

Eleven-year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 1995 through 2005

(Millions of Yen, except per share)	2005	2004	2003	2002
For the Year:				
Net sales	¥ 967,486	¥ 832,805	¥ 797,523	¥ 775,097
Operating income	151,734	125,626	122,150	114,724
Net income.....	93,161	74,806	73,016	68,519
Per Share (Yen):				
Net income—primary.....	219.10	177.25	173.13	162.93
Net income—fully diluted	216.11	173.52	169.36	159.38
Cash dividends	20.00	16.00	14.00	12.00
Capital expenditures	110,278	113,591	75,221	81,543
Depreciation.....	90,875	73,582	66,566	70,878
At Year-End:				
Total assets	¥1,476,249	¥1,386,216	¥1,310,875	¥1,288,432
Working capital.....	444,935	401,879	409,262	363,677
Common stock	117,513	110,493	110,272	110,260
Stockholders' equity.....	996,307	900,724	846,962	812,068
Stockholders' equity per share (Yen).....	2,329.47	2,140.23	2,014.11	1,930.30
General:				
Number of employees	18,151	17,384	16,573	16,456
Number of shares issued (Thousands).....	430,119	422,798	422,568	422,555

(Thousands of U.S. Dollars, except per share)	2005	2004	2003	2002
For the Year:				
Net sales	\$ 9,041,925	\$ 7,783,224	\$ 7,453,486	\$ 7,243,897
Operating income	1,418,075	1,174,075	1,141,589	1,072,187
Net income.....	870,664	699,121	682,393	640,364
Per Share (Dollars):				
Net income—primary.....	2.048	1.657	1.618	1.523
Net income—fully diluted	2.020	1.622	1.583	1.490
Cash dividends	0.187	0.150	0.131	0.112
Capital expenditures	1,030,636	1,061,598	703,000	762,084
Depreciation.....	849,299	687,682	622,112	662,411
At Year-End:				
Total assets	\$13,796,720	\$12,955,290	\$12,251,168	\$12,041,421
Working capital.....	4,158,270	3,755,879	3,824,879	3,398,850
Common stock	1,098,252	1,032,645	1,030,579	1,030,467
Stockholders' equity.....	9,311,280	8,417,981	7,915,533	7,589,421
Stockholders' equity per share (Dollars).....	21.771	20.002	18.823	18.040
General:				
Number of employees	18,151	17,384	16,573	16,456
Number of shares issued (Thousands).....	430,119	422,798	422,568	422,555

Note: The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥107=US\$1, the approximate rate of exchange on March 31, 2005.

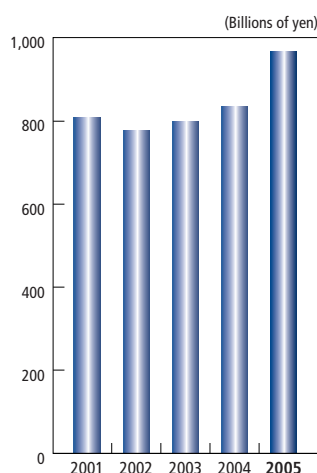
2001	2000	1999	1998	1997	1996	1995
¥ 807,485	¥ 678,859	¥ 642,796	¥ 693,275	¥624,405	¥575,176	¥522,917
112,677	87,465	86,323	90,860	82,024	73,427	51,914
64,505	48,229	43,363	42,027	40,614	37,825	26,862
153.58	116.56	109.36	110.73	118.24	116.51	82.80
150.24	113.46	103.17	101.69	103.95	106.66	—
12.00	10.00	9.00	8.50	7.50	7.50	7.50
96,770	80,003	73,641	136,384	92,844	66,791	67,689
70,767	61,384	56,196	62,144	52,191	45,647	42,986
¥1,265,799	¥1,168,729	¥1,060,973	¥1,083,780	¥931,159	¥708,637	¥643,937
350,273	273,193	261,691	221,869	195,729	118,936	110,901
110,247	107,664	98,243	83,957	44,256	36,440	36,384
714,996	651,261	564,067	497,312	374,726	320,987	285,361
1,699.74	1,557.48	1,380.43	1,265.39	1,071.97	988.59	879.06
19,398	18,754	18,384	19,238	18,896	17,106	16,075
422,542	419,848	410,015	393,722	349,569	324,691	324,621

2001	2000	1999	1998	1997	1996	1995
\$ 7,546,589	\$ 6,344,477	\$6,007,439	\$ 6,479,206	\$5,835,561	\$5,375,477	\$4,887,075
1,053,056	817,430	806,757	849,159	766,579	686,234	485,178
602,850	450,738	405,262	392,776	379,570	353,505	251,047
1.435	1.089	1.022	1.035	1.105	1.089	0.774
1.404	1.060	0.964	0.950	0.971	0.997	—
0.112	0.093	0.084	0.079	0.070	0.070	0.070
904,393	747,692	688,234	1,274,617	867,701	624,215	632,607
661,374	573,682	525,196	580,785	487,766	426,607	401,738
\$11,829,897	\$10,922,701	\$9,915,636	\$10,128,785	\$8,702,421	\$6,622,776	\$6,018,103
3,273,579	2,553,206	2,445,710	2,073,542	1,829,243	1,111,551	1,036,458
1,030,346	1,006,206	918,159	784,645	413,607	340,561	340,037
6,682,206	6,086,551	5,271,654	4,647,776	3,502,112	2,999,879	2,666,925
15.885	14.556	12.901	11.826	10.018	9.239	8.216
19,398	18,754	18,384	19,238	18,896	17,106	16,075
422,542	419,848	410,015	393,722	349,569	324,691	324,621

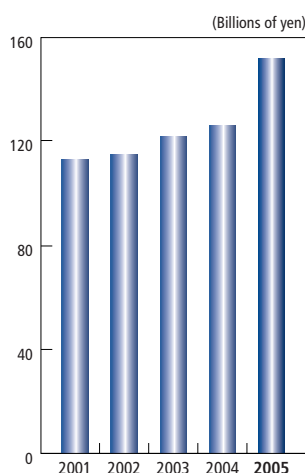
Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

Net Sales



Operating Income



Overview of Consolidated Shin-Etsu Group

The Shin-Etsu Group (the "Group") is composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 90 subsidiaries, and 15 affiliates, as of March 31, 2005. The Group's operations are divided into three business segments according to product type, sales markets, and other factors. The Organic and Inorganic Chemicals segment focuses on the manufacture and sale of polyvinyl chloride (PVC), silicones and other products. The Electronics Materials segment concentrates on the manufacture and sale of semiconductor silicon and other materials, and the Functional Materials and Others segment focuses on the manufacture and sale of synthetic quartz, rare earth magnets and other products as well as providing a variety of other services, including construction and repair.

Consolidated Operating Performance

During consolidated fiscal 2005 (April 1, 2004 to March 31, 2005), although toward the end of the fiscal year there were some signs of a slight economic slowdown, the Japanese economy showed a modest recovery supported by an increase in facility investment and a shift to firm personal consumption. The U.S. economy and Southeast Asian and Chinese economies as a whole did well mainly based on growth in personal consumption and facility investment, as business expansion continued.

Under these circumstances, Shin-Etsu Group companies (Shin-Etsu Chemical Co., Ltd., consolidated subsidiaries and affiliated companies) continued strong sales efforts with regard to their worldwide customers by emphasizing the special features of Shin-Etsu's products and also by utilizing to the maximum the Group companies' sales capabilities that were nurtured in the world market. At the same time, the Group aggressively promoted efforts for the further growth and development of its businesses by making strategic investments, and pursuing rationalization and higher efficiency of management systems.

As a result, the Shin-Etsu Group's consolidated business results for fiscal 2005 show that net sales increased by 16.2% (¥134.7 billion) compared to the previous fiscal year to become ¥967.5 billion. Compared to the performance of the previous fiscal year, operating income increased 20.8% (¥26.1 billion) to ¥151.7 billion, and net income increased 24.5% (¥18.4 billion) to ¥93.2 billion.

Operating performance by business segment is presented as follows.

Net Sales and Gross Profit

Operating Costs and Expenses

Year ended March 31	(Millions of yen)			
	2005	2004	2003	% change 2005/2004
Net Sales	967,486	832,805	797,523	16.2%
Cost of Sales	715,143	619,085	585,220	15.5%
SG&A Expenses	100,609	88,094	90,153	14.2%
Operating Income	151,734	125,626	122,150	20.8%

Organic and Inorganic Chemicals

In the PVC business, although the prices of raw materials continued to rise steeply worldwide, Shintech Inc., Shin-Etsu's U.S. PVC base, carried out carefully considered sales activities by leveraging its broad customer base, both in the U.S. and worldwide, a significant strength of the company, and supported by vigorous demand, mainly for construction and housing applications, increased both its net sales and operating income. In addition, Shin-Etsu PVC B.V. in the Netherlands expanded its business due to strong demand for PVC in Europe and implemented an upward price revision that was necessitated by the high prices of raw materials. Shin-Etsu's domestic PVC business also saw a large improvement in profit helped by sales price revisions and exports to China.

Silicones are used in a wide range of applications in diverse fields such as electric, electronics, automobiles, chemicals, toiletries, cosmetics and construction. During fiscal 2005, in addition to strong domestic sales in such fields as automobile-related applications, information equipment and building materials, sales to China and the U.S. were good. As a result, both sales and operating income increased.

Sales of cellulose derivatives continued strong in domestic business in such applications as pharmaceuticals as well as automobile-related applications. SE Tylose GmbH & Co. KG in Germany, which Shin-Etsu had acquired at the end of 2003, also did well in cellulose sales for building materials applications.

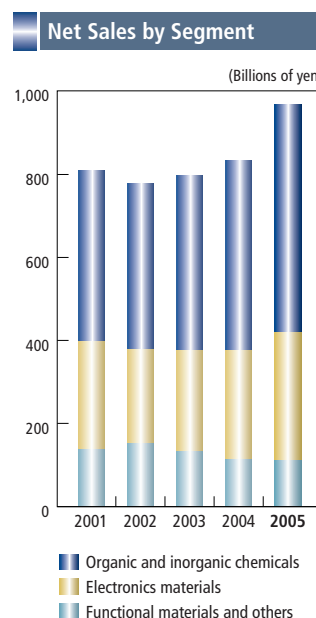
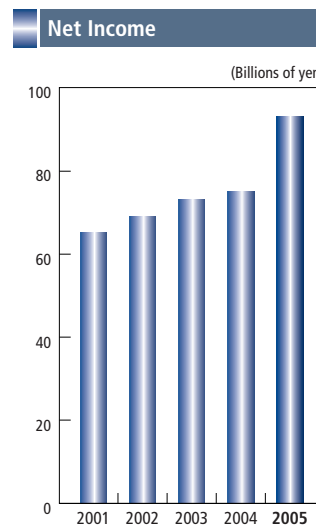
As a result, the net sales of this business segment increased 20.1% (¥91.9 billion) compared to the previous fiscal year to ¥549.0 billion. Operating income increased 19.6% (¥12.8 billion) to ¥77.9 billion.

Electronics Materials

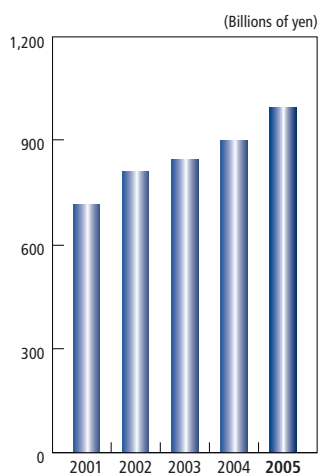
In the semiconductor silicon business, sales of 200mm wafers continued to be good with the expanding demand for semiconductor devices used for applications in PCs, digital home appliances and mobile phones, but there was a slight adjustment phase in the latter part of fiscal 2005. However, demand for 300mm wafers was strong throughout the fiscal year, reflecting the expanding demand from major semiconductor device makers. In addition, specialty wafers, such as SOI wafers, annealed wafers and others, also contributed to good sales. As a result, the semiconductor silicon segment greatly increased both its sales and operating income.

Sales of rare earth magnets for the electronics industry did well in their various hard disk drive (HDD) applications, such as for mobile digital audio players, as well as in their applications for PCs, servers and visual recording media. Organic materials for the electronics industry and photoresist products maintained steady sales for semiconductor device applications.

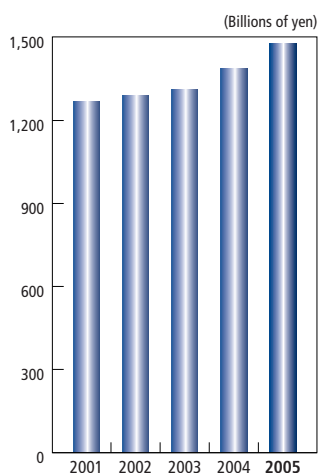
As a result, the net sales of this business segment increased 17.0% (¥44.7 billion) compared to the previous fiscal year, reaching ¥306.9 billion. Operating income increased 27.3% (¥11.5 billion) to ¥53.7 billion.



Stockholders' Equity



Total Assets



Functional Materials and Others

Among synthetic quartz products, although worldwide demand for optical fiber preform continued to be sluggish, sales of large-size photomask substrates used in the manufacturing of LCDs did well. Overall, sales of synthetic quartz products increased.

Sales of rare earth magnets continued to be strong, mainly for FA (factory automation) equipment, air-conditioners and automobile-related product applications. In other businesses, although the business of planning and constructing various plants and other projects was strong, sales of procured products decreased.

As a result, although the net sales of this business segment decreased 1.7% (¥1.9 billion) compared to the previous fiscal year to become ¥111.6 billion, operating income increased 10.8% (¥2.0 billion) compared to the previous fiscal year to reach ¥20.1 billion.

In the context of Shin-Etsu's overall operations, overseas sales represent 67.0% of total net sales, and thus the Company's business results can be strongly affected by foreign exchange rate fluctuations. In fiscal 2005, the appreciation of the Japanese yen was a factor causing downward pressure on sales and profit. However, the PVC business did well both in Japan and worldwide and the semiconductor silicon business, particularly in 300mm wafers, also was strong. Accordingly, sales and profit increased. Furthermore, in addition to the contribution by SE Tylose, which Shin-Etsu acquired at the end of 2003, every company in the Shin-Etsu Group continued to promote rationalization of production costs, and the results were increased sales and profit.

With regard to net non-operating income and expenses, although extraordinary losses consisting of loss on disposal of property, plant and equipment increased due in part to the renewal of production facilities, the improvement in the financial account balance and the increase of equity in earnings of affiliates resulted in a loss of ¥0.2 billion, which is approximately the same as the previous fiscal year.

Financial Position

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

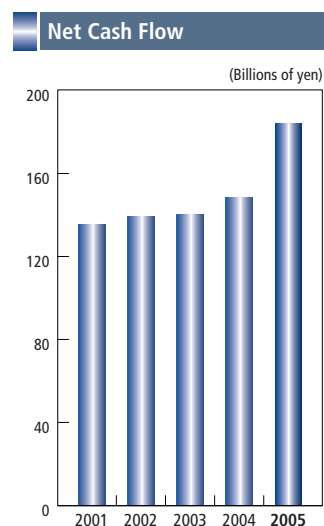
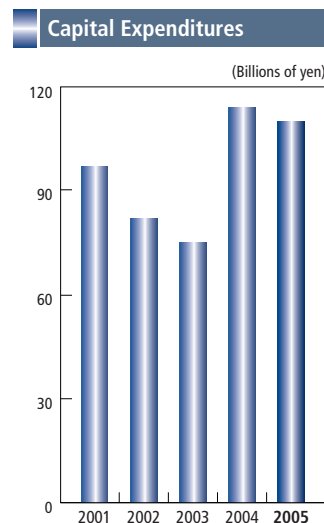
At the end of the current consolidated fiscal year, total assets stood at ¥1,476.2 billion, an increase of ¥90.0 billion compared to the end of the previous consolidated fiscal year. Along with the increase in net sales, notes and accounts receivable-trade increased by ¥14.3 billion and inventories increased by ¥17.5 billion, respectively. Cash and time deposits increased by ¥36.4 billion compared to the end of the previous fiscal year to ¥246.7 billion.

On the other hand, total liabilities of fiscal 2005 decreased by ¥8.1 billion compared to the end of the previous fiscal year to become ¥450.9 billion. Among them, interest-bearing liabilities (the total of short-term borrowings, current portion of long-term debt and long-term borrowings) decreased ¥42.7 billion to ¥120.4 billion. This decrease of ¥42.7 billion included a reduction due to the conversion of convertible debentures amounting to ¥14.0 billion. As a result, common stock and additional paid-in capital increased by ¥7.0 billion and ¥7.0 billion, respectively. Furthermore, with an increase of retained earnings of ¥85.2 billion, total stockholders' equity at the end of fiscal 2005 increased ¥95.6 billion to ¥996.3 billion. Accordingly, the equity ratio increased 2.5 percentage points from 65.0% to 67.5%. Stockholders' equity per share rose ¥189.24 compared to the end of the previous fiscal year to become ¥2,329.47.

Cash Flows

The balance of cash and cash equivalents (hereinafter called "cash") at the end of fiscal 2005 was ¥317.7 billion, an increase of ¥24.8 billion compared to the end of the previous fiscal year.

Because income before income taxes and depreciation exceeded that of the previous fiscal year, the increase in cash flow provided by operating activities exceeded that of the previous fiscal year to become ¥177.4 billion. On the other hand, the expenditures incurred from expansion of semiconductor silicon 300mm wafer manufacturing facilities and other facility investments reduced cash flow from investing activities to ¥108.8 billion. In addition, by proceeding with the repayment of debt, the reduction of net cash from financing activities became ¥41.9 billion.



Consolidated Balance Sheets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 2005 and 2004

Assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Current Assets:			
Cash and time deposits (Note 16)	¥ 246,741	¥ 210,323	\$ 2,305,991
Securities (Notes 5 and 16)	105,839	131,216	989,150
Notes and accounts receivable:			
Trade	228,229	213,968	2,132,981
Unconsolidated subsidiaries and affiliates	15,298	11,260	142,972
Others	5,877	7,137	54,925
Less: Allowance for doubtful accounts (Note 2 (5))	(4,784)	(4,727)	(44,710)
	244,620	227,638	2,286,168
Inventories (Note 4)	135,225	117,728	1,263,785
Deferred taxes, current (Note 15)	27,761	22,657	259,449
Others	15,929	14,065	148,868
Total current assets	776,115	723,627	7,253,411
Property, Plant and Equipment (Note 2 (8)):			
Buildings and structures	313,065	299,634	2,925,841
Machinery and equipment	974,916	909,773	9,111,365
Less: Accumulated depreciation	(909,532)	(845,086)	(8,500,299)
	378,449	364,321	3,536,907
Land	48,663	39,922	454,794
Construction in progress	21,072	30,646	196,935
Total property, plant and equipment	448,184	434,889	4,188,636
Intangible Fixed Assets	28,637	24,378	267,636
Investments and Other Assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 7)	33,635	36,848	314,346
Investments in securities (Note 5)	152,735	142,362	1,427,430
Long-term loans	931	1,188	8,701
Deferred taxes, non-current (Note 15)	14,842	12,981	138,710
Others	21,189	9,962	198,028
Less: Allowance for doubtful accounts (Note 2 (5))	(19)	(19)	(178)
Total investments and other assets	223,313	203,322	2,087,037
Total assets	¥1,476,249	¥ 1,386,216	\$13,796,720

The accompanying notes are an integral part of the statements.

Liabilities and Stockholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Current Liabilities:			
Short-term borrowings (Note 8).....	¥ 30,439	¥ 46,698	\$ 284,477
Current portion of long-term debt (Note 8).....	13,078	19,583	122,224
Notes and accounts payable:			
Trade.....	102,257	97,720	955,673
Unconsolidated subsidiaries and affiliates.....	12,775	9,587	119,393
Others.....	53,182	48,843	497,028
	168,214	156,150	1,572,094
Accrued income taxes.....	35,974	29,543	336,206
Accrued expenses.....	80,855	66,017	755,654
Advances received.....	694	1,835	6,486
Others.....	1,926	1,922	18,000
Total current liabilities.....	331,180	321,748	3,095,141
Long-Term Liabilities:			
Long-term debt (Note 8).....	76,905	96,885	718,738
Accrued retirement benefits (Note 9).....	7,677	6,009	71,748
Deferred taxes, non-current (Note 15).....	33,417	33,094	312,308
Lease obligations.....	147	153	1,374
Others.....	1,551	1,094	14,495
Contingent Liabilities (Note 10)			
Total long-term liabilities.....	119,697	137,235	1,118,663
Minority Interests in Consolidated Subsidiaries.....	29,065	26,509	271,636
Stockholders' Equity:			
Common stock:.....	117,513	110,493	1,098,252
Authorized: 1,670,000,000 shares			
Issued: 430,118,735 shares and 422,798,470 shares as of March 31, 2005 and 2004, respectively			
Additional paid-in capital.....	126,274	119,262	1,180,131
Retained earnings (Note 11).....	780,199	694,997	7,291,580
Unrealized gain on available-for-sale securities (Note 2 (7)).....	13,688	11,928	127,925
Foreign currency translation adjustment (Note 2 (4)).....	(30,275)	(26,737)	(282,944)
	1,007,399	909,943	9,414,944
Less: Treasury stock, at cost (Note 11).....	(11,092)	(9,219)	(103,664)
Total stockholders' equity.....	996,307	900,724	9,311,280
Total liabilities and stockholders' equity.....	¥1,476,249	¥ 1,386,216	\$13,796,720

Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2005, 2004, and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	2005
Net Sales (Notes 14 and 17).....	¥967,486	¥832,805	¥797,523	\$9,041,925
Cost of Sales (Notes 9, 12 and 14)	715,143	619,085	585,220	6,683,579
Gross profit	252,343	213,720	212,303	2,358,346
Selling, General and Administrative Expenses (Notes 9 and 12).....	100,609	88,094	90,153	940,271
Operating income (Note 17)	151,734	125,626	122,150	1,418,075
Other Income (Expenses):				
Interest and dividend income.....	4,627	3,797	4,130	43,243
Gain on early settlement of finance leases	—	2,055	—	—
Gains on sales of property, plant and equipment	12	535	2,916	112
Equity in earnings of affiliates	1,616	301	1,727	15,103
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	—
Loss on write-down of investment securities	—	—	(10,494)	—
Adjustment to prior year's license fee	—	—	(1,728)	—
Interest expenses	(3,014)	(4,168)	(4,956)	(28,168)
Loss on disposal of property, plant and equipment	(3,297)	(2,837)	(780)	(30,813)
Foreign exchange gain (loss)	934	(742)	(3,848)	8,729
Other, net	(1,109)	1,050	3,196	(10,365)
Income before income taxes	151,503	125,617	120,503	1,415,916
Income Taxes (Note 15):				
Current.....	63,754	47,332	34,367	595,831
Deferred	(8,535)	1,069	10,866	(79,766)
	55,219	48,401	45,233	516,065
Income after income taxes.....	96,284	77,216	75,270	899,851
Minority Interests in Earnings of Consolidated Subsidiaries	(3,123)	(2,410)	(2,254)	(29,187)
Net Income	¥ 93,161	¥ 74,806	¥ 73,016	\$ 870,664
		Yen		U.S. dollars (Note 3)
Per Share (Note 2 (14)):				
Net income—primary	¥219.10	¥177.25	¥173.13	\$2.048
Net income—fully diluted.....	216.11	173.52	169.36	2.020
Cash dividends.....	20.00	16.00	14.00	0.187
Weighted-Average Number of Shares Outstanding (Thousands).....	423,519	420,484	420,524	423,518

The accompanying notes are an integral part of the statements.

Consolidated Statements of Stockholders' Equity

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	2005
Common Stock				
Balance at beginning of year	¥110,493	¥110,272	¥110,260	\$1,032,645
Conversion of convertible debentures.....	7,020	221	12	65,607
Balance at end of year	117,513	110,493	110,272	1,098,252
Additional Paid-in Capital				
Balance at beginning of year	119,262	119,041	119,029	1,114,598
Conversion of convertible debentures	7,012	221	12	65,533
Balance at end of year	126,274	119,262	119,041	1,180,131
Retained Earnings				
Balance at beginning of year	694,997	626,142	556,466	6,495,299
Net income	93,161	74,806	73,016	870,664
Effect of increase in consolidated subsidiaries	—	574	2,561	—
Cash dividends (Note 11).....	(7,600)	(6,307)	(5,467)	(71,028)
Directors' and statutory auditors' bonuses	(316)	(189)	(177)	(2,953)
Loss on disposal of treasury stocks	(43)	(29)	(257)	(402)
Balance at end of year	780,199	694,997	626,142	7,291,580
Unrealized Gain (Loss) on Available-for-Sale Securities				
Balance at beginning of year	11,928	(1,482)	6,138	111,477
Balance at end of year	13,688	11,928	(1,482)	127,925
Foreign Currency Translation Adjustment				
Balance at beginning of year	(26,737)	2,626	28,531	(249,879)
Balance at end of year	(30,275)	(26,737)	2,626	(282,944)
Treasury Stock, at Cost				
Balance at beginning of year	(9,219)	(9,637)	(8,356)	(86,159)
Net change during the year	(1,873)	418	(1,281)	(17,505)
Balance at end of year	(11,092)	(9,219)	(9,637)	(103,664)

Number of Shares of Common Stock Issued

	Thousands of shares		
	2005	2004	2003
Balance at beginning of year	422,798	422,568	422,555
Conversion of convertible debentures	7,321	230	13
Balance at end of year	430,119	422,798	422,568

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, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	2005
Cash Flows from Operating Activities:				
Income before income taxes	¥ 151,503	¥ 125,617	¥120,503	\$ 1,415,916
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	90,875	73,582	66,566	849,299
Increase (decrease) in accrued retirement benefits	1,385	(1,360)	(8,970)	12,944
Loss on write-down of investment securities	41	668	10,494	383
Interest and dividend income.....	(4,627)	(3,797)	(4,130)	(43,243)
Interest expenses	3,014	4,168	4,956	28,168
Exchange loss (gain)	(14)	(188)	1,905	(131)
Equity in earnings of affiliates	(1,616)	(301)	(1,727)	(15,103)
Transfer of securities to retirement benefit trust	—	—	3,215	—
Gains on transfer of securities to retirement benefit trust	—	—	(2,364)	—
Gains from cancellation of retirement benefit trust	—	—	(12,096)	—
Changes in assets and liabilities:				
Increase in notes and accounts receivable	(11,647)	(23,631)	(7,732)	(108,850)
(Increase) decrease in inventories.....	(16,706)	4,237	(1,886)	(156,131)
Increase in notes and accounts payable	7,688	4,804	16,033	71,851
Other, net	13,384	3,301	(18,733)	125,084
Subtotal	233,280	187,100	166,034	2,180,187
Proceeds from interest and dividends	4,773	4,225	4,389	44,608
Payment of interest	(3,099)	(4,075)	(4,499)	(28,963)
Payment of income taxes	(57,577)	(31,246)	(35,725)	(538,103)
Net cash provided by operating activities	177,377	156,004	130,199	1,657,729
Cash Flows from Investing Activities:				
Net decrease in marketable securities	4,262	4,975	64,957	39,832
Purchases of property, plant and equipment	(95,501)	(68,578)	(62,272)	(892,533)
Proceeds from sales of property, plant and equipment.....	726	1,226	4,358	6,785
Purchases of intangible fixed asset.....	(1,270)	(2,594)	(2,300)	(11,869)
Purchases of investment securities	(45,291)	(66,721)	(78,922)	(423,280)
Proceeds from sales and redemption of investment securities	44,350	33,005	25,860	414,486
Payment for purchases of new consolidated subsidiaries' shares and acquisition of business.....	(5,705)	(30,213)	—	(53,318)
Proceeds from sales of consolidated subsidiaries' shares	385	—	—	3,598
Payments of loans.....	(384)	(6,833)	(207)	(3,588)
Proceeds from collection of loans	2,100	480	328	19,626
Increase in long-term time deposits.....	(10,000)	—	—	(93,458)
Other, net	(2,428)	6,216	(5,700)	(22,692)
Net cash used for investing activities	(108,756)	(129,037)	(53,898)	(1,016,411)
Cash Flows from Financing Activities:				
Net decrease in short-term debt	(18,873)	(18,028)	(3,480)	(176,383)
Proceeds from long-term debt	2,426	20,645	33,428	22,673
Repayment of long-term debt	(13,133)	(12,105)	(23,899)	(122,738)
Proceeds from issuance of debentures	8,000	10,000	11,014	74,766
Payment of debentures on redemption.....	(10,165)	(5,000)	(28,195)	(95,000)
Proceeds from issuance of shares	—	—	118	—
Payments for early settlement of finance leases	—	(15,589)	—	—
Cash dividends paid.....	(7,600)	(6,307)	(5,467)	(71,028)
Other, net	(2,566)	(311)	(2,322)	(23,982)
Net cash used for financing activities.....	(41,911)	(26,695)	(18,803)	(391,692)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1,955)	(10,008)	(6,970)	(18,271)
Net Increase (Decrease) in Cash and Cash Equivalents	24,755	(9,736)	50,528	231,355
Cash and Cash Equivalents at Beginning of Year	292,978	302,370	249,847	2,738,112
Net Increase (Decrease) in Cash and Cash Equivalents by Change of Consolidation Scope	—	344	1,995	—
Cash and Cash Equivalents at End of Year (Note 16).....	¥ 317,733	¥ 292,978	¥302,370	\$ 2,969,467

The accompanying notes are an integral part of the statements.

Notes to Consolidated Financial Statements

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
Years ended March 31, 2005, 2004 and 2003

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, 2005 (90 as of March 31, 2004 and 87 as of March 31, 2003). The consolidated financial statements include the accounts of the Company and 67 (67 for 2004 and 62 for 2003) majority-owned subsidiaries (the Companies), of which the principal firms are listed on page 43 with their respective fiscal year-ends.

The remaining 23 (23 for 2004 and 25 for 2003) unconsolidated subsidiaries whose combined assets, net sales, net income

and retained earnings in the aggregate are not significant compared with those of the consolidated financial statements of the Companies, therefore, have not been consolidated with the Company. For consolidation of the accounts of subsidiaries whose fiscal year-ends are not in agreement with that of the Company, necessary adjustments are made on significant intercompany transactions which took place during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

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

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

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

(2) Accounting for investments in unconsolidated subsidiaries and affiliates

The Company had 23 (23 for 2004 and 25 for 2003) unconsolidated subsidiaries (majority-owned) and 15 (15 for 2004 and 15 for 2003) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 6 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, 2005 and 2004.

(5) Allowance for doubtful accounts

The Company and consolidated subsidiaries provide an allowance for doubtful accounts by the method which uses the percentage of its own actual experience of bad debt loss written off against the balance of total receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.

(6) Inventories

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

(7) Financial instruments

Securities:

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

Derivatives:

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

Hedge accounting:

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

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

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

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

(8) Property, plant and equipment

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

On August 9, 2002, the Business Accounting Council 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 and 2005 in the case of the Company. However, the Company has not adopted the standard for the year ended March 31, 2004 and 2005.

(9) Repairs and maintenance

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

(10) Accounting for leases

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

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

(11) Accrued retirement benefits

Pension and severance costs for employees are accrued based on the estimates of the pension obligations and the plan assets at the end of the fiscal year. The actuarial difference is amortized over a five-year period, which is within the average remaining service period, using the straight-line method from the fiscal year when the difference was generated. The prior service cost is amortized over a ten-year period, which is within the average remaining service period, using the straight-line method from the time when the difference was generated (see Note 9).

(12) Income taxes

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

(13) Research and development costs

Research and development costs are charged to income as incurred.

(14) Income and dividends per share

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

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

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

(15) Dividends

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

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

(16) Appropriation of retained earnings

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

(17) Consumption tax

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

(18) Reclassifications

Certain reclassifications have been made in the 2004 and 2003 financial statements to conform to the presentation for 2005.

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 ¥107 to US\$1, the approximate effective rate of exchange on March 31, 2005. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥107 to US\$1 or at any other rate.

4. Inventories

Inventories as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Merchandise	¥ 10,682	¥ 9,763	\$ 99,832
Finished products	57,323	47,858	535,729
Semifinished products	18,649	16,477	174,290
Raw materials	30,903	29,484	288,813
Supplies	12,567	12,130	117,449
Others	5,101	2,016	47,672
Total	¥135,225	¥117,728	\$1,263,785

5. Securities

Securities as of March 31, 2005 consisted of the following:

(1) Market value of bonds held to maturity

Description	Millions of yen		
	Book value	Market value	Difference
Securities with fair value that exceed book value	¥50,318	¥50,396	¥ 78
Securities with fair value that do not exceed book value	5,681	5,672	(9)
Total	¥55,999	¥56,068	¥ 69

Description	Thousands of U.S. dollars		
	Book value	Market value	Difference
Securities with fair value that exceed book value	\$470,262	\$470,991	\$729
Securities with fair value that do not exceed book value	53,093	53,009	(84)
Total	\$523,355	\$524,000	\$645

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

Description	Millions of yen		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with fair value that exceed book value:			
Stocks	¥29,753	¥52,756	¥23,003
Others	14	14	0
Subtotal	¥29,767	¥52,770	¥23,003
Securities with fair value that do not exceed book value:			
Stocks	¥ 75	¥ 63	¥ (12)
Others	1,829	1,640	(189)
Subtotal	¥ 1,904	¥ 1,703	¥ (201)
Total	¥31,671	¥54,473	¥22,802

Description	Thousands of U.S. dollars		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with fair value that exceed book value:			
Stocks	\$278,065	\$493,046	\$214,981
Others	131	131	0
Subtotal	\$278,196	\$493,177	\$214,981
Securities with fair value that do not exceed book value:			
Stocks	\$ 701	\$ 589	\$ (112)
Others	17,093	15,327	(1,766)
Subtotal	\$ 17,794	\$ 15,916	\$ (1,878)
Total	\$295,990	\$509,093	\$213,103

(3) Available-for-sale securities sold during the fiscal year ended March 31, 2005

Available-for-sale securities sold during the fiscal year ended March 31, 2005 are assumed insignificant.

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

Description	Book value	
	Millions of yen	Thousands of U.S. dollars
Bonds held to maturity	¥49,450	\$462,150
Investments in unconsolidated subsidiaries and affiliates	27,854	260,318
Available-for-sale securities	98,652	921,982

(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	¥105,422	\$985,252
Over one year within five years	95,774	895,084
Over five years within ten years	231	2,159

6. Derivative transactions

Derivative financial instruments were as follows:

As of March 31, 2005

Currency related:

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

Description	Thousands of U.S. dollars		
	Contract amounts	Market value	Unrealized gain (loss)
Foreign exchange contracts			
Sales Contracts:			
US\$	\$866,486	\$855,290	\$11,196
EUR	11,224	11,299	(75)
Buy Contracts:			
US\$	9,663	9,579	(84)
EUR	1,486	1,542	56
Foreign currency swaps			
Received Japanese Yen, pay Thai Baht	34,664	823	823
Received Japanese Yen, pay U.S. Dollars	2,953	243	243
Total	\$ —	\$ —	\$12,159

Notes: 1. Market rate represents the foreign exchange rate prevailing as of March 31, 2005.

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 related:

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

Description	Thousands of U.S. Dollars		
	Contract amounts	Market value	Unrealized gain (loss)
Interest swap contracts:			
Receive floating, pay fixed	\$110,804	\$(888)	\$(888)
Receive fixed, pay floating	96,411	421	421
Total	\$207,215	\$(467)	\$(467)

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, 2004

Currency related:

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

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 related:

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

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, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Held Directly by the Company:			
Affiliates:			
Three affiliates for 2005 and four affiliates for 2004 accounted for by the equity method (See Note 2 (2))*	¥13,780	¥17,241	\$128,785
Kashima Denkai Co., Ltd.	805	805	7,523
Others	228	228	2,131
	14,813	18,274	138,439
Unconsolidated subsidiaries:			
Shin-Etsu Electronics Malaysia Sdn. Bhd.	1,400	1,400	13,084
Shin-Etsu Magnetics Philippines, Inc.	184	184	1,720
Zhejiang Shin-Etsu High-Tech Chemical Co., Ltd.	332	332	3,103
Others	175	166	1,635
	2,091	2,082	19,542
Held Indirectly through Subsidiaries:			
Unconsolidated subsidiaries and affiliates:			
Three affiliates accounted for by the equity method (See Note 2 (2))*	¥ 9,689	¥ 8,942	\$ 90,551
Others	2,040	631	19,066
	¥11,729	¥ 9,573	\$109,617
Advances:	5,002	6,919	46,748
	¥33,635	¥36,848	\$314,346

* 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, 2005 and 2004 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, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans with Banks and Other			
Financial Institutions:			
Secured	¥ 4,106	¥ 11,890	\$ 38,374
Unsecured	52,977	55,444	495,112
Unsecured Debentures:			
4.2% debentures issued by a consolidated subsidiary, due July 2005	2,084	4,285	19,477
2.7% debentures issued by a consolidated subsidiary, due August 2004	—	8,000	—
2.6% debentures issued by a consolidated subsidiary, due December 2007	3,000	3,000	28,037
0.7% debentures issued by a consolidated subsidiary, due June 2007	6,000	6,000	56,075
0.7% debentures issued by a consolidated subsidiary, due August 2009	5,000	5,000	46,729
0.4% debentures issued by a consolidated subsidiary, due July 2006	5,000	5,000	46,729
0.4% debentures issued by a consolidated subsidiary, due February 2007	8,000	—	74,766
Unsecured Convertible Debentures:			
0.4% convertible debentures, due September 2005	3,816	17,849	35,663
	89,983	116,468	840,962
Less Portion Due within One Year	(13,078)	(19,583)	(122,224)
	¥ 76,905	¥ 96,885	\$ 718,738

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, 2005			
Balance at of March 31, 2005 in Denominated Currencies	Current Conversion Price per Share	Fixed Exchange Rates for Conversion	Additional Shares Issuable upon Full Conversion (Thousands)
¥3,816 million	¥1,917	—	1,991

As of March 31, 2005, 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	¥68,071	\$636,178

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

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥13,078	\$122,224
2007	19,095	178,458
2008	33,537	313,430
2009	4,274	39,944
2010	7,926	74,075
2011 and thereafter	12,073	112,831
	¥89,983	\$840,962

9. Retirement and pension plans

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

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

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

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

The reserves for retirement benefits as of March 31, 2005 and 2004 are analyzed as follows:

Benefit Obligations

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
(a) Benefit obligations	¥(18,091)	¥(19,651)	\$(169,075)
(b) Pension assets	12,463	14,757	116,477
(c) Unfunded benefit obligations [(a)+(b)]	(5,628)	(4,894)	(52,598)
(d) Unrecognized actuarial differences	(233)	682	(2,178)
(e) Unrecognized prior service cost (negative) (Note 1)	(696)	(936)	(6,505)
(f) Amount shown on balance sheet [(c)+(d)+(e)]	(6,557)	(5,148)	(61,281)
(g) Prepaid pension expenses	1,120	861	10,467
(h) Accrued retirement benefits [(f)-(g)]	¥ (7,677)	¥ (6,009)	\$ (71,748)

Notes: 1. The Company and certain consolidated subsidiaries changed system from tax-qualified pension plans to defined contribution pension plans from prior fiscal year, 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	¥ 2,013	\$18,813
Estimated amounts of pension assets to be transferred	(1,919)	(17,935)
Unrecognized actuarial differences	(12)	(112)
Increase in accrued retirement benefits	82	766

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

Retirement Benefit Costs

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
(a) Service costs (Note 1)	¥2,236	¥2,165	\$20,897
(b) Interest costs	470	496	4,393
(c) Expected return on plan assets	(294)	(288)	(2,748)
(d) Recognized actuarial loss	(43)	130	(402)
(e) Amortization of prior service cost	(51)	(156)	(477)
(f) Other (Note 2)	1,536	1,377	14,355
(g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)]	¥3,854	¥3,724	\$36,018
(h) (Gain) loss on transfer to DC pension plans	(82)	138	(766)
(i) Total [(g)+(h)]	¥3,772	¥3,862	\$35,252

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

Basic Assumptions for Calculating Benefit Obligations

(a) Period allocation method for 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, 2005, 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 ¥394 million (\$3,682 thousand).

In addition, as of March 31, 2005, the Companies had contingent liabilities arising from notes discounted by banks and notes endorsed and delivered for payment to vendors in the amounts of ¥87 million (\$813 thousand) and ¥111 million (\$1,037 thousand), respectively.

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, 2005, 2004 and 2003 in the amounts of ¥4,234 million (\$39,570 thousand) (¥10.0 per share), ¥3,364 million and ¥2,943 million, respectively, which were actually paid to stockholders on November 18, 2004, November 18, 2003 and November 18, 2002, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended March 31, 2005, 2004 and 2003, respectively.

There were 2,578,655 shares and 2,072,068 shares of treasury stock as at March 31, 2005 and 2004, respectively.

12. Research and development costs

Research and development costs incurred and changed to income for the years ended March 31, 2005, 2004 and 2003 were ¥27,925 million (\$260,981 thousand), ¥26,329 million and ¥27,280 million, respectively.

13. Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2005 and 2004 amounted to ¥427 million (\$3,991 thousand)

and ¥414 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2005, 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 ¥427 million (\$3,991 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
	2005	2004	2005
Acquisition cost	¥1,851	¥2,021	\$17,299
Accumulated depreciation	1,218	1,204	11,383
Net book value	¥ 633	¥ 817	\$ 5,916

The amount of outstanding future lease payments due in respect of finance lease contracts at March 31, 2005 and 2004, which included the portion of interest thereon, was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Future Lease Payments:			
Within one year	¥348	¥386	\$3,252
Over one year	285	431	2,664
	¥633	¥817	\$5,916

The amount of outstanding future lease payments due in respect of operating lease contracts at March 31, 2005 and 2004 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Future Lease Payments:			
Within one year	¥ 6,480	¥ 5,295	\$ 60,561
Over one year	6,507	7,079	60,813
	¥12,987	¥12,374	\$121,374

14. Related party transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Sales	¥16,224	¥21,060	¥21,763	\$151,626
Purchases	64,110	60,628	67,440	599,159

15. Income taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended March 31, 2005, 2004 and 2003 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	2005	2004	2003
Corporate income tax	30.0%	30.0%	30.0%
Enterprise tax	7.2	9.6	9.7
Resident income taxes	6.1	6.1	6.0
	43.3%	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)	40.4%	41.7%	41.7%

Tax effects of material temporary differences and loss carry-forwards which resulted in deferred tax assets or liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred Tax Assets:			
Depreciation	¥11,783	¥ 8,727	\$110,121
Unsettled accounts receivable and payable	6,263	6,027	58,533
Unrealized profit	4,317	3,949	40,346
Accrued bonus allowance	3,755	3,892	35,093
Special provision for accrued retirement benefits	3,080	2,208	28,785
Maintenance cost	2,891	2,303	27,019
Accrued enterprise taxes	2,181	2,205	20,383
Tax loss carryforwards	1,235	2,032	11,542
Others	17,855	13,706	166,869
Valuation allowance	(4,278)	(4,318)	(39,981)
Total	¥49,082	¥40,731	\$458,710
Deferred Tax Liabilities:			
Depreciation	¥25,770	¥27,114	\$240,841
Unrealized gain on available-for-sale securities	9,177	8,041	85,766
Reserve for special depreciation	2,465	876	23,037
Others	2,484	2,156	23,216
Total	¥39,896	¥38,187	\$372,860
Net Deferred Tax Assets	¥ 9,186	¥ 2,544	\$ 85,850

Net Deferred Tax Assets are included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current assets: Deferred tax assets	¥ 27,761	¥ 22,657	\$ 259,449
Non-current assets: Deferred tax assets	14,842	12,981	138,710
Non-current liabilities:			
Deferred tax liabilities	(33,417)	(33,094)	(312,308)

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

	2005	2004
Statutory tax rate	40.4%	41.7%
Rate difference from foreign subsidiaries	(2.3)	(3.4)
Tax deduction for research expenses	(1.0)	—
Dividend income and other not taxable	(0.5)	(0.6)
Entertainment and other non-deductible expenses	0.2	0.2
Change in statutory tax rate	—	0.5
Other, net	(0.4)	0.1
Effective tax rate	36.4	38.5

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 that mature within approximately three months from the acquisition date and have insignificant risk exposure in terms of fluctuation on value of the investments.

Reconciliation between cash and equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2005, 2004, and 2003 are presented below:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Cash and time deposits	¥246,741	¥210,323	¥235,647	\$2,305,991
Marketable securities	105,839	131,216	115,324	989,150
Time deposits for which maturities are approximately over three months	(2,205)	(717)	(6,581)	(20,608)
Marketable securities (maturities approximately over three months)	(32,642)	(47,844)	(42,020)	(305,066)
Cash and cash equivalents	¥317,733	¥292,978	¥302,370	\$2,969,467

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

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

Upon consolidation, a net cash flow of ¥5,705 million (\$53,318 thousand), representing the excess of the cash consideration of ¥6,999 million (\$65,411 thousand) paid for acquisition over the "Cash and Cash equivalents" of ¥1,294 million (\$12,093 thousand) held by JAPAN VAM & POVAL Co., Ltd. as at date of a commencement of consolidation, was disclosed as "Payment for purchase of new consolidated subsidiaries' shares and acquisition of business" in the consolidated statements of cash flows for the fiscal year ended March 31, 2005.

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

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

The cash consideration of ¥6,999 million (\$65,411 thousand) and ¥28,075 million paid for the acquisition during the fiscal years ended March 31, 2005 and 2004, respectively, were allocated as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Current assets	¥ 6,134	¥ 15,765	¥—	\$ 57,327
Non-current assets	5,617	12,502	—	52,495
Consolidation adjustments	2,943	15,459	—	27,505
Current liabilities	¥(5,622)	¥(12,349)	—	\$(52,542)
Non-current liabilities	(2,073)	(2,649)	—	(19,374)
Minority interests	—	(671)	—	—
Cash consideration	6,999	28,057	—	65,411
Cash and cash equivalents acquired	(1,294)	(3,545)	—	(12,093)
Net cash flow	¥ 5,705	¥ 24,512	—	\$ 53,318

(3) Important non-cash transactions were as follows

	Millions of yen	Thousands of U.S. dollars
Increase of common stock by conversion of convertible debentures	¥ 7,020	\$ 65,607
Increase of additional paid-in capital by conversion of convertible debentures	7,012	65,533
Decrease of convertible debentures by conversion	¥14,032	\$131,140

17. Segment information

(1) Business segment information

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

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

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

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

Sales, related operating costs and expenses, operating income, assets, depreciation and capital expenditure of the Companies at March 31, 2005, 2004 and 2003 and for the years then ended, classified by business segment, are presented as follows:

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

	Millions of yen				
	2004				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ³	Consolidated Total
Sales:					
Sales to outside customers	¥457,009	¥262,246	¥113,550	¥ —	¥ 832,805
Intersegment sales	8,285	1,539	54,480	(64,304)	—
Total	465,294	263,785	168,030	(64,304)	832,805
Operating costs and expenses	400,182	221,602	149,860	(64,465)	707,179
Operating income	¥ 65,112	¥ 42,183	¥ 18,170	¥ 161	¥ 125,626
Assets	¥548,264	¥422,075	¥166,790	¥249,087	¥1,386,216
Depreciation	21,979	42,419	9,455	(271)	73,582
Capital expenditures ²	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 ³	28,000	35,101	2,616	(147)	65,570

	Thousands of U.S. dollars				
	2005				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ²	Consolidated Total
Sales:					
Sales to outside customers	\$5,130,374	\$2,868,458	\$1,043,093	\$ —	\$ 9,041,925
Intersegment sales	79,215	23,103	621,981	(724,299)	—
Total	5,209,589	2,891,561	1,665,074	(724,299)	9,041,925
Operating costs and expenses	4,481,598	2,389,841	1,477,000	(724,589)	7,623,850
Operating income	\$ 727,991	\$ 501,720	\$ 188,074	\$ 290	\$ 1,418,075
Assets	\$5,901,561	\$4,193,692	\$1,568,430	\$2,133,037	\$13,796,720
Depreciation	243,701	514,308	93,439	(2,149)	849,299
Capital expenditures ¹	283,570	623,963	87,561	(2,365)	992,729

Notes: 1. As a result of additional acquisition of shares at the end of the fiscal year ended March 31, 2005, JAPAN VAM & POVAL Co., Ltd. which is under the Organic and Inorganic Chemicals segment, became a wholly owned consolidated subsidiary. Previously, in the fiscal year ended March 31, 2004, as an affiliated company, it was included in the scope of the equity method of accounting. Payment for this acquisition was ¥6,999 million. Only ¥2,943 million, which is equivalent to consolidated adjustment account, is included in the above Capital expenditures. If the remaining ¥4,056 million were included, the total amount of the Capital expenditures would come to ¥110,278 million.

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

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

3. Capital expenditures of our affiliate, 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 expenditures for this fiscal year would be ¥75,221 million.

4. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2005, 2004, and 2003 were ¥328,568 million (\$3,070,729 thousand), ¥330,652 million and ¥313,150 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, 2005, 2004 and 2003 and for the years then ended are presented below:

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

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

	Millions of yen					
	2003					
	Japan	North America	Asia/Oceania	Europe	Elimination or Common Assets ²	Consolidated Total
Sales:						
Sales to outside customers	¥456,528	¥190,263	¥ 81,931	¥68,801	¥ —	¥ 797,523
Intersegment sales	119,808	16,713	37,861	1,108	(175,490)	—
Total	576,336	206,976	119,792	69,909	(175,490)	797,523
Operating costs and expenses	489,214	183,615	112,377	64,651	(174,484)	675,373
Operating income	¥ 87,122	¥ 23,361	¥ 7,415	¥ 5,258	¥ (1,006)	¥ 122,150
Assets	¥625,820	¥319,569	¥118,659	¥66,413	¥ 180,414	¥1,310,875

Thousands of U.S. dollars						
2005						
	Japan	North America	Asia/Oceania	Europe	Elimination or Common Assets ²	Consolidated Total
Sales:						
Sales to outside customers	\$4,624,776	\$2,210,514	\$1,029,663	\$1,176,972	\$ —	\$ 9,041,925
Intersegment sales	1,381,046	292,084	428,991	8,533	(2,110,654)	—
Total	6,005,822	2,502,598	1,458,654	1,185,505	(2,110,654)	9,041,925
Operating costs and expenses	4,983,458	2,289,990	1,360,486	1,095,729	(2,105,813)	7,623,850
Operating income	\$1,022,364	\$ 212,608	\$ 98,168	\$ 89,776	\$ (4,841)	\$ 1,418,075
Assets	\$6,824,888	\$2,748,168	\$1,216,019	\$1,161,766	\$ 1,845,879	\$13,796,720

Notes: 1. Main countries or other areas other than Japan:
North America U.S.
Asia/Oceania Malaysia, Singapore, South Korea, Taiwan, Thailand, Australia
Europe U.K., Netherlands, Germany

2. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2005, 2004, and 2003 were ¥328,568 million (\$3,070,729 thousand), ¥330,652 million and ¥313,150 million, respectively, which mainly consisted of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

3. In the fiscal year ended March 31, 2005, the Company revised the classification of geographic areas due to increased business in Europe, which was previously included in "Other Areas."
Current classification of regions: "Japan," "North America," "Asia/Oceania," "Europe"
Previous classification of regions: "Japan," "North America," "Asia," "Other Areas"
The above information for the fiscal year ended March 31, 2004 and 2003 have been restated to conform to the current classification.

(3) Overseas sales information

Overseas sales of the Companies for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

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

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

Millions of yen					
2003					
	North America	Asia/Oceania	Europe	Other Areas	Total
Overseas sales	¥181,015	¥222,051	¥71,937	¥21,697	¥496,700
Consolidated sales	—	—	—	—	797,523
Percentage of overseas sales over consolidated sales	22.7%	27.9%	9.0%	2.7%	62.3%

Thousands of U.S. dollars					
2005					
	North America	Asia/Oceania	Europe	Other Areas	Total
Overseas sales	\$2,025,271	\$2,624,776	\$1,113,570	\$298,084	\$6,061,701
Consolidated sales	—	—	—	—	9,041,925
Percentage of overseas sales over consolidated sales	22.4%	29.0%	12.3%	3.3%	67.0%

Notes: 1. Main countries or areas
North America U.S., Canada
Asia/Oceania China, Taiwan, South Korea, Singapore, Thailand, Malaysia
Europe Germany, France, Portugal
Other Areas Middle South America, Middle East

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

3. Sales to China included in "Asia/Oceania" for the fiscal year ended March 31, 2005, 2004 and 2003 were ¥77,933 million, ¥62,820 million and ¥71,330 million, respectively.

4. In the fiscal year ended March 31, 2005, the Company revised the classification of geographic areas due to increased business in Europe, which was previously included in "Other Areas."
Current classification of regions: "North America," "Asia/Oceania," "Europe" "Other Areas."
Previous classification of regions: "North America," "Asia," "Other Areas."
The above information for the fiscal year ended March 31, 2004 and 2003 have been restated to conform to the current classification.

18. Subsequent event

Appropriation of retained earnings

Subsequent to March 31, 2005, the Company's Board of Directors, with the subsequent approval of stockholders on June 29, 2005 declared a cash dividend of ¥4,275 million (\$39,957 thousand) equal to ¥10.00 (\$0.093) per share, applicable to earnings of the year ended March 31, 2005 and payable to stockholders on the stockholders' register on March 31, 2005.

Consolidated Subsidiaries

As of March 31, 2005

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End	Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shintech Inc. ⁽¹⁾	100.0	December 31	Shin-Etsu Polymer Europe B.V. ⁽¹⁾	100.0	December 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31	Shin-Etsu International Europe B.V. ⁽¹⁾	100.0	December 31
Shin-Etsu Handotai America, Inc. ⁽¹⁾	100.0	December 31	Nihon Resin Co., Ltd.	100.0	December 31
Shin-Etsu Polymer Co., Ltd.	53.8	March 31	Naoetsu Precision Co., Ltd.	100.0	February 28
S.E.H. Malaysia Sdn. Bhd. ⁽¹⁾⁽²⁾	100.0	December 31	Skyward Information Systems Co., Ltd.	100.0	March 31
Shin-Etsu PVC B.V. ⁽¹⁾	100.0	December 31	Shinano Electric Refining Co., Ltd.	75.3	March 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31	Fukui Environmental Analysis Center Co., Ltd.	100.0	February 28
SE Tylose GmbH & Co. KG ⁽¹⁾	100.0	December 31	Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu-Handotai Europe, Ltd. ⁽¹⁾	100.0	December 31	Shin-Etsu Technology Service Co., Ltd.	76.9	February 28
Nagano Electronics Industrial Co., Ltd.	90.0	February 28	Urawa Polymer Co., Ltd.	100.0	March 31
Shin-Etsu Handotai Taiwan Co., Ltd. ⁽¹⁾	70.0	December 31	Shin-yo Home Service Company	100.0	March 31
Naoetsu Electronics Co., Ltd.	100.0	February 28	Niigata Polymer Company Limited	100.0	March 31
Shin-Etsu Astech Co., Ltd.	99.6	March 31	Shin-Etsu Polymer America, Inc. ⁽¹⁾	100.0	December 31
S-E, Inc. ⁽¹⁾	100.0	December 31	Naoetsu Sangyo Limited	100.0	March 31
Shin-Etsu Electronics Materials Singapore Pte. Ltd. ⁽¹⁾	100.0	December 31	San-Ace Co., Ltd.	100.0	March 31
Shin-Etsu Fintech Co., Ltd. ⁽³⁾	100.0	March 31	Shinken Total Plant Co., Ltd.	100.0	February 28
JAPAN VAM & POVAL Co., Ltd.	100.0	March 31	Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Singapore Pte. Ltd. ⁽¹⁾	100.0	December 31	Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Silicone Korea Co., Ltd. ⁽¹⁾	100.0	December 31	Shin-Etsu Magnet Co., Ltd.	100.0	March 31
Shinano Polymer Co., Ltd.	100.0	March 31	Shin-Etsu Polymer Mexico S.A. de C.V. ⁽¹⁾	100.0	December 31
Shin-Etsu Silicones Thailand Ltd. ⁽¹⁾	100.0	December 31	PT. Shin-Etsu Polymer Indonesia ⁽¹⁾	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	December 31	Shin-Etsu Polymer Shanghai Co., Ltd. ⁽¹⁾	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 28	Human Create Co., Ltd.	100.0	March 31
Shin-Etsu MicroSi, Inc. ⁽¹⁾	100.0	December 31	Suzhou Shin-Etsu Polymer Co., Ltd. ⁽¹⁾	83.6	December 31
Shin-Etsu Silicone Taiwan Co., Ltd. ⁽¹⁾	93.3	December 31	S.E.H. (Shah Alam) Sdn. Bhd. ⁽¹⁾	100.0	December 31
Shin-Etsu Silicones of America, Inc. ⁽¹⁾	100.0	December 31	Simcoa Operations Pty. Ltd. ⁽¹⁾	100.0	December 31
Shin-Etsu Silicones Europe B.V. ⁽¹⁾	100.0	December 31	Shincor Silicones, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Sealant Co., Ltd.	100.0	March 31	K-Bin, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Unit Co., Ltd.	100.0	March 31			
Shin-Etsu Opto Electronics Co., Ltd. ⁽¹⁾	80.0	December 31	8 other consolidated subsidiaries		
Shin-Etsu Polymer (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	December 31			

(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 Fintech Co., Ltd.

Report of Independent Auditors

To the Board of Directors

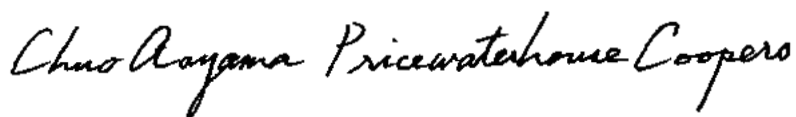
Shin-Etsu Chemical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Shin-Etsu Chemical Co., Ltd. and its consolidated subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2005, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin-Etsu Chemical Co., Ltd. and its consolidated subsidiaries as of March 31, 2004 and 2005, and the consolidated results of their operations and cash flows for each of the three years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in Japan.

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



ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan

June 29, 2005