)	(53,898)	(127,409)	(1,217,330)
Cash Flows from Financing Activities:				
Net decrease in short-term debt	(18,028)	(3,480)	(4,726)	(170,075)
Proceeds from long-term debt	20,645	33,428	11,284	194,764
Repayment of long-term debt	(12,105)	(23,899)	(21,782)	(114,198)
Proceeds from issuance of debentures	10,000	11,014	—	94,340
Payment of debentures on redemption	(5,000)	(28,195)	(3,427)	(47,170)
Proceeds from issuance of shares	—	118	—	—
Payment for early settlement of finance leases	(15,589)	—	—	(147,066)
Cash dividends paid	(6,307)	(5,467)	(5,046)	(59,500)
Other, net	(311)	(2,322)	(1,288)	(2,935)
Net cash used for financing activities	(26,695)	(18,803)	(24,985)	(251,840)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(10,008)	(6,970)	11,071	(94,415)
Net Increase (Decrease) in Cash and Cash Equivalents	(9,736)	50,528	(22,686)	(91,849)
Cash and Cash Equivalents at Beginning of Year	302,370	249,847	272,769	2,852,547
Net Increase (Decrease) in Cash and Cash Equivalents by Change of Consolidation Scope	344	1,995	(236)	3,245
Cash and Cash Equivalents at End of Year (Note 16)	¥ 292,978	¥ 302,370	¥ 249,847	\$2,763,943

The accompanying notes are an integral part of the statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

As of March 31, 2004, 2003 and 2002

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 90 majority-owned subsidiaries as of March 31, 2004 (87 as of March 31, 2003 and 93 as of March 31, 2002). The consolidated financial statements include the accounts of the Company and 67 (62 for 2003 and 58 for 2002) majority-owned subsidiaries (the Companies), of which the principal firms are listed on page 40 with their respective fiscal year-ends.

The remaining 23 (25 for 2003 and 35 for 2002) 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 the minority interests is charged to the minority interests.

Elimination of cost of investments in consolidated subsidiaries with the underlying equity in 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 23 (25 for 2003 and 35 for 2002) unconsolidated subsidiaries (majority-owned) and 15 (15 for 2003 and 17 for 2002) 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:

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, 2004 and 2003.

(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 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.

Effective from the year ended March 31, 2003, the Company has changed its accounting policy with respect to depreciation for polyvinyl chloride equipment in “Machinery and equipment” from the declining-balance method to the straight-line method. This change was made for the purpose of improving the matching of revenue and costs by leveling out depreciation expenses over the useful lives of the equipment. The use of the existing assets is expected to stay stable in the future and large-scale investments in polyvinyl chloride equipment in Japan are not planned for a long period since the domestic polyvinyl chloride business is considered to be industrially mature.

As a result of this change, for the year ended March 31, 2003, depreciation expense decreased by ¥379 million and operating income and income before income taxes increased by ¥350 million as compared with amounts which would have been reported if the previous method had been applied consistently.

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. An earlier adoption is permitted for fiscal year ended March 31, 2004 in the case of the Company. However, the Company has not adopted the standard for the year ended March 31, 2004.

(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) Net 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 conversion of all convertible debentures of the Company outstanding with related reduction in interest expenses.

Cash dividends per share represents 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 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 2003 and 2002 financial statements to conform to the presentation for 2004.

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 ¥106 to US\$1, the approximate effective rate of exchange on March 31, 2004. 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 ¥106 to US\$1 or at any other rate.

4. Inventories

Inventories as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Merchandise	¥ 9,763	¥ 8,805	\$ 92,104
Finished products	47,858	47,678	451,491
Semifinished products	16,477	17,599	155,443
Raw materials	29,484	31,183	278,151
Supplies	12,130	11,969	114,434
Others	2,016	2,126	19,019
Total	¥117,728	¥119,360	\$1,110,642

5. Securities

Securities as of March 31, 2004 consisted of the following:

(1) Market value of bonds held to maturity

Description	Millions of Yen		
	Book value	Market value	Difference
Securities with fair value that exceed book value	¥13,618	¥13,624	¥ 6
Securities with fair value that do not exceed book value	16,063	16,043	(20)
Total	¥29,681	¥29,667	¥(14)

Description	Thousands of U.S. Dollars		
	Book value	Market value	Difference
Securities with fair value that exceed book value	\$128,471	\$128,528	\$ 57
Securities with fair value that do not exceed book value	151,538	151,349	(189)
Total	\$280,009	\$279,877	\$(132)

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

Description	Millions of Yen		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with fair value that exceed book value:			
Stocks	¥27,109	¥47,552	¥ 20,443
Others	14	14	0
Subtotal	¥27,123	¥47,566	¥ 20,443
Securities with fair value that do not exceed book value:			
Stocks	¥ 2,500	¥ 2,143	¥ (357)
Others	1,829	1,679	(150)
Subtotal	¥ 4,329	¥ 3,822	¥ (507)
Total	¥31,452	¥51,388	¥ 19,936

Description	Thousands of U.S. Dollars		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with fair value that exceed book value:			
Stocks	\$255,745	\$448,603	\$ 192,858
Others	132	132	0
Subtotal	\$255,877	\$448,735	\$ 192,858
Securities with fair value that do not exceed book value:			
Stocks	\$ 23,585	\$ 20,217	\$ (3,368)
Others	17,255	15,840	(1,415)
Subtotal	\$ 40,840	\$ 36,057	\$ (4,783)
Total	\$296,717	\$484,792	\$ 188,075

(3) Available-for-sale securities sold during the fiscal year ended March 31, 2004

Available-for-sale securities sold during the fiscal year ended March 31, 2004 are assumed insignificant.

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

	Book value	
	Millions of Yen	Thousands of U.S. Dollars
Bonds held to maturity	¥ 83,077	\$ 783,745
Investments in unconsolidated subsidiaries and affiliates	29,165	275,142
Available-for-sale securities	109,432	1,032,379

(5) 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	¥130,417	\$1,230,349
Over one year within five years	87,113	821,821
Over five years within ten years	237	2,236

6. Derivative transactions

Derivative financial instruments were as follows:

As of March 31, 2004

Currency relatives:

Description	Millions of Yen		
	Contract amounts	Market value	Unrealized gain (loss)
Foreign exchange contracts			
Sales Contracts:			
US\$	¥37,375	¥36,452	¥ 923
EUR	2,284	2,218	66
Others	299	301	(2)
Buy Contracts:			
US\$	1,652	1,592	(60)
Foreign currency swaps			
Received Japanese Yen, pay Thai Baht	3,709	85	85
Received Japanese Yen, pay U.S. Dollars	408	21	21
Total	¥ —	¥ —	¥1,033

Description	Thousands of U.S. Dollars		
	Contract amounts	Market value	Unrealized gain (loss)
Foreign exchange contracts			
Sales Contracts:			
US\$	\$352,594	\$343,886	\$ 8,708
EUR	21,547	20,924	623
Others	2,820	2,840	(20)
Buy Contracts:			
US\$	15,585	15,019	(566)
Foreign currency swaps			
Received Japanese Yen, pay Thai Baht	34,991	802	802
Received Japanese Yen, pay U.S. Dollars	3,849	198	198
Total	\$ —	\$ —	\$ 9,745

Notes: 1. Market rate represents the forward foreign exchange rate prevailing as of March 31, 2004.

2. The market value is provided by financial institutions with which we made the contracts of currency swaps.

3. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

Interest relatives:

Description	Millions of Yen		
	Contract amounts	Market value	Unrealized gain (loss)
Interest swap contracts:			
Receive floating, pay fixed	¥15,856	¥(158)	¥(158)
Receive fixed, pay floating	14,408	101	101
Total	¥30,264	¥ (57)	¥ (57)

Description	Thousands of U.S. Dollars		
	Contract amounts	Market value	Unrealized gain (loss)
Interest swap contracts:			
Receive floating, pay fixed	\$149,585	\$(1,491)	\$(1,491)
Receive fixed, pay floating	135,924	953	953
Total	\$285,509	\$ (538)	\$ (538)

Notes: 1. The market value is provided by financial institutions with which we made the contracts of interest swap.

2. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

As of March 31, 2003

Currency relatives:

Description	Millions of Yen		
	Contract amounts	Market value	Unrealized gain (loss)
Foreign exchange contracts			
Sales Contracts:			
US\$	¥14,931	¥ 14,948	¥ (17)
EUR	1,684	1,715	(31)
Buys Contracts:			
US\$	1,934	1,943	9
Others	315	325	10
Foreign currency swaps			
Received Japanese Yen, pay Thai Baht	2,416	(163)	(163)
Received Japanese Yen, pay U.S. Dollars	500	(40)	(40)
Total	¥ —	¥ —	¥(232)

Notes: 1. Market rate represents the forward foreign exchange rate prevailing as of March 31, 2003.

2. The market value is provided by financial institutions with which we made the contracts of currency swaps.

3. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

Interest relatives:

Description	Millions of Yen		
	Contract amounts	Market value	Unrealized gain (loss)
Interest swap contracts:			
Receive floating, pay fixed	¥18,214	¥(371)	¥(371)
Receive fixed, pay floating	17,500	262	262
Total	¥35,714	¥(109)	¥(109)

Notes: 1. The market value is provided by financial institutions with which we made the contracts of interest swap.

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, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Held Directly by the Company:			
Affiliates:			
Four affiliates for 2004 and five affiliates for 2003 accounted for by the equity method (See Note 2 (2))*	¥17,241	¥20,213	\$162,651
Kashima Denkai Co., Ltd.	805	805	7,594
Others	228	228	2,151
	18,274	21,246	172,396
Unconsolidated subsidiaries:			
Shin-Etsu Electronics Malaysia Sdn. Bhd.	1,400	1,400	13,208
Shin-Etsu Magnetics Philippines, Inc.	184	184	1,736
Zhejiang Shin-Etsu High-Tech Chemical Co., Ltd.	332	332	3,132
Others	166	116	1,566
	2,082	2,032	19,642
Held Indirectly through Subsidiaries:			
Unconsolidated subsidiaries and affiliates:			
Three affiliates accounted for by the equity method (See Note 2 (2))*	¥ 8,942	¥ 9,073	\$ 84,358
Others	631	346	5,953
	¥ 9,573	¥ 9,419	\$ 90,311
Advances:	6,919	426	65,274
	¥36,848	¥33,123	\$347,623

*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, 2004 and 2003 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, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Loans with Banks and Other Financial Institutions:			
Secured	¥ 11,890	¥ 14,773	\$ 112,170
Unsecured	55,444	44,329	523,056
Unsecured Debentures:			
2.8% debentures issued by a consolidated subsidiary, due July 2005	4,285	4,796	40,424
2.7% debentures issued by a consolidated subsidiary, due August 2004	8,000	8,000	75,471
2.6% debentures issued by a consolidated subsidiary, due December 2007	3,000	3,000	28,302
2.5% debentures issued by a consolidated subsidiary, due August 2003	—	5,000	—
0.7% debentures issued by a consolidated subsidiary, due June 2007	6,000	6,000	56,604
0.7% debentures issued by a consolidated subsidiary, due August 2009	5,000	—	47,170
0.4% debentures issued by a consolidated subsidiary, due July 2006	5,000	—	47,170
Unsecured Convertible Debentures:			
0.4% convertible debentures, due September 2005	17,849	18,291	168,387
	116,468	104,189	1,098,754
Less Portion Due within One Year	(19,583)	(15,338)	(184,745)
	¥ 96,885	¥ 88,851	\$ 914,009

Additional information with respect to the Companies convertible debentures is summarized as follows:

Unsecured: 0.4% convertible debentures in yen, due 2005

(Issue date: August 8, 1996, Principal amount at issue: ¥50,000 million)

Terms of Conversion as of March 31, 2004			
Balance at of March 31, 2004 in Denominated Currencies	Current Conversion Price per Share	Fixed Exchange Rates for Conversion	Additional Shares Issuable upon Full Conversion (Thousands)
¥17,849 million	¥1,917	—	9,311

As of March 31, 2004, 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	¥57,530	\$542,736

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

	Millions of Yen	Thousands of U.S. Dollars
Years ending March 31,		
2005	¥ 19,583	\$ 184,745
2006	29,151	275,009
2007	11,032	104,075
2008	33,548	316,491
2009	14,160	133,585
2010 and thereafter	8,994	84,849
	¥116,468	\$1,098,754

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. In September 2003, some domestic consolidated subsidiaries terminated a part of the tax-qualified pension plan, and transferred to defined contribution pension plans and lump-sum severance payment plans.

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

Additionally, the Company has "Retirement Benefit Trust."

The reserves for retirement benefits as of March 31, 2004 and 2003 are analyzed as follows:

Benefit Obligations

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
(a) Benefit obligations	¥(19,651)	¥(21,446)	\$ (185,387)
(b) Pension assets	14,757	14,951	139,217
(c) Unfunded benefit obligations [(a)+(b)]	(4,894)	(6,495)	(46,170)
(d) Unrecognized actuarial differences	682	2,771	6,434
(e) Unrecognized prior service cost (negative) (Note 1)	(936)	(1,489)	(8,830)
(f) Amount shown on balance sheet [(c)+(d)+(e)]	(5,148)	(5,213)	(48,566)
(g) Prepaid pension expenses	861	1,026	8,123
(h) Accrued retirement benefits [(f)-(g)]	¥ (6,009)	¥ (6,239)	\$ (56,689)

Notes: 1. The Company and certain consolidated subsidiaries changed system from tax-qualified pension plans to defined contribution pension plans, so that prior service cost is generated.

2. The impact resulting from transfer from tax-qualified pension plans to defined contribution pension plans was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Decrease in benefit obligation	¥ 4,745	\$ 44,764
Estimated amounts of pension assets to be transferred	(4,248)	(40,075)
Unrecognized actuarial differences	(635)	(5,991)
Increase in accrued retirement benefits	(138)	(1,302)

3. Some subsidiaries adopt a simplified method for the calculation of benefit obligations.

Retirement Benefit Costs

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
(a) Service costs (Note 1)	¥ 2,165	¥ 2,756	\$ 20,425
(b) Interest costs	496	1,867	4,679
(c) Expected return on plan assets	(288)	(1,288)	(2,717)
(d) Recognized actuarial loss	130	2,224	1,226
(e) Amortization of prior service cost	(156)	(186)	(1,472)
(f) Other (Note 2)	1,377	—	12,991
(g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)]	¥ 3,724	¥ 5,373	\$ 35,132
(h) (Gain) loss on transfer to DC pension plans	138	(906)	1,302
(i) Total [(g)+(h)]	¥ 3,862	¥ 4,467	\$ 36,434

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

2. "Other" is contributions for DC pension plans.

Basic Assumptions for Calculating Benefit Obligations

(a) Period allocation method for estimates 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. Contingent liabilities

As of March 31, 2004, 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 ¥557 million (\$5,255 thousand).

In addition, as of March 31, 2004, the Companies had contingent liabilities arising from notes discounted by banks in the amounts of ¥254 million (\$2,396 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, 2004, 2003 and 2002 in the amounts of ¥3,364 million (\$31,736 thousand) (¥8.0 per share), ¥2,943 million and ¥2,522 million, respectively, which were actually paid to stockholders on November 18, 2003, November 18, 2002 and December 10, 2001, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended March 31, 2004, 2003 and 2002, respectively.

There were 2,072,068 shares of treasury stock as at March 31, 2004.

12. Research and development costs

Research and development costs incurred and charged to income for the years ended March 31, 2004, 2003 and 2002 were ¥26,329 million (\$248,387 thousand), ¥27,280 million and ¥28,207 million, respectively.

13. Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2004 and 2003 amounted to ¥414 million (\$3,906 thousand) and ¥489 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2004, 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 ¥414 million (\$3,906 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
	2004	2003	2004
Acquisition cost	¥2,021	¥2,675	\$19,066
Accumulated depreciation	1,204	1,810	11,358
Net book value	¥ 817	¥ 865	\$ 7,708

The amount of outstanding future lease payments due in respect of finance lease contracts at March 31, 2004 and 2003, which included the portion of interest thereon, was summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Future Lease Payments:			
Within one year	¥386	¥373	\$3,642
Over one year	431	492	4,066
	¥817	¥865	\$7,708

The amount of outstanding future lease payments due in respect of operating lease contracts at March 31, 2004 and 2003 was summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Future Lease Payments:			
Within one year	¥ 5,295	¥3,598	\$ 49,953
Over one year	7,079	4,925	66,783
	¥12,374	¥8,523	\$116,736

14. Related party transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Sales	¥21,060	¥21,763	¥31,131	\$198,679
Purchases	60,628	67,440	68,365	571,962

15. Income taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended March 31, 2004, 2003 and 2002 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	2004	2003	2002
Corporate income tax	30.0%	30.0%	30.0%
Enterprise tax	9.6	9.7	9.7
Resident income taxes	6.1	6.0	6.0
	45.7%	45.7%	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)	41.7%	41.7%	41.7%

Tax effects of material temporary differences and loss carryforwards which resulted in deferred tax assets or liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred Tax Assets:			
Depreciation	¥ 8,727	¥ 6,800	\$ 82,330
Unsettled accounts receivable and payable	6,027	8,215	56,859
Unrealized profit	3,949	3,822	37,254
Accrued bonus allowance	3,892	2,884	36,717
Maintenance cost	2,303	2,617	21,726
Special provision for accrued retirement benefits	2,208	2,414	20,830
Accrued enterprise taxes	2,205	833	20,802
Tax loss carryforwards	2,032	3,548	19,170
Unrealized loss on available-for-sale securities	—	1,025	—
Others	13,706	13,053	129,302
Valuation allowance	(4,318)	(4,456)	(40,736)
Total	¥40,731	¥40,755	\$384,254
Deferred Tax Liabilities:			
Depreciation	¥27,114	¥28,132	\$255,792
Unrealized gain on available-for-sale securities	8,041	—	75,859
Reserve for special depreciation	876	748	8,264
Others	2,156	2,289	20,340
Total	¥38,187	¥31,169	\$360,255
Net Deferred Tax Assets	¥ 2,544	¥ 9,586	\$ 23,999

Net Deferred Tax Assets are included in the following accounts:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Current assets: Deferred tax assets	¥ 22,657	¥ 21,261	\$ 213,745
Non-current assets: Deferred tax assets	12,981	13,056	122,462
Current liabilities: Current liabilities-others	—	(28)	—
Non-current liabilities: Deferred tax liabilities	(33,094)	(24,703)	(312,208)

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

	2004	2003
Statutory tax rate	41.7%	41.7%
Rate difference from foreign subsidiaries	(3.4)	(3.6)
Dividend income and other not taxable	(0.6)	(1.0)
Entertainment and other non-deductible expenses	0.2	0.3
Change in statutory tax rate	0.5	0.3
Other, net	0.1	(0.2)
Effective tax rate	38.5	37.5

16. Supplemental cash flow information

(1) Cash and cash equivalents on 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 are matured within approximately three months since acquisition date and have insignificant risk exposure in terms of fluctuation on value of the investments.

Reconciliation between cash and cash equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2004, 2003 and 2002 are presented below:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Cash and time deposits	¥ 210,323	¥ 235,647	¥ 233,865	\$ 1,984,179
Marketable securities	131,216	115,324	107,473	1,237,887
Time deposits for which maturities are approximately over three months	(717)	(6,581)	(1,217)	(6,764)
Marketable securities (maturities approximately over three months)	(47,844)	(42,020)	(90,274)	(451,359)
Cash and cash equivalents	¥ 292,978	¥ 302,370	¥ 249,847	\$ 2,763,943

(2) The Company and a consolidated subsidiary 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 (\$231,245 thousand), representing the excess of the cash consideration of ¥28,057 million (\$264,689 thousand) paid for acquisition over the “Cash and Cash equivalents” of ¥3,545 million (\$33,444 thousand) held by above four companies as at date of a commencement of consolidation, was disclosed as part of “Payment for purchase of new consolidated subsidiaries’ stock and acquisition of business” in the consolidated statements of cash flows for the fiscal year ended March 31, 2004.

The cash consideration of ¥28,057 million (\$264,689) paid for the acquisition was allocated as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 15,765	\$ 148,727
Non-current assets	12,502	117,943
Consolidation adjustments	15,459	145,840
Current liabilities	(12,349)	(116,500)
Non-current liabilities	(2,649)	(24,991)
Minority interests	(671)	(6,330)
Cash consideration	28,057	264,689
Cash and cash equivalents acquired	(3,545)	(33,444)
Net cash flow	¥ 24,512	\$ 231,245

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 segment: Polyvinyl chloride, Silicones, Methanol, Chloromethanes, Cellulose derivatives, Caustic soda, Silicon metal

Electronics materials business segment: 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, 2004, 2003 and 2002 and for the years then ended, classified by business segment, are presented as follows:

	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 ¹	50,520	46,485	5,090	(234)	101,861

	Millions of Yen				
	2003				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ³	Consolidated Total
Sales:					
Sales to outside customers	¥421,021	¥243,428	¥133,074	¥ —	¥ 797,523
Intersegment sales	10,083	4,665	56,196	(70,944)	—
Total	431,104	248,093	189,270	(70,944)	797,523
Operating costs and expenses	368,695	212,845	165,018	(71,185)	675,373
Operating income	¥ 62,409	¥ 35,248	¥ 24,252	¥ 241	¥ 122,150
Assets	¥485,602	¥411,090	¥158,598	¥255,585	¥1,310,875
Depreciation	22,032	33,297	11,535	(298)	66,566
Capital expenditures ²	28,000	35,101	2,616	(147)	65,570

	Millions of Yen				
	2002				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ³	Consolidated Total
Sales:					
Sales to outside customers	¥397,984	¥226,460	¥150,653	¥ —	¥ 775,097
Intersegment sales	10,095	2,419	62,171	(74,685)	—
Total	408,079	228,879	212,824	(74,685)	775,097
Operating costs and expenses	359,271	195,200	180,630	(74,728)	660,373
Operating income	¥ 48,808	¥ 33,679	¥ 32,194	¥ 43	¥ 114,724
Assets	¥465,894	¥432,828	¥172,439	¥217,271	¥1,288,432
Depreciation	23,727	32,312	15,086	(247)	70,878
Capital expenditures	26,122	36,744	18,903	(226)	81,543

	Thousands of U.S. Dollars				
	2004				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ³	Consolidated Total
Sales:					
Sales to outside customers	\$4,311,406	\$2,474,019	\$1,071,226	\$ —	\$ 7,856,651
Intersegment sales	78,160	14,519	513,963	(606,642)	—
Total	4,389,566	2,488,538	1,585,189	(606,642)	7,856,651
Operating costs and expenses	3,775,302	2,090,585	1,413,774	(608,161)	6,671,500
Operating income	\$ 614,264	\$ 397,953	\$ 171,415	\$ 1,519	\$ 1,185,151
Assets	\$5,172,302	\$3,981,840	\$1,573,491	\$2,349,876	\$13,077,509
Depreciation	207,349	400,179	89,198	(2,556)	694,170
Capital expenditures ¹	476,604	438,538	48,019	(2,208)	960,953

Notes: 1. Under the Organic and Inorganic Chemicals segment, capital expenditure 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 we acquired last year, 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 expenditure, if these amounts were to be included, the total amount of the capital expenditure would come to ¥113,591 million.

2. Capital expenditure of our affiliated, Asia Silicones Monomer Limited, which is under the Organic and Inorganic Chemicals segment, was ¥9,651 million, which corresponds to our share of ownership of the affiliate. If this amount were included, capital expenditure for this fiscal year would be ¥75,221 million.

3. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2004, 2003 and 2002 were ¥330,652 million (\$3,119,358 thousand), ¥313,150 million and ¥268,465 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.

(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, 2004, 2003 and 2002 and for the years then ended are presented below:

	Millions of Yen					
	2004					
	Japan	North America	Asia	Other Areas	Elimination or Common Assets ²	Consolidated Total
Sales:						
Sales to outside customers	¥451,026	¥212,786	¥ 88,179	¥ 80,814	¥ —	¥ 832,805
Intersegment sales	123,368	19,512	35,174	3,451	(181,505)	—
Total	574,394	232,298	123,353	84,265	(181,505)	832,805
Operating costs and expenses	484,956	208,440	115,372	79,756	(181,345)	707,179
Operating income	¥ 89,438	¥ 23,858	¥ 7,981	¥ 4,509	¥ (160)	¥ 125,626
Assets	¥663,055	¥284,358	¥110,322	¥116,039	¥212,442	¥1,386,216

	Millions of Yen					
	2003					
	Japan	North America	Asia	Other Areas	Elimination or Common Assets ²	Consolidated Total
Sales:						
Sales to outside customers	¥456,528	¥190,263	¥ 79,322	¥71,410	¥ —	¥ 797,523
Intersegment sales	119,808	16,713	35,554	3,415	(175,490)	—
Total	576,336	206,976	114,876	74,825	(175,490)	797,523
Operating costs and expenses	489,214	183,615	107,867	69,161	(174,484)	675,373
Operating income	¥ 87,122	¥ 23,361	¥ 7,009	¥ 5,664	¥ (1,006)	¥ 122,150
Assets	¥625,820	¥319,569	¥109,483	¥75,589	¥ 180,414	¥1,310,875

	Millions of Yen					
	2002					
	Japan	North America	Asia	Other Areas	Elimination or Common Assets ²	Consolidated Total
Sales:						
Sales to outside customers	¥479,016	¥168,708	¥ 67,078	¥60,295	¥ —	¥ 775,097
Intersegment sales	89,078	11,535	31,307	3,965	(135,885)	—
Total	568,094	180,243	98,385	64,260	(135,885)	775,097
Operating costs and expenses	481,061	161,635	93,658	59,875	(135,856)	660,373
Operating income	¥ 87,033	¥ 18,608	¥ 4,727	¥ 4,385	¥ (29)	¥ 114,724
Assets	¥647,035	¥305,969	¥ 96,879	¥74,606	¥ 163,943	¥1,288,432

	Thousands of U.S. Dollars					
	2004					
	Japan	North America	Asia	Other Areas	Elimination or Common Assets ²	Consolidated Total
Sales:						
Sales to outside customers	\$4,254,963	\$2,007,415	\$ 831,877	\$ 762,396	\$ —	\$ 7,856,651
Intersegment sales	1,163,849	184,075	331,831	32,557	(1,712,312)	—
Total	5,418,812	2,191,490	1,163,708	794,953	(1,712,312)	7,856,651
Operating costs and expenses	4,575,057	1,966,415	1,088,415	752,415	(1,710,802)	6,671,500
Operating income	\$ 843,755	\$ 225,075	\$ 75,293	\$ 42,538	\$ (1,510)	\$ 1,185,151
Assets	\$6,255,235	\$2,682,622	\$1,040,774	\$1,094,708	\$ 2,004,170	\$13,077,509

Notes: 1. Main countries or areas other than Japan:

North AmericaU.S.A.
 AsiaMalaysia, Singapore, South Korea, Taiwan
 Other areasU.K., Netherlands, Australia

2. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2004, 2003 and 2002 were ¥330,652 million (\$3,119,358 thousand), ¥313,150 million and ¥268,465 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) Overseas sales information

Overseas sales of the Companies for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

	Millions of Yen			
	2004			
	North America	Asia	Other Areas	Total
Overseas sales	¥203,210	¥214,102	¥111,984	¥529,296
Consolidated sales	—	—	—	832,805
Percentage of overseas sales over consolidated sales	24.4%	25.7%	13.5%	63.6%

	Millions of Yen			
	2003			
	North America	Asia	Other Areas	Total
Overseas sales	¥181,015	¥217,666	¥98,019	¥496,700
Consolidated sales	—	—	—	797,523
Percentage of overseas sales over consolidated sales	22.7%	27.3%	12.3%	62.3%

	Millions of Yen			
	2002			
	North America	Asia	Other Areas	Total
Overseas sales	¥164,089	¥199,289	¥82,893	¥446,271
Consolidated sales	—	—	—	775,097
Percentage of overseas sales over consolidated sales	21.2%	25.7%	10.7%	57.6%

	Thousands of U.S. Dollars			
	2004			
	North America	Asia	Other Areas	Total
Overseas sales	\$1,917,075	\$2,019,830	\$1,056,453	\$4,993,358
Consolidated sales	—	—	—	7,856,651
Percentage of overseas sales over consolidated sales	24.4%	25.7%	13.5%	63.6%

Notes: 1. Main countries or areas:

North AmericaU.S.A., Canada
 AsiaSouth Korea, Taiwan, China
 Other areasEurope, Middle South America, Oceania

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

18. Subsequent event

Appropriation of retained earnings

Subsequent to March 31, 2004, the Company's Board of Directors, with the subsequent approval of stockholders on June 29, 2004 declared a cash dividend of ¥3,366 million (\$31,755 thousand) equal to ¥8.00 (\$0.075) per share, applicable to earnings of the year ended March 31, 2004 and payable to stockholders on the stockholders' register on March 31, 2004.

CONSOLIDATED SUBSIDIARIES

As of March 31, 2004

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End	Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shintech Inc. ⁽¹⁾	100.0	December 31	Shin-Etsu Polymer Europe B.V. ⁽¹⁾	100.0	December 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31	Shin-Etsu International Europe B.V. ⁽¹⁾	100.0	December 31
Shin-Etsu Handotai America, Inc. ⁽¹⁾	100.0	December 31	Nihon Resin Co., Ltd.	100.0	December 31
Shin-Etsu Polymer Co., Ltd.	53.8	March 31	Naoetsu Precision Co., Ltd.	100.0	February 29
Shin-Etsu Astech Co., Ltd.	99.6	March 31	Skyward Information System Co., Ltd.	100.0	March 31
S.E.H. Malaysia Sdn. Bhd. ⁽¹⁾⁽²⁾	100.0	December 31	Fukui Environmental Analysis Center Co., Ltd.	100.0	February 29
Naoetsu Electronics Co., Ltd.	100.0	February 29	Shinano Electric Refining Co., Ltd.	70.6	March 31
Shin-Etsu Handotai Europe, Ltd. ⁽¹⁾	100.0	December 31	Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31	Shin-Etsu Technology Service Co., Ltd.	76.9	February 29
Shin-Etsu PVC B.V. ⁽¹⁾	100.0	December 31	Urawa Polymer Co., Ltd.	100.0	March 31
S-E, Inc. ⁽¹⁾	100.0	December 31	Shin-yo Home Service Company	100.0	March 31
Shin-Etsu Electronics Materials			Niigata Polymer Company Limited	100.0	March 31
Singapore Pte. Ltd. ⁽¹⁾	100.0	December 31	Shin-Etsu Polymer America, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Handotai Taiwan Co., Ltd. ⁽¹⁾	70.0	December 31	Naoetsu Sangyo Limited	100.0	March 31
Nagano Electronics Industrial Co., Ltd.	90.0	February 29	Sanshin Electronics Co., Ltd.	100.0	March 31
Polymer East Japan Co., Ltd. ⁽³⁾	100.0	March 31	San-Ace Co., Ltd.	100.0	March 31
Shin-Etsu Singapore Pte. Ltd. ⁽¹⁾	100.0	December 31	Shinken Total Plant Co., Ltd.	100.0	February 29
Shin-Etsu Silicone Korea Co., Ltd. ⁽¹⁾	100.0	December 31	Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
Shinano Polymer Co., Ltd.	100.0	March 31	Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Silicones Thailand Ltd. ⁽¹⁾	100.0	December 31	Shin-Etsu Magnet Co., Ltd.	100.0	March 31
Shin-Etsu (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	December 31	Shin-Etsu Polymer Mexico S.A. de.C.V. ⁽¹⁾	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 29	PT. Shin-Etsu Polymer Indonesia ⁽¹⁾	100.0	December 31
Shin-Etsu MicroSi, Inc. ⁽¹⁾	100.0	December 31	Shin-Etsu Polymer Shanghai Co., Ltd. ⁽¹⁾	100.0	December 31
Polymer Chemicals Co., Ltd. ⁽³⁾	100.0	March 31	Human Create Co., Ltd.	100.0	March 31
Shin-Etsu Silicone Taiwan Co., Ltd. ⁽¹⁾	93.3	December 31	Suzhou Shin-Etsu Polymer Co., Ltd. ⁽¹⁾	71.4	December 31
Shin-Etsu Silicones of America, Inc. ⁽¹⁾	100.0	December 31	S.E.H. (Shah Alam) Sdn. Bhd. ⁽¹⁾	100.0	December 31
Shin-Etsu Silicones Europe B.V. ⁽¹⁾	100.0	December 31	Simcoa Operations Pty. Ltd. ⁽¹⁾	100.0	December 31
Shin-Etsu Sealant Co., Ltd.	100.0	March 31	Shincor Silicones, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Unit Co., Ltd.	100.0	March 31	SE Tylose GmbH & Co. KG ⁽¹⁾	100.0	December 31
Shin-Etsu Opto Electronic Co., Ltd. ⁽¹⁾	80.0	December 31	K-Bin, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Polymer (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	December 31			

7 other consolidated subsidiaries

⁽¹⁾ Overseas subsidiary

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

⁽³⁾ Polymer East Japan Co., Ltd. and Polymer Chemical Co., Ltd. were merged on April 1, 2004. The name of the merged company is Shin-Etsu Finetech Co., Ltd.

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 subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, 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 subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2 (8), effective for the year ended March 31, 2003, Shin-Etsu Chemical Co., Ltd. has changed its accounting policy for depreciation of polyvinyl chloride equipment in machinery and equipment.

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 PricewaterhouseCoopers

Tokyo, Japan

June 29, 2004

SHIN-ETSU'S WORLDWIDE NETWORK

Country names are followed by country telephone codes in parentheses.

Australia (61)

SIMCOA OPERATIONS PTY. LTD.

Lot 22 Marriott Road, Wellesley, WA 6233
Phone: 8-97-806666
Fax: 8-97-806777

BIOCONTROL LTD.

3 Acacia Crt., Mt. Crosby, Queensland 4306
Phone: 7-32011466
Fax: 7-32012492

China (86)

SHIN-ETSU SILICONE INTERNATIONAL TRADING (SHANGHAI) CO., LTD.

3214 Shanghai Central Plaza, 381 Huaihai Zhong Road, Shanghai 200021
Phone: 21-6391-5111
Fax: 21-6391-5296

SUZHOU SHIN-ETSU POLYMER CO., LTD.

A-10 Fenfu Economic and Technical Development Zone, Wujiang City, Jiansu
Phone: 512-63-271640
Fax: 512-63-272674

ZHEJIANG SHIN-ETSU HIGH-TECH CHEMICAL CO., LTD.

No.66, Lizhong Road, Jiashan Economic Development Zone, Zhejiang Sheng 314116
Phone: 573-475-5071
Fax: 573-475-5070

France (33)

S.E.H. EUROPE (FRENCH OFFICE)

1360 Route Des Dolines, Cardoulines B2, 06560 Sophia Antipolis
Phone: 4.97.21.44.88
Fax: 4.97.21.44.80

Germany (49)

SE TYLOSE GMBH & CO. KG

Rheingastr. 190-196, 65203 Wiesbaden
Phone: 611-962-8189
Fax: 611-962-9371

S.E.H. EUROPE (GERMAN OFFICE)

Fabrikstr. 8, D-85354 Freising
Phone: 8161-50611
Fax: 8161-50682

Hungary (36)

SHIN-ETSU POLYMER HUNGARY KFT.

Hütöház út 25, H-9027 Győr, Hungary
Phone: 96-515-354
Fax: 96-515-353

Japan (81)

SHIN-ETSU CHEMICAL CO., LTD.

6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo
Phone: 3-3246-5011
Fax: 3-3246-5350

SHIN-ETSU ASTECH CO., LTD.

2-1, Uchikanda 2-chome, Chiyoda-ku, Tokyo
Phone: 3-5298-3211
Fax: 3-3254-1931



SHIN-ETSU ENGINEERING CO., LTD.

9, Kanda-Nishikicho 2-chome, Chiyodaku, Tokyo
Phone: 3-3296-1080
Fax: 3-3296-1085

SHIN-ETSU FILM CO., LTD.

5-13, Uchikanda 1-chome, Chiyoda-ku, Tokyo
Phone: 3-3259-1061
Fax: 3-3259-1064

SHIN-ETSU HANDOTAI CO., LTD.

4-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Phone: 3-3214-1831
Fax: 3-3215-9040

SHIN-ETSU POLYMER CO., LTD.

3-5, Nihonbashi Honcho 4-chome, Chuo-ku, Tokyo
Phone: 3-3279-1712
Fax: 3-3246-2529

SHIN-ETSU QUARTZ PRODUCTS CO., LTD.

22-2, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo
Phone: 3-3348-1912
Fax: 3-3348-4919

JAPAN VAM & POVAL CO., LTD.

11-1, Chikkoshinmachi 3-cho Sakai-shi, Osaka
Phone: 72-245-1131
Fax: 72-245-8144

KASHIMA VINYL CHLORIDE MONOMER CO., LTD.

2, Towada, Kamisu-machi, Kashima-gun, Ibaraki
Phone: 299-96-3415
Fax: 299-96-6354

NAGANO ELECTRONICS INDUSTRIAL CO., LTD.

1393, Yashiro, Chikuma-shi, Nagano
Phone: 26-261-3100
Fax: 26-261-3131

NAOETSU ELECTRONICS CO., LTD.

596-2, Jonokoshishinden, Kubiki-mura, Nakakubiki-gun, Niigata
Phone: 255-30-2631
Fax: 255-30-2908

NISSIN CHEMICAL INDUSTRY CO., LTD.

17-33, Kitago 2-chome, Takefu-shi, Fukui
Phone: 778-22-5100
Fax: 778-24-0657

SHINANO ELECTRIC REFINING CO., LTD.

5, Kanda-Sudacho 1-chome, Chiyoda-ku, Tokyo
Phone: 3-5298-1601
Fax: 3-5298-0071

Korea (82)

SHIN-ETSU SILICONE KOREA CO., LTD.

International Insurance Bldg. 904, 120, 5-ka, Namdaemoon-ro, Chung-ku, Seoul
Phone: 2-775-9691
Fax: 2-775-9690

Malaysia (60)

S.E.H. MALAYSIA SDN. BHD.

Lot No. 2, Lorong Enggang 35, Ulu Klang Free Trade Zone, Selangor Darul Ehsan
Phone: 3-4256-6155
Fax: 3-4257-5751

S.E.H. (SHAH ALAM) SDN. BHD.

Lot 8, Jalan Sementa 27/91, Seksyen 27, 40400 Shah Alam, Selangor Darul Ehsan
Phone: 3-5198-0111
Fax: 3-5191-3111

SHIN-ETSU ELECTRONICS (MALAYSIA) SDN. BHD.

Lot 50, Jalan Serendah 26/17, HICOM Industrial Estate, 40000 Shah Alam, Selangor Darul Ehsan
Phone: 3-5192-1081
Fax: 3-5192-1068



SHIN-ETSU (MALAYSIA) SDN. BHD.

Lot 50, Jalan Serendah 26/17, HICOM Industrial Estate, 40000 Shah Alam, Selangor Darul Ehsan
Phone: 3-5191-2233
Fax: 3-5191-2288

SHIN-ETSU POLYMER (MALAYSIA) SDN. BHD.

Lot 52, Jalan Sepintas 26/13, Kawasan, Perindustrian Hicom, 40000 Shah Alam Selangor Darul Ehsan
Phone: 3-5191-1161
Fax: 3-5191-1181

Netherlands (31)

SHIN-ETSU PVC B.V.

Building Noorderheave Noorderweg 681221 AB Hilversum
Phone: 35-689-8010
Fax: 35-685-0989
Fax: 36-5326459

SHIN-ETSU INTERNATIONAL EUROPE B.V.

World Trade Center Amsterdam, Strawinskylaan B-827, 1077 XX Amsterdam
Phone: 20-662-1359
Fax: 20-664-9000

SHIN-ETSU POLYMER EUROPE B.V.

Groot Bollerweg 10, 5928 NS, Venlo
Phone: 77-323-6000
Fax: 77-323-6001

SHIN-ETSU SILICONES EUROPE B.V.

Bolderweg 32, 1332 AV, Almere
Phone: 36-5493170
Fax: 36-5326459

Portugal (351)

CIRES, S.A. (COMPANHIA INDUSTRIAL DE RESINAS SINTETICAS, S.A.)

P.O. Box 20, Samouqueiro, Avanca 3864-752, Estarreja
Phone: 234-811-200
Fax: 234-811-204

Singapore (65)

SHIN-ETSU ELECTRONICS MATERIALS SINGAPORE PTE. LTD.

100 Beach Road, #23-01 Shaw Towers, 189702
Phone: 6297-9211
Fax: 6297-9311

SHIN-ETSU SINGAPORE PTE. LTD.

4 Shenton Way #10-03/06 SGX Centre 2, Singapore 068807
Phone: 6743-7277
Fax: 6743-7477

Taiwan (886)

SHIN-ETSU HANDOTAI TAIWAN CO., LTD.

(S.E.H. TAIWAN)
No. 12, Industry East Road 9, Hsinchu Science Park, Hsin-Chu
Phone: 3-5771188
Fax: 3-5771199

SHIN-ETSU OPTO ELECTRONIC CO., LTD.

No. 30, Industry East Road 4, Hsinchu Science Park, Hsin-Chu
Phone: 3-5784566
Fax: 3-5789864

SHIN-ETSU SILICONE TAIWAN CO., LTD.

7F, No. 102, Civil Boulevard, Sec 4, Taipei
Phone: 2-2751-6999
Fax: 2-2751-6769

Thailand (66)

SHIN-ETSU SILICONES (THAILAND), LTD.

7th Floor, Harindhorn Tower, 54 North Sathorn Road, Bangkok 10500
Phone: 2-632-2941
Fax: 2-632-2945

ASIA SILICONES MONOMER LIMITED

1 Moo 2 Asia Industrial Estate Tambol Banchang, Amphur Banchang Rayong 21130
Phone: 38-687-050-1
Fax: 38-687-060-1

U.K. (44)

SHIN-ETSU HANDOTAI EUROPE, LTD. (S.E.H. EUROPE)

Wilson Road, Toll Roundabout, Eliburn, Livingston, West Lothian EH54 7DA
Phone: (1506) 41-5555
Fax: (1506) 41-7171

U.S.A. (1)

SHINTECH INCORPORATED

#3 Greenway Plaza, Suite 1150, Houston, TX 77046
Phone: (713) 965-0713
Fax: (713) 965-0629

SHIN-ETSU HANDOTAI AMERICA, INC. (S.E.H. AMERICA)

4111 N.E. 112th Ave., Vancouver, WA 98682-6776
Phone: (360) 883-7000
Fax: (360) 254-6973

SHIN-ETSU MAGNETICS, INC.

2372 Qume Drive, Suite B, San Jose, CA 95131-1841
Phone: (408) 383-9240
Fax: (408) 383-9245

SHIN-ETSU MICROSI, INC.

10028 South 51st St. Phoenix, AZ 85044
Phone: (480) 893-8898
Fax: (480) 893-8637

SHIN-ETSU POLYMER AMERICA INC.

5600 Mowry School Road, Suite 320, Newark, CA 94560
Phone: (510) 623-1881
Fax: (510) 623-1603

SHIN-ETSU SILICONES OF AMERICA, INC.

1150 Damar Drive, Akron, OH 44305
Phone: (330) 630-9860
Fax: (330) 630-9855

HERAEUS SHIN-ETSU AMERICA, INC.

4600 N.W Pacific Rim Blvd., Camas, WA 98607
Phone: (360) 834-4004
Fax: (360) 834-3115

K-BIN INC.

#3 Greenway Plaza, Suite 1150, Houston, TX 77046
Phone: (713) 965-0713
Fax: (713) 965-0629

SHINCOR SILICONES, INC.

1030 Evans Avenue, Akron, OH 44305
Phone: (330) 630-9460
Fax: (330) 630-1491

BOARD OF DIRECTORS



Chihiro Kanagawa



Shunzo Mori



Hiroaki Tsubokura



Fumio Akiya

President and CEO

Chihiro Kanagawa

Senior Managing Directors

Shunzo Mori

Hiroaki Tsubokura

Fumio Akiya

Managing Directors

Ryoei Miki

Yasuhiko Saitoh

Directors

Frank P. Popoff

Shunji Kono

Kiichi Habata

Toshinobu Ishihara

Masaki Miyajima

Atsushi Nakamura

Yoshiaki Ono

Fumio Arai

Full-Time Statutory Auditor

Osamu Okada

Statutory Auditors

Masahiko Watase

Masao Okazaki

Tasuku Takagaki

(as of June 29, 2004)

INVESTOR INFORMATION

As of March 31, 2004

Shin-Etsu Chemical Co., Ltd.

Head Office: 6-1, Ohtemachi 2-chome,
Chiyoda-ku, Tokyo 100-0004, Japan
<http://www.shinetsu.co.jp>

Date of Establishment: September 16, 1926

Capital: ¥110,493 million

Number of Employees: 17,384 (including 67 consolidated subsidiaries)

Number of Shares Issued: 422,798,470 shares

Number of Shareholders: 37,244

Stock Listings: Tokyo, Osaka, Nagoya

Transfer Agent: The Mitsubishi Trust and Banking Corporation

Auditor: ChuoAoyama PricewaterhouseCoopers

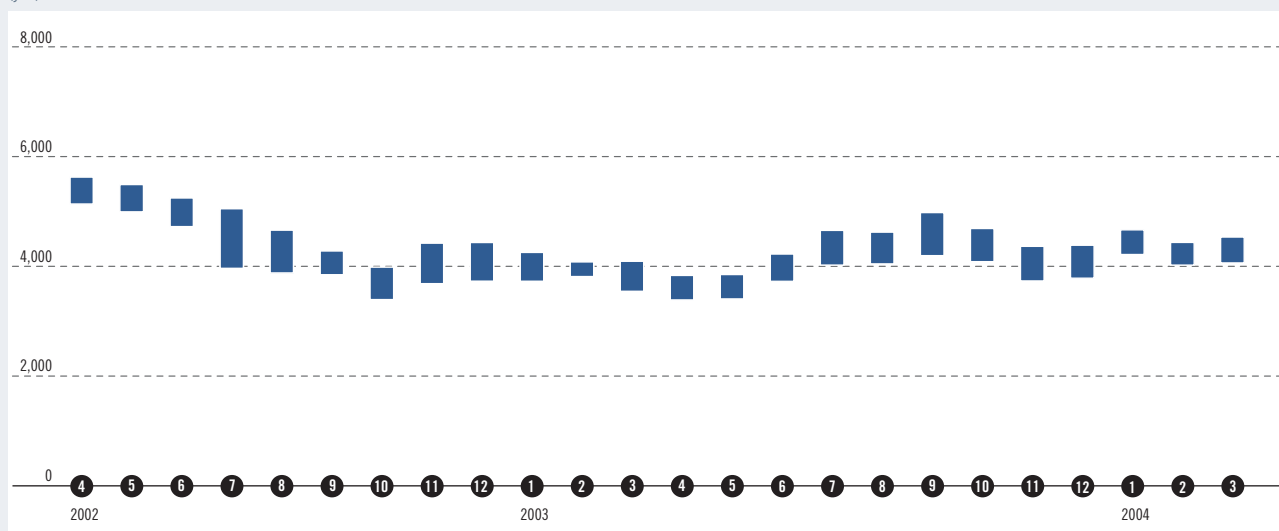
Information: Public Relations Department
6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, Japan
Phone: +81-3-3246-5091
Fax: +81-3-3246-5096
e-mail: sec-pr@shinetsu.jp

Major Shareholders

Name	Number of Shares (thousands)	Percentage of Total Equity (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	41,610	9.9
Japan Trustee Services Bank, Ltd. (Trust account)	33,644	8.0
Nippon Life Insurance Company	23,020	5.5
Shinsei Bank, Limited	14,813	3.5
State Street Bank and Trust Company	13,571	3.2
The Bank of Tokyo-Mitsubishi, Ltd	13,095	3.1
The Hachijuni Bank, Ltd.	11,790	2.8
Meiji Yasuda Life Insurance Company	11,529	2.7
NIPPONKOA Insurance Co., Ltd.	10,077	2.4
The Chase Manhattan Bank, NA London SL Omnibus Account	8,978	2.1

Common Stock Price Range

(yen)



www.shinetsu.co.jp

ShinEtsu