

# Financial Summary

(For the six months ended September 30, 2004)

October 25, 2004

## **Shin-Etsu Chemical Co.,Ltd.**

### **(Note)**

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

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# 1. Operating Performance

	(Billions of Yen)						(times)	
	Consolidated			Non-consolidated			Ratio (Consolidated/Non-consolidated)	
	Six months 03/4-03/9	Six months 04/4-04/9	Increase (Decrease)	Six months 03/4-03/9	Six months 04/4-04/9	Increase (Decrease)	Six months 03/4-03/9	Six months 04/4-04/9
Sales	407.6	468.5	15.0% 60.9	238.3	256.1	7.5% 17.8	1.71	1.83
Operating Income	63.9	76.8	20.2% 12.9	28.7	31.6	10.1% 2.9	2.23	2.43
Ordinary Income	63.0	75.8	20.3% 12.8	29.0	31.0	7.0% 2.0	2.17	2.44
Net Income	37.7	46.5	23.1% 8.8	17.8	19.5	9.5% 1.7	2.12	2.38
Total Assets	1,346.9	1,433.2	86.3	698.0	757.0	59.0	1.93	1.89
Stockholders' Equity	891.9	947.7	55.8	523.7	562.6	38.9	1.70	1.68
Equity Ratio	66.2%	66.1%	(0.1%)	75.0%	74.3%	(0.7%)		
Per share (in Yen)								
Net Income	89.78	110.37	20.59	42.44	46.41	3.97		
Stockholders' Equity	2,121	2,238	117	1,246	1,329	83		
Cash dividend				8.00	10.00	2.00		
ROE (6 months)	4.3%	5.0%	0.7%	3.5%	3.5%	0.0%		
ROA (6 months)	4.7%	5.4%	0.7%	4.2%	4.1%	(0.1%)		

ROA:Return(Ordinary income) On total Assets

## 2. Financial Highlights

(Billions of Yen)

	Consolidated		Non-consolidated	
	Six months 03/4-03/9	Six months 04/4-04/9	Six months 03/4-03/9	Six months 04/4-04/9
Capital expenditures	40.8	52.9	10.5	8.8
Depreciation	34.2	41.4	9.2	9.3
Balance of liabilities with interest	149.0	133.1	48.1	43.0
Net financial revenue	(0.1)	0.5	2.0	2.3
R&D costs	12.2	13.2	7.4	8.2
Number of employees	17,044	18,177	2,608	2,536
Exchange rate    Jan-June(Ave.)	118.7	108.5	-	-
(Yen/US\$)        Apr-Sep(Ave.)	118.0	109.9	118.0	109.9

Notes; 1)Breakdown of Consolidated Capital Expenditures and Depreciation for the six months ended September 30, 2004

	<u>Capital Expenditures</u>	<u>Depreciation</u>
	Billions of Yen	Billions of Yen
Organic and inorganic chemicals	12.9	11.5
Electronics materials	36.9	25.2
Functional materials and Others	3.2	4.7

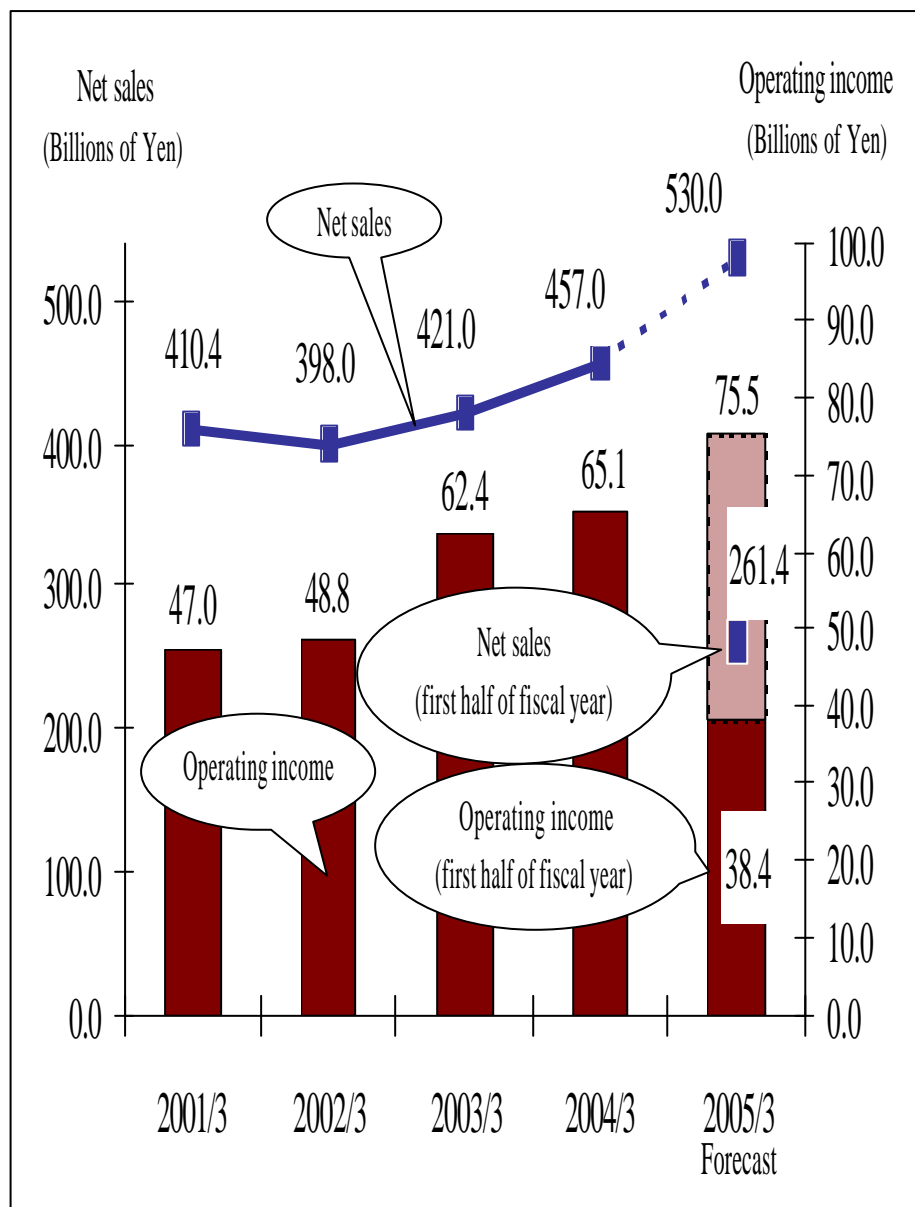
2)An average exchange rate between January and June was used for the Consolidated Income Statements of overseas subsidiaries.

### 3. Business Segment Information (Consolidated)

(Billions of Yen)

	Net Sales			Operating Income		
	Six months 03/4-03/9	Six months 04/4-04/9	Increase (Decrease)	Six months 03/4-03/9	Six months 04/4-04/9	Increase (Decrease)
Organic and inorganic chemicals	224.5	261.4	16.4% 36.9	33.2	38.4	15.8% 5.2
Polyvinyl chloride	125.6	139.7	14.1	12.2	15.9	3.7
Silicones	66.9	73.7	6.8	13.9	14.0	0.1
Others	32.0	48.0	16.0	7.1	8.5	1.4
Electronics materials	127.0	150.8	18.7% 23.8	21.5	27.5	27.7% 6.0
Semiconductor silicon	104.0	125.8	21.8	18.0	23.3	5.3
Others	23.0	25.0	2.0	3.5	4.2	0.7
Functional materials and Others	56.1	56.3	0.4% 0.2	9.1	10.9	19.3% 1.8
Synthetic quartz products	12.8	14.1	1.3	4.3	5.8	1.5
Rare earth magnets, other functional materials	12.4	13.8	1.4	2.6	2.8	0.2
Others	30.9	28.4	(2.5)	2.2	2.3	0.1
Elimination	-	-	-	0.1	0.0	(0.1)
<b>Total</b>	<b>407.6</b>	<b>468.5</b>	<b>15.0% 60.9</b>	<b>63.9</b>	<b>76.8</b>	<b>20.2% 12.9</b>

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



### •PVC

The sales price of PVC in the U.S. market, which is a core market for Shin-Etsu Chemical's global PVC business strategy, increased due to the strong demand generated by the high level of demand in housing construction and other factors as the soaring and continued high cost of such basic raw materials as crude oil and natural gas. As a result of its sales activities that captured accurately the market trend, Shintech Inc. attained its highest ever net sales and operating income in the first half of the current fiscal year.

Shin-Etsu PVC B.V. in The Netherlands increased its sales as demand for PVC continued to increase in Europe.

In Japan, sales of PVC expanded because of an increase in exports due to vigorous demand for PVC in China and a further domestic PVC upward price revision implemented at the end of the FY 2004.

As a result, Shin-Etsu's PVC business steadily increased its net sales and greatly increased its operating income.

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### •Silicones

Domestic sales of silicones were good in such fields as electric, electronics, automobile-related applications, construction materials and cosmetics. Furthermore, in global markets, sales especially increased in Asia with the Chinese market leading the way. In addition, Shin-Etsu's new silicone products manufacturing facility in Thailand began production and shipments during the first half of this fiscal year, and sales were good of Shin-Etsu Polymer's silicone processed products.

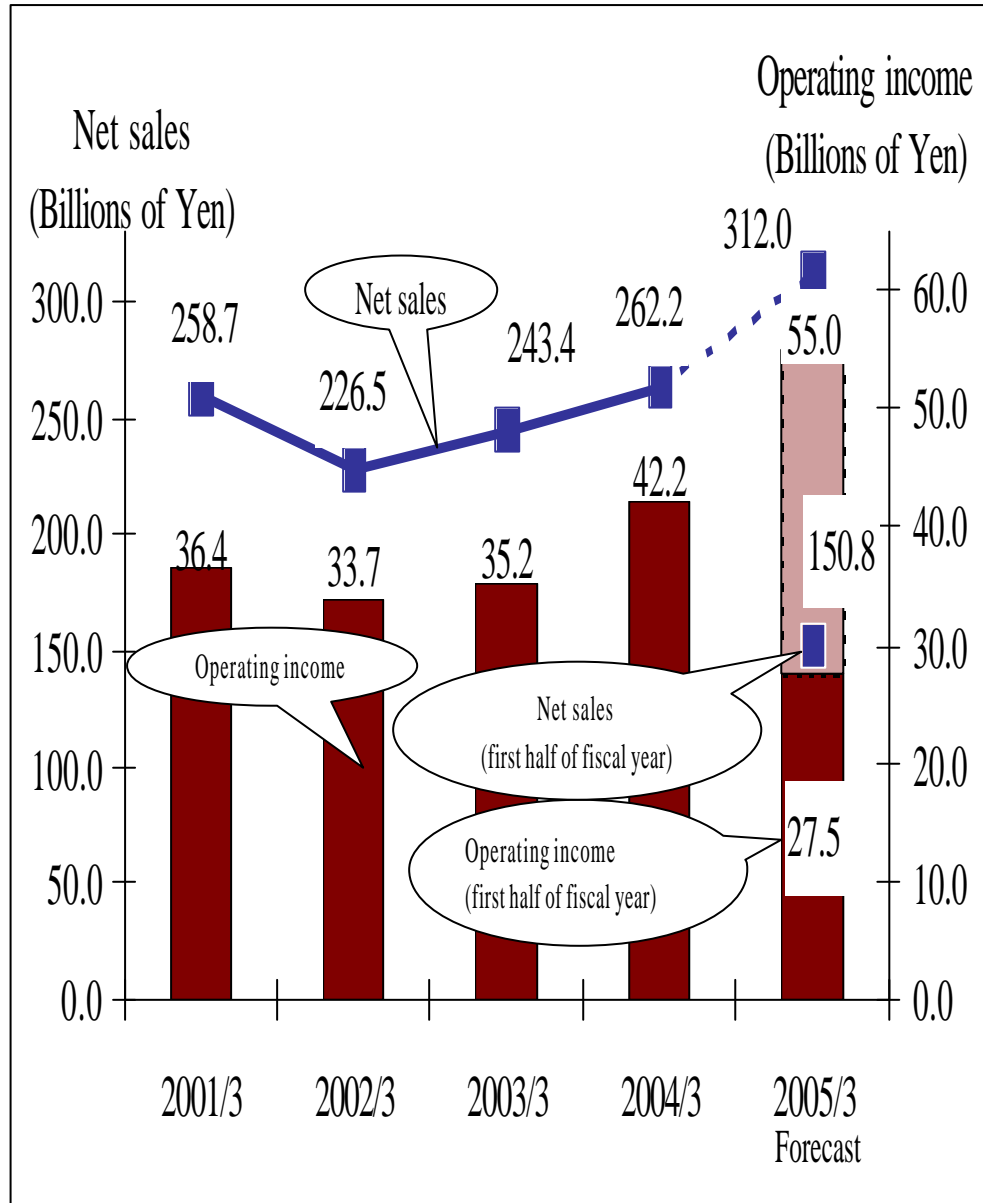
### •Cellulose derivatives

Sales of cellulose derivatives were strong in applications for construction materials as well as automobile- and medical-related applications. SE Tylose in Germany, which Shin-Etsu had acquired at the end of 2003, also did well, contributing to cellulose business performance.

(\*) Overseas subsidiaries' calculations are based on the period from January through June 2004 because their fiscal year ends in December.

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

## 5. "Electronics materials" Business Segment (Consolidated)



### •Semiconductor silicon

With the expanding demand for semiconductor devices used for applications in PCs, mobile phones and digital home appliances, sales of silicon wafers continued at a high level, not only of 200mm wafers, but also of smaller-diameter wafers of up to 150mm. Moreover, sales of the most advanced 300mm wafers on the market, for which Shin-Etsu has been investing to provide increased production capacity, have increased greatly. In addition, sales of specialty wafers, such as SOI wafers, annealed wafers and others, also continued to show a steady increase.

As a result, the semiconductor silicon business greatly increased its net sales and operating income.

### •Rare earth magnets for electronics industry

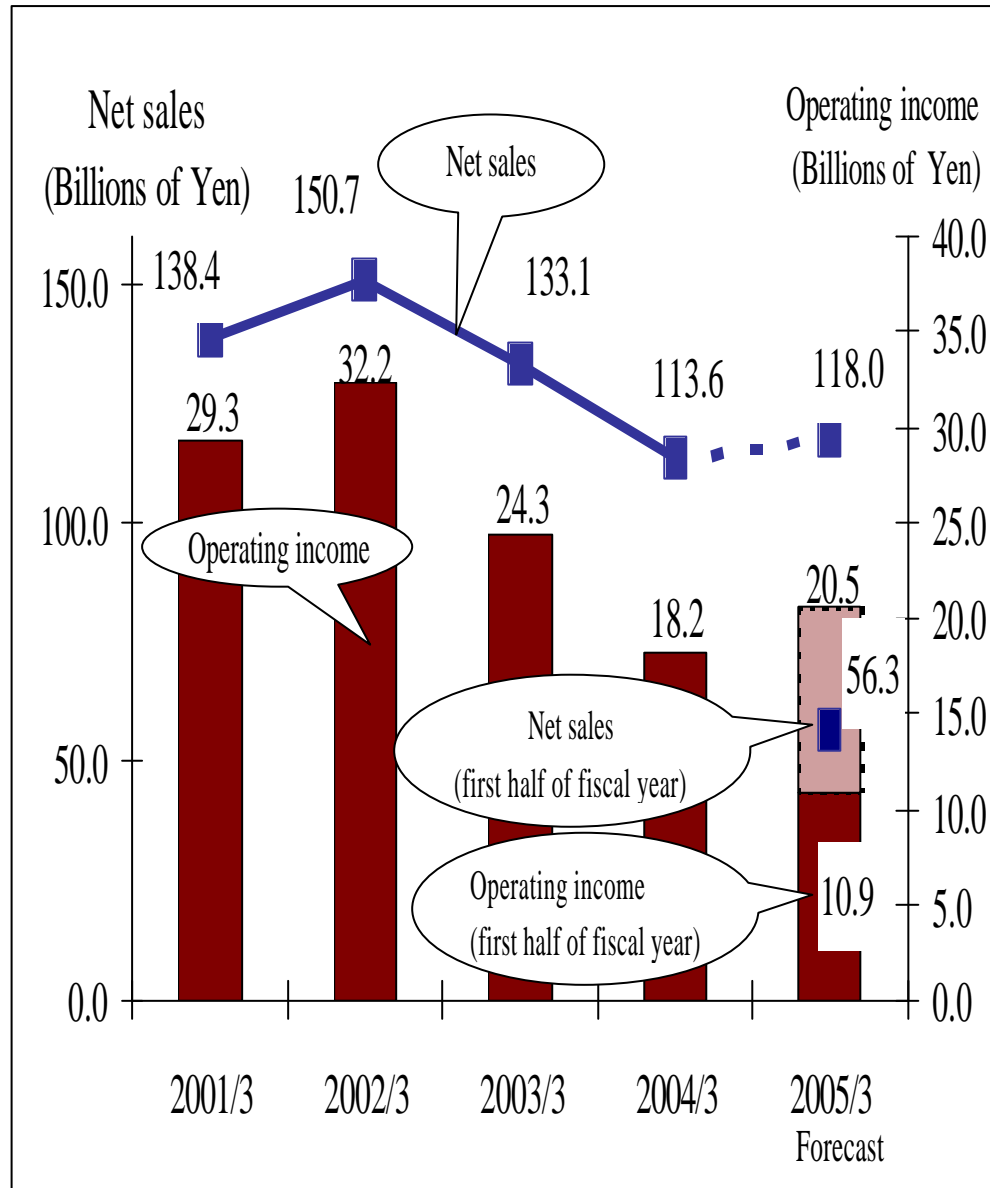
Rare earth magnets for the electronics industry saw steady sales for hard disk drive applications in mobile music players as well as its applications in PCs, servers and visual recording media.

### •Other products

Organic materials for the electronic industry and photoresists products increased in sales, reflecting the good market condition of the semiconductor device industry.

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

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



### •Synthetic quartz

? Among synthetic quartz products, although the demand for optical fiber preform continued to be sluggish, shipments of large-size photomask substrates used for the manufacturing of LCD panels continued at a high level.

As a result, net sales and operating income expanded in synthetic quartz business.

### •Rare earth magnets, Rare earth

Sales of rare earth magnets were good mainly for applications in air-conditioners, factory-automation equipment and automobile-related products, and rare earth sales also expanded, particularly for phosphor applications.

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



## 7. Operating Performance of Shintech, Inc.

### **Shintech, Inc.**

	Six months 03/1-03/6		Six months 04/1-04/6	
	Million US\$	Billions of Yen	Million US\$	Billions of Yen
Net Sales	693	82.3	859	93.2
Ordinary Income	110	13.0	130	14.1
Net Income	73	8.6	86	9.3
Stockholders' Equity	1,469	176.0	1,616	175.3
Total Assets	1,741	208.6	1,902	206.2

☞ The demand for PVC in the U.S. market continued to rise throughout the first half of 2004. Driven by the surge in new housing construction in the U.S. and also the effect of a sharp rise in price of basic raw materials such as crude oil and natural gas, the PVC sales price rose every month from January to June.

☞ Shintech Inc., which celebrated in October 2004 the 30th anniversary of the start-up of its operations, continued the efficient and high-level operation of its production facilities in both Texas and Louisiana by utilizing its strength in having a wide range of customers throughout the world and carrying out effective sales activities that accurately captured the market trend.

☞ As a result, Shintech attained its highest profit ever in the first half of its current fiscal year.

## 8. Operating Performance of Shin-Etsu Handotai Group

### **Shin-Etsu Handotai Group(Consolidated)**

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

(Billions of Yen)

	Six months 03/4-03/9	Six months 04/4-04/9
Net Sales	99.8	122.2
Ordinary Income	12.5	18.1
Net Income	7.7	11.7
Stockholders' Equity	129.3	138.7
Total Assets	338.5	346.0

☞ In the semiconductor silicon business, production and shipments of 200mm silicon wafers continued at a high level as a result of the expansion of demand for a wide range of applications such as for PCs and digital home appliances.

☞ The volume of shipments of 300mm silicon wafers greatly increased because the company accurately anticipated the expansion in demand and acted ahead of others to increase its production capacity.

☞ Sales of small-diameter wafers, those up to 150mm, increased for device in home appliances and automobile-related applications. In addition, specialty wafers such as SOI wafers, annealed wafers and others continued to steadily increase in sales.

☞ As a result, in the first half of the current fiscal year both the net sales and ordinary income of Shin -Etsu Handotai greatly increased over the figures attained in the first half of the previous fiscal year.

Notes; The financial statements of the overseas Shin-Etsu Handotai

Group companies are calculated based on the six months period ended June 2003 and 2004.

## 9. Comparative Income Statements (Consolidated)

(Billions of Yen)

	Six months 03/4-03/9	Six months 04/4-04/9	Increase (Decrease)	Rate of increase
<b>Net sales</b>	407.6	468.5	60.9	15.0%
Cost of sales	300.2	342.9	42.7	
Selling, General and Administrative Expenses	43.5	48.9	5.4	
<b>Operating income</b>	63.9	76.8	12.9	20.2%
Non-operating income / expenses	(0.8)	(1.0)	(0.2)	
<b>Ordinary income (Income before income taxes)</b>	63.0	75.8	12.8	20.3%
Income taxes	24.2	27.8	3.6	
Minority interest in earnings of consolidated subsidiaries	1.1	1.5	0.4	
<b>Net income</b>	37.7	46.5	8.8	23.1%

## 10. Comparative Balance Sheets (Consolidated)

(Billions of Yen)

	March 31 2004	September 30 2004	Increase (Decrease)		March 31 2004	September 30 2004	Increase (Decrease)
<u>Current assets</u>	<u>730.5</u>	<u>747.5</u>	<u>17.0</u>	<u>Current liabilities</u>	<u>321.7</u>	<u>336.4</u>	<u>14.7</u>
Cash on hand and in banks	210.3	218.4	8.1	Notes and accounts payable-trade	107.0	123.6	16.6
Notes and accounts receivable - trade	222.0	241.4	19.4	Short-term borrowings	58.3	38.7	(19.6)
Securities	131.2	113.0	(18.2)	Debentures and convertible debentures	8.0	11.6	3.6
Inventories	117.7	118.2	0.5	Accrued expenses and accounts payable-others	109.6	125.6	16.0
Deferred tax assets	22.7	24.0	1.3	Accrued income taxes	29.5	28.6	(0.9)
Others	26.6	32.5	5.9	Others	9.3	8.3	(1.0)
<u>Fixed assets</u>	<u>655.7</u>	<u>685.7</u>	<u>30.0</u>	<u>Long-term liabilities</u>	<u>137.2</u>	<u>121.5</u>	<u>(15.7)</u>
<u>Property, plant and equipment</u>	<u>434.9</u>	<u>445.4</u>	<u>10.5</u>	Debentures and convertible debentures	41.1	29.2	(11.9)
Buildings and structures	153.4	154.2	0.8	Long-term borrowings	55.8	53.6	(2.2)
Machinery and vehicles	200.9	209.2	8.3	Deferred tax liabilities	33.1	30.7	(2.4)
Others	80.7	82.0	1.3	Accrued retirement benefits	6.0	6.7	0.7
<u>Intangible fixed assets</u>	<u>24.4</u>	<u>24.8</u>	<u>0.4</u>	Others	1.2	1.3	0.1
<u>Investments and others</u>	<u>196.4</u>	<u>215.5</u>	<u>19.1</u>	Total liabilities	459.0	457.9	(1.1)
Investments in securities	171.5	190.0	18.5	Minority interests in consolidated	26.5	27.6	1.1
Deferred tax assets	13.0	13.8	0.8	Common stock	110.5	113.6	3.1
Others	11.9	11.7	(0.2)	Additional paid-in capital	119.3	122.4	3.1
				Retained earnings	695.0	737.8	42.8
				Unrealized gain(loss) on available-for-sale	11.9	9.9	(2.0)
				Foreign currency translation adjustment	(26.7)	(24.8)	1.9
				Treasury stock	(9.2)	(11.2)	(2.0)
				Total stockholders' equity	900.7	947.7	47.0
<b>Total assets</b>	<b>1,386.2</b>	<b>1,433.2</b>	<b>47.0</b>	<b>Total liabilities and stockholders' equity</b>	<b>1,386.2</b>	<b>1,433.2</b>	<b>47.0</b>

## 11. Comparative Statements of Cash Flows (Consolidated)

(Billions of Yen)

	Six months 03/4-03/9	Six months 04/4-04/9	Increase (Decrease)
<u>(1) Cash flows from operating activities</u>			
Net income	37.7	46.5	8.8
Depreciation	34.2	41.4	7.2
Others	(3.7)	3.8	7.5
Total	68.2	91.7	23.5
<u>(2) Cash flows from investing activities</u>			
Expenditure for purchase of tangible and intangible fixed assets	(33.0)	(49.4)	(16.4)
Increase (Decrease) in securities	(28.5)	(17.9)	10.6
Others	9.1	(1.8)	(10.9)
Total	(52.4)	(69.1)	(16.7)
<u>(3) Cash flows from financing activities</u>			
Decrease in debentures and borrowings	(21.5)	(24.2)	(2.7)
Cash dividends	(2.9)	(3.4)	(0.5)
Others	(0.6)	(2.4)	(1.8)
Total	(25.0)	(30.0)	(5.0)
(4) Effect of exchange rate changes and others	1.8	0.7	(1.1)
Net increase(decrease) in cash and cash equivalents	(7.4)	(6.7)	0.7
Balance of cash and cash equivalents	295.0	286.3	(8.7)
Balance of liabilities with interest	149.0	133.1	(15.9)

12. Forecast of operating performance  
for the entire fiscal year (April 2004-March 2005)

	<b>Consolidated</b>		Non-consolidated	
	Billions of Yen	Ratio of increase over prior FY	Billions of Yen	Ratio of increase over prior FY
Net sales	<b>960.0</b>	<b>15.3%</b>	520.0	7.8%
Operating income	<b>151.0</b>	<b>20.2%</b>	62.0	10.6%
Ordinary income	<b>151.0</b>	<b>20.2%</b>	62.0	6.8%
Net income	<b>92.0</b>	<b>23.0%</b>	39.0	12.3%
Net income per share (in Yen)	<b>216.50</b>	<b>39.25</b>	91.77	9.52
Annual cash dividend per share (in Yen)	<b>20.00</b>	<b>4.0</b>		

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

### 13. Comparative Income Statements (Non-consolidated)

(Billions of Yen)

	Six months 03/4-03/9	Six months 04/4-04/9	Increase (Decrease)	Rate of increase
<b>Net sales</b>	238.3	256.1	17.8	7.5%
Cost of sales	194.5	208.5	14.0	
Selling, General and Administrative Expenses	15.1	16.0	0.9	
<b>Operating income</b>	28.7	31.6	2.9	10.1%
Non-operating income / expenses	0.3	(0.5)	(0.8)	
<b>Ordinary income (Income before income taxes)</b>	29.0	31.0	2.0	7.0%
Income taxes	11.2	11.5	0.3	
<b>Net income</b>	17.8	19.5	1.7	9.5%

## 14. Comparative Balance Sheets (Non-consolidated)

(Billions of Yen)

	March 31 2004	September 30 2004	Increase (Decrease)		March 31 2004	September 30 2004	Increase (Decrease)
<b><u>Current assets</u></b>	<b><u>429.8</u></b>	<b><u>430.8</u></b>	<b><u>1.0</u></b>	<b><u>Current liabilities</u></b>	<b><u>173.0</u></b>	<b><u>172.1</u></b>	<b><u>(0.9)</u></b>
Cash on hand and in banks	135.3	132.7	(2.6)	Notes and accounts payable-trade	90.2	96.9	6.7
Notes and accounts receivable - trade	152.4	158.8	6.4	Short-term borrowings	31.0	16.4	(14.6)
Securities	47.3	43.5	(3.8)	Convertible debentures of redemption within one year	-	11.6	11.6
Inventories	37.8	36.3	(1.5)	Accrued expenses and accounts payable-others	31.8	32.3	0.5
Short-term loan	30.6	28.4	(2.2)	Accrued income taxes	17.7	13.7	(4.0)
Others	26.4	31.2	4.8	Others	2.3	1.2	(1.1)
<b><u>Fixed assets</u></b>	<b><u>329.0</u></b>	<b><u>326.2</u></b>	<b><u>(2.8)</u></b>	<b><u>Long-term liabilities</u></b>	<b><u>41.6</u></b>	<b><u>22.3</u></b>	<b><u>(19.3)</u></b>
<b><u>Property, plant and equipment</u></b>	<b><u>111.4</u></b>	<b><u>109.3</u></b>	<b><u>(2.1)</u></b>	Convertible debentures	17.8	-	(17.8)
Buildings and structures	36.4	36.0	(0.4)	Long-term borrowings	15.0	15.0	0.0
Machinery and vehicles	47.9	47.3	(0.6)	Others	8.8	7.3	(1.5)
Others	27.1	26.0	(1.1)	<b>Total liabilities</b>	<b>214.6</b>	<b>194.4</b>	<b>(20.2)</b>
<b><u>Intangible fixed assets</u></b>	<b><u>1.2</u></b>	<b><u>1.0</u></b>	<b><u>(0.2)</u></b>	<b>Common stock</b>	<b>110.5</b>	<b>113.6</b>	<b>3.1</b>
<b><u>Investments and others</u></b>	<b><u>216.4</u></b>	<b><u>215.8</u></b>	<b><u>(0.6)</u></b>	<b>Additional paid-in capital</b>	<b>111.9</b>	<b>115.0</b>	<b>3.1</b>
Investments in securities	115.9	115.3	(0.6)	<b>Retained earnings</b>	<b>320.6</b>	<b>336.6</b>	<b>16.0</b>
Investments in capital stock of subsidiaries and affiliates	95.4	95.4	0.0	<b>Unrealized gain(loss) on available-for-         sale securities</b>	<b>10.5</b>	<b>8.7</b>	<b>(1.8)</b>
Others	5.1	5.0	(0.1)	<b>Treasury stock</b>	<b>(9.2)</b>	<b>(11.2)</b>	<b>(2.0)</b>
				<b>Total stockholders' equity</b>	<b>544.3</b>	<b>562.6</b>	<b>18.3</b>
<b>Total assets</b>	<b>758.8</b>	<b>757.0</b>	<b>(1.8)</b>	<b>Total liabilities and stockholders' equity</b>	<b>758.8</b>	<b>757.0</b>	<b>(1.8)</b>



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

(Billions of Yen)

Department	Six months 03/4-03/9	Six months 04/4-04/9	Increase (Decrease)
Organic and inorganic chemicals	86.3	93.3	7.0
Electronics materials	103.8	118.2	14.4
Functional materials	27.9	28.9	1.0
International division	20.4	15.6	(4.8)
Total	238.3	256.1	17.8
[Reference]	(43%)	(41%)	
Export total	102.4	105.9	3.5

Percentages in ( ) represent the proportions of export sales in total net sales.

## **Recent Topics**

- Nov. 2003      Announcement of agreement made to acquire Clariant's cellulose business in Europe.
- Nov. 2003      Shin-Etsu PVC B.V. in The Netherlands increased its VCM/PVC production capacity.
- Dec. 2003      Announcement of change in PVC terms of sale together with a price increase in Japan.
- Dec. 2003      Concluded procedures of acquiring Clariant's cellulose business, becoming SE Tylose GmbH & Co. KG in Germany.
- Mar. 2004      Shin-Etsu Handotai announced a program to increase its 300mm silicon wafer production capacity, so as to reach an output of 300,000 wafers/month by the end of 2004.
- Mar. 2004      Shin-Etsu Silicones (Thailand), Ltd. started commercial production of silicone products.
- Apr. 2004      Asia Silicones Monomer Limited in Thailand started commercial production of silicone monomers.
- Apr. 2004      Shin-Etsu Polymer Hungary Ltd. started production of keypads, mainly used in mobile phones and other electronic devices.
- Jul. 2004      Shin-Etsu Polymer started production of PVC compounds in Shenzhen, China.
- Aug. 2004      Announcement of a further PVC price increase in Japan.
- Aug. 2004      Announcement of cellulose derivatives price increases in Japan.
- Sep. 2004      Announcement of silicone products price increases in Japan.
- Oct. 2004      Announcement of price increases on Epoxy Molding Compounds used for encapsulating semiconductor devices.
- Oct. 2004      30-Year Anniversary of Shintech Incorporated's start of operations.