

Financial Summary

(For the year ended March 31, 2004)

May 20, 2004

Shin-Etsu Chemical Co.,Ltd.

(Note)

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

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1. Operating Performance

	(Billions of Yen)			(Billions of Yen)			(times)	
	Consolidated			Non-consolidated			Ratio (Consolidated/Non-consolidated)	
	Fiscal year 02/4-03/3	Fiscal year 03/4-04/3	Increase (Decrease)	Fiscal year 02/4-03/3	Fiscal year 03/4-04/3	Increase (Decrease)	Fiscal year 02/4-03/3	Fiscal year 03/4-04/3
Sales	797.5	832.8	4.4% 35.3	480.2	482.6	0.5% 2.4	1.66	1.73
Operating Income	122.1	125.6	2.8% 3.5	62.0	56.1	(9.6%) (5.9)	1.97	2.24
Ordinary Income	122.1	125.6	2.9% 3.5	62.0	58.1	(6.4%) (3.9)	1.97	2.16
Net Income	73.0	74.8	2.5% 1.8	37.0	34.7	(6.2%) (2.3)	1.97	2.15
Total Assets	1,310.9	1,386.2	75.3	679.4	758.8	79.4	1.93	1.83
Stockholders' Equity	847.0	900.7	53.7	502.9	544.3	41.4	1.68	1.65
Equity Ratio	64.6%	65.0%	0.4%	74.0%	71.7%	(2.3%)		
Per share (in Yen)								
Net Income	173.13	177.25	4.12	87.83	82.25	(5.58)		
Stockholders' Equity	2,014	2,140	126	1,196	1,293	97		
Cash dividend				14.00	16.00	2.00		
ROE	8.8%	8.6%	(0.2%)	7.5%	6.6%	(0.9%)		
ROA	9.4%	9.3%	(0.1%)	9.3%	8.1%	(1.2%)		

ROA:Return(Ordinary income) on total assets

2. Financial Highlights

(Billions of Yen)

	Consolidated		Non-consolidated	
	Fiscal year 02/4-03/3	Fiscal year 03/4-04/3	Fiscal year 02/4-03/3	Fiscal year 03/4-04/3
Capital expenditures	75.2	113.6	12.0	16.7
Depreciation	66.6	73.6	23.2	20.1
R&D costs	27.3	26.4	15.6	15.6
Balance of liabilities with interest	167.4	163.2	58.4	63.8
Number of employees	16,573	17,384	2,672	2,571
Exchange rate Jan.-Dec.(Ave.) (Yen/US\$)	125.4	116.0	-	-
Apr.-Mar.(Ave.)	120.0	113.1	120.0	113.1

Notes; 1) Breakdown of Consolidated Capital Expenditures and Depreciation for the year ended March 31, 2004

	<u>Capital Expenditures</u>	<u>Depreciation</u>
	Billions of Yen	Billions of Yen
Organic and Inorganic chemicals	62.3	22.0
Electronics materials	46.5	42.4
Functional materials and Others	5.1	9.5

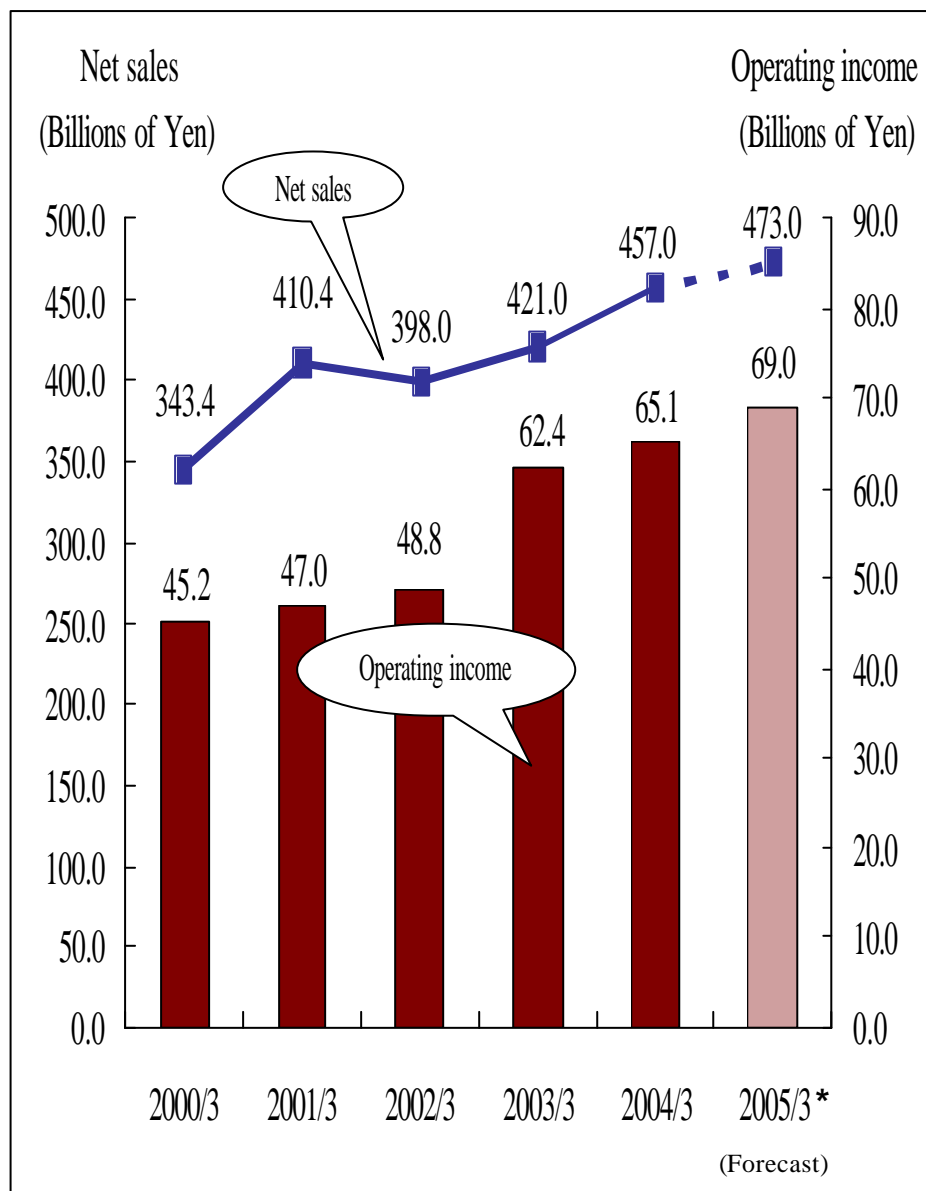
2) An average exchange rate between January and December was used for the Consolidated Income Statements of overseas subsidiaries.

3. Business Segment Information (Consolidated)

(Billions of Yen)

	Net Sales			Operating Income		
	Fiscal year 02/4-03/3	Fiscal year 03/4-04/3	Increase (Decrease)	Fiscal year 02/4-03/3	Fiscal year 03/4-04/3	Increase (Decrease)
Organic and Inorganic chemicals	421.0	457.0	8.5% 36.0	62.4	65.1	4.3% 2.7
Polyvinyl chloride	224.6	254.9	30.3	20.5	23.7	3.2
Silicones	130.3	135.8	5.5	27.2	26.6	(0.6)
Others	66.1	66.3	0.2	14.7	14.8	0.1
Electronics materials	243.4	262.2	7.7% 18.8	35.2	42.2	19.7% 7.0
Semiconductor silicon	196.7	214.1	17.4	28.7	34.8	6.1
Others	46.7	48.1	1.4	6.5	7.4	0.9
Functional materials and Others	133.1	113.6	(14.7%) (19.5)	24.3	18.2	(25.1%) (6.1)
Synthetic quartz products	35.0	25.7	(9.3)	14.5	9.1	(5.4)
Rare earths magnetes, other functional materials	25.3	26.5	1.2	5.8	4.7	(1.1)
Others	72.8	61.4	(11.4)	4.0	4.3	0.3
Elimination	-	-	-	0.2	0.1	(0.1)
Total	797.5	832.8	4.4% 35.3	122.1	125.6	2.8% 3.5

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



•PVC

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 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 the increase in housing construction. Although during the summer period there was a small decline, 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. 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. As PVC demand increased in Europe, Shin-Etsu PVC B.V. in The Netherlands strengthened its production capabilities and expanded its profit in this fiscal year. In Japan, the PVC business continued to be faced with a severe sales situation. However, toward the end of the fiscal year, an upward price revision was put into effect. As a result, Shin-Etsu's PVC business was able to greatly increase its operating income.

• Silicones

Domestic sales in such fields as automobile-related applications, information equipment and cosmetics increased in FY 2004. Although 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 FY2004 had a negative impact. Accordingly, silicone sales increased, but operating income declined. Shin-Etsu will strive to create further domestic demand by utilizing the wide range of applications of silicone products in diverse fields, and will work towards the expansion of its global silicone business through such strategies as start-up of silicone production facilities in Thailand.

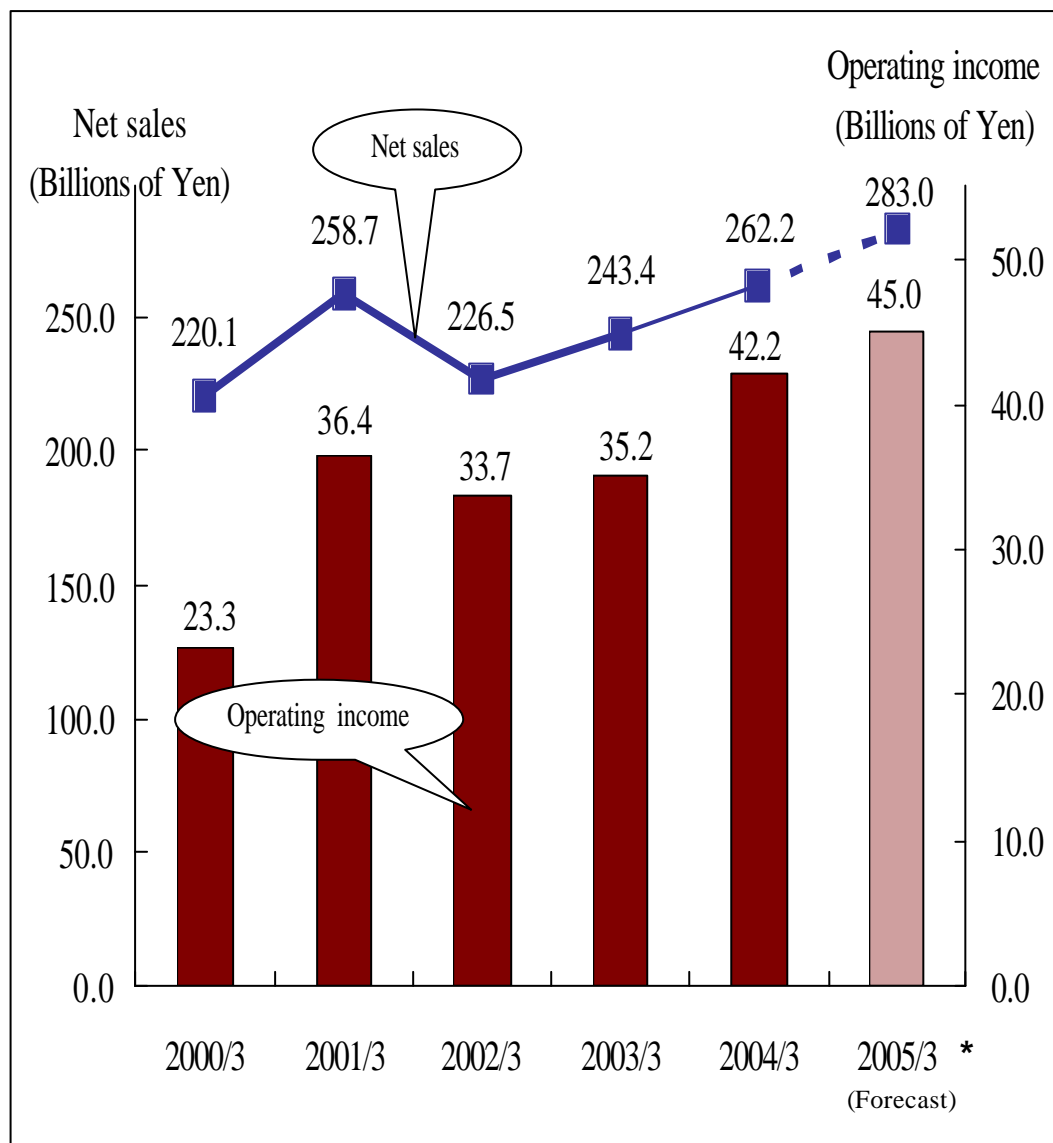
• Cellulose

Although the market 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 December 2003, Shin-Etsu acquired the cellulose business in Germany of Clariant Co. which mainly manufactures products used for construction materials. SE Tylose is the name of this new Shin-Etsu Group company. (Note: As the fiscal year of SE Tylose is from Jan to Dec, 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.)

(Note: The fiscal year of overseas subsidiary companies begins in January and ends in December. Thus the fiscal year results included here are those from January to December.)

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

5. "Electronics materials" Business Segment (Consolidated)



•Semiconductor silicon

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 less than 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 segment increased its sales and greatly expanded its operating income.

Currently, expansion of facilities is under way which will increase monthly production capacity of 300mm wafers to 300,000. Shin-Etsu will strive to accurately anticipate future demand trends and further expand its wafer business.

•Rare earth magnets for electronics industry

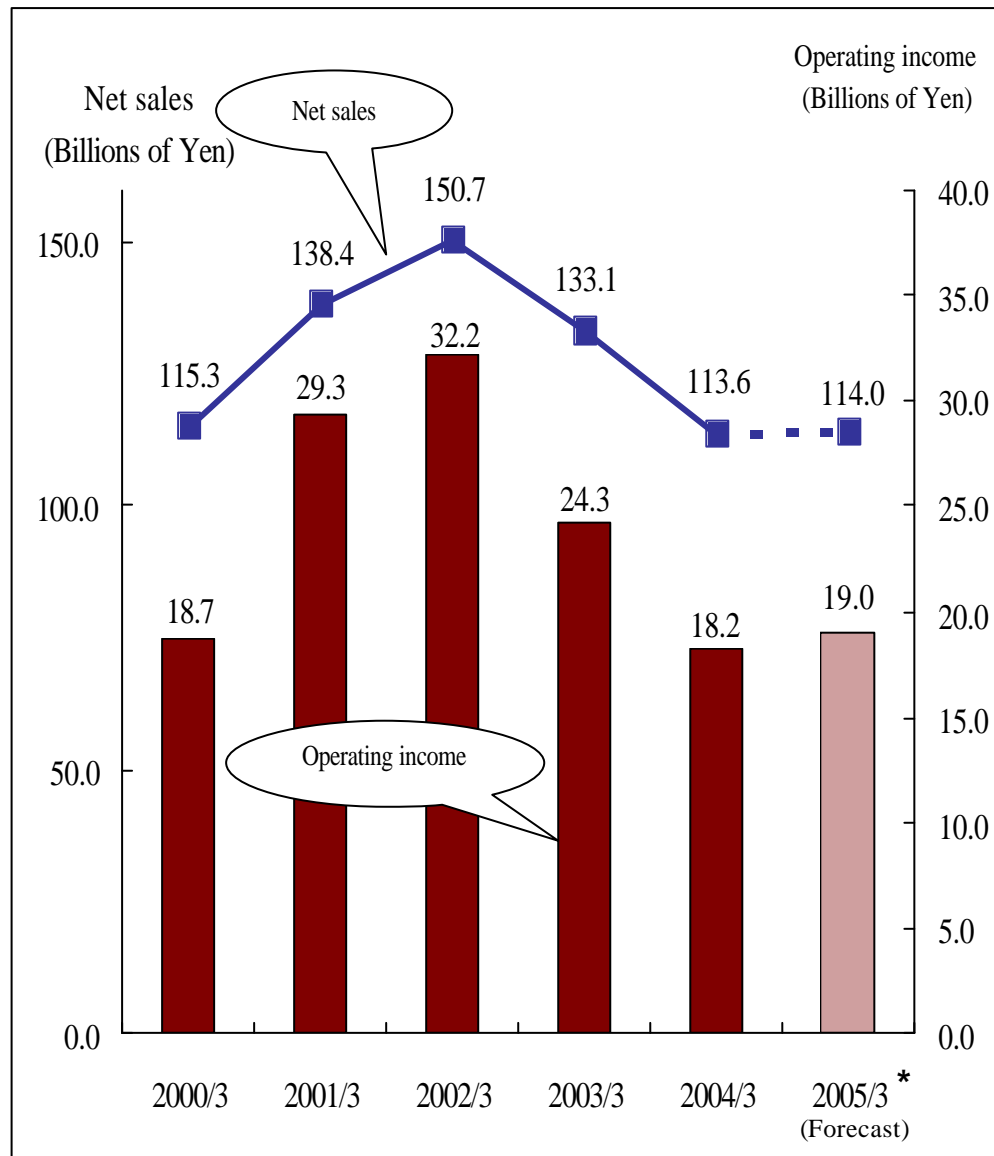
Rare earth magnets for the electronics industry saw a strong upward trend in demand for hard disk drive applications for PCs. In addition, rare earth magnet sales for applications in HDD recorders and car navigation systems were also good. Accordingly, rare earth magnet sales increased. Shin-Etsu has high expectations for growth in the market for applications in digital music players.

•Organic materials for electronics industry: Photoresists

Photoresists products increased in sales; however, organic materials for the electronics industry remained at about the same level as in the previous fiscal year.

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

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



•Synthetic quartz

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.

•Rare earth magnets

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 about the same level as in the previous fiscal year.

•Rare earth

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.

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

7. Operating Performance of Shintech, Inc.

Shintech, Inc.

	Fiscal year 02/1-02/12		Fiscal year 03/1-03/12	
	Million US\$	Billions of Yen	Million US\$	Billions of Yen
Net Sales	1,194	149.6	1,440	167.1
Ordinary Income	179	22.4	205	23.8
Extraordinary Gain	20	2.5	-	-
Net Income	131	16.5	134	15.5
Stockholders' Equity	1,397	167.5	1,531	164.0
Total Assets	1,701	204.0	1,818	194.8

The sales price of PVC in the U.S. market has continued to rise 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 the increase in housing construction. Although during the summer period there was a small decline, 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. 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 thorough, careful and customer-friendly sales activities.

As a result, Shintech's sales and profit both increased.

8. Operating Performance of Shin-Etsu Handotai Group

Shin-Etsu Handotai Group(Consolidated)

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

(Billions of Yen)

	Fiscal year 02/4-03/3	Fiscal year 03/4-04/3
Net Sales	190.4	206.7
Ordinary Income	21.0	23.6
Extraordinary Gain	3.3	2.1
Extraordinary Loss	(7.1)	(1.3)
Net Income	11.6	14.7
Stockholders' Equity	120.6	126.7
Total Assets	318.2	330.9

The semiconductor silicon business was strong as a result of the expansion in demand for applications in digital home appliances and mobile phones as well as 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 the fiscal year.

Small-diameter wafers, those less than 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, Shin-Etsu Handotai's sales and profit both increased.

Notes; The financial statements of the overseas Shin-Etsu Handotai Group Companies are calculated based on the FY ending in December 2002 and 2003

9. Comparative Income Statements (Consolidated)

(Billions of Yen)

	Fiscal year 02/4-03/3	Fiscal year 03/4-04/3	Increase (Decrease)	Rate of increase (decrease)
Net sales	797.5	832.8	35.3	4.4%
Cost of sales	585.2	619.1	33.9	
Selling, General and Administrative Expenses	90.2	88.1	(2.1)	
Operating income	122.1	125.6	3.5	2.8%
Non-operating income / expenses	0.0	0.0	0.0	
Ordinary income	122.1	125.6	3.5	2.9%
Extraordinary gains / losses	(1.6)	(*) 0.0	1.6	
Income before income taxes	120.5	125.6	5.1	4.2%
Income taxes	45.2	48.4	3.2	
Minority interest in earnings of consolidated subsidiaries	2.3	2.4	0.1	
Net income	73.0	74.8	1.8	2.5%

(*) For the year ended March 31, 2004

Extraordinary Gains : 2.1 billion yen in gain on early settlement of finance leases

Extraordinary Losses : 2.1 billion yen in loss on disposal of property, plant and equipment

10. Comparative Balance Sheets (Consolidated)

(Billions of Yen)

	March 31 2003	March 31 2004	Increase (Decrease)		March 31 2003	March 31 2004	Increase (Decrease)
<u>Current assets</u>	<u>707.8</u>	<u>730.5</u>	<u>22.7</u>	<u>Current liabilities</u>	<u>298.1</u>	<u>321.7</u>	<u>23.6</u>
Cash on hand and in banks	235.6	210.3	(25.3)	Notes and accounts payable-trade	110.6	107.0	(3.6)
Notes and accounts receivable-trade	198.0	222.0	24.0	Debentures and borrowings	78.5	66.3	(12.2)
Securities	115.3	131.2	15.9	Accrued expenses and accounts payable-others	88.0	109.6	21.6
Inventories	119.4	117.7	(1.7)	Accrued income taxes	12.5	29.5	17.0
Deferred tax assets	21.3	22.7	1.4	Other current liabilities	8.4	9.3	0.9
Others	18.2	26.6	8.4	<u>Long-term liabilities</u>	<u>140.3</u>	<u>137.2</u>	<u>(3.1)</u>
<u>Fixed assets</u>	<u>603.1</u>	<u>655.7</u>	<u>52.6</u>	Debentures and Convertible debentures	40.1	41.1	1.0
<u>Property, plant and equipment</u>	<u>441.5</u>	<u>434.9</u>	<u>(6.6)</u>	Long-term borrowings	48.8	55.8	7.0
Buildings and structures	159.0	153.4	(5.6)	Deferred tax liabilities	24.7	33.1	8.4
Machinery, equipment and vehicles	196.5	200.9	4.4	Accrued retirement benefits	6.2	6.0	(0.2)
Others	86.0	80.7	(5.3)	Other long-term liabilities	20.5	1.2	(19.3)
<u>Intangible fixed assets</u>	<u>4.3</u>	<u>24.4</u>	<u>20.1</u>	Total liabilities	438.4	459.0	20.6
<u>Investments and others</u>	<u>157.3</u>	<u>196.4</u>	<u>39.1</u>	Minority interests in consolidated subsidiaries	25.5	26.5	1.0
Investments in securities	133.4	171.5	38.1	Common stock	110.3	110.5	0.2
Deferred tax assets	13.1	13.0	(0.1)	Additional paid-in capital	119.0	119.3	0.3
Others	10.9	11.9	1.0	Retained earnings	626.1	695.0	68.9
				Unrealized gain on available-for-sale securities	(1.5)	11.9	13.4
				Foreign currency translation adjustment	2.6	(26.7)	(29.3)
				Treasury stock	(9.6)	(9.2)	0.4
				Total stockholders' equity	847.0	900.7	53.7
Total assets	1,310.9	1,386.2	75.3	Total liabilities and stockholders' equity	1,310.9	1,386.2	75.3

11. Comparative Statements of Cash flows (Consolidated)

(Billions of Yen)

	Fiscal year 02/4-03/3	Fiscal year 03/4-04/3	Increase (Decrease)
<u>(1) Cash flows from operating activities</u>			
Net Income	73.0	74.8	1.8
Depreciation	66.6	73.6	7.0
Others	(9.4)	7.6	17.0
Total	130.2	156.0	25.8
<u>(2) Cash flows from investing activities</u>			
Expenditure for purchase of tangible and intangible fixed assets	(64.6)	(71.2)	(6.6)
Payment for purchase of new consolidated subsidiaries stock and acquisition of business	-	(30.2)	(30.2)
(Increase)Decrease in securities	11.9	(28.7)	(40.6)
Others	(1.2)	1.1	2.3
Total	(53.9)	(129.0)	(75.1)
<u>(3) Cash flows from financing activities</u>			
Decrease in debentures and borrowings	(11.1)	(4.5)	6.6
Payment for early settlement of finance leases	-	(15.6)	(15.6)
Cash dividends	(5.5)	(6.3)	(0.8)
Others	(2.2)	(0.3)	1.9
Total	(18.8)	(26.7)	(7.9)
<u>(4) Effect of exchange rate changes and others</u>			
Net increase(decrease) in cash and cash equivalents	52.5	(9.4)	(61.9)
Balance of cash and cash equivalents	302.4	293.0	(9.4)
Balance of liabilities with interest	167.4	163.2	(4.2)

12. Forecast of Operating Performance for the FY 2005

	Consolidated			
			First half	
	Billions of Yen	Ratio of increase over prior FY	Billions of Yen	Ratio of increase over of prior First half
Net sales	870.0	4.5%	430.0	5.5%
Operating income	133.0	5.9%	66.0	3.4%
Ordinary income	133.0	5.9%	66.0	4.7%
Net income	80.0	6.9%	40.0	6.0%
Net income per share (in Yen)	189.50	12.25	95.07	5.29
Annual cash dividend per share (in Yen)	18.00	2.00	9.00	1.00

Non-consolidated			
		First half	
Billions of Yen	Ratio of increase over prior FY	Billions of Yen	Ratio of increase over of prior First half
500.0	3.6%	250.0	4.9%
58.0	3.4%	29.0	1.2%
60.0	3.3%	30.0	3.4%
37.0	6.6%	18.5	3.7%
87.60	5.35	43.97	1.53

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

13. Comparative Income Statements (Non-consolidated)

(Billions of Yen)

	Fiscal year 02/4-03/3	Fiscal year 03/4-04/3	Increase (Decrease)	Rate of increase (decrease)
Net sales	480.2	482.6	2.4	0.5%
Cost of sales	385.8	395.4	9.6	
Selling, General and Administrative Expenses	32.5	31.1	(1.4)	
Operating income	62.0	56.1	(5.9)	(9.6%)
Non-operating income / expenses	0.0	2.0	2.0	
Ordinary income	62.0	58.1	(3.9)	(6.4%)
Extraordinary gains / losses	(0.1)	-	0.1	
Income before income taxes	61.9	58.1	(3.8)	(6.2%)
Income taxes	24.9	23.3	(1.6)	
Net income	37.0	34.7	(2.3)	(6.2%)

14. Comparative Balance Sheets (Non-consolidated)

(Billions of Yen)

	March 31 2003	March 31 2004	Increase (Decrease)		March 31 2003	March 31 2004	Increase (Decrease)
<u>Current assets</u>	<u>401.2</u>	<u>429.8</u>	<u>28.6</u>	<u>Current liabilities</u>	<u>139.7</u>	<u>173.0</u>	<u>33.3</u>
Cash on hand and in banks	152.7	135.3	(17.4)	Notes and accounts payable-trade	83.1	90.2	7.1
Notes and accounts receivable-trade	139.0	152.4	13.4	Short-term borrowings	22.1	31.0	8.9
Securities	39.4	47.3	7.9	Accrued expenses and accounts payable-others	28.2	31.8	3.6
Inventories	41.4	37.8	(3.6)	Accrued income taxes	5.3	17.7	12.4
Short-term loan	4.3	30.6	26.3	Others	1.0	2.3	1.3
Others	24.3	26.4	2.1				
<u>Fixed assets</u>	<u>278.2</u>	<u>329.0</u>	<u>50.8</u>	<u>Long-term liabilities</u>	<u>36.8</u>	<u>41.6</u>	<u>4.8</u>
<u>Property, plant and equipment</u>	<u>114.5</u>	<u>111.4</u>	<u>(3.1)</u>	Convertible debentures	18.3	17.8	(0.5)
Buildings and structures	38.5	36.4	(2.1)	Long-term borrowings	18.0	15.0	(3.0)
Machinery, equipment and vehicles	47.9	47.9	0.0	Accrued retirement benefits	0.3	0.3	0.0
Others	28.2	27.1	(1.1)	Others	0.2	8.5	8.3
<u>Intangible fixed assets</u>	<u>1.8</u>	<u>1.2</u>	<u>(0.6)</u>	<u>Total liabilities</u>	<u>176.5</u>	<u>214.6</u>	<u>38.1</u>
<u>Investments and others</u>	<u>161.8</u>	<u>216.4</u>	<u>54.6</u>	Common stock	110.3	110.5	0.2
Investments in securities	94.6	115.9	21.3	Additional paid-in capital	111.6	111.9	0.3
Investments in capital stock of subsidiaries and affiliates	60.1	95.4	35.3	Retained earnings	292.3	320.6	28.3
Others	7.1	5.1	(2.0)	Unrealized gain on available-for-sale securities	(1.7)	10.5	12.2
				Treasury stock	(9.6)	(9.2)	0.4
				<u>Total stockholders' equity</u>	<u>502.9</u>	<u>544.3</u>	<u>41.4</u>
<u>Total assets</u>	<u>679.4</u>	<u>758.8</u>	<u>79.4</u>	<u>Total liabilities and stockholders' equity</u>	<u>679.4</u>	<u>758.8</u>	<u>79.4</u>

15. Comparison of Net Sales by Departments (Non-consolidated)

(Billions of Yen)

Department	Fiscal year 02/4-03/3	Fiscal year 03/4-04/3	Increase (Decrease)
Organic and Inorganic chemicals	174.7	177.6	2.9
Electronics materials	195.6	212.6	17.0
Functional materials	65.8	56.8	(9.0)
International division	44.1	35.6	(8.5)
Total	480.2	482.6	2.4
(Reference)	[46%]	[42%]	
Export total	220.2	203.0	(17.2)

Percentages in [] represent the proportions of export sales in total net sales.

Recent Topics

- May 2003 Started production of silicone at Zhejiang Shin-Etsu High-Tech Chemical Company in China.
- Jun. 2003 Our cellulose derivative product “Metolose SH” was approved for food additive use by the Health, Labour and Welfare Ministry of Japan.
- Aug. 2003 President and CEO Chihiro Kanagawa was honored with an “Outstanding Manager Award” at the “19th KKC Corporate Communications Awards ” of Keizai Koho Center (KKC), a public relations arm of the Japan Business Federation (Nippon Keidanren).
- Aug. 2003 Established Shin-Etsu Silicone International Trading (Shanghai) Co., Ltd. to sell our silicone products in China.
- Oct. 2003 The semicentennial of our silicone business.
- Oct. 2003 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.
- Nov. 2003 Announcement of agreement made to acquire Clariant’s cellulose business in Europe.
- Nov. 2003 Shin-Etsu PVC B.V. in The Netherlands increased its VCM/PVC production capacity.
- Dec. 2003 Concluded procedures of acquiring Clariant's cellulose business, starting as SE Tylose GmbH & Co. KG in Germany.
- Mar. 2004 Shin-Etsu Handotai announced a program to increase its 300mm silicon wafer production capacity, so as to reach an output of 300,000 wafers/month by the end of 2004.
- Mar. 2004 Shin-Etsu Polymer Hungary Ltd. started production.