

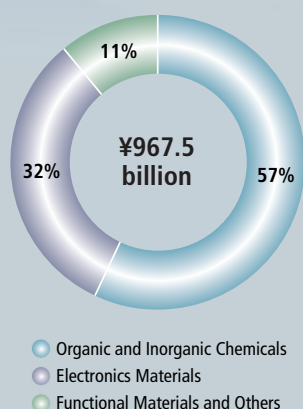


Sustainable Growth and Development

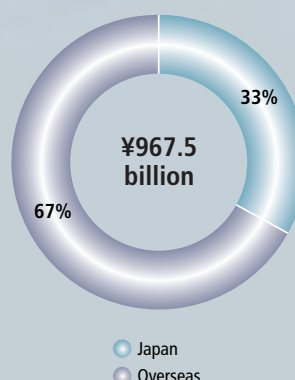
Profile

The Shin-Etsu Group utilizes its world-class technologies and cost competitiveness in its Organic and Inorganic Materials, Electronics Materials and Functional Materials and Other businesses to build strong relationships with customers around the world. We also focus on cultivating businesses with future growth potential while achieving consistently favorable results in daily business activities. At the same time, the Group places priority on safety, the environment and corporate ethics in its operations around the world in order to be a trusted corporate citizen.

Net Sales by Business Segment



Net Sales in Japan and Overseas



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Forward-looking Statements

This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication.

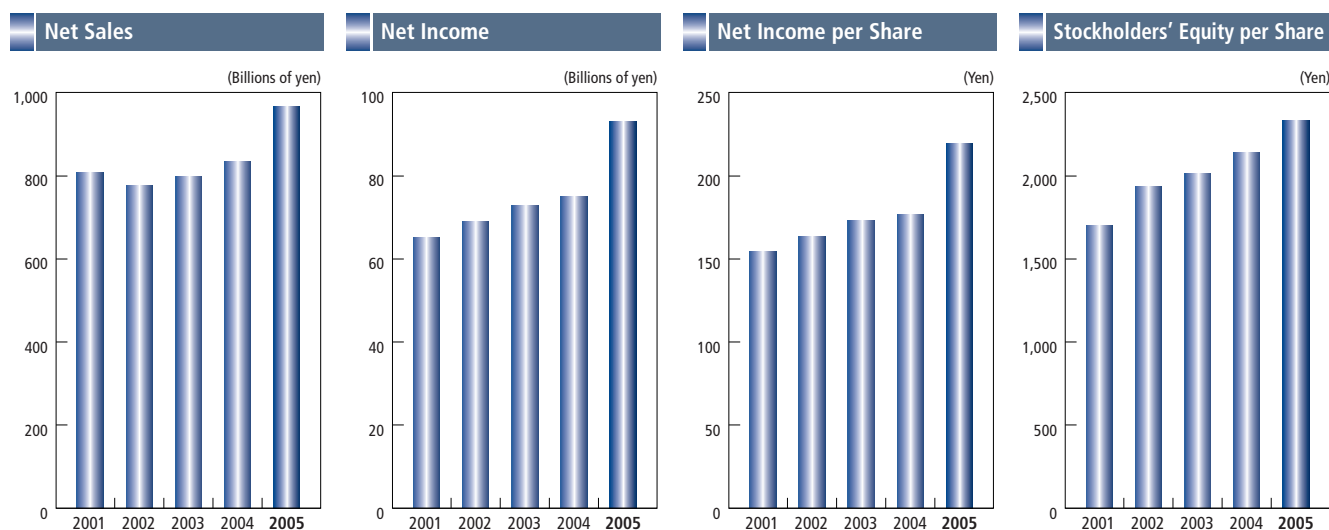
Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's businesses, competitive pressures, changes in related laws and regulations, status of product development programs, and changes in exchange rates.

Financial Highlights

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

	Millions of yen			% Change	Thousands of U.S. dollars
	2005	2004	2003	2005/2004	2005
For the year:					
Net sales.....	¥ 967,486	¥ 832,805	¥ 797,523	16.2 %	\$ 9,041,925
Operating income	151,734	125,626	122,150	20.8	1,418,075
Net income	93,161	74,806	73,016	24.5	870,664
Capital expenditures.....	110,278	113,591	75,221	(2.9)	1,030,636
At year-end:					
Total assets.....	¥1,476,249	¥1,386,216	¥1,310,875	6.5 %	\$13,796,720
Working capital	444,935	401,879	409,262	10.7	4,158,280
Stockholders' equity	996,307	900,724	846,962	10.6	9,311,280
Per share data (yen and U.S. dollars):					
	Yen			% Change	U.S. dollars
Net income	¥ 219.10	¥ 177.25	¥ 173.13	23.6 %	\$ 2.05
Stockholders' equity	2,329.47	2,140.23	2,014.11	8.8	21.77
Cash dividends	20.00	16.00	14.00	25.0	0.19
Return on equity (ROE)	9.8%	8.6%	8.8%		
Return on assets (ROA)	10.6%	9.3%	9.4%		
Number of employees	18,151	17,384	16,573		

Note: U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate prevailing on March 31, 2005 of ¥107 to US\$1.



Note: Graphs are based on fiscal years ended March 31.

To Our Shareholders



The Shin-Etsu Group attained record-high profits for the 10th consecutive year in a rapidly changing operational environment during fiscal 2005, which ended on March 31, 2005. This stellar business performance was the result of the Group's efforts in vigorously pursuing growth and development based on its sales capability, strengths nurtured in global markets and a line of products offering unique features. In addition, Shin-Etsu aggressively invested in a several large projects. The Group also energetically pursued capacity optimization together with a strategy of locating its new production facilities in the most suitable sites around the world. Looking toward the future, the Shin-Etsu Group will continue to maximize its shareholder value by strengthening its position as a constantly growing company.

Chihiro Kanagawa

President and CEO

Operating Environment in Fiscal 2005

Although there were some signs of a slight economic slowdown toward the end of fiscal 2005, the Japanese economy attained a modest recovery supported by firm personal consumption and an increase in capital investments. The U.S., Southeast Asian and Chinese economies performed well overall, mainly as a result of growth in personal consumption and capital investments, as business expansion continued.

Under these circumstances, the Shin-Etsu Group continued strong sales efforts with its customers around the world by emphasizing the unique features of Shin-Etsu products and by utilizing the Group companies' sales capabilities in world markets. At the same time, the Group aggressively pursued the growth and development of its business operations by making strategic investments as well as by implementing further optimization and increasing the efficiency of its management systems.

As a result, the net sales of the Shin-Etsu Group increased by 16.2% over the previous fiscal year to reach ¥967.5 billion. Compared to the performance of the previous fiscal year, operating income rose by 20.8% to ¥151.7 billion and ordinary income increased 20.6% to ¥151.5 billion. Net income increased 24.5% to ¥93.2 billion, thus allowing the Group to attain its 10th consecutive year of record-high profits. Shin-Etsu declared a dividend of ¥10 per share for the second half of fiscal 2005, making the total dividend for fiscal 2005 ¥20 per share, an increase of ¥4 compared to the previous fiscal year.

Continued Steady Growth

The Shin-Etsu Group's achievement of record profits for 10 consecutive years represents a milestone in our corporate history. The Shin-Etsu Group intends to make even greater efforts to assure its continued, long-term growth. First, we will aim to achieve one of our key business goals of attaining consolidated net sales of ¥1 trillion and consolidated net income of ¥100 billion in fiscal 2006. We will then endeavor to attain an even more challenging goal of becoming an ever-growing company. To achieve this goal, we are working to further strengthen our business structure by combining the efforts of the sales, technology and production divisions and by taking the specific measures explained below.

Strengthening Our Core Businesses for Future Growth

To assure sustainable future growth, we believe it is important to strengthen our core businesses and nurture promising new business lines by focusing on the years ahead. To attain this goal, we must continue to accurately understand our customers' needs as well as overall market trends. The Shin-Etsu Group strives to grow hand-in-hand with our customers on a long-term basis. We must develop and execute in a timely fashion effective strategic planning and aggressively implement major investment projects. In our core businesses, we will intensively enhance the world's highest levels of technology, quality and cost-competitiveness. While we continue to build long-term business relationships with a growing number of customers around the world, we will make certain that our business structure and organization can effectively cope with changes in the operating environment.

PVC Business

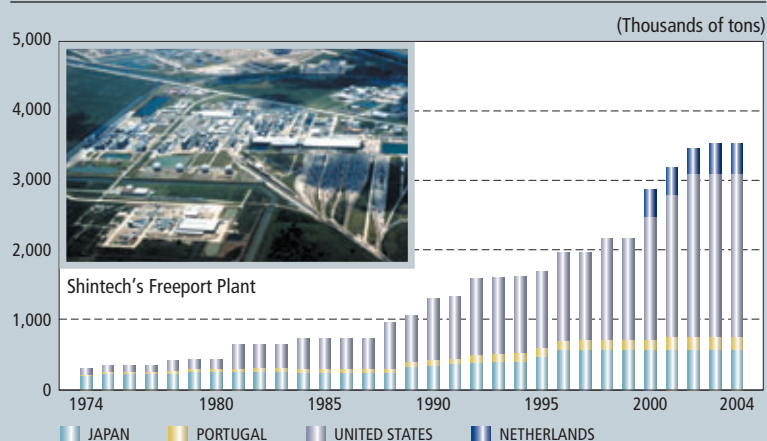
PVC is a general-purpose resin with excellent properties that makes the world less dependent on crude oil and natural gas. PVC is easy to process as well as economical. Demand for PVC is steadily growing, not only in China and Southeast Asia but also in North America and Europe. To cope with increasing demand in the U.S. and around the world, Shintech Inc. is now proceeding with plans to construct a large-scale, integrated PVC manufacturing facility that will include CHLORO-ALKALI, VCM, and PVC plants. With the construction of these new facilities, the Shin-Etsu Group will further strengthen its position as the world's largest PVC supplier.

Moreover, Shin-Etsu PVC B.V. in the Netherlands has steadily increased its sales and is continuing to expand the company's production facilities to serve the growing market demand. By fully utilizing the

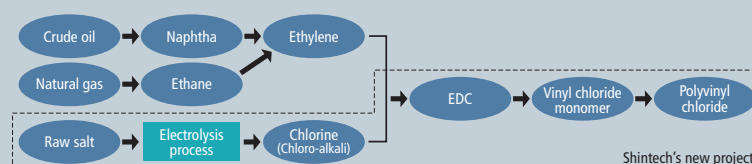
► Large-Scale Investment in U.S. PVC Operations

Shintech has continuously expanded its PVC production facilities since it began operations in 1974. Its current annual production of 2 million tons is 20 times greater than it was when the company launched its operations. Construction of Shintech's new large-scale expansion in Louisiana will take place in two stages. This expansion will increase Shintech's annual production capacity by 750,000 tons of VCM, 450,000 tons of chlorine, 500,000 tons of caustic soda and 600,000 tons of PVC. We plan to complete the construction of new facilities with an annual PVC production capacity of 300,000 tons around the end of 2006. We further plan to add 300,000 tons of capacity around the end of 2007. The decision to construct an integrated PVC manufacturing facility in the U.S. was made mainly due to the relatively low country risk offered by the U.S., the expected strong growth in demand for PVC in North America and the outlook for stable, long-term procurement of competitive raw materials. Shintech is using its own internal capital resources to fund the total investment of ¥100 billion.

Total PVC Production Capacity of the Shin-Etsu Group



PVC Production Process



strong sales capabilities it has developed in world markets, Shin-Etsu will continue to strengthen its global PVC business.

Semiconductor Silicon Business

The Shin-Etsu Group's semiconductor silicon business is proceeding with an expansion in the production capacity of 300mm wafers to meet the increasing demand for these wafers in global markets. Thus, Shin-Etsu Handotai Co., Ltd., a Shin-Etsu Group company and the world's largest supplier of 300mm silicon wafers to international customers, has decided to implement major expansions of production capacity at its Shirakawa Plant in Japan as well as at Shin-Etsu Handotai America, Inc. in the United States. Shin-Etsu Handotai plans to increase 300mm wafer production capacity to 500,000 wafers per month by the fall of 2006. As part of this expansion program, Shin-Etsu Handotai will initiate the production of crystals in the U.S. aimed at diversifying supply capabilities as well as improving the stability of supply for 300mm wafer products. For wafer products under 200mm, Shin-Etsu Handotai will continue to strive for steady growth by providing products uniquely different from those of its competitors. The company will also aim at expanding its sales of specialized wafers.

Cellulose Business

With the acquisition at the end of 2003 of the cellulose business of Clariant AG (now SE Tylose GmbH & Co. KG) in Wiesbaden, Germany, the Shin-Etsu Group became the world's largest manufacturer of methylcellulose. The total production capacity of the Shin-Etsu Group is 47,000 tons annually. By capitalizing on its capability of manufacturing a wide variety of quality and unique cellulose-derivative products, the Group will expand its cellulose business both in Japan and Germany. Currently, we are proceeding with major expansions of our methylcellulose production capacity in Japan and Germany. These expansions will bring our global annual capacity to 63,000 tons. In Japan, the production capacity of Shin-Etsu Chemical's Naoetsu Plant will be increased by 3,000 tons annually, while in Europe the production capacity of SE Tylose will be raised by 13,000 tons annually.

In the making of such large-scale investment decisions, we endeavor to systematically and constantly collect market information, and in the future as demand for methylcellulose, a product with a whole host of very useful applications in a wide variety of business fields, grows further, we will strive to grasp demand trends and move in a timely fashion to make further investments.

Basic Themes and Strategies for Fiscal 2006

Research and Development

The Shin-Etsu Group considers R&D to be a critical driving force for future business growth. Our R&D Centers are tirelessly working on the development of new products for our existing businesses and related peripheral businesses. In developing new businesses, we place primary importance on making the right selection of R&D projects. We carefully examine on-going and new R&D projects to increase the efficiency of the R&D process. We will focus on the research themes that have a strong possibility of resulting in new businesses that will grow in the future and make a major contribution to the Group's profit performance.

Moreover, by devoting our efforts to the development of originality in products and reinventing product development methods from the development stage through commercialization, we strive to maintain a high level of challenge and enthusiasm among our researchers, thus preventing any of them

from falling into a creative rut. Furthermore, because such intellectual property as patents and engineering know-how are important business assets, we accelerate the acquisition of patent rights and reinforce the Group's patent administration.

Capital Structure and Financial Strategy

While maintaining and improving the Shin-Etsu Group's sound, stable financial underpinnings, we are using our own financial resources to make major investments in areas where earnings can be increased. As for acquisitions or businesses alliances, we will make timely decisions based on the required level of profitability, the synergistic effects that could be created with our existing businesses and the required allocation of management resources. Over the past several years, we completed a number of business acquisitions after carrying out careful evaluations. As a result, they have all contributed to achieving enhanced synergistic effects with our existing businesses and are all contributing to the Group's growing profits.

Strengthening Corporate Governance

By following corporate policies based on strict compliance with the law, the Shin-Etsu Group proactively carries out the disclosure of appropriate corporate information and public relations activities in order to better inform investors and other stakeholders. These policies and activities all embody the basic principles that Shin-Etsu is following in regard to corporate governance. Indeed, the Company considers these activities to be one of the most important tasks of management.

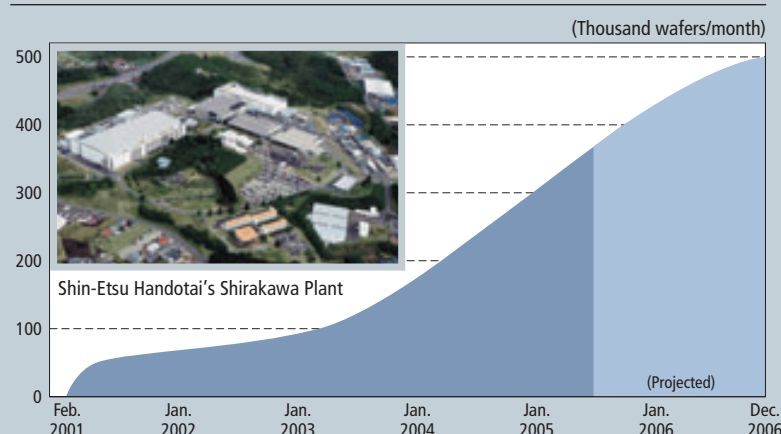
As part of our efforts to strengthen corporate governance, we have appointed two external directors to Shin-Etsu's sixteen-member Board of Directors. External directors provide Shin-Etsu not only with independent monitoring and supervision, but also with extensive, valuable advice on overall corporate management. Moreover, three of Shin-Etsu's four statutory auditors are from outside the Company.

One of the external directors chairs the Officers' Remuneration Committee, which reviews, recognizes and decides on remuneration for board members. Shin-Etsu has also established a Risk Management Committee to effectively ascertain risks and take preventive measures on the various kinds of risks that

➤ Growth in the 300mm Silicon Wafer Business

Shin-Etsu Handotai Co., Ltd. began commercial production of 300mm wafers in 2001, ahead of other wafer manufacturing companies. Since then, it has continued to make timely investments in manufacturing facilities. Its production capacity was expanded to 300,000 wafers per month at the end of December 2004. The Shin-Etsu Group plans to invest a total of ¥100 billion to increase the production capacity of 300mm wafers to 500,000 wafers per month by the fall of 2006. The worldwide demand for 300mm wafers reached approximately 700,000 wafers per month at the end of 2004. It is currently estimated that monthly demand will increase to 1.4 million wafers by the end of 2007.

300mm Wafer Production Capacity



could occur during its business operations. In addition, the Auditing Department functions as a specific, fulltime department dedicated to matters of internal company business auditing and internal control systems. By implementing these policies, Shin-Etsu has further strengthened its corporate governance.

Fulfilling Corporate Social Responsibility (CSR)

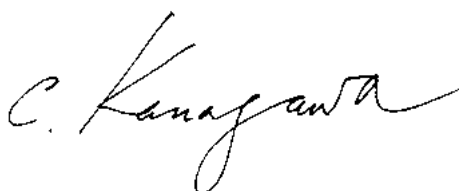
We believe that one of the most important social responsibilities a company must fulfill is to make a profit and pay taxes while observing the host nation's laws and regulations. In addition, an important task in fostering the sustainable growth of the company is to create a work environment in which employees can perform their jobs effectively and professionally. Shin-Etsu is committed to a merit system of employment under which staff members can fully realize their potential. Furthermore, Shin-Etsu's management holds regular meetings with employees and representatives of the employees aimed at deepening an understanding of Company policies and understanding of the views of the employees.

For a chemical manufacturer, it is a number-one priority to assure employee safety and environmental conservation. Accordingly, the Shin-Etsu Group makes it a fundamental management principle to pursue the goals of safety and strict environmental management in all of its business activities. As a basic set of guidelines for the Shin-Etsu Group in carrying out its environmental conservation policies, the Group adopted an Environmental Charter. The Shin-Etsu Group is carrying out its business activities in strict conformity with the principles embodied in this charter. All of Shin-Etsu's domestic manufacturing facilities and the manufacturing facilities in the main Shin-Etsu Group companies have obtained ISO 14001 certification, the international standard for environmental management systems. Shin-Etsu Group companies are working in cooperation with local communities to make useful contributions to society and to promote environmental conservation.

Furthermore, Shin-Etsu has established a CSR Promotion Committee. Shin-Etsu makes every effort to maintain and promote corporate values that reflect our deep commitment to Corporate Social Responsibility (CSR). We strive to remain a good corporate citizen that is trusted by society.

Increasing Shareholder Value

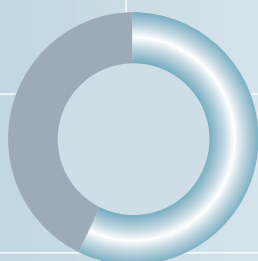
By continuing to steadily grow, the Shin-Etsu Group strives to meet the expectations of all of its shareholders, thereby enhancing the worth of every Shin-Etsu Group company. Toward this goal, we will continue to make vigorous efforts in fiscal 2006 to strengthen our existing businesses and expand production facilities for the mid- to long-term projects that we have initiated. The Shin-Etsu Group will accelerate the early take-off of new businesses. We will communicate through our public relations activities with those who are interested in our business activities, so that they will understand the Shin-Etsu Group better. We provide as many opportunities as possible for our investors to be appropriately informed. In conclusion, we would like to express our sincere appreciation for the continued support of our shareholders, our customers and our suppliers.



Chihiro Kanagawa
President and CEO

The Shin-Etsu Group at a Glance

ORGANIC AND INORGANIC CHEMICALS



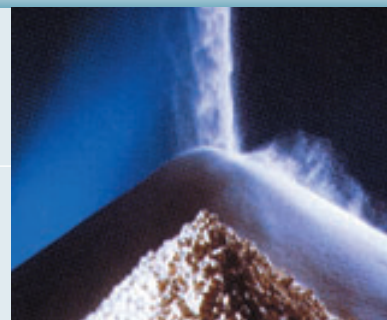
Segment Sales

Main Products

- Polyvinyl chloride (PVC)
- Silicones
- Methanol
- Caustic soda
- Cellulose derivatives
- Synthetic pheromones
- Silicon metal

Results for Fiscal 2005

The polyvinyl chloride (PVC) business performed well in Southeast Asia, China, the U.S. and Europe, while earnings in the domestic PVC business improved significantly. Both sales and operating income increased in the silicones business due to strong domestic sales and sales to China and the U.S. Domestic sales of cellulose derivatives maintained steady growth.



No. 1 market share worldwide for polyvinyl chloride (PVC)

ELECTRONICS MATERIALS



Segment Sales

Main Products

- Semiconductor silicon
- Rare earth magnets for the electronics industry
- Epoxy molding compounds
- Photoresists
- Pellicles

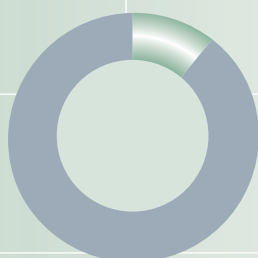
Results for Fiscal 2005

The semiconductor silicon business remained favorable despite a slight adjustment phase in the latter part of the fiscal year. Demand for 300mm wafers was strong throughout the year. Sales of rare earth magnets for the electronics industry improved. Sales of organic materials for the electronics industry and photoresist products for use in semiconductor device applications also grew steadily.



No. 1 market share worldwide for semiconductor silicon

FUNCTIONAL MATERIALS AND OTHERS



Segment Sales

Main Products

- Synthetic quartz products
- Rare earth magnets for general applications
- Rare earths
- Liquid fluoroelastomers
- Flexible copper-clad laminates

Results for Fiscal 2005

Among synthetic quartz products, sales of large-size photomask substrates used in the manufacturing of LCDs increased, while strong sales of rare earth magnets for general applications also contributed to results. In other businesses, although the business of planning and constructing various plants and other projects was strong, sales of procured products decreased.



No. 1 market share worldwide for photomask substrates

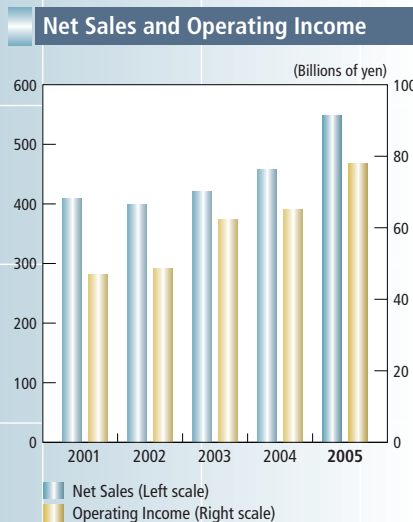


PVC sheeting is now widely used in greenhouses as an alternative to glass.



The superior adhesiveness, durability and deep hardening qualities of silicone-based, elastic joint sealing material make it effective for aquariums and other large-size water tanks.

ORGANIC AND INORGANIC CHEMICALS



Polyvinyl Chloride (PVC)

PVC is a general-purpose resin that has many advantageous properties. It is easy to process and economical as well. Moreover, from the standpoint of its contribution to the quality of the environment, while other plastics depend 100% on petroleum, the manufacturing of PVC involves far less dependency on petroleum resources, with 57% of its material being salt and only 43% petroleum. It is a very superior product.

Demand for PVC is growing for applications in pipes and sidings in the U.S. and for pipes and window profiles in Europe and Asia. In China, in particular, applications mainly for construction materials and consumer goods are showing strong growth in demand. In addition, over the past few years, PVC window profiles are attracting attention in Japan because the use of PVC meets people's needs for energy saving, and creating a better, healthier housing environment by helping reduce air conditioning/heating costs and preventing condensation.

PVC is an indispensable material that supports our daily lives in contemporary society. Strong future growth in demand is expected in various regions around the

world. In anticipation of this trend, the Shin-Etsu Group, the world's largest manufacturer of PVC, is implementing major expansion plans for its PVC production capacity. Shintech Inc. in the U.S., which celebrated the 30th anniversary of the start-up of its operations in October 2004 and is a core part of the Shin-Etsu Group's PVC business, is planning to construct large-scale integrated production facilities. Shin-Etsu PVC B.V. in the Netherlands is also further expanding its PVC production capacity. By the end of 2007, the combined production capacity of Shin-Etsu Group companies in Japan, the U.S. and Europe is expected to be about 4 million tons annually. By utilizing its world-leading production capacity and the Group's sales capabilities that were nurtured in global markets, the Group will continue to take the lead in initiating plans to expand its PVC business in the future so as to assure its world number-one position.

Silicones

In 1953, Shin-Etsu became the first company in Japan to commence the commercial production of silicones and has now been selling silicones for over half a century. During these years,

Net Sales of Main Products

	(Billions of yen)		
	2005	2004	2003
Polyvinyl chloride (PVC)	296.5	254.9	224.6
Silicones	155.9	135.8	130.3
Cellulose derivatives and others	96.6	66.3	66.1
Total	549.0	457.0	421.0



Cellulose derivatives for pharmaceuticals are used as coatings for pills. The material can be adjusted to allow release of the medicine in the stomach or intestines, and to provide sustained release.



Used in fruit orchards, synthetic pheromones control the populations of harmful insects by disrupting the insects' mating behavior.



Simcoa Operations Pty. Ltd. engages in the manufacture of silicon metals.

silicones have continually expanded their rich diversity of applications so that today the Shin-Etsu Group markets more than 4,000 kinds of silicone products for applications in such fields as the electric, electronics, automotive, construction, cosmetics, toiletries and chemical industries. In each field, we are contributing in such ways as helping to improve products' functions and to make production processes more efficient.

Among the wide range of application fields for silicones, one that has been rapidly growing in recent years is in the automotive field, where high functionality is increasingly required. Silicones are becoming an essential material in various applications such as electronics equipment, interior finishes, and inside the engine casing, thanks to their unique properties of electrical insulation and heat and weather resistance. Furthermore, in the case of electrical and electronics devices, silicones serve application needs for an efficient heat transfer medium that efficiently discharges heat, and in cosmetics applications, silicones have attracted a great deal of attention for their ability to help make these products feel good on the skin and make them easier to apply. In the future, we will continue to develop new products and new applications and endeavor to further create and expand global demand.

The Shin-Etsu Group is aggressively going forward on a global basis with the expansion of production and sales of silicones in the regions where demand is growing. In addition to production bases in Japan, the U.S., the Netherlands, Korea, Taiwan and China, in 2004

integrated silicone monomer and polymer manufacturing facilities began operations in Thailand, and a keypad production plant constructed in Hungary by Shin-Etsu Polymer Co., Ltd., a Shin-Etsu Group company that handles the fabrication of silicones, also began operations. These keypads are used for mobile phones and other electronics equipment. These manufacturing facilities are all functioning well, and in each country their business activities as silicone production bases are widely expected to contribute to the growth and development of the Shin-Etsu Group.

Cellulose Derivatives

Cellulose derivatives are an environment-friendly material made from a natural polymer. Their application fields are vast and they are being utilized in such fields as construction, civil engineering, fine ceramics, paper processing and in such fields as pharmaceuticals, foods and toiletries, where safety is crucial.

Demand is particularly strong for applications of cellulose derivatives as pharmaceutical coatings and binders for tablets and granules and for industrial use as molding binders for ceramics that purify automobile exhaust emissions.

When Shin-Etsu acquired the cellulose business of Clariant AG at the end of December 2003, establishing SE Tylose GmbH & Co. KG in Germany, the Shin-Etsu Group became the world's largest manufacturer of methylcellulose. Furthermore, since steady growth in demand is expected, plans to expand production capacity are going forward both at Shin-Etsu's Naoetsu Plant in Japan and SE Tylose's facilities. In the

future, by utilizing the merits of this bipolar production system, the Shin-Etsu Group will work to strengthen its position as the world's number-one methylcellulose producer.

Organic and Inorganic Chemicals and Other Related Products

The Shin-Etsu Group manufactures, markets and sells a large number of very useful acetylene derivative products such as synthetic pheromones, which are used in agriculture, and synthetic aroma chemicals, which are widely used in perfumes and food flavorings.

Synthetic pheromones were developed for the purpose of suppressing the birth of the next generation of harmful insects by disrupting their mating behavior, a technique known as "mating disruption." They are now used worldwide in apple and peach orchards and other crops. In Japan, they are mainly used in fruit orchards as well as for vegetables such as cabbage, and in tea orchards. Mating disruption is now being focused on as an innovative method that will replace the use of insecticides. The Shin-Etsu Group has the world's number-one market share in synthetic pheromones.

The Shin-Etsu Group also manufactures silicon metal. Silicon metal is an essential raw material in such products as silicones, semiconductor silicon, and synthetic quartz, which are among the Group's core businesses. Through its wholly owned subsidiary in Western Australia, Simcoa Operations Pty. Ltd., the Group is securing stable and high-quality supplies of this valuable commodity.



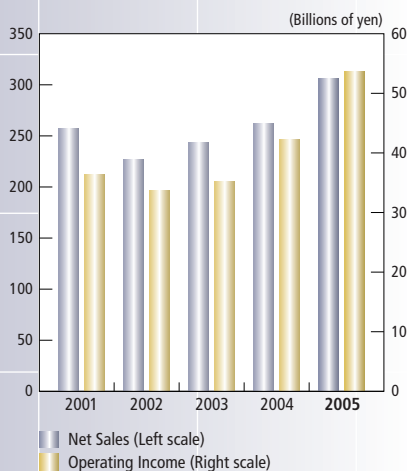
Examples of wide-rimmed single crystal silicon ingots and wafers



Silicon wafers boast a degree of evenness to within 100 nanometers.

ELECTRONICS MATERIALS

Net Sales and Operating Income



Semiconductor Silicon

In fiscal 2005, sales of cutting-edge 300mm wafers were strong throughout the fiscal year, although sales of the 200mm wafers, the Shin-Etsu Group's main wafer product, experienced a slight adjustment phase in the second half of the fiscal year.

The Shin-Etsu Group, as a world leader in the silicon wafer business, constantly works to achieve the world's highest quality products and highest level of customer satisfaction. The Group has been developing the world's most advanced technologies to produce larger-diameter, super-smooth silicon wafers with the lowest defect rate. The demand for silicon wafers is rapidly increasing, and the Shin-Etsu Group possesses silicon wafer production bases in Japan, Malaysia, the U.S., the U.K. and Taiwan. As a result of its strategies to implement production capacity expansions in a very timely fashion, the Group has become the number-one manufacturer of silicon wafers, with a world market share of more than 30%.

Shin-Etsu Handotai Co., Ltd. and its group of companies closed to half of the share in the world market for 300mm wafers. As of the end of December 2004, production capacity had reached 300,000 wafers monthly, as repeated expansions of production capacity were implemented as the market steadily expanded. Because the Group anticipates that global demand for 300mm wafers will increase, we have begun construction of facilities that will expand the Group's production capacity to 500,000 wafers monthly by the fall of 2006. We will also work to create a 300mm wafer production system that can flexibly adapt to expanding customer requirements.

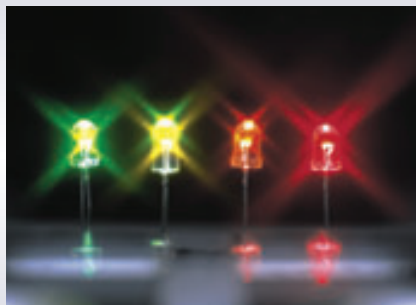
The Group is also focusing on expansion of sales of such newer products as SOI wafers and annealed wafers, used for applications in highly functional devices. For existing wafer products of up to 200mm, the Group will pursue rationalization of production and product quality improvement efforts as well as work to strengthen production systems so that the Company can meet any and all requests of customers.

Net Sales of Main Products

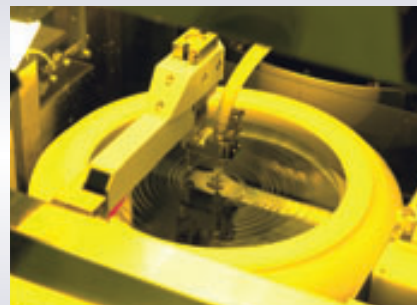
	(Billions of yen)		
	2005	2004	2003
Semiconductor silicon	256.6	214.1	196.7
Others	50.3	48.1	46.7
Total	306.9	262.2	243.4



Examples of voice coil motors for hard disk drives (HDDs)



Epoxy molding compounds, which are silicone variations, are necessary materials for high-intensity LEDs.



Photoresist spin-coated onto a wafer

Rare Earth Magnets for the Electronics Industry

Rare earth magnets are high-performance, permanent magnets that have about 10 times the magnetic force of ferrite magnets. They have been contributing to the development of more compact and lightweight electric and magnetic components for products that have more highly specialized functions and are more energy efficient. Rare earth magnets are an essential raw material applied in voice coil motors (VCM) for hard disk drives (HDD), of which the Shin-Etsu Group has the largest global market share. These magnets are also used in computers, digital home appliances and mobile music players.

The Shin-Etsu Group is the only manufacturer in the world to carry out integrated production of high-quality rare earth magnets starting from high-purity rare earth. By making use of this advantage, the Shin-Etsu Group is able to better respond to customers' needs by providing a stable supply of products, speedy product development to meet application requirements and thorough product quality control.

Epoxy Molding Compounds

Epoxy molding compounds are widely used as encapsulation material for all kinds of semiconductor products.

The Shin-Etsu Group, employing cutting-edge technology accumulated through the development of various silicone products, can offer a line-up of unique products such as environmentally friendly Green EMC products and moldable silicone products for high-power LEDs, which are rapidly growing in the market. The Shin-Etsu Group is aggressively developing advanced products in order to meet the diversified needs for semiconductor packaging.

Photoresists

The Shin-Etsu Group is developing a system to supply the principal materials needed in the lithography process in manufacturing semiconductor devices. We have commercially produced and marketed photoresists compatible with excimer lasers as a photo-sensitive material used in imprinting semiconductor circuits and also thick film resist (Deep UV and I-line) for magnetic resistance head and for wafer-level chip-size packaging (WLCSP). The Group has also succeeded in developing pellicles, which are the protective dust covers used for photomasks with excimer laser lithography.

Capitalizing on its leading market share in the global wafer market, and making use of its close ties with the semiconductor industry, the Group is striving to prepare for the next generation of semiconductor devices, for example, by working in collaboration with users to develop ArF (argon fluoride) excimer lasers for photoresists.

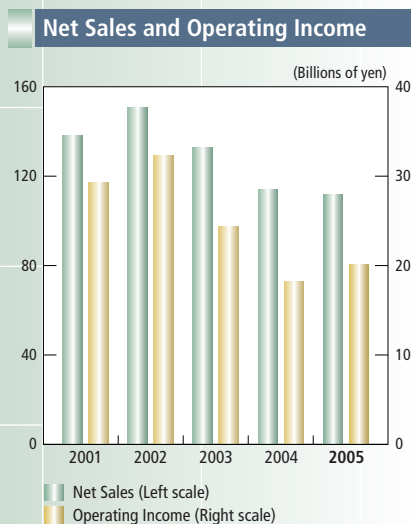


Preforms for optical fiber



Shin-Etsu's rare earth magnets are used in motors for hybrid cars, reducing energy consumption and environmental impact.

FUNCTIONAL MATERIALS AND OTHERS



Synthetic Quartz Products

The Shin-Etsu Group, with its know-how in silicon chemistry, has succeeded for the first time in the world to mass produce super-high-purity synthetic quartz, which is higher in purity than natural quartz. With silicon metal refined to a high degree of purification as a raw material, the Group established a manufacturing technology for super-high-purity synthetic quartz that holds impurities to the level of 1 ppb (one part per 1 billion).

Synthetic quartz products such as preforms for optical fiber, photomask substrates for LSI and large-size photomask substrates for LCD have become essential materials for the development of the high-level information society.

The demand for optical fiber remains sluggish worldwide; however, the Group is striving to further improve product quality to prepare for future business growth. The Group has the top global market share in large-size photomask substrates, which are used at the time of LCD manufacture, and product sales are going strong. We will endeavor to

accurately anticipate and be ready to cope with the expansion in future demand.

Rare Earths and Rare Earth Magnets for General Industrial Use

The Shin-Etsu Group possesses its own original proprietary high-level separation and refining technologies and physical property control technologies. We use them for the separation and refining of various kinds of rare earths with a high purity of 99.9999%. The Group's rare earths are widely applied in such products as plasma display panels, luminescence for LCD TVs and fluorescent lights, oxygen sensors in automobile engines, catalytic converters and capacitors. In addition, applications in various other fields are expected to expand.

By maximizing strong magnetic force, the Group's rare earth magnets for general industrial use are contributing to making possible the introduction of products that are lighter in weight, smaller in size, and higher in output for such equipment as motors. The range of applications utilizing these outstanding properties is vast, and they are used in

Net Sales of Main Products

	(Billions of yen)		
	2005	2004	2003
Synthetic quartz products	26.5	25.7	35.0
Rare earths and rare earth magnets, etc.	28.2	26.5	25.3
Others	56.9	61.4	72.8
Total	111.6	113.6	133.1



Rare earths are the general designation for 17 elements, including the 15-element lanthanides series plus yttrium and scandium.



SHIN-ETSU SIFEL® is expected to find applications in fields such as transportation, where it will be subjected to severe conditions.



Flexible copper-clad laminates essential for flexible printed circuit (FPC) boards

such product areas as air-conditioners, various motors for automobiles and optical pick-ups in CD players. In addition, rare earth magnets have begun to be used in such energy-saving and environmentally friendly applications as in motors for fuel-cell cars, which are being touted for future use as an environmentally clean means of transportation, and in motors for hybrid cars, which are rapidly gaining popularity in many countries, as well as in motors for alternative energy wind-power generators. Shin-Etsu offers a group of rare earth magnet products that have the world's highest magnetic force level, and our extensive line-up of products consists of both samarium-cobalt magnets and neodymium magnets, and both types are gaining a high level of trust from users.

Shin-Etsu also has developed new high-performance magnet technologies and realized the world's highest grade of heat resistance characteristics in its neodymium iron boron (Nd-Fe-B) magnets. Future applications of these products are expected in such anticipated growth areas as automobiles and home appliances, where heat resistance is a very important requirement.

Liquid Fluoroelastomer SHIN-ETSU SIFEL®

SHIN-ETSU SIFEL® is a revolutionary liquid fluoroelastomer that Shin-Etsu successfully developed for the first time in the world. Its form before hardening is either a liquid or a paste, and after heat curing, it becomes a flexible synthetic rubber material.

SHIN-ETSU SIFEL® is superior in resistance to cold so that it will keep its elasticity under even a temperature of minus 50°C. In addition, it has such desirable characteristics as resistance to oils, solvents, chemicals, heat and excellent electrical insulation properties. Accordingly, it is used in such wide application fields as automotive, aircraft, electric, electronics, office equipment and petrochemical industries as rubber molding, adhesive sealant material and filler. It is contributing to the improvement of product reliability in many application areas. Based on its superior characteristics, SHIN-ETSU SIFEL® is expected to have wider applications in a great diversity of fields.

Flexible Copper-Clad Laminates

In addition to its existing three-layer flexible copper-clad laminates, Shin-Etsu has developed and started marketing adhesiveless flexible copper-clad laminates (FCLs) by laminating copper foil and polyimide film using Shin-Etsu's proprietary technology.

Shin-Etsu's flexible copper-clad laminates are used as materials for thin, light-weight flexible printed circuit (FPC) boards because of their superior flexibility. FPC board are used in such digital home appliances as mobile phones, digital cameras, flat-panel TVs, and DVD recorders and players, and are contributing to making it possible for all of these products to be more compact, lighter in weight and thinner.

Other Products

Shin-Etsu Engineering Co., Ltd., a Shin-Etsu Group company, consists of the Plant Division, which handles mainly the integrated design and construction of chemical plants, and the Electro-Mechanics Division, which handles the development planning and manufacturing of mechatronics equipment for electronics-related industries that manufacture such products as semiconductors and LCDs. Both divisions also receive a large number of orders from companies outside of the Shin-Etsu Group. In particular, with the rapid spread in popularity of flat-panel TVs, the demand for LCDs and plasma display panels (PDPs) has grown, and sales of Shin-Etsu Engineering's panel alignment machine are increasing. The key to demand expansion for flat-panel TVs is the development, sales and marketing of panel displays that are progressively larger. To meet these emerging needs of the industry, Shin-Etsu is offering TV display manufacturers a panel alignment machine that helps them reach their design and production goals.



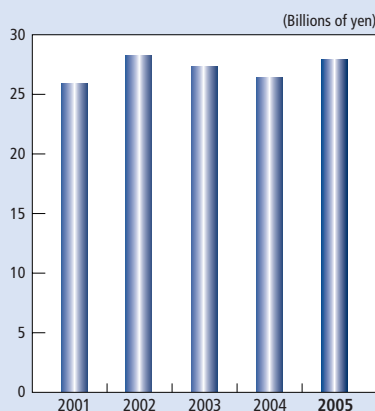
The panel alignment machine plays an important role in the manufacture of advanced LCDs.

Research and Development Activities

R&D Policy and Organization

While technological innovation is rapidly progressing in a wide diversity of fields, the role that R&D plays in management is becoming increasingly important. The Shin-Etsu Group's fundamental R&D policy is to place importance on market and customer needs. Toward this goal, we strive to detect not only those needs that are already clear but also those that are still latent. We also aim to develop and offer products to customers in the timeliest way.

R&D Expenses



In product development, we pursue the application of technologies that can differentiate our products from those of other companies because that approach is the essential element to win in the competitive marketplace. Accordingly, the Shin-Etsu Group, with its own proprietary technologies as a core, has created new technologies that have led to the development of new products with the world's top level of technological competitiveness. In addition, by organically utilizing the Shin-Etsu Group's 11 research centers in Japan and Germany and its more than 900 researchers, the Group has in place an efficient and dynamic R&D organization that through selection and concentration is producing impressive research results.

Number of Patents by Region

	Number of patents acquired during 2004	Cumulative number of patents acquired as of the end of fiscal 2005
Japan	347	4,112
North America	216	2,079
Asia/Oceania	206	891
Europe	298	1,492
Other Areas	0	9
Total	1,067	8,583

Innovation Enhances Existing Businesses

In The Shin-Etsu Group's existing businesses, it is important to build strong relationships of trust by fully satisfying customers' needs through the unified linkage of the tripolar areas of R&D, production and sales. The Group's present R&D is focusing on efforts to provide total customer satisfaction, and our researchers are striving to maintain and improve technologies and product quality while maintaining close contact with customers. The Group will continuously seek to develop new applications and new products and thereby help develop and strengthen the Group's competitive edge.

Emphasis on New Business Development

New research theme proposals can be submitted at any time from any of Shin-Etsu's divisions, but mainly are proposed by staff at the research centers, and new themes are selected by the New Z Committee, chaired by the Company president, based on the standards of technology, market size, growth potential and expected profitability. A new research project will start after the most appropriate researchers are gathered together from throughout the Company. The New Z Committee will follow up and regularly check the progress of the project with the aim of commercializing a new product over the medium term. Currently, over 10 research themes are progressing with

high expectations for commercialization.

The Shin-Etsu Group regards patents as the capstone of R&D activities, and thus concentrates on the acquisition of intellectual property rights. As important management assets, the Group uses patents to positively develop its business activities. At the end of March 2005, the Shin-Etsu Group as a whole holds 4,112 domestic and 4,471 overseas patents. In addition, Shin-Etsu obtained 173 patents in the U.S. in 2004, ranking No. 1 among Japanese chemical companies.

An Efficient, Effective R&D

To effectively use its limited research resources and to make the research more efficient, the Shin-Etsu Group has been aggressively working on joint research projects with other companies and universities. In particular, such coordinating projects with universities are an effective way to conduct basic research and create innovative technologies, and we plan to continue making strong efforts of this type.

The Shin-Etsu Group considers that R&D with originality is the driving force for its future growth and development. By intensively searching for the answers to such key questions as "What do our customers need now?" and "What is being sought in the market?" we will aggressively develop R&D activities that will continue to fulfill the needs of the times and also lead to improved product quality and productivity of existing products.

PVC & Polymer Materials Research Center



(Shin-Etsu Chemical, Kashima, Japan)
This research center supports the Shin-Etsu Group's worldwide PVC manufacturing bases, with research on the manufacturing process aiming for productivity improvement and higher consistent quality of PVC, in addition to applied research. Furthermore, the center is developing flexible copper-clad laminates that use the Company's proprietary plastic-molding technologies.

Silicone-Electronics Materials Research Center



(Shin-Etsu Chemical, Gunma, Japan)
As a comprehensive development center of silicones and organic electronics materials, this is the Group's largest research center and engages in a broad range of R&D areas from basic research to applications. This center also takes charge of developing SHIN-ETSU SIFEL®, a new liquid fluoroelastomer developed with the Group's own raw material and proprietary synthetic technologies.

Specialty Chemicals Research Center



(Shin-Etsu Chemical, Naoetsu, Japan)
Using proprietary organic synthesis technologies, this center is working to develop a variety of cellulose derivatives, synthetic aroma chemicals, synthetic pheromones, and specialty silanes. The center is also active in the development of synthetic quartz substrate materials.

New Functional Materials Research Center



(Shin-Etsu Chemical, Naoetsu, Japan)
This center is a base for the development of KrF photoresists for excimer lasers, in which the Group holds the top share in the world market. It is also presently working on the development of next-generation photoresists materials such as ArF.

Advanced Functional Materials Research Center



(Shin-Etsu Chemical, Gunma, Japan)
Based on its accumulated single-crystal-growing, fine-processing, and thin-film technologies, this center is undertaking development in a wide range of advanced materials including oxide single crystals and synthetic quartz. In addition, this center is in charge of developing optical components for isolators and other applications.

Magnetic Materials Research Center



(Shin-Etsu Chemical, Takefu, Japan)
Supporting our rare-earth-related businesses, this comprehensive research center engages in a wide spectrum of research ranging from the separation and refining of rare earths to their applications. This center also concentrates on research on applications for rare-earth metals and oxides, and on the development of rare earth magnets. In particular, this facility has earned high acclaim from customers for its magnetic field analysis and magnetic circuit design technologies.

Semiconductor Research Centers



Isobe



Shirakawa

(Shin-Etsu Handotai, Isobe and Shirakawa, Japan)
Based on cooperative ties, these centers are working to support improvements in the quality of silicon wafers in such areas as crystallization and flatness. They are also progressing with the development of technologies for the introduction of large-diameter and high-flatness wafers.

Research Center of Product & Process Development of Cellulose Derivatives



(SE Tylose, Wiesbaden, Germany)
Built beside the SE Tylose plants, this center focuses on methylcellulose and hydroxyethylcellulose.

Corporate Social Responsibility

In the last few years, the concept of corporate social responsibility (CSR) has attracted a lot of attention. Companies are expected to show concern in their corporate activities for the interests of stakeholders and to disclose appropriate information. The Shin-Etsu Group, as a good corporate citizen, is endeavoring to further contribute to society through positive activities in local communities.

The Shin-Etsu Group's basic policies on CSR are as follows:

- The Shin-Etsu Group's mission is to contribute to people's daily lives as well as to the advance of industry and society by providing key materials. To achieve this *raison d'être* of all companies, the Group places utmost priority on such core business principles as assuring product quality and safety, engaging in fair competition, maintaining good relationships with citizens and governments, strictly managing and protecting customer data and carrying out fair and sound business practices. By faithfully following these principles, the Group strives to enhance the worth of the Group and become an ever-growing company.
- The Shin-Etsu Group makes it a fundamental management principle to pursue the goals of safety and environmental conservation. The Group promotes corporate activities that place primary importance on safety and environmental conservation and strives to maintain the trust of its stakeholders.
- Respecting the principles of human dignity and life fulfillment, the Shin-Etsu Group endeavors to create a work environment in which all employees can perform their jobs easily and effectively and fully realize their potential. We forbid any discrimination in the workplace, any use of compulsory labor and any use of child labor.
- The Shin-Etsu Group is committed to contributing to society and to disclosing accurate and timely information to the public about the business activities and position of the Group so as to continue to gain the trust and understanding of society.

In addition, our CSR goal in 2005 is to set forth a basic CSR policy orientation under which the Shin-Etsu Group's CSR activities will be developed from a global perspective, acknowledging that our business activities are themselves inseparable from CSR.

From fiscal 2005, we assigned a company director to undertake the task of supervising all of the Group's CSR activities and established a CSR Promotion Committee. Over and above faithfully fulfilling its legal responsibilities, the Shin-Etsu Group will totally devote its efforts to fully implementing its corporate social responsibilities.

Environmental Control and Safety Management

The environment and safety are the highest priorities at the Shin-Etsu Group, and we work to assure safe operations of our facilities and obtain the trust of local communities with regard to the Group's business activities.

Since its establishment in 1970, Shin-Etsu's Environmental Control and Safety Department has been strenuously working to ensure environmental control and plant safety.

We decide upon aims and goals for environmental issues, management of chemical substances, management of facilities and prevention of work-related accidents, and we strive to achieve them. The results are checked by means of various self-monitoring systems and audits so as to allow Shin-Etsu to further develop its systems to attain the next level of objectives.

Furthermore, the Group is aggressively promoting measures for environmental control including developing ecology-

oriented products that are effective in saving resources and energy and reducing the environmental burden.

Aiming for a Sustainable Society through Environmental Control

The Shin-Etsu Group adopted an Environmental Charter in 1998 to promote and realize a sustainable society while endeavoring to maintain a positive growth cycle of environmental control and corporate management. The Group is carrying out its business activities in strict conformity with the principles embodied in this Charter. Based on this Charter, Group companies and plants have created more concrete and effective policies to promote environmental control in line with each local area's characteristics and the actual status of production activities.

The Shin-Etsu Group is also enhancing its activities in this field by promoting a Responsible Care Program, a voluntary environmental control and safety improvement program, and by obtaining ISO14001 certification, the international

standard for environmental management systems. All of Shin-Etsu's domestic plants and the plants of the main Shin-Etsu Group companies have obtained ISO14001 certification. The Shin-Etsu Group endeavors to make useful contributions to the entire society, including local communities, and to promote environmental control.

Assuring Safety from the Design Stage of New Products and Facilities

Assuring safety is an important priority together with environmental control. Utilizing a risk assessment method, Shin-Etsu repeatedly checks and reviews safety measures in each aspect of its facility operations, including employee operations, the handling of chemical substances, and control procedures. In particular, at the time of planning of new facilities or the start-up of manufacturing of new products, we examine the environmental aspects and safety measures by conducting safety evaluations and in meetings of the Safety Inspection

Committee. Furthermore, at the Group's existing facilities, we review and make improvements on work processes and safety measures.



Environmental and Social Responsibility Report 2004
URL: <http://www.shinetsu.co.jp/e/catalog/kankyoku2004.pdf>

Activities Contributing to Local Communities

The Shin-Etsu Group, as a good corporate citizen, hopes to contribute to enriching society overall through the various ways it contributes to the progress of local communities. These activities vary depending on the actual situation in each region where the Group has business operations. In many different countries around the world, the Shin-Etsu Group is actively carrying out such on-going programs as supporting educational projects as well as beautification and clean-up projects in the areas near Group plants and co-sponsoring events and friendly exchanges between representatives of local governments and residents.

The following introduces the Shin-Etsu Group's programs in fiscal 2005 contributing to local communities in various regions around the world.

Aquaplastics 2004

In 2004, CIRES, a Shin-Etsu Group subsidiary based in Portugal, once again participated in the *Aquaplastics* initiative run by WATERAID, a British-based non-governmental organization, and promoted by the Association of Plastics Manufacturers in Europe (APME). As part of its social and community efforts, APME each year teams up with different NGOs to participate in community activities that build water supply infrastructures and contribute to better lives in disadvantaged parts of the world. For each click on the *Aquaplastics* website (<http://www.aquaplastics.org/>), the European plastics industry contributed 10 euro cents to

WATERAID projects. The CIRES website also provided a link to the *Aquaplastics* website during the campaign, which reached its goal of two million clicks in record time. As a result, a total of 150,000 euros was donated by the European plastics industry, including CIRES, to help deliver clean, safe water and sanitation to people in Africa.

West Baton Rouge 4-H Woodworking Workshop

As part of efforts to teach young people about wildlife conservation and woodworking, and to increase nesting areas for both wood ducks and bluebirds on the Shintech Plant property in Addis, Louisiana, Shintech representative and 4-H leader Kevin Richard conducted a woodworking workshop for local 4-H members in 2004. 4-H is a community of young people across the U.S. who learn leadership, citizenship and life skills. Shintech contributed to the project by providing funds to buy the supplies needed to build the nesting boxes. Participants learned how to build the boxes, then traveled to Shintech to meet with the plant manager and hang the boxes near and around the plant's entrance.

Japan for eight days from February 26 to March 5.

Staffers at Nagano Electronics Industrial Co., Ltd., a Shin-Etsu Group company in Nagano Prefecture, participated as volunteers and took charge of operating vehicles, which were used mainly for the transportation of people and equipment needed for the games. Countless friendly exchanges took place between the volunteers and the athletes who came from around the world. Kenji Hosoya, one of the Nagano Industrial volunteers, commented, "I was able to enjoy several fruitful days feeling that everyone was working together for one purpose, and I was able to clearly understand the reason why the word 'Olympics' is in the plural form."



Shintech staff in Louisiana conducted a woodworking workshop as a community project.

SEST Cements Good Relations with Rayong Community

Shin-Etsu Silicones (Thailand), Limited (SEST) completed construction of its silicone plant in Rayong, Thailand, in June 2004. During the plant's opening ceremony, which was intentionally kept simple, SEST announced it would donate most of the money that was saved on the ceremony to six schools in the community surrounding the plant. This reflects the company's belief that children are important for the future development of the community, and that a key to successful development as a company is to establish close relationships of trust with the communities in which it operates.



Shin-Etsu Silicones (Thailand) Limited announces a company donation to six schools in Rayong.

The 2005 Special Olympics World Winter Games in Nagano

The 2005 Special Olympics World Winter Games were held in Nagano,



Athletes from around the world participated in the 2005 Special Olympics World Winter Games, Nagano. (Photo courtesy of SONA)

Corporate Governance and Compliance

Basic Policies on Corporate Governance and Its Implementation

By following corporate policies based on the spirit of respecting the law, the basic stance of the Shin-Etsu Group is to proactively carry out corporate information disclosure policies and public relations activities aimed at investors and other stakeholders. These policies and activities all embody the basic principles that the Group is following with regard to corporate governance, and the Group considers them to be one of the most important tasks of management.

In enhancing its basic policies on corporate governance and strengthening its efforts to ensure the operation of an adequate and appropriate system of internal controls, the Shin-Etsu Group endeavors to carry out sound, transparent, and speedy management. The Shin-Etsu Group also works hard to increase the worth of the Group by promoting sincere corporate activities that effectively harmonize corporate interests and social responsibilities.

Corporate Governance System

- Two out of the 16 members of Shin-Etsu's Board of Directors are outside directors who both have a wealth of management experience. They not only monitor and supervise the Group's business operations from an independent standpoint, but also provide the Group with a great deal of useful advice on global corporate management. In addition, the Group is following a policy of reducing the number of directors to a lean minimum and establishing a system to promote speedier decision-making and agile management.
- Shin-Etsu has adopted a statutory auditor system. In order to improve and strengthen the audit function, out of four statutory auditors, including full-time auditors, three are external auditors. Statutory auditors attend not only meetings of the Board of Directors but also other important in-company meetings, and carry out

audits concerning the Group's business operations. They also exchange information and opinions directly with accounting auditors from Chuo Aoyama PricewaterhouseCoopers.

- With regard to decisions about reviewing and recognizing board members' remuneration, Shin-Etsu has an Officers' Remuneration Committee chaired by an external director. It has served to increase and improve the transparency and understanding of the processes involved.
- Shin-Etsu established a Risk Management Committee in 2002 to help the Company better cope with various kinds of risks that could affect the business operations of the Shin-Etsu Group. The Group is effectively working to anticipate and take preventive measures regarding the various kinds of risks that could occur during the Group's business operations.
- The Auditing Department is dedicated to matters concerning internal company business auditing and internal control systems.

In all of these ways, Shin-Etsu is striving to further strengthen its corporate governance.

Basic Policy concerning Compliance

The Shin-Etsu Group's basic management policy is that all Group companies totally commit themselves to the spirit of respecting the law,

performing fair corporate activities and contributing to society as a whole including local communities. To respect and uphold laws is a fundamental duty that companies naturally expect to fulfill when carrying out their business activities, and for the Shin-Etsu Group, it is an important prerequisite that Group companies put all their efforts into making improvements in corporate values.

In case a large social problem or accident should occur, the Shin-Etsu Group will draw valuable lessons from it in order to thoroughly review the Group's compliance system and make any necessary adjustments, including making necessary notifications and holding in-house training sessions, so as to achieve an optimum compliance system.

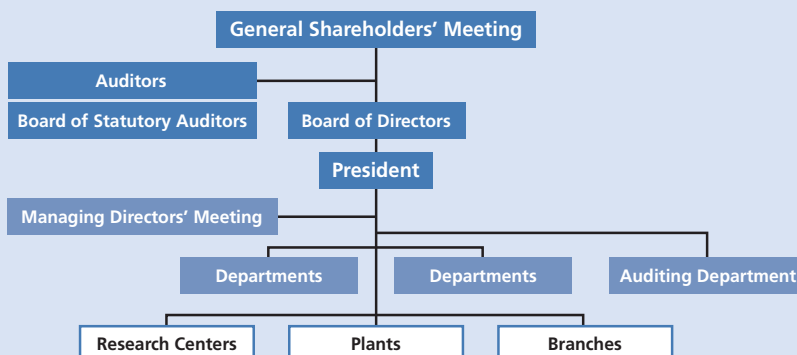
Towards Thorough Compliance Management

As a part of its thorough compliance management system aimed at reaffirming company-wide awareness concerning compliance issues, all executives and employees of the Shin-Etsu Group signed a written Compliance Pledge.

Moreover, in March of the same year, we set up a Compliance Consultation Office, which acts to support every staff member of the Shin-Etsu Group in conducting their business activities in strict compliance with laws, government regulations and in-company rules.

The Shin-Etsu Group is taking these practical approaches to promote compliance management.

Shin-Etsu's Corporate Structure



Board of Directors and Auditors



Chihiro Kanagawa



Shunzo Mori



Fumio Akiya



Yasuhiko Saitoh

PRESIDENT AND CEO

Chihiro Kanagawa

SENIOR MANAGING DIRECTORS

Shunzo Mori

*In charge of General Affairs and Personnel & Labor Relations
General Manager, Electronics Materials Division*

Fumio Akiya

In charge of Advanced Materials and Technologies

Yasuhiko Saitoh

In charge of Office of the President, Public Relations, Finance & Accounting and Legal Affairs

MANAGING DIRECTORS

Ryoei Miki

General Manager, Business Development Department

Kiichi Habata

In charge of Silicone and Environmental Control & Safety

Yoshiaki Ono

General Manager, Silicone-Electronics Materials Research Center, R&D and Patent Department and New Products Department

DIRECTORS

Frank P. Popoff

Former Chairman of US The Dow Chemical Company

Shunji Kono

Adviser of Tokio Marine & Nichido Fire Insurance Co., Ltd.

Toshinobu Ishihara

General Manager, New Functional Materials Research Center and New Functional Materials Department

Masaki Miyajima

General Manager, PVC Division

Atsushi Nakamura

General Manager, Organic Chemicals Division

Fumio Arai

*Director & President, Shin-Etsu PVC B.V.
Director & President, SE Tylose GmbH & Co. KG*

Koji Takasugi

*In charge of Purchasing
General Manager, International Division*

Toshiyuki Kasahara

General Manager, Finance & Accounting Department

Hidehori Onezawa

In charge of Semiconductor Materials

FULL-TIME STATUTORY AUDITOR

Osamu Okada

STATUTORY AUDITORS

Masahiko Watase

Masao Okazaki

Taku Fukui

(As of June 29, 2005)

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.

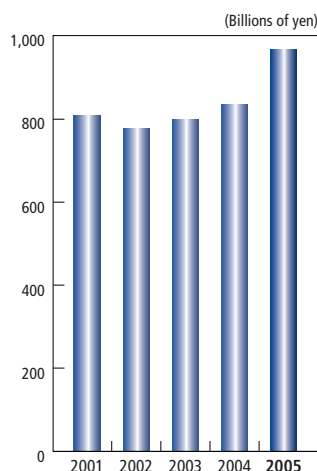
2001	2000	1999	1998	1997	1996	1995
¥ 807,485	¥ 678,859	¥ 642,796	¥ 693,275	¥624,405	¥575,176	¥522,917
112,677	87,465	86,323	90,860	82,024	73,427	51,914
64,505	48,229	43,363	42,027	40,614	37,825	26,862
153.58	116.56	109.36	110.73	118.24	116.51	82.80
150.24	113.46	103.17	101.69	103.95	106.66	—
12.00	10.00	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

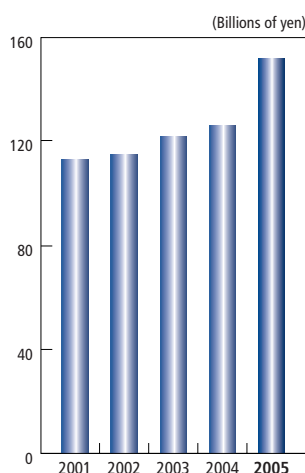
Management's Discussion and Analysis

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

				(Millions of yen)
Year ended March 31	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.

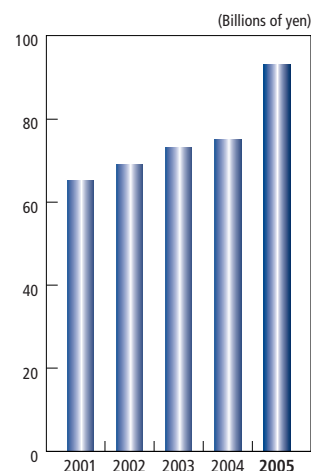
Electronics Materials

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.

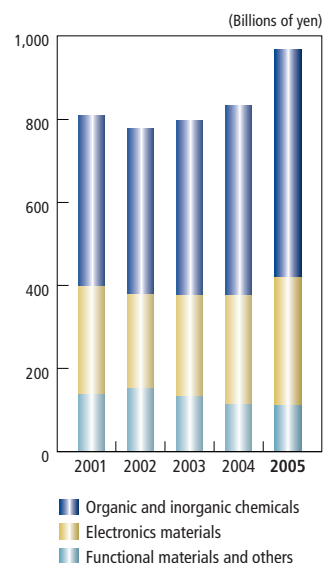
Sales of rare earth magnets for the electronics industry did well in their various hard disk drive (HDD) applications, such as for mobile digital audio players, as well as in their applications for PCs, servers and visual recording media. Organic materials for the electronics industry and photoresist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

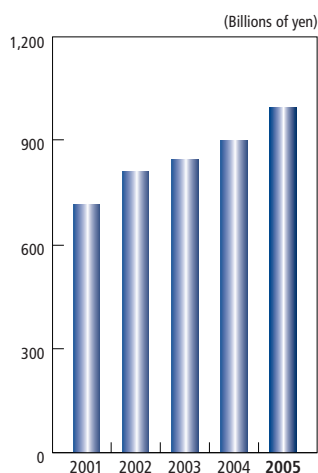
Net Income



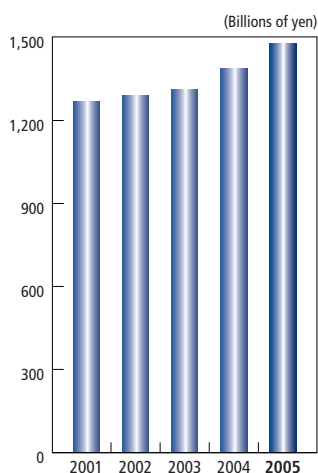
Net Sales by Segment



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.

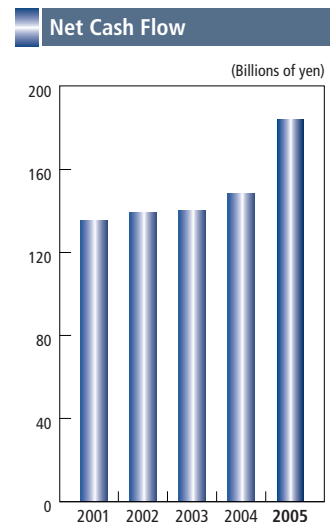
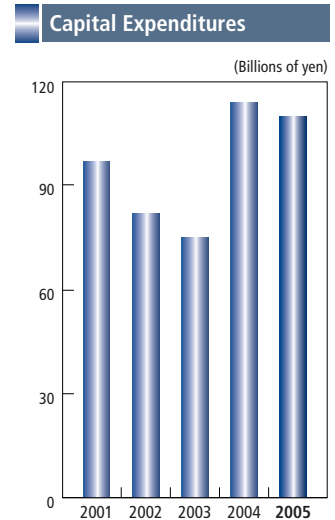
At the end of the current consolidated fiscal year, total assets stood at ¥1,476.2 billion, an increase of ¥90.0 billion compared to the end of the previous consolidated fiscal year. Along with the increase in net sales, notes and accounts receivable-trade increased by ¥14.3 billion and inventories increased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

	Millions of yen		Thousands of U.S. dollars (Note 3)
Liabilities and Stockholders' Equity	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 inter-company 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

	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:

	Millions of yen		
Description	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)
Buys 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

	Thousands of U.S. dollars		
Description	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)
Buys 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:

	Millions of yen		
Description	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)

	Thousands of U.S. Dollars		
Description	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:

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

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:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,		
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 ¥28,057 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				
	2005				
	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 ³	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

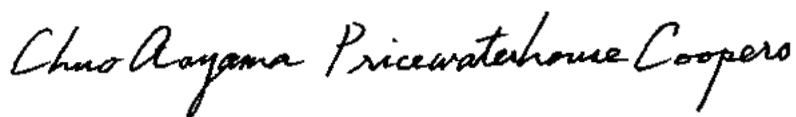
Shin-Etsu Chemical Co., Ltd.

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.

A handwritten signature in black ink that reads "Chuo Aoyama PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan

June 29, 2005

Investor Information

As of March 31, 2005

Shin-Etsu Chemical Co., Ltd.

Head Office: 6-1, Ohtemachi 2-chome,
Chiyoda-ku, Tokyo 100-0004, Japan

Date of Establishment:

September 16, 1926

Capital:

¥117,513 million

Number of Employees:

18,151 (including 67 consolidated subsidiaries)

Number of Shares Authorized:

1,720,000,000 (as of June 29, 2005)

Number of Shares Issued:

430,118,735

Number of Shareholders:

48,519

Fiscal Year-End:

March 31

Shareholders' Meeting:

June

Stock Listings:

Tokyo, Osaka, Nagoya (Ticker Code: 4063)

Transfer Agent:

The Mitsubishi Trust and Banking Corporation

Auditor:

Chuo Aoyama PricewaterhouseCoopers

Please visit our website:



<http://www.shinetsu.co.jp> (English, Japanese and Chinese)

Major Shareholders:

Name	Number of Shares (Thousands)	Percentage of Total Equity (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	42,012	9.8
Japan Trustee Services Bank Ltd. (Trust account)	37,941	8.8
Nippon Life Insurance Company	22,762	5.3
Shinsei Bank, Limited	14,813	3.4
The Hachijuni Bank, Ltd.	11,790	2.7
State Street Bank and Trust Company 505103	11,753	2.7
Meiji Yasuda Life Insurance Company	11,529	2.7
NIPPONKOA Insurance Co., Ltd.	10,077	2.3
The Bank of Tokyo-Mitsubishi, Ltd.	7,095	1.6
Fukoku Mutual Life Insurance Company	5,877	1.4

Information:

Public Relations Department

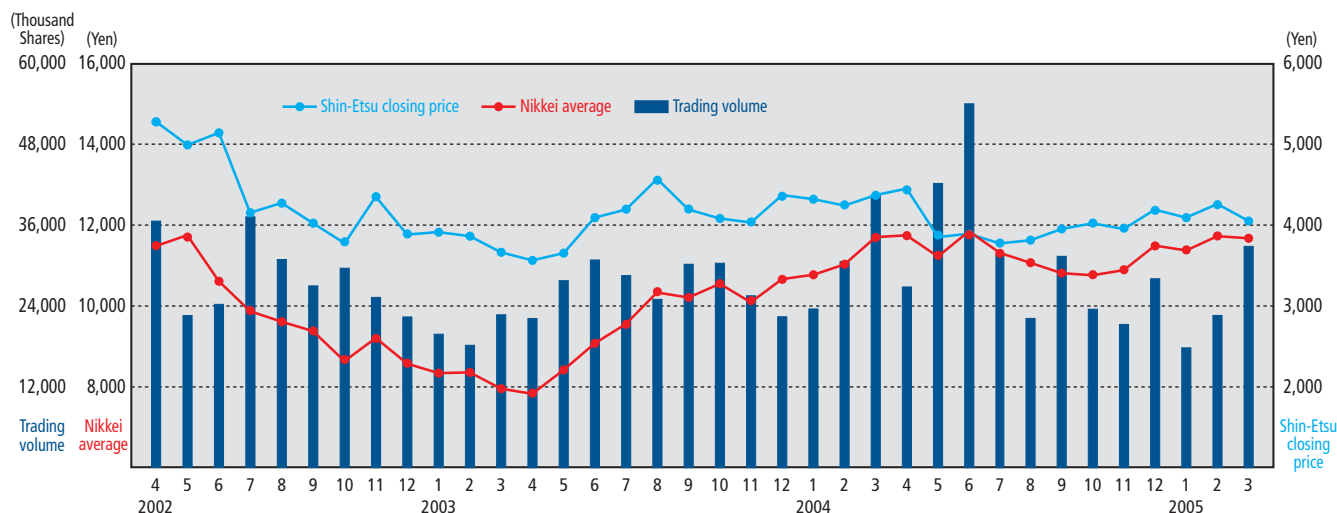
6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, Japan

Phone: +81-3-3246-5091

Fax: +81-3-3246-5096

e-mail: sec-pr@shinetsu.jp

Common Stock Price Range:



Shin-Etsu's Worldwide Network

Country names are followed by country telephone codes in parentheses.



Australia (61)

SIMCOA OPERATIONS PTY. LTD.

Lot 22 Marriott Road, Wellesley, WA 6233
Phone: 8-9780-6666
Fax: 8-9780-6777

BIOCONTROL PTY. LTD.

Riverside Centre, Level 26, 123 Eagle Street,
Brisbane, Queensland 4000
Phone: 7-3308-7000
Fax: 7-3308-7016

China (86)

SHIN-ETSU SILICONE INTERNATIONAL TRADING (SHANGHAI) CO., LTD.

3214 Shanghai Central Plaza, 381 Huaihai
Zhong Road, Shanghai 200021
Phone: 21-6391-5111
Fax: 21-6391-5296

SUZHOU SHIN-ETSU POLYMER CO., LTD.

A-10 Fenfu Economic and Technical
Development Zone, Wujiang City, Jiansu
Phone: 512-63-271640
Fax: 512-63-272674

ZHEJIANG SHIN-ETSU HIGH-TECH CHEMICAL CO., LTD.

No.66, Lizhong Road, Jiashan Economic
Development Zone,
Zhejiang Sheng 3141116
Phone: 573-475-5071
Fax: 573-475-5070

France (33)

S.E.H. EUROPE (FRENCH OFFICE)

1360 Route Des Dolines, Cardoulines B2,
06560 Sophia Antipolis
Phone: 4.97.21.44.88
Fax: 4.97.21.44.80

Germany (49)

SE TYLOSE GMBH & CO. KG

Rheingastr. 190-196, 65203 Wiesbaden
Phone: 611-962-8189
Fax: 611-962-9371

S.E.H. EUROPE (GERMAN OFFICE)

Fabrikstr. 8, D-85354 Freising
Phone: 8161-50611
Fax: 8161-50682

Hungary (36)

SHIN-ETSU POLYMER HUNGARY KFT.

Berkeyefasor 2/A, H-9027 Győr, Hungary
Phone: 96-887-100
Fax: 96-887-110

Japan (81)

SHIN-ETSU CHEMICAL CO., LTD.

6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo
Phone: 3-3246-5011
Fax: 3-3246-5350

SHIN-ETSU ASTECH CO., LTD.

2-1, Uchikanda 2-chome, Chiyoda-ku, Tokyo
Phone: 3-5298-3211
Fax: 3-3254-1931

SHIN-ETSU ENGINEERING CO., LTD.

9, Kanda-Nishikicho 2-chome, Chiyoda-ku, Tokyo
Phone: 3-3296-1080
Fax: 3-3296-1085

SHIN-ETSU FILM CO., LTD.

3-8, Uchikanda 1-chome, Chiyoda-ku, Tokyo
Phone: 3-3259-1061
Fax: 3-3259-1064

SHIN-ETSU HANDOTAI CO., LTD.

4-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Phone: 3-3214-1831
Fax: 3-3215-9040

SHIN-ETSU POLYMER CO., LTD.

3-5, Nihonbashi Honcho 4-chome, Chuo-ku, Tokyo
Phone: 3-3279-1712
Fax: 3-3246-2529

SHIN-ETSU QUARTZ PRODUCTS CO., LTD.

22-2, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo
Phone: 3-3348-1912
Fax: 3-3348-4919

JAPAN VAM & POVAL CO., LTD.

11-1, Chikkoshinmachi 3-cho, Sakai-shi, Osaka
Phone: 72-245-1131
Fax: 72-245-8144

KASHIMA VINYL CHLORIDE MONOMER CO., LTD.

2, Towada, Kamisu-machi, Kashima-gun, Ibaraki
Phone: 299-96-3415
Fax: 299-96-6354

NAGANO ELECTRONICS INDUSTRIAL CO., LTD.

1393, Yashiro, Chikuma-shi, Nagano
Phone: 26-261-3100
Fax: 26-261-3131

NAOETSU ELECTRONICS CO., LTD.

596-2 Jonokoshi, Kubiki-ku,
Joetsu-shi, Niigata
Phone: 25-530-2631
Fax: 25-530-2908

NISSIN CHEMICAL INDUSTRY CO., LTD.

17-33, Kitago 2-chome, Takefu-shi, Fukui
Phone: 778-22-5100
Fax: 778-24-0657

SHINANO ELECTRIC REFINING CO., LTD.

5-2, Kanda-Kajicho 3-chome, Chiyoda-ku, Tokyo
Phone: 3-5298-1601
Fax: 3-5298-0071

Korea (82)**SHIN-ETSU SILICONE KOREA CO., LTD.**

International Insurance Bldg. 904, 120, 5-ka,
Namdaemoon-ro, Chung-ku, Seoul
Phone: 2-775-9691
Fax: 2-775-9690

Malaysia (60)**S.E.H. MALAYSIA SDN. BHD.**

Lot No.2, Lorong Enggang 35, Ulu Klang
Free Trade Zone, Selangor Darul Ehsan
Phone: 3-4256-6155
Fax: 3-4257-5751

S.E.H. (SHAH ALAM) SDN. BHD.

Lot 8, Jalan Sementa 27/91, Seksyen 27,
40400 Shah Alam, Selangor Darul Ehsan
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Fax: 3-5191-3111

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Estate, 40000 Shah Alam, Selangor Darul Ehsan
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Fax: 3-5192-1068

SHIN-ETSU (MALAYSIA) SDN. BHD.

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Industrial Estate, 40000 Shah Alam,
Selangor Darul Ehsan
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Fax: 3-5191-2288

SHIN-ETSU POLYMER (MALAYSIA) SDN. BHD.

Lot 52, Jalan Sepintas 26/13, Kawasan,
Perindustrian HICOM, 40000 Shah Alam
Selangor Darul Ehsan
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Fax: 3-5191-1181

Netherlands (31)**SHIN-ETSU PVC B.V.**

Building Noorderheave Noorderweg 68,
1221 AB Hilversum
Phone: 35-689-8010
Fax: 35-685-0989
Fax: 36-5326459

SHIN-ETSU INTERNATIONAL EUROPE B.V.

World Trade Center Amsterdam,
Strawinskylaan B-827, 1077 XX Amsterdam
Phone: 20-662-1359
Fax: 20-664-9000

SHIN-ETSU POLYMER EUROPE B.V.

Groot Bollerweg 10, 5928 NS, Venlo
Phone: 77-323-6000
Fax: 77-323-6001

SHIN-ETSU SILICONES EUROPE B.V.

Bolderweg 32, 1332 AV, Almere
Phone: 36-5493170
Fax: 36-5326459

Portugal (351)**CIRES, S.A. (COMPANHIA INDUSTRIAL DE RESINAS
SINTETICAS, S.A.)**

P.O. Box 20, Samouqueiro, Avanca 3864-752,
Estarreja
Phone: 234-811-200
Fax: 234-811-204

Singapore (65)**SHIN-ETSU ELECTRONICS MATERIALS SINGAPORE
PTE. LTD.**

100 Beach Road, #23-01 Shaw Towers, 189702
Phone: 6297-9211
Fax: 6297-9311

SHIN-ETSU SINGAPORE PTE. LTD.

4 Shenton Way #10-03/06 SGX Centre 2,
Singapore 068807
Phone: 6743-7277
Fax: 6743-7477

Taiwan (886)**SHIN-ETSU HANDOTAI TAIWAN CO., LTD.
(S.E.H. TAIWAN)**

No. 12, Industry East Road 9, Hsinchu
Science Park, Hsin-Chu
Phone: 3-5771188
Fax: 3-5771199

SHIN-ETSU OPTO ELECTRONIC CO., LTD.

No.30, Industry East Road 4, Hsinchu
Science Park, Hsin-Chu
Phone: 3-5784566
Fax: 3-5789864

SHIN-ETSU SILICONE TAIWAN CO., LTD.

11F-D, No. 167, Tun Hua N. Rd., Taipei
10549 Taiwan, R.O.C.
Phone: 2-2715-0055
Fax: 2-2715-0066

Thailand (66)**SHIN-ETSU SILICONES (THAILAND), LTD.**

7th Floor, Harindhorn Tower,
54 North Sathorn Road, Bangkok 10500
Phone: 2-632-2941
Fax: 2-632-2945

ASIA SILICONES MONOMER LIMITED

1 Moo 2 Asia Industrial Estate Tambol
Banchang, Amphur Bauchang Rayong 21130
Phone: 38-687-050-1
Fax: 38-687-060-1

U.K. (44)**SHIN-ETSU HANDOTAI EUROPE LTD.
(S.E.H. EUROPE)**

Wilson Road, Toll Roundabout, Eliburn,
Livingston, West Lothian EH54 7DA
Phone: (1506) 41-5555
Fax: (1506) 41-7171

U.S.A. (1)**SHINTECH INCORPORATED**

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TX 77046
Phone: (713) 965-0713
Fax: (713) 965-0629

**SHIN-ETSU HANDOTAI AMERICA, INC.
(S.E.H. AMERICA)**

4111 N.E. 112th Ave., Vancouver,
WA 98668-8965
Phone: (360) 883-7000
Fax: (360) 254-6973

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2372 Qume Drive, Suite B, San Jose,
CA 95131-1841
Phone: (408) 383-9240
Fax: (408) 383-9245

SHIN-ETSU MICROSI, INC.

10028 South 51st. Phoenix, AZ 85044
Phone: (480) 893-8898
Fax: (480) 893-8637

SHIN-ETSU POLYMER AMERICA, INC.

5600 Mowry School Road, Suite 320,
Newark, CA 94560
Phone: (510) 623-1881
Fax: (510) 623-1603

SHIN-ETSU SILICONES OF AMERICA, INC.

1150 Damar Drive, Akron, OH 44305
Phone: (330) 630-9860
Fax: (330) 630-9855

HERAEUS SHIN-ETSU AMERICA, INC.

4600 NW Pacific Rim Blvd., Camas, WA 98607
Phone: (360) 834-4004
Fax: (360) 834-3115

K-BIN INC.

#3 Greenway Plaza, Suite 1150, Houston,
TX 77046
Phone: (713) 965-0713
Fax: (713) 965-0629

SHINCOR SILICONES, INC.

1030 Evans Avenue, Akron, OH 44305
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Fax: (330) 630-1491

