FINANCIAL SECTION

Contents

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.

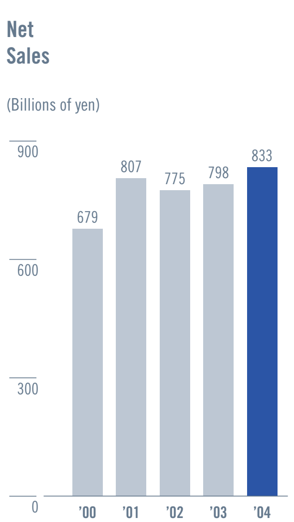
As a result, consolidated net sales for the fiscal year increased 4.4%, or ¥35.3 biilion compared to the previous fiscal year, to ¥832.8 billion. Compared to the performance of the previous fiscal year, operating income rose 2.8%, or ¥3.5 billion, to ¥125.6 billion.

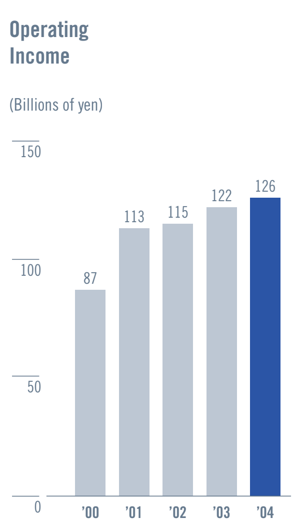
Net income for the period edged up 2.5%, or ¥1.8 billion, to ¥74.8 billion.

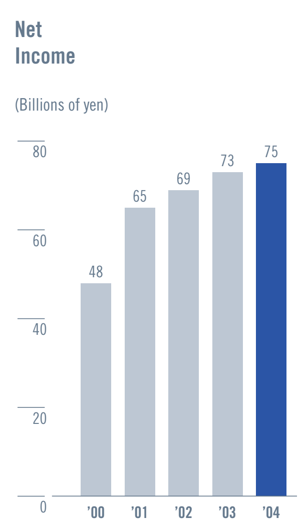
Operating performance by business segment is presented as follows.

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 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

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

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 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 buss 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.

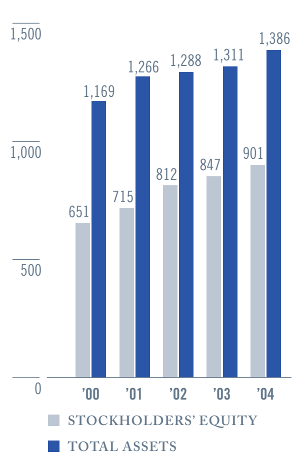
Total stockholders' equity rose ¥53.8 billion to ¥900.7 billion mainly reflecting an increase in retained earnings. The equity ratio was up 0.4 of a percentage point from 64.6% to 65.0%. Stockholders' equity per share rose ¥126.12 from ¥2,014.11 to ¥2,140.23.

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.

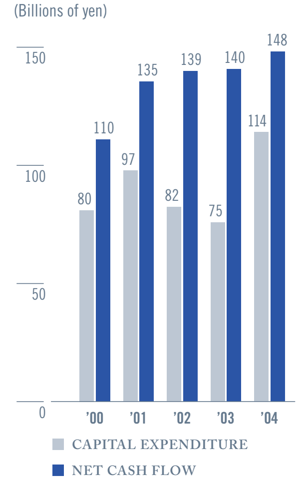
Stockholders' Equity/ Total Assets

(Billions of yen)



Capital Expenditures/ Net Cash Flow

(Billions of yen)



NET CASH FLOW
(Net Income plus Depreciation)

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

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
Assets	**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 2004	2003	Thousands of U.S. Dollars (Note 3) 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.

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, realised 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

	Millions of Yen		
Description	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)**

	Thousands of U.S. Dollars		
Description	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

	Millions of Yen		
Description	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**

	Thousands of U.S. Dollars		
Description	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:

	Millions of Yen		
Description	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)
Buys 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

	Thousands of U.S. Dollars		
Description	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)
Buys 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:

	Millions of Yen		
Description	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)

	Thousands of U.S. Dollars		
Description	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 acquision 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 Limted 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 America ...............U.S.A.
Asia ....Malaysia, Singapore, South Korea, Taiwan
Other areas .....................U.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 America ...............U.S.A., Canada
Asia ....South Korea, Taiwan, China
Other areas ....Europe, 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
Shintech Inc.[1]	100.0	December 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31
Shin-Etsu Handotai America, Inc.[1]	100.0	December 31
Shin-Etsu Polymer Co., Ltd.	53.8	March 31
Shin-Etsu Astech Co., Ltd.	99.6	March 31
S.E.H. Malaysia Sdn. Bhd.[1][2]	100.0	December 31
Naoetsu Electronics Co., Ltd.	100.0	February 29
Shin-Etsu Handotai Europe, Ltd.[1]	100.0	December 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31
Shin-Etsu PVC B.V.[1]	100.0	December 31
S-E, Inc.[1]	100.0	December 31
Shin-Etsu Electronics Materials Singapore Pte. Ltd.[1]	100.0	December 31
Shin-Etsu Handotai Taiwan Co., Ltd.[1]	70.0	December 31
Nagano Electronics Industrial Co., Ltd.	90.0	February 29
Polymer East Japan Co., Ltd.[3]	100.0	March 31
Shin-Etsu Singapore Pte. Ltd.[1]	100.0	December 31
Shin-Etsu Silicone Korea Co., Ltd.[1]	100.0	December 31
Shinano Polymer Co., Ltd.	100.0	March 31
Shin-Etsu Silicones Thailand Ltd.[1]	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd.[1]	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 29
Shin-Etsu MicroSi, Inc.[1]	100.0	December 31
Polymer Chemicals Co., Ltd.[3]	100.0	March 31
Shin-Etsu Silicone Taiwan Co., Ltd.[1]	93.3	December 31
Shin-Etsu Silicones of America, Inc.[1]	100.0	December 31
Shin-Etsu Silicones Europe B.V.[1]	100.0	December 31
Shin-Etsu Sealant Co., Ltd.	100.0	March 31
Shin-Etsu Unit Co., Ltd.	100.0	March 31
Shin-Etsu Opto Electronic Co., Ltd.[1]	80.0	December 31
Shin-Etsu Polymer (Malaysia) Sdn. Bhd.[1]	100.0	December 31

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shin-Etsu Polymer Europe B.V.[1]	100.0	December 31
Shin-Etsu International Europe B.V.[1]	100.0	December 31
Nihon Resin Co., Ltd.	100.0	December 31
Naoetsu Precision Co., Ltd.	100.0	February 29
Skyward Information System Co., Ltd.	100.0	March 31
Fukui Environmental Analysis Center Co., Ltd.	100.0	February 29
Shinano Electric Refining Co., Ltd.	70.6	March 31
Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu Technology Service Co., Ltd.	76.9	February 29
Urawa Polymer Co., Ltd.	100.0	March 31
Shin-yo Home Service Company	100.0	March 31
Niigata Polymer Company Limited	100.0	March 31
Shin-Etsu Polymer America, Inc.[1]	100.0	December 31
Naoetsu Sangyo Limited	100.0	March 31
Sanshin Electronics Co., Ltd.	100.0	March 31
San-Ace Co., Ltd.	100.0	March 31
Shinken Total Plant Co., Ltd.	100.0	February 29
Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Magnet Co., Ltd.	100.0	March 31
Shin-Etsu Polymer Mexico S.A. de.C.V.[1]	100.0	December 31
PT. Shin-Etsu Polymer Indonesia[1]	100.0	December 31
Shin-Etsu Polymer Shanghai Co., Ltd.[1]	100.0	December 31
Human Create Co., Ltd.	100.0	March 31
Suzhou Shin-Etsu Polymer Co., Ltd.[1]	71.4	December 31
S.E.H. (Shah Alam) Sdn. Bhd.[1]	100.0	December 31
Simcoa Operations Pty. Ltd.[1]	100.0	December 31
Shincor Silicones, Inc.[1]	100.0	December 31
SE Tylose GmbH & Co. KG[1]	100.0	December 31
K-Bin, Inc.[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.

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