

Press Release of Consolidated Financial Data



For the year ended March 31, 2004

May 20, 2004

Shin-Etsu Chemical Co.,Ltd.

The seat of headquarters : Tokyo
Listing Code No. 4063
(URL <http://www.shinetsu.co.jp/>)
Listing Stock Exchange : Tokyo, Osaka, Nagoya
Representative:
 Chihiro Kanagawa (Mr.)
 Representative Director-President
Personnel to contact :
 Toshiyuki Kasahara (Mr.)
 General Manager of Finance & Accounting Department
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Date of Board of Directors Meeting
 For the authorization of the consolidated financial statements
 for the current fiscal year May 20, 2004
Adoption of U.S. GAAP : No

1).Consolidated Operating Performance for the Current Fiscal Year ended March 31,2004 (From April 1, 2003 to March 31, 2004)

(Amounts are stated in millions of yen by discarding fractional amounts less than 1 million.)

(1)Results of Consolidated operations

| | Millions of Yen | |
|---|---|---|
| | Current fiscal year <u>2003/4-2004/3</u> | Prior fiscal year <u>2002/4-2003/3</u> |
| Net sales | 832,804 | 797,523 |
| Ratio of increase (decrease) over the preceding year | 4.4% | 2.9% |
| Operating income | 125,625 | 122,149 |
| Ratio of increase (decrease) over the preceding year | 2.8% | 6.5% |
| Ordinary income | 125,612 | 122,119 |
| Ratio of increase (decrease) over the preceding year | 2.9% | 4.3% |
| Net income | 74,805 | 73,015 |
| Ratio of increase (decrease) over the preceding year | 2.5% | 6.6% |
| Net income per share (in yen) | 177.25 | 173.13 |
| Diluted net income per share (in yen) | 173.52 | 169.36 |
| Ratio of net income over total stockholders' equity | 8.6% | 8.8% |
| Ratio of ordinary income over total assets employed | 9.3% | 9.4% |
| Ratio of ordinary income over net sales | 15.1% | 15.3% |
| (Notes) | | |
| 1. Equity in earnings of Affiliates | 300 | 1,727 |
| 2. Average number of shares outstanding (in shares) | 420,484,380 | 420,524,988 |
| 3. Changes in accounting policies applied : No | | |

(2) Consolidated financial position

| | <u>Millions of Yen</u> | |
|--|------------------------|-------------------|
| | March 31, 2004 | March 31, 2003 |
| Total assets | 1,386,216 | 1,310,874 |
| Total stockholders' equity | 900,724 | 846,961 |
| Equity ratio | 65.0% | 64.6% |
| Stockholders' equity per share (in yen) | 2,140.23 | 2,014.11 |
| (Note) | | |
| Number of shares outstanding at year end (in shares) | 420,726,402 | 420,408,126 |

(3) Consolidated statement of cash flows

| | | |
|--------------------------------------|-----------|----------|
| Cash flows from operating activities | 156,004 | 130,198 |
| Cash flows from investing activities | (129,036) | (53,898) |
| Cash flows from financing activities | (26,695) | (18,803) |
| Cash & Cash Equivalents | 292,978 | 302,370 |

(4) Application of consolidation and equity method

| | | |
|--|-------|----|
| Number of consolidated subsidiaries | | 67 |
| Number of non-consolidated subsidiaries applied to equity method | | 0 |
| Number of affiliates applied to equity method | | 7 |

(5) Changes in scope of consolidation or application of the equity method

| | | | | |
|---------------|----------|---|----------|---|
| Consolidation | Increase | 6 | Decrease | 1 |
| Equity method | Increase | 0 | Decrease | 1 |

2).The Forecast of Consolidated Operating Performance for the Fiscal Year ended March 31, 2005 **(From April 1, 2004 to March 31, 2005)**

| | <u>Millions of Yen</u> | |
|-----------------|------------------------------------|-------------------------------------|
| | Six months <u>2004/4-2004/9</u> | Fiscal year <u>2004/4-2005/3</u> |
| Net sales | 430,000 | 870,000 |
| Ordinary income | 66,000 | 133,000 |
| Net income | 40,000 | 80,000 |

(Reference)

The forecast of "Net income per share" (from April 1, 2004 to March 31, 2005) 189.50 yen per share

(Note)

The forecast of results of operations made in this document involves risks and uncertainties since the forecast is based on management's assumptions and beliefs in light of the information currently available to it. The reader should be aware that actual results may be materially different from any future results expressed herein due to various factors. Material factors affecting the actual results may include overall economic conditions in which the businesses of our company and our group companies are involved, the relevant market trends and fluctuations in foreign exchange rates of the yen, in particular, the exchange rate between the U.S. dollars and the yen ; provided, however, that such factors as may affect results of operations are not limited to those enumerated above.

1. Corporate Overview

The Shin-Etsu Group is composed of Shin-Etsu Chemical Co., Ltd. (the “Company”), 90 subsidiaries, and 15 affiliates as of March 31, 2004. Business is divided into three segments: Organic and Inorganic Chemicals Segment, which consists mainly of the manufacture and sale of polyvinyl chloride (PVC) and silicones; Electronics Materials Segment, which consists mainly of the manufacture and sale of semiconductor silicon; and Functional Materials and Others Segment, which manufactures and sells synthetic quartz and other materials as well as providing various other services, such as construction and repair. The Company and its subsidiaries and affiliates share responsibility for sales, manufacturing, and other operations, and cooperate with each other to develop business activities.

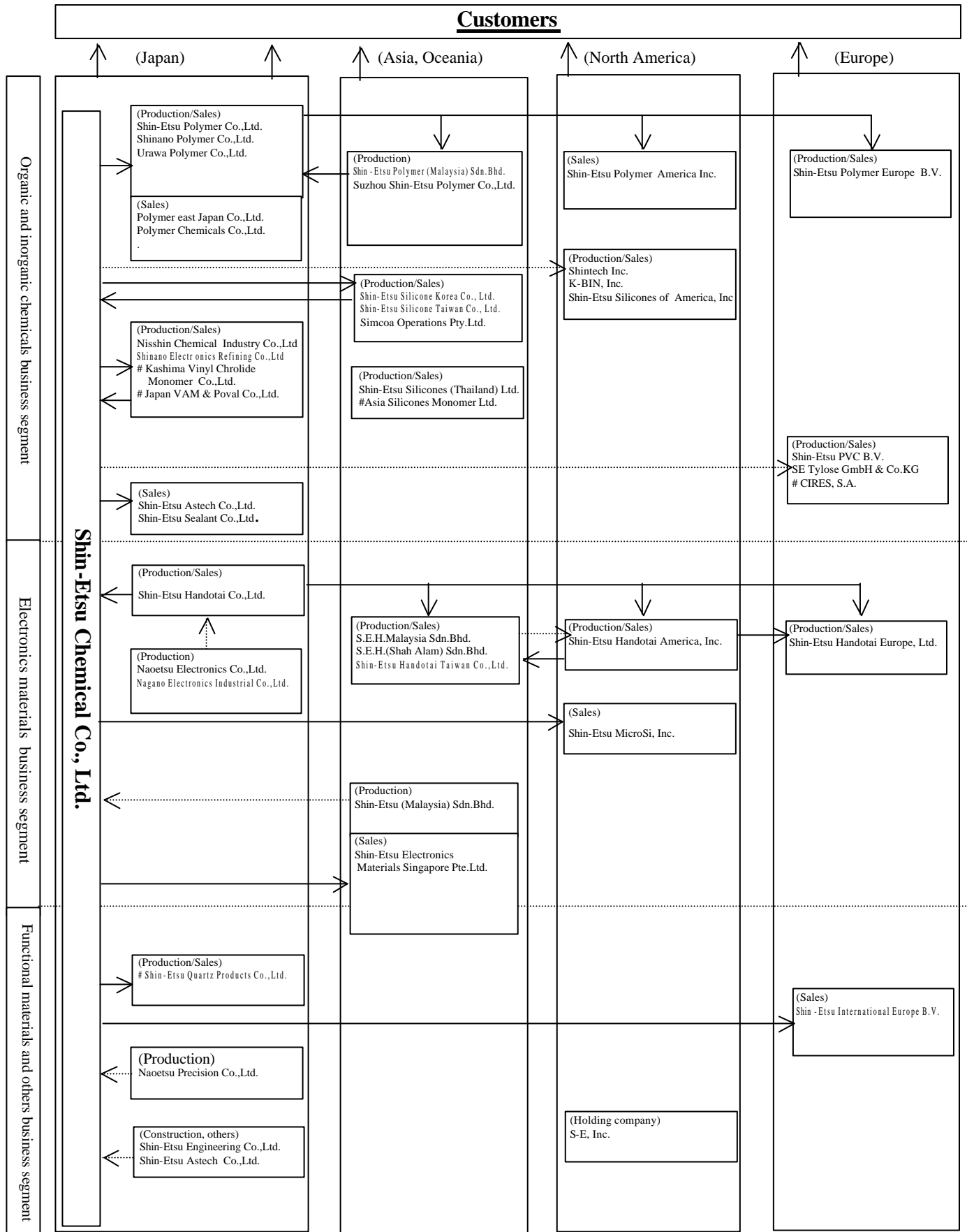
The Group’s business activities, the role and functions of the Company and major subsidiaries and affiliates are described below.

| | | | |
|--|--|----------|---|
| Organic and Inorganic Chemicals business segment | Polyvinyl chloride Silicone Methanol Chloromethanes Cellulose derivatives Caustic soda Silicon metal | Domestic | Shin-Etsu Chemical Co., Ltd. Shin-Etsu Polymer Co., Ltd. Shin-Etsu Astech Co., Ltd. Polymer East Japan Co., Ltd. Shinano Polymer Co., Ltd. Nissin Chemical Industry Co., Ltd. Polymer Chemicals Co.,Ltd. Shin-Etsu Sealant Co.,Ltd. Shinano Electric Refining Co., Ltd. Urawa Polymer Co., Ltd. Kashima Vinyl Chloride Monomer Co., Ltd. Japan VAM & Poval Co., Ltd. 13 other subsidiaries and affiliates Total number of companies: 25 |
| | | Overseas | Shintech Inc. Shin-Etsu PVC B.V. Shin-Etsu Silicone Korea Co., Ltd. Shin-Etsu Silicones (Thailand) Ltd. Shin-Etsu Silicone Taiwan Co., Ltd. Shin-Etsu Silicones of America, Inc. Shin-Etsu Polymer (Malaysia) Sdn. Bhd. Shin-Etsu Polymer Europe B.V. Shin-Etsu Polymer America, Inc. Suzhou Shin-Etsu Polymer Co., Ltd. Simcoa Operations Pty. Ltd. SE Tylose GmbH & Co.KG K-Bin, Inc. Asia Silicones Monomer Ltd. CIRES, S.A. 16 other subsidiaries Total number of companies: 31 |

| | | | |
|--|--|----------|--|
| Electronics materials business segment | Semiconductor silicon, Organic materials for the electronics industry, Rare earth magnets for the electronics industry, Photoresists | Domestic | Shin-Etsu Chemical Co., Ltd. Shin-Etsu Handotai Co., Ltd. Naoetsu Electronics Co., Ltd. Nagano Electronics Industrial Co., Ltd. 7 other subsidiaries and affiliates Total number of companies: 11 |
| | | Overseas | Shin-Etsu Handotai America, Inc. S.E.H. Malaysia Sdn.Bhd. Shin-Etsu Handotai Europe, Ltd. Shin-Etsu Electronics Materials Singapore Pte.Ltd. Shin-Etsu Handotai Taiwan Co., Ltd. Shin-Etsu (Malaysia) Sdn. Bhd. Shin-Etsu MicroSi, Inc. S.E.H. (Shah Alam) Sdn.Bhd. 7 other subsidiaries and affiliates Total number of companies: 15 |
| Functional materials and others business segment | Synthetic quartz products Oxide single crystals Rare Earth and rare earth magnets Export of technology and plants Export and import of goods Construction and Plant engineering Information processing | Domestic | Shin-Etsu Chemical Co., Ltd. Shin-Etsu Astech Co., Ltd. Shin-Etsu Engineering Co., Ltd. Naoetsu Precision Co., Ltd. Shin-Etsu Quartz Products Co., Ltd. 22 other subsidiaries Total number of companies: 27 |
| | | Overseas | S-E, Inc. Shin-Etsu Electronics Materials Singapore Pte.Ltd. Shin-Etsu (Malaysia) Sdn. Bhd. Shin-Etsu International Europe B.V. 3 other subsidiaries Total number of companies: 7 |

Note) Some of the companies listed in each business segment may be engaged in business across business segments, and therefore may be listed in more than one category .

Business Flows Within the Group

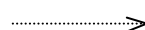


Note) Unmarked: Consolidated subsidiaries

Marked # : Affiliates which are applied to equity method



Products



Processing, technology, service and other

2. Management Policies

(1) Basic Management Policies

The basic management policy of Shin-Etsu Chemical Co., Ltd. is to place No. 1 priority on giving Shin-Etsu's shareholders maximum value by enhancing the worth of Shin-Etsu Group companies.

To achieve this goal, Shin-Etsu strives to secure and further develop its leading world market positions in each of its respective product areas. Shin-Etsu achieves these objectives by developing the world's highest level of technology in its business fields, as well as by attaining superior product quality and the most competitive production costs in the world. In this way, Shin-Etsu establishes stable business relationships with a great number of customers around the world. In addition, Shin-Etsu endeavors to establish a business system that can effectively cope with changes in the economic situation and changing world market conditions.

(2) Main Management Practices

PVC (polyvinyl chloride) is a general-purpose resin that depends less on crude oil and natural gas resources, and is a product that has superior properties. It is easy to process and is economical as well. The PVC business is expected to see continued growth in demand in the future not only in China and Southeast Asia where high economic growth rates are forecasted but also in North America and Europe. It is notable in the global PVC business that Shintech Inc., the No. 1 PVC manufacturer in the U.S., which possesses production facilities in both the states of Texas and Louisiana, has established a strong position as a key Shin-Etsu world PVC production base.

Moreover, Shin-Etsu PVC B.V. in The Netherlands, since its acquisition in 1999, has steadily increased its business, and in November of last year, for the first time after the acquisition, it expanded and strengthened the company's production facilities.

Shin-Etsu's PVC business is the world's largest with its annual global production capacity totaling 3.50 million tons, when the production capacity of its U.S., Europe and Japan production bases is combined. By utilizing to the maximum its world No. 1 production capability and its strong sales capabilities, which were nurtured in the world market, Shin-Etsu will strive to strengthen its PVC business globally, and at the same time, Shin-Etsu will further endeavor to improve its ability to earn profit in the domestic PVC business.

Shin-Etsu's silicone business has products with a wide diversity of applications in such industries as electric, electronic, automobile, construction, cosmetics, toiletries and chemical manufacturing, and along with the growth and development of these industries, the company's silicone business has expanded. In 2003, Shin-Etsu is celebrating the 50th anniversary of its silicone business. It will create further domestic demand by making the most of its products' characteristics and will continue to grow by constantly developing new products and new applications. In its global silicone business, Shin-Etsu will work towards early start-up of the silicone business created by the completion of the new production facilities constructed in Thailand, and at the same time, will strive to expand sales of existing overseas-manufactured silicone products and increase sales of high value-added products.

With regard to Shin-Etsu's semiconductor silicon business, to cope with future demand trends for cutting edge 300mm silicon wafers, Shin-Etsu has expanded its production capacity. In addition, Shin-Etsu will strive to accurately anticipate future demand trends and further expand its production capacity in accord with these trends. At the same time, the company will make further efforts to expand sales of SOI wafers whose applications are extending to highly functional devices and other specialized wafers. Furthermore, Shin-Etsu will continue to strive to enhance the quality of its other wafer products up to 200mm. Not only will Shin-Etsu endeavor to improve product quality, but it will also strive to continually implement measures to strengthen its global competitive power by promoting rationalization and optimal use of global production bases.

In its synthetic quartz business, large photomask substrates used for manufacturing of LCDs are doing well, and Shin-Etsu is implementing appropriate steps to effectively cope with the growth in demand expected in the future. With regard to its optical fiber preform business, while worldwide demand continues to be sluggish, Shin-Etsu will pursue R & D activities aimed at the development of high-quality products.

In addition to further strengthening its existing businesses, Shin-Etsu is also aggressively pursuing new R & D themes and nurturing new businesses, including the possibility of business acquisitions. The company is making intensive efforts to develop new products that came out of these R&D efforts such as photoresists, SOI wafers and fluoroelastomers. Shin-Etsu will strive to establish a firm business base for future growth in these product areas. In the future Shin-Etsu will make the best use of the distinct characteristics of the types of cellulose products and will further strengthen its total cellulose business. And at the end of last year, Shin-Etsu acquired the cellulose business of Clariant Co., and combined with Shin-Etsu's existing methylcellulose business, Shin-Etsu becomes the world's largest cellulose manufacturer.

Shin-Etsu makes it a fundamental management principle to pursue the goals of safety-first and environment conservation. From the point of view of risk management, Shin-Etsu recognizes that product safety policies such as product liability countermeasures and safety and environment conservation in manufacturing facilities are most crucial management tasks. Accordingly, Shin-Etsu is taking thorough company-wide measures to instill the highest levels of consciousness about in-company auditing and the need for total compliance. In addition, in all of Shin-Etsu's domestic manufacturing facilities and in the major manufacturing facilities in Shin-Etsu Group companies such as Shin-Etsu Handotai and Shin-Etsu Polymer we have obtained ISO 14001, the international standard for environmental management systems. Shin-Etsu endeavors to make useful contributions to the entire society, including the local communities, and to promote environmental conservation.

(3) Basic Policy regarding Dividends

Emphasizing the long-term perspective, Shin-Etsu believes that it is important to give its shareholders continued stable dividends, while increasing sales and profits and strengthening the company's business structure. The company will use its financial reserves for such needs as facility and R&D investment, acquisition of businesses, strengthening the company's global competitive power and developing promising future businesses. Shin-Etsu Chemical is making strenuous efforts to enhance the company's value.

With regard to the end-of-term dividend for the period, the company plans to declare a dividend of ¥8 per share, the same as declared for the interim dividend. As a result, the company expects the annual dividend to be ¥16 per share, an increase of ¥2 per share over the previous fiscal year's dividend.

Furthermore, the company expects the dividend for the next fiscal year to be ¥18 per share(both ¥9 for the interim and for the end-of-term dividend), an increase of another ¥2 per share.

(4) Basic Position on Corporate Governance and its Implementation

The basic management policy of Shin-Etsu Chemical Co., Ltd. is to place No. 1 priority on giving Shin-Etsu's shareholders maximum value by enhancing the worth of Shin-Etsu Group companies. In order to realize this policy goal, Shin-Etsu has put in place the management organizations and systems required to implement the necessary measures, as well as to proactively carry out corporate information disclosure policies and PR activities aimed at shareholders and investors. These are the basic principles that Shin-Etsu is following regarding corporate governance, and the company considers these activities to be one of the most important tasks of management. Shin-Etsu employs a statutory auditor system. Presently there are 15 members of Shin-Etsu Chemical's Board of Directors (including two external directors); and there are four statutory auditors (including three external statutory auditors). With regard to the investigative/decision-making level of business execution, a Managing Directors Committee meeting and a meeting of the Board of Directors carefully hold discussions, deliberations, make decisions on important matters. Moreover, Frank Peter Popoff, the former CEO of The Dow Chemical Company in the United States, and Shunji Kono, counselor of The Tokio Marine & Fire Insurance Co., Ltd., are serving Shin-Etsu as external directors. In this way, Shin-Etsu is obtaining not only an independent audit perspective but also a great deal of useful advice on global corporate management.

Full-Time Statutory Auditors attend not only meetings of the Board of Directors but also other important in-company meetings, and they carry out audits concerning Shin-Etsu's business operations. Furthermore, regarding corporate accounting, Shin-Etsu takes all possible measures to regularly and as necessary exchange information and opinions with accounting auditors from the Chuo Aoyama Audit Corp. With regard to decisions about reviewing board members' remuneration, Shin-Etsu has an officers' remuneration committee that is chaired by Mr. Popoff.

To be better prepared for the various kinds of risks that could possibly occur during its business operations, Shin-Etsu established a risk management committee. The company is striving to anticipate any and all possible risks that could be assumed and take countermeasures in advance to prevent such risks from actually occurring.

From its corporate directors to each and every one of its employees, all members of Shin-Etsu completely devote themselves in all phases of their business activities to respecting the spirit and the letter of the law and to following fair principles of corporate governance. They have pledged themselves to faithfully follow all of the company rules and regulations that are enumerated in and explained in-company training, signed compliance documents and the company's employment contract. In addition, Shin-Etsu has an employee consultation organization, which monitors these matters to insure that the company's principles and policies of corporate governance are scrupulously implemented by responding to employee questions about proper procedures.

3. Results of Operations and Financial Position

(1) Results of Operations

General Overview

During FY 2004 (April 1, 2003 to March 31, 2004), the Japanese economy, supported by an increase in exports and private sector facility investment, entered into a moderate recovery mode in the second half of the fiscal year; however, a severe employment environment continued, personal consumption was sluggish and a prolonged deflationary economy resulted in the Japanese economy lacking vigor. The American economy, which has a great influence on the world economy, and the economies of Southeast Asia and China continued on a recovery path; nevertheless, there are concerns about the impact on the world economy caused by such factors as the upward trend in the price of crude oil.

Even under these severe circumstances, the Shin-Etsu Group companies continued strong sales efforts with regard to their worldwide customers by emphasizing the special features of Shin-Etsu's products and also by utilizing to the maximum the Group companies' sales power that was nurtured in the world market. At the same time, Shin-Etsu aggressively promoted efforts to raise efficiency by more effectively utilizing the company's global production capabilities.

As a result, consolidated net sales for the fiscal year increased 4.4% (¥35,281 million), compared to the previous fiscal year, to become ¥832,804 million. Compared to the performance of the previous year, operating income increased 2.8% (¥3,476 million) to ¥125,625 million, ordinary income increased 2.9% (¥3,493 million) to ¥125,612 million and net income increased 2.5% (¥1,790 million) to ¥74,805 million.

Business Segment Overview

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. In 2003, the PVC sales price rose by a net amount of 7 cents per pound. Shintech Inc., Shin-Etsu's U.S. PVC base, continued its efficient, high-level and stable operation throughout the fiscal year by utilizing its strength in having a wide range of customers both domestically and overseas and carrying out sales activities thoroughly and carefully.

In addition, as PVC demand increased in Europe, in FY 2004, Shin-Etsu PVC B.V. in The Netherlands strengthened its production capabilities and expanded its profit.

In Japan, the PVC business continued to be faced with a severe sales situation due to the persistence of weakness in construction and housing starts. However, toward the end of the fiscal year, an upward price revision was put into effect. As a result, Shin-Etsu's PVC business increased sales steadily and was able to greatly increase its operating income.

Silicones have a wide range of applications in such diverse fields such as electric, electronics, automobiles, chemicals, toiletries, cosmetics and construction. Domestic sales in such fields as automobile-related applications, information equipment and cosmetics increased in FY 2004. However, although the basic trend in demand in Southeast Asia and China was strong due to the expanding economies in the region, the adverse effect of the SARS outbreak toward the beginning of the FY 2004 and the rising yen in the latter part of 2003 had a negative impact. The result was increased sales in the silicone business, although a decrease in operating income was recorded.

Although both domestic and overseas markets saw a decrease in sales of cellulose derivatives products for medical use, sales increased strongly in industrial-use products mainly for automobile-related applications. In addition, SE Tylose in Germany, a new Shin-Etsu Group company acquired in December 2003, added to Shin-Etsu's world-leading power in the cellulose business mainly through its products for construction materials. (Note: As the fiscal year of SE Tylose is from January 1 to December 31, the company's operating performance for 2003 is not included in this consolidated operating performance data, but assets and liabilities are included in the consolidated balance sheet.)

Accordingly, this business segment's net sales increased 8.5% (¥35,988 million), compared to the previous fiscal year, to ¥457,009 million. Operating income increased 4.3% (¥2,703 million) to ¥65,112 million.

Electronics materials

The semiconductor silicon business was strong as a result of the expansion in demand for devices used for applications in digital home appliances and mobile phones as well as the recovery in demand for PCs and other digital devices. The company's main wafer product, 200mm wafers, and its most advanced 300mm wafers continued expansion in their shipments throughout FY 2004. Small-diameter wafers, those up to 150mm, saw a recovery trend in the second half of the fiscal year. Specialty wafers such as SOI wafers, annealed wafers and others also continued to show a steady increase in sales. As a result, the semiconductor silicon business increased its sales and greatly expanded its operating income.

Rare earth magnets for the electronics industry saw a strong upward trend in demand for hard disk drive applications for PCs. In addition, rare earth magnet sales for hard disk drives used in home appliances and in car navigation system were also good. Accordingly, rare earth magnet sales increased. Photoresists products increased in sales; however, organic materials for the electronics industry remained at about the same level as in the previous fiscal year.

As a result, the net sales of this business segment increased 7.7% (¥18,818 million), compared to the previous fiscal year, to ¥262,245 million. Operating income increased 19.7% (¥6,934 million) to ¥42,182 million.

Functional materials and Others

Among synthetic quartz products, sales of large-size photomask substrates used for the manufacturing of LCD panels were good, on the other hand, due to worldwide sluggish demand, optical fiber preform sales decreased greatly.

Sales of rare earth magnets for automobile-related products and for factory automation equipment were good. On the other hand, sales for medical-equipment use were sluggish. Accordingly, sales remained at the same level as in the previous fiscal year. Although export sales of rare earth decreased, domestic sales increased in applications for digital home appliances. Thus, sales increased slightly over the previous fiscal year.

As a result, the net sales of this business segment decreased 14.7% (¥19,524 million), compared to the previous fiscal year, to ¥113,550 million. Operating income decreased 25.1% (¥6,082 million) to ¥18,169 million.

Business prospects

Regarding the business forecast for the next business term, the Japanese economy and the American economy, which has a big influence on the world economy, are both anticipated to continue in an upward phase. However, there are some uncertain factors affecting the world economy such as currency exchange fluctuations and trends in raw material costs. Thus, the global business environment is unpredictable.

The Shin-Etsu Group will strengthen its existing businesses, which have been nurtured in the world market for along period of years, by adopting policies to further enhance their competitive sales power. While expanding the company's already strong position in products for which there is increasing demand such as 300mm wafers, Shin-Etsu will make all-out efforts to achieve early commercialization of new products spawned by on-going projects. In addition, Shin-Etsu will strengthen its business base by making strenuous efforts to develop and nurture products that are unique and can be differentiated from other competitive products, and at the same time, by striving to enhance the company's competitive power in production costs.

Our business forecast for fiscal year ended March 31, 2005 is as follows:

| | Millions of Yen | | | |
|---|-------------------|--------------------|-------------------|--------------------|
| | Consolidated | | Non-consolidated | |
| | <u>Six months</u> | <u>Fiscal year</u> | <u>Six months</u> | <u>Fiscal year</u> |
| Net sales | 430,000 | 870,000 | 250,000 | 500,000 |
| Ratio of increase (decrease) over the prior fiscal year | 5.5% | 4.5% | 4.9% | 3.6% |
| Ordinary income | 66,000 | 133,000 | 30,000 | 60,000 |
| Ratio of increase (decrease) over the prior fiscal year | 4.7% | 5.9% | 3.4% | 3.3% |
| Net income | 40,000 | 80,000 | 18,500 | 37,000 |
| Ratio of increase (decrease) over the prior fiscal year | 6.0% | 6.9% | 3.7% | 6.6% |

The annual dividend is scheduled to be 18 yen per share, an increase of 2 yen per share over the previous year's dividend.

(Note)

The forecast of results of operations made in this document involves risks and uncertainties since the forecast is based on management's assumptions and beliefs in light of the information currently available to it. The reader should be aware that actual results may be materially different from any future results expressed herein due to various factors. Material factors affecting the actual results may include overall economic conditions in which the businesses of our company and our group companies are involved, the relevant market trends and fluctuations in foreign exchange rates of the yen, in particular, the exchange rate between the U.S. dollars and the yen; provided, however, that such factors as may affect results of operations are not limited to those enumerated above.

(2) Financial position

| | <u>Millions of Yen</u> | | |
|---|----------------------------------|---------------------------|------------------------|
| | <u>For the fiscal year ended</u> | | Increase (Decrease) |
| | <u>March 31, 2004</u> | <u>March 31, 2003</u> | |
| Cash and cash equivalents at beginning of fiscal year | 302,370 | 249,846 | 52,524 |
| Cash flows from operating activities | 156,004 | 130,198 | 25,806 |
| Cash flows from investing activities | (129,036) | (53,898) | (75,138) |
| Cash flows from financing activities | (26,695) | (18,803) | (7,892) |
| Effect of foreign exchange and others | (9,663) | (4,974) | (4,689) |
| Net Increase (decrease) in cash and cash equivalents | (9,391) | 52,523 | (61,914) |
| Cash and cash equivalents at end of fiscal year | 292,978 | 302,370 | (9,392) |

The balance of cash and cash equivalents at the end of this fiscal year decreased by 3.1% (¥9,392 million) over that of prior year, to become ¥292,978 million.

Cash flows from operating activities

The Increase in cash flow provided by operating activities amounted to ¥156,004 million. This was mainly due to income before income tax of ¥125,616 million and depreciation expense of ¥73,581 million.

Cash flows from investing activities

Net cash used for investing activities amounted to ¥129,036 million. This was mainly due to expenditures for purchase of tangible fixed assets of ¥68,578 million and payment for purchase of new consolidated subsidiaries' stock and acquisition of business of ¥30,213 million.

Cash flows from financing activities

Net cash used for financing activities amounted to ¥26,695 million. This was mainly due to net decrease in short term debt of ¥18,027 million.

The trend of cash flow indices

| | <u>For the fiscal year ended</u> | | | | |
|---|----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | <u>March 31, 2004</u> | <u>March 31, 2003</u> | <u>March 31, 2002</u> | <u>March 31, 2001</u> | <u>March 31, 2000</u> |
| Shareholders' equity ratio(%) | 65.0 | 64.6 | 63.0 | 56.5 | 55.7 |
| Shareholders' equity ratio on market value basis(%) | 132.9 | 118.3 | 178.1 | 143.5 | 223.8 |
| Redemption years for debt | 1.0 | 1.3 | 1.5 | 1.4 | 2.7 |
| Interest coverage ratio | 38.3 | 28.9 | 18.5 | 15.8 | 10.9 |

(Notes) Shareholders' equity ratio: shareholders' equity / total assets

Shareholders' equity ratio at market value:

aggregate market value of common stock / total assets

Debt repayment period: interest-bearing liabilities / cash flows from operating activities

Interest coverage ratio: cash flows from operating activities / payment of interest

1. All indices based on consolidated financial figures.

2. Aggregate market value of common stock:

Market price at fiscal year-end x number of shares outstanding at fiscal year-end

3. "Cash flows from operating activities" corresponds to that in the consolidated statement of cash flows. "Interest-bearing liabilities" refers to all liabilities with interest in the consolidated balance sheet. "Payment of interest" corresponds to that in the consolidated statement of cash flows.

4. Consolidated Financial Statements

4-1 Comparative Consolidated Balance Sheets

As of March 31, 2004 and 2003

Millions of Yen

ASSETS

| | March 31, 2004 | March 31, 2003 | Increase (Decrease) |
|---------------------------------------|-------------------|-------------------|------------------------|
| Current Assets: | | | |
| Cash on hand and in banks | 210,322 | 235,647 | (25,325) |
| Notes and accounts receivable -trade | 221,996 | 197,967 | 24,029 |
| Securities | 131,215 | 115,323 | 15,892 |
| Inventories | 117,728 | 119,360 | (1,632) |
| Deferred tax assets | 22,657 | 21,260 | 1,397 |
| Others | 31,352 | 23,413 | 7,939 |
| Less: Allowance for doubtful accounts | (4,727) | (5,193) | 466 |
| Total current assets | <u>730,546</u> | <u>707,778</u> | <u>22,768</u> |
| Fixed Assets: | | | |
| Property, plant and equipment | | | |
| Buildings and structures | 153,380 | 158,985 | (5,605) |
| Machinery, equipment and vehicles | 200,854 | 196,529 | 4,325 |
| Land | 39,922 | 33,285 | 6,637 |
| Construction in progress | 30,645 | 41,836 | (11,191) |
| Others | 10,085 | 10,835 | (750) |
| Total property, plant and equipment | <u>434,888</u> | <u>441,472</u> | <u>(6,584)</u> |
| Intangible fixed assets | 24,378 | 4,292 | 20,086 |
| Investments and others | | | |
| Investments in securities | 171,527 | 133,390 | 38,137 |
| Deferred tax assets | 12,981 | 13,056 | (75) |
| Others | 11,912 | 10,902 | 1,010 |
| Less: Allowance for doubtful accounts | (18) | (17) | (1) |
| Total investment and others | <u>196,402</u> | <u>157,331</u> | <u>39,071</u> |
| Total fixed assets | <u>655,670</u> | <u>603,096</u> | <u>52,574</u> |
| TOTAL ASSETS | <u>1,386,216</u> | <u>1,310,874</u> | <u>75,342</u> |

Millions of Yen

| | March 31, 2004 | March 31, 2003 | Increase (Decrease) |
|---|-------------------|-------------------|------------------------|
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Notes and accounts payable -trade | 107,041 | 110,649 | (3,608) |
| Short-term borrowings | 58,281 | 73,511 | (15,230) |
| Debentures of redemption within one year | 8,000 | 5,000 | 3,000 |
| Accounts payable -others | 47,624 | 34,568 | 13,056 |
| Accrued income taxes | 29,542 | 12,548 | 16,994 |
| Accrued expenses | 61,982 | 53,442 | 8,540 |
| Others | 9,274 | 8,384 | 890 |
| Total current liabilities | 321,747 | 298,104 | 23,643 |
| Long-term Liabilities: | | | |
| Debentures | 23,285 | 21,796 | 1,489 |
| Convertible debentures | 17,849 | 18,291 | (442) |
| Long-term borrowings | 55,751 | 48,763 | 6,988 |
| Deferred tax liabilities | 33,094 | 24,703 | 8,391 |
| Accrued retirement benefits | 6,008 | 6,238 | (230) |
| Others | 1,246 | 20,498 | (19,252) |
| Total long-term liabilities | 137,235 | 140,290 | (3,055) |
| TOTAL LIABILITIES | 458,982 | 438,395 | 20,587 |
| MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES | 26,508 | 25,517 | 991 |
| STOCKHOLDERS' EQUITY | | | |
| Common stock | 110,493 | 110,271 | 222 |
| Additional paid-in capital | 119,261 | 119,040 | 221 |
| Retained earnings | 694,996 | 626,141 | 68,855 |
| Unrealized gain(loss) on available -for-sale securities | 11,928 | (1,481) | 13,409 |
| Foreign currency translation adjustment | (26,736) | 2,625 | (29,361) |
| Treasury stock | (9,219) | (9,636) | 417 |
| TOTAL STOCKHOLDERS' EQUITY | 900,724 | 846,961 | 53,763 |
| TOTAL LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY | 1,386,216 | 1,310,874 | 75,342 |

| | | | |
|---------|---|-----------|-----------|
| (Notes) | 1. Accumulated depreciation of property, plant and equipment fixed assets(in millions of yen) | 845,086 | 752,206 |
| | 2. Contingent liabilities for guarantee (in millions of yen) | 556 | 702 |
| | 3. Treasury stock (in shares) | 2,072,068 | 2,159,785 |

4-2 Comparative Consolidated Income Statements

For the fiscal year ended March 31, 2004 and 2003

| | <u>Millions of Yen</u> | | |
|--|----------------------------------|---------------------------|--------------------------------|
| | <u>For the fiscal year ended</u> | | <u>Increase (Decrease)</u> |
| | <u>March 31, 2004</u> | <u>March 31, 2003</u> | |
| Operating Income and Expenses: | | | |
| Net sales | 832,804 | 797,523 | 35,281 |
| Cost of sales | 619,085 | 585,220 | 33,865 |
| | <hr/> | <hr/> | |
| Gross profit | 213,719 | 212,302 | 1,417 |
| Selling, general and administrative expenses | 88,094 | 90,152 | (2,058) |
| | <hr/> | <hr/> | |
| Operating income | 125,625 | 122,149 | 3,476 |
| Non-operating Income: | | | |
| Interest income | 3,389 | 3,655 | (266) |
| Dividend income | 407 | 474 | (67) |
| Equity in earnings of affiliates | 300 | 1,727 | (1,427) |
| Other income | 3,497 | 4,726 | (1,229) |
| | <hr/> | <hr/> | |
| | 7,594 | 10,583 | (2,989) |
| Non-operating Expenses: | | | |
| Interest expenses | 4,167 | 4,955 | (788) |
| Foreign exchange loss | 742 | 3,848 | (3,106) |
| Loss on disposal of property, plant and equipment | 786 | 780 | 6 |
| Other expenses | 1,912 | 1,029 | 883 |
| | <hr/> | <hr/> | |
| | 7,608 | 10,613 | (3,005) |
| | <hr/> | <hr/> | |
| Ordinary income | 125,612 | 122,119 | 3,493 |
| Extraordinary Gains: | | | |
| Gain on early settlement of finance leases | 2,055 | - | 2,055 |
| Reversal of prior year's accrued maintenance expenses | - | 3,298 | (3,298) |
| Settlement income | - | 2,527 | (2,527) |
| Gain on sales of property, plant and equipment | - | 2,416 | (2,416) |
| Gain on transfer of securities to retirement benefit trust | - | 2,363 | (2,363) |
| | <hr/> | <hr/> | |
| | 2,055 | 10,605 | (8,550) |
| Extraordinary Losses: | | | |
| Loss on disposal of property, plant and equipment | 2,050 | - | 2,050 |
| Loss on write-down of investment securities | - | 10,494 | (10,494) |
| Adjustment to prior years' license fee | - | 1,727 | (1,727) |
| | <hr/> | <hr/> | |
| | 2,050 | 12,222 | (10,172) |
| | <hr/> | <hr/> | |
| Income before income taxes | 125,616 | 120,502 | 5,114 |
| Income taxes-Current | 47,332 | 34,367 | 12,965 |
| Income taxes-Deferred | 1,068 | 10,866 | (9,798) |
| Minority interest in earnings of consolidated subsidiaries | 2,409 | 2,253 | 156 |
| | <hr/> | <hr/> | |
| Net income | 74,805 | 73,015 | 1,790 |
| | <hr/> | <hr/> | |

4-3 Comparative Consolidated statements of additional paid-in capital and retained earnings

For fiscal year ended March 31, 2004 and 2003

| | <u>Millions of Yen</u> | | |
|---|----------------------------------|---------------------------|--------------------------------|
| | <u>For the fiscal year ended</u> | | <u>Increase (Decrease)</u> |
| | <u>March 31, 2004</u> | <u>March 31, 2003</u> | |
| <u>ADDITIONAL PAID-IN CAPITAL</u> | | | |
| Balance at the beginning of fiscal year | 119,040 | 119,028 | 12 |
| Conversion of convertible debentures | 220 | 11 | 209 |
| Total increase | 220 | 11 | 209 |
| Balance at the end of fiscal year | 119,261 | 119,040 | 221 |
| <u>RETAINED EARNINGS</u> | | | |
| Balance at the beginning of fiscal year | 626,141 | 556,465 | 69,676 |
| Net income | 74,805 | 73,015 | 1,790 |
| Increase due to the increase of consolidated subsidiaries | 574 | 2,560 | (1,986) |
| Total increase | 75,380 | 75,576 | (196) |
| Cash dividends | 6,306 | 5,466 | 840 |
| Director's and statutory auditor's bonuses | 189 | 176 | 13 |
| Loss on disposal of treasury stocks | 28 | 257 | (229) |
| Total decrease | 6,524 | 5,900 | 624 |
| Balance at the end of fiscal year | 694,996 | 626,141 | 68,855 |

4-4 Comparative Consolidated statements of cash flows

For the fiscal year ended March 31, 2004 and 2003

| | Millions of Yen | | Increase (Decrease) |
|---|---------------------------|-------------------|------------------------|
| | For the fiscal year ended | | |
| | March 31, 2004 | March 31, 2003 | |
| 1. Cash flows from operating activities | | | |
| Income before income taxes | 125,616 | 120,502 | 5,114 |
| Depreciation and amortization | 73,581 | 66,566 | 7,015 |
| Increase (decrease) in accrued retirement benefits | (1,359) | (8,969) | 7,610 |
| Loss on write-down of investment securities | 667 | 10,494 | (9,827) |
| Interest and dividend income | (3,797) | (4,129) | 332 |
| Interest expenses | 4,167 | 4,955 | (788) |
| Foreign exchange (gain) loss | (188) | 1,904 | (2,092) |
| Equity in earnings of affiliates | (300) | (1,727) | 1,427 |
| Transfer of securities to retirement benefit trust | - | 3,214 | (3,214) |
| Gains on transfer of securities to retirement benefit trust | - | (2,363) | 2,363 |
| Gain from cancellation of retirement benefit trust | - | (12,095) | 12,095 |
| (Increase) decrease in notes and accounts receivable | (23,631) | (7,732) | (15,899) |
| (Increase) decrease in inventories | 4,237 | (1,886) | 6,123 |
| Increase (decrease) in notes and accounts payable | 4,804 | 16,033 | (11,229) |
| Other, net | 3,301 | (18,733) | 22,034 |
| Subtotal | 187,099 | 166,033 | 21,066 |
| Proceeds from interest and dividends | 4,224 | 4,389 | (165) |
| Payment of interest | (4,075) | (4,499) | 424 |
| Payment of income taxes | (31,245) | (35,725) | 4,480 |
| Net cash provided by operating activities | 156,004 | 130,198 | 25,806 |
| 2. Cash flows from investing activities | | | |
| Net (increase) decrease in marketable securities | 4,975 | 64,957 | (59,982) |
| Purchase of property, plant and equipment | (68,578) | (62,271) | (6,307) |
| Proceeds from sales of property, plant and equipment | 1,226 | 4,358 | (3,132) |
| Purchase of intangible fixed asset | (2,594) | (2,300) | (294) |
| Purchase of investment securities | (66,721) | (78,921) | 12,200 |
| Proceeds from sales and redemption of investment securities | 33,005 | 25,859 | 7,146 |
| Payment for purchase of new consolidated subsidiaries' stock and acquisition of business | (30,213) | - | (30,213) |
| Payments of loans | (6,832) | (207) | (6,625) |
| Proceeds from collection of loans | 480 | 327 | 153 |
| Other, net | 6,216 | (5,699) | 11,915 |
| Net cash used for investing activities | (129,036) | (53,898) | (75,138) |
| 3. Cash flows from financing activities | | | |
| Net increase (decrease) in short-term debt | (18,027) | (3,479) | (14,548) |
| Proceeds from long-term debt | 20,645 | 33,427 | (12,782) |
| Repayment of long-term debt | (12,105) | (23,898) | 11,793 |
| Proceeds from issuance of debentures | 10,000 | 11,014 | (1,014) |
| Payment of debentures on redemption | (5,000) | (28,195) | 23,195 |
| Payment for early settlement of finance leases | (15,588) | - | (15,588) |
| Cash dividends paid | (6,306) | (5,466) | (840) |
| Other, net | (311) | (2,203) | 1,892 |
| Net cash used for financing activities | (26,695) | (18,803) | (7,892) |
| 4. Effect of foreign exchange on cash and cash equivalents | (10,008) | (6,969) | (3,039) |
| 5. Net increase(decrease) in cash and cash equivalents | (9,736) | 50,527 | (60,263) |
| 6. Cash and cash equivalents at beginning of year | 302,370 | 249,846 | 52,524 |
| 7. Net increase (decrease) in cash and cash equivalents by change of consolidation scope | 344 | 1,995 | (1,651) |
| 8. Cash and cash equivalents at end of year | 292,978 | 302,370 | (9,392) |

4-5 Basis of Presenting Consolidated Financial Statement

1. Scope of Consolidation

| | | |
|-----------------------------|----|--|
| Consolidated Subsidiaries | 67 | Shintech, Inc.(Overseas subsidiary) Shin-Etsu Handotai Co., Ltd. Shin-Etsu Handotai America, Inc.(Overseas subsidiary) Shin-Etsu Polymer Co., Ltd. S.E.H. Malaysia Sdn. Bhd.(Overseas subsidiary) Shin-Etsu PVC B.V.(Overseas subsidiary) Naoetsu Electronics Co., Ltd. Shin-Etsu Handotai Europe, Ltd. (Overseas subsidiary) Shin-Etsu Engineering Co., Ltd. Shin-Etsu Astech Co.,Ltd Nissin Chemical Industry Co., Ltd. 56 other subsidiaries |
| Unconsolidated Subsidiaries | 23 | |

2.Application of Equity Method

The Company had 23 unconsolidated subsidiaries and 15 affiliates. The equity method is applied to the investments in 7 major affiliates – Shin-Etsu Quartz Products Co., Ltd., Kashima Vinyl Chloride Monomer Co., Ltd. and 5 other affiliates.

3.Fiscal Year of Consolidated Subsidiaries

38 subsidiaries adopt fiscal year ending on December 31, and 7 subsidiaries adopt that ending on February 29, respectively. For consolidation of these subsidiaries whose fiscal years do not correspond to the Company's one, necessary adjustments are made on significant inter-company transactions which occurred during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

4.Significant Accounting Policies

(1) Valuation policy and method of significant assets

a) Securities

| | | |
|-------------------------------|-------|---|
| Bonds held to maturity | | Amortized cost method (Straight-line method) |
| Available-for-sale securities | | |
| Marketable securities | | Market value method based on the fair market value as of the balance sheet date. (Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at net-of-tax amount. Costs of sales of these securities are principally calculated based on a moving average cost method) |
| Non-marketable securities | | Mainly moving average cost method |

b) Inventories

..... Mainly average cost method

c) Derivatives

..... Market value method

(2) Depreciation method of significant depreciable assets

..... Mainly declining-balance method

(3) Calculation method of significant allowances

| | | |
|------------------------------------|-------|---|
| a) Allowance for doubtful accounts | | The Company and consolidated subsidiaries provide the 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 general receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectable. |
|------------------------------------|-------|---|

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

(4) Accounting method of significant lease transactions

Accounting method in connection with the contracts of finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees is mainly according to that of operating lease transactions.

5.Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries are valued on the basis of the full fair value accounting method.

6.Amortization of consolidated adjustment account

Excess of investment cost over equity in net assets of consolidated subsidiaries is amortized within 20 years according to the straight-line method.

7.Distribution of profits

Consolidated statements of retained earnings is based on the distribution of profits defined in this fiscal year.

8. Nature of fund on consolidated statement of cash flows

Fund (cash and cash equivalents) on the consolidated statements of cash flows consists of cash on hand, deposit that can be withdrawn without limitation and liquid investment which are easily convertible into cash, and are matured within approximately three months since acquisition date, and has insignificant risk exposure in terms of fluctuation on value of the investments.

(Segment Information)

For the fiscal year ended March 31, 2004 and 2003

1. Business Segment Information

| | | Millions of Yen | | | | | |
|-------|---------------------------------|--|--------------------------|---------------------------------------|-----------|------------------------------------|-----------------------|
| | | For the fiscal year ended March 31, 2004 | | | | | |
| | | Organic and inorganic Chemicals | Electronics Materials | Functional materials and others | Total | Elimination or Corporate assets | Consolidated total |
| Sales | Outside customers | 457,009 | 262,245 | 113,550 | 832,804 | - | 832,804 |
| | Intersegment | 8,284 | 1,538 | 54,480 | 64,304 | (64,304) | - |
| | Total | 465,294 | 263,784 | 168,030 | 897,108 | (64,304) | 832,804 |
| | Operating costs and expenses | 400,182 | 221,602 | 149,860 | 771,645 | (64,465) | 707,179 |
| | Operating income | 65,112 | 42,182 | 18,169 | 125,463 | 161 | 125,625 |
| | Assets | 548,264 | 422,075 | 166,789 | 1,137,129 | 249,086 | 1,386,216 |
| | Depreciation | 21,978 | 42,419 | 9,454 | 73,852 | (271) | 73,581 |
| | Capital expenditure (Footnote) | 50,519 | 46,485 | 5,090 | 102,095 | (234) | 101,861 |

(Footnote) Under the Organic and Inorganic Chemicals segment, capital expenditure of our affiliate Asia Silicones Monomer Limited was ¥5,886 million, which corresponds to our share of ownership of the affiliate. Payment for 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 would be included, the total amount of the capital expenditure would come to ¥113,591 million.

| | | Millions of Yen | | | | | |
|-------|---------------------------------|--|--------------------------|---------------------------------------|-----------|------------------------------------|-----------------------|
| | | For the fiscal year ended March 31, 2003 | | | | | |
| | | Organic and Inorganic Chemicals | Electronics Materials | Functional Materials and Others | Total | Elimination or Corporate assets | Consolidated Total |
| Sales | Outside customers | 421,021 | 243,427 | 133,074 | 797,523 | - | 797,523 |
| | Intersegment | 10,082 | 4,665 | 56,195 | 70,943 | (70,943) | - |
| | Total | 431,104 | 248,092 | 189,269 | 868,467 | (70,943) | 797,523 |
| | Operating costs and expenses | 368,695 | 212,844 | 165,018 | 746,557 | (71,184) | 675,373 |
| | Operating income | 62,409 | 35,248 | 24,251 | 121,909 | 240 | 122,149 |
| | Assets | 485,602 | 411,090 | 158,597 | 1,055,289 | 255,584 | 1,310,874 |
| | Depreciation | 22,031 | 33,297 | 11,534 | 66,864 | (297) | 66,566 |
| | Capital expenditure (Footnote) | 27,999 | 35,100 | 2,615 | 65,716 | (146) | 65,569 |

(Footnote) Capital expenditure of our affiliate Asia Silicones Monomer Limited which is under the Organic and Inorganic Chemicals segment, was ¥9,650 million, which corresponds to our share of ownership of the affiliate. If this amount would be included, capital expenditure for this fiscal year would be ¥75,220 million.

(Notes)

1. The following three lines of business are divided from point of view of kinds of products and markets.

| | |
|--|---|
| Organic and inorganic chemicals business segment | Polyvinyl chloride, Silicone, Methanol, Chloromethanes, Cellulose derivatives, Caustic soda, and Silicon metal |
| Electronics materials business segment | Semiconductor silicon, Organic materials for the electronics industry, Rare earth magnets for the electronics industry, and 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, and Information processing |

2. The amounts of the corporate assets included in the column “Elimination or corporate assets” for the fiscal year ended March 31, 2004 and 2003 were ¥330,651 million and ¥313,149 million, respectively, which mainly consist of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

2. Geographic Segment information

| | | Millions of Yen | | | | | | | |
|-------|------------------------------|--|---------------|---------|------------|-----------|---------------------------------|--------------------|--|
| | | For the fiscal year ended March 31, 2004 | | | | | | | |
| | | Japan | North America | Asia | Other Area | Total | Elimination or Corporate assets | Consolidated total | |
| Sales | Outside customers | 451,026 | 212,785 | 88,179 | 80,813 | 832,804 | - | 832,804 | |
| | Intersegment | 123,368 | 19,511 | 35,173 | 3,451 | 181,504 | (181,504) | - | |
| | Total | 574,394 | 232,297 | 123,352 | 84,264 | 1,014,309 | (181,504) | 832,804 | |
| | Operating costs and expenses | 484,956 | 208,440 | 115,371 | 79,756 | 888,524 | (181,344) | 707,179 | |
| | Operating income | 89,438 | 23,857 | 7,981 | 4,508 | 125,785 | (159) | 125,625 | |
| | Assets | 663,054 | 284,358 | 110,322 | 116,039 | 1,173,774 | 212,441 | 1,386,216 | |

| | | Millions of Yen | | | | | | | |
|-------|------------------------------|--|---------------|---------|------------|-----------|---------------------------------|--------------------|--|
| | | For the fiscal year ended March 31, 2003 | | | | | | | |
| | | Japan | North America | Asia | Other Area | Total | Elimination or Corporate assets | Consolidated Total | |
| Sales | Outside customers | 456,528 | 190,262 | 79,322 | 71,410 | 797,523 | - | 797,523 | |
| | Intersegment | 119,808 | 16,713 | 35,553 | 3,414 | 175,490 | (175,490) | - | |
| | Total | 576,336 | 206,975 | 114,876 | 74,825 | 973,013 | (175,490) | 797,523 | |
| | Operating costs and expenses | 489,214 | 183,614 | 107,866 | 69,161 | 849,857 | (174,483) | 675,373 | |
| | Operating income | 87,122 | 23,360 | 7,009 | 5,663 | 123,156 | (1,006) | 122,149 | |
| | Assets | 625,820 | 319,568 | 109,482 | 75,589 | 1,130,461 | 180,413 | 1,310,874 | |

(Notes) 1. Main countries or areas other than Japan

North America : U.S.A.
 Asia : Malaysia, Singapore, Korea, Taiwan
 Other area : U.K., the Netherlands, Australia

2. The amounts of the corporate assets included in the column “Elimination or corporate assets” for the fiscal year ended March 31, 2004 and 2003 were ¥330,651 million and ¥313,149 million, respectively, which mainly consist of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

3. Overseas sales information

| | Millions of Yen | | | |
|--|--|---------|------------|---------|
| | For the fiscal year ended March 31, 2004 | | | |
| | North America | Asia | Other area | Total |
| Overseas sales | 203,209 | 214,101 | 111,984 | 529,296 |
| Consolidated sales | | | | 832,804 |
| Percentage of overseas sales over consolidated sales | 24.4 | 25.7 | 13.5 | 63.6 |

| | Millions of Yen | | | |
|--|--|---------|------------|---------|
| | For the fiscal year ended March 31, 2003 | | | |
| | North America | Asia | Other area | Total |
| Overseas sales | 181,015 | 217,666 | 98,018 | 496,699 |
| Consolidated sales | | | | 797,523 |
| Percentage of overseas sales over consolidated sales | 22.7 | 27.3 | 12.3 | 62.3 |

(Notes) 1. Main countries or areas

North America : U.S.A., Canada
 Asia : Korea, Taiwan, China
 Other area : Europe, Middle South America, Oceania

2. "Overseas sales" means sales to outside Japan by the Company and its consolidated subsidiaries.
3. Sales to China included in "Asia" for the fiscal year ended March 31, 2004 and 2003 were ¥62,819 million and ¥71,330 million respectively.
4. Sales to Europe included in "Other area" for the fiscal year ended March 31, 2004 and 2003 were ¥82,041 million and ¥71,936 million respectively .

[Supplementary data: Details of Business Segment Information (Net Sales and Operating Income)]

| | 100 Millions of Yen | | | | | |
|---|--|--|------------------------|--|--|------------------------|
| | Net Sales | | | Operating Income | | |
| | For the fiscal year ended March 31, 2004 | For the fiscal year ended March 31, 2003 | Increase (Decrease) | For the fiscal year ended March 31, 2004 | For the fiscal year ended March 31, 2003 | Increase (Decrease) |
| Polyvinyl chloride | 2,549 | 2,246 | 303 | 237 | 205 | 32 |
| Silicones | 1,358 | 1,303 | 55 | 266 | 272 | (6) |
| Others | 663 | 661 | 2 | 148 | 147 | 1 |
| Total Organic and inorganic chemicals Segment | 4,570 | 4,210 | [8.5%] 360 | 651 | 624 | [4.3%] 27 |
| Semiconductor silicon | 2,141 | 1,967 | 174 | 348 | 287 | 61 |
| Others | 481 | 467 | 14 | 74 | 65 | 9 |
| Total Electronics materials Segment | 2,622 | 2,434 | [7.7%] 188 | 422 | 352 | [19.7%] 70 |
| Synthetic quartz products | 257 | 350 | (93) | 91 | 145 | (54) |
| Functional materials (Rare earths, Oxide single crystals, etc) | 265 | 253 | 12 | 47 | 58 | (11) |
| Others | 614 | 728 | (114) | 43 | 40 | 3 |
| Total Functional materials and Others Segment | 1,136 | 1,331 | [-14.7%] (195) | 182 | 243 | [-25.1%] (61) |
| Elimination | - | - | - | 1 | 2 | (1) |
| Total | 8,328 | 7,975 | [4.4%] 353 | 1,256 | 1,221 | [2.8%] 35 |

(Lease Transactions)

According to disclosure through EDINET, detailed information about lease transactions is being omitted from this report.

(Related Party Transactions)

Not Applicable

(Deferred Tax)

1. Factors of deferred tax assets and liabilities

| | Millions of Yen | |
|--|---------------------|---------------------|
| | As of March 31,2004 | As of March 31,2003 |
| Deferred Tax Assets | | |
| Unsettled accounts receivable and payable | 6,027 | 8,214 |
| Depreciation | 8,727 | 6,799 |
| Unrealized gain | 3,948 | 3,822 |
| Tax loss carry forwards | 2,031 | 3,547 |
| Accrued bonus allowance | 3,891 | 2,884 |
| Maintenance cost | 2,303 | 2,616 |
| Special provision for retirement benefits costs | 2,208 | 2,414 |
| Unrealized gain on available-for-sale securities | - | 1,025 |
| Accrued enterprise taxes | 2,205 | 832 |
| Others | 13,705 | 13,053 |
| Deferred Tax Assets sub-total | 45,048 | 45,211 |
| Valuation allowance | (4,317) | (4,456) |
| Deferred Tax Assets Total | 40,730 | 40,755 |
| Deferred Tax Liabilities | | |
| Depreciation | 27,113 | 28,132 |
| Reserve for special depreciation | 875 | 747 |
| Unrealized gain on available-for-sale securities | 8,041 | - |
| Others | 2,156 | 2,289 |
| Deferred Tax Liabilities Total | 38,186 | 31,169 |
| Net Deferred Tax Assets | 2,544 | 9,585 |

(Notes) Net Deferred Tax Assets are included in the following accounts.

| | Millions of Yen | |
|---|---------------------|---------------------|
| | As of March 31,2004 | As of March 31,2003 |
| Current assets : Deferred tax assets | 22,657 | 21,260 |
| Non-current assets : Deferred tax assets | 12,981 | 13,056 |
| Current liabilities : Current liabilities-others | - | (27) |
| Non-current liabilities: Deferred tax liabilities | (33,094) | (24,703) |

2. Reconciliation of the difference between the statutory tax rate and effective rate on taxable income

| | As of March 31,2004 | As of March 31,2003 |
|---|---------------------|---------------------|
| Statutory tax rate | 41.7% | 41.7% |
| Rate difference from foreign subsidiaries | (3.4) | (3.6) |
| Dividend income not taxable | (0.6) | (1.0) |
| Entertainment and other non-deductible expenses | 0.2 | 0.3 |
| Correction of decrease of deferred tax assets due to change of tax rate | 0.5 | 0.3 |
| Others, net | 0.1 | (0.2) |
| Effective tax rate | 38.5 | 37.5 |

Statutory effective tax rate used for the calculation of current deferred tax assets and liabilities is mainly 40.4% (prior fiscal year was 41.7%). Due to the change in the tax rate, net deferred tax assets decreased by ¥584 million and deferred income taxes increased by same amount.

(Securities)

As of March 31, 2004

(1) Market value of bonds held to maturity

| | Millions of Yen | | |
|--|-----------------|--------------|-----------------------|
| | Book value | Market value | Unrealized gain(loss) |
| Securities with fair value that exceed book value | | | |
| National and local government bonds and others | 0 | 0 | 0 |
| Debentures | 10,617 | 10,623 | 5 |
| Others | 3,000 | 3,000 | 0 |
| Subtotal | 13,618 | 13,624 | 5 |
| Securities with fair value that do not exceed book value | | | |
| National and local government bonds and others | 989 | 989 | (0) |
| Debentures | 7,547 | 7,534 | (12) |
| Others | 7,526 | 7,518 | (8) |
| Subtotal | 16,062 | 16,042 | (20) |
| Total | 29,681 | 29,666 | (14) |

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

| | Millions of Yen | | |
|--|------------------|------------|-----------------------|
| | Acquisition cost | Book value | Unrealized gain(loss) |
| Securities with book value that exceed acquisition cost | | | |
| Stocks | 27,108 | 47,552 | 20,443 |
| Bonds | | | |
| National and local government bonds and others | - | - | - |
| Debentures | 4 | 4 | 0 |
| Others | 10 | 10 | 0 |
| Subtotal | 27,122 | 47,566 | 20,443 |
| Securities with book value that do not exceed acquisition cost | | | |
| Stocks | 2,500 | 2,143 | (357) |
| Bonds | | | |
| National and local government bonds and others | - | - | - |
| Debentures | - | - | - |
| Others | 1,829 | 1,679 | (149) |
| Subtotal | 4,329 | 3,822 | (507) |
| Total | 31,452 | 51,388 | 19,935 |

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

| | Millions of Yen |
|--|-----------------|
| | Book value |
| 1. Bonds held to maturity | |
| Discount bond | 16,958 |
| Non-listed domestic bonds | 3 |
| Non-listed overseas bonds | 66,115 |
| 2. Investments in non-consolidated subsidiaries and affiliates | 29,164 |
| 3. Available-for-sale securities | |
| Non-listed shares | 3,651 |
| Non-listed overseas bonds | 101,775 |
| Others | 4,004 |

(4) Redemption schedule of available-for-sale securities with maturity and bonds held to maturity

| | Millions of Yen | | |
|--|-----------------|------------------------------------|-------------------------------------|
| | Within one year | Over one year within five years | Over five years within ten years |
| Bonds | | | |
| National and Local government bonds and others | 645 | 109 | 236 |
| Debentures | 3,025 | 18,168 | - |
| Others | 126,745 | 68,834 | - |
| Total | 130,417 | 87,113 | 236 |

As of March 31, 2003

(1) Market value of bonds held to maturity

| | Millions of Yen | | |
|--|-----------------|-----------------|--------------------------|
| | Book value | Market value | Unrealized gain(loss) |
| Securities with fair value that exceed book value | | | |
| National and local government bonds and others | 0 | 0 | 0 |
| Debentures | - | - | - |
| Others | 8,020 | 8,040 | 20 |
| Subtotal | 8,020 | 8,041 | 20 |
| Securities with fair value that do not exceed book value | | | |
| National and local government bonds and others | 0 | 0 | (0) |
| Debentures | 848 | 843 | (4) |
| Others | 5,255 | 5,254 | (1) |
| Subtotal | 6,104 | 6,097 | (6) |
| Total | 14,125 | 14,139 | 13 |

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

| | Millions of Yen | | |
|--|---------------------|---------------|--------------------------|
| | Acquisition cost | Book value | Unrealized gain(loss) |
| Securities with book value that exceed acquisition cost | | | |
| Stocks | 5,687 | 8,888 | 3,201 |
| Bonds | | | |
| National and local government bonds and others | - | - | - |
| Debentures | - | - | - |
| Others | 10 | 10 | 0 |
| Subtotal | 5,697 | 8,898 | 3,201 |
| Securities with book value that do not exceed acquisition cost | | | |
| Stocks | 23,833 | 18,820 | (5,012) |
| Bonds | | | |
| National and local government bonds and others | - | - | - |
| Debentures | 4 | 4 | 0 |
| Others | 1,829 | 1,233 | (595) |
| Subtotal | 25,666 | 20,058 | (5,607) |
| Total | 31,363 | 28,956 | (2,406) |

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

| | Millions of Yen |
|--|-------------------|
| | <u>Book value</u> |
| 1. Bonds held to maturity | |
| Discount bond | 16,775 |
| Non-listed domestic bonds | 14,237 |
| Non-listed overseas bonds | 64,096 |
| 2. Investments in non-consolidated subsidiaries and affiliates | 32,354 |
| 3. Available-for-sale securities | |
| Non-listed shares | 4,853 |
| Non-listed overseas bonds | 73,305 |
| Others | 9 |

(4) Redemption schedule of available-for-sale securities with maturity and bonds held to maturity

| | Millions of Yen | | |
|--|------------------------|--|---|
| | <u>Within one year</u> | <u>Over one year within five years</u> | <u>Over five years within ten years</u> |
| Bonds | | | |
| National and local government bonds and others | 0 | 5 | 0 |
| Debentures | 848 | 4 | - |
| Others | 113,613 | 67,836 | 260 |
| Total | 114,461 | 67,845 | 260 |

(Derivative Transactions)

According to disclosure through EDINET, detailed information about derivative transactions is being omitted from this report.

(Retirement Benefit)

1. Overview of Retirement Benefit Plan

The Company and its domestic consolidated subsidiaries have defined contribution pension plan (DC pension plan), tax-qualified pension plan and lump-sum severance payment plans as their defined benefit pension plan. In September 2003, some domestic consolidated subsidiaries abolished a part of the tax-qualified pension plan and moved to defined contribution pension plan and lump-sum severance payment plans.

Certain overseas consolidated subsidiaries also have defined benefit pension plans besides defined contribution pension plans.

Additionally, the Company has "Retirement Benefit Trust".

2. Benefit Obligation (As of March 31, 2004 and 2003)

| | Millions of Yen | |
|--|----------------------|----------------------|
| | As of March 31, 2004 | As of March 31, 2003 |
| (a) Benefit obligation | (19,650) | (21,445) |
| (b) Pension assets | 14,757 | 14,951 |
| (c) Unfunded benefit obligation [(a)+(b)] | (4,893) | (6,494) |
| (d) Unrecognized actuarial differences | 681 | 2,771 |
| (e) Unrecognized prior service cost (negative) (Note1) | (935) | (1,489) |
| (f) Amount shown on balance sheet [(c)+(d)+(e)] | (5,147) | (5,212) |
| (g) Prepaid pension expenses | 860 | 1,026 |
| (h) Accrued retirement benefits [(f)-(g)] | (6,008) | (6,238) |

(Notes) 1. The Company and certain consolidated subsidiaries changed system from tax-qualified pension plan into defined contribution pension plan from prior fiscal year or current fiscal year, so that prior service cost is generated.

2. Effect amounts from partial transfer from tax-qualified pension plan to defined contribution pension plan as follows.

| | Millions of Yen | |
|--|----------------------|----------------------|
| | As of March 31, 2004 | As of March 31, 2003 |
| Decrease in Benefit obligation | 4,744 | 38,097 |
| Estimated amounts of plan assets to be transferred | (4,248) | (31,118) |
| Unrecognized actuarial differences | (634) | (5,638) |
| <u>Unrecognized prior service cost</u> | - | (433) |
| Decrease (Increase) in Accrued retirement benefit | (138) | 906 |

3. Some subsidiaries adopt a simplified method for calculations of benefit obligation.

3. Retirement Benefit Costs (For the fiscal year ended March 31, 2004 and 2003)

| | Millions of Yen | |
|--|---------------------------|----------------|
| | For the fiscal year ended | |
| | March 31, 2004 | March 31, 2003 |
| (a) Service costs (Note) | 2,164 | 2,756 |
| (b) Interest costs | 496 | 1,867 |
| (c) Expected return on plan assets | (288) | (1,288) |
| (d) Recognized actuarial loss | 130 | 2,224 |
| (e) Amortization of prior service cost | (156) | (185) |
| (f) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)] | 2,346 | 5,372 |
| (g) (Gain)loss related to the transfer to DC pension plans | 138 | (906) |
| (h) Total [(f)+(g)] | 2,485 | 4,466 |

(Note) Retirement benefit costs for subsidiaries adopting a simplified method is reported in "Service costs".

4. Basic Assumptions for Calculating Benefit Obligation

| | <u>As of March 31, 2004</u> | <u>As of March 31, 2003</u> |
|--|---|-----------------------------|
| (a) Period allocation method for estimated retirement benefits | Fixed period standard | |
| (b) Discount rate | Principally 2.5% | |
| (c) Expected return on plan assets | Principally 2.5% | |
| (d) Period of amortizing prior service costs | Principally 10 years (expensed from the time when the cost was generated based on straight-line method) | Same as left |
| (e) Period of amortizing actuarial differences | Principally 5 years (expensed from the fiscal year when the cost was generated based on straight-line method) | |