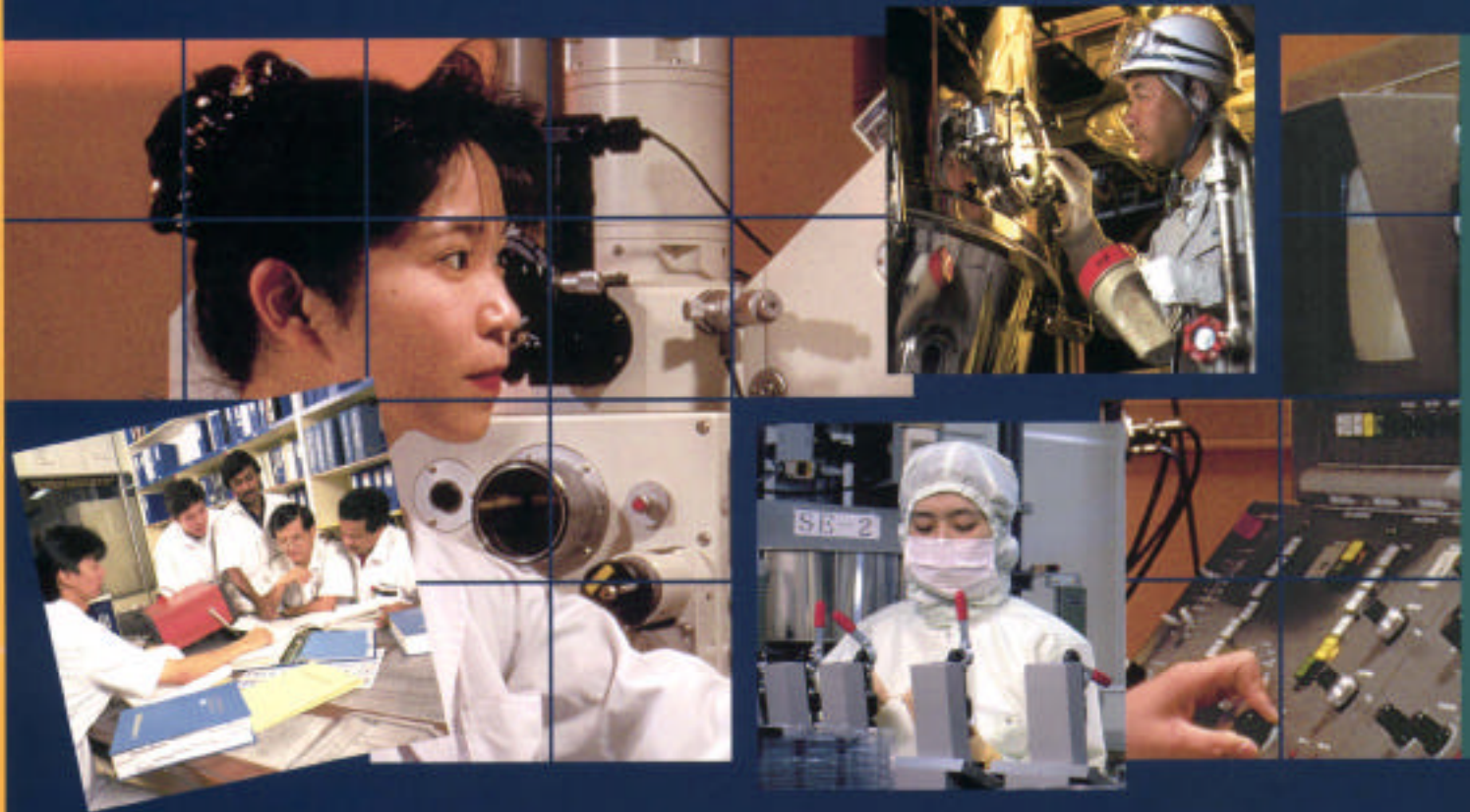


2000

ANNUAL REPORT



■ **Consolidated Net Sales: US\$6.404 billion**

■ **Consolidated Net Income: US\$455 million**

■ **116 Group Companies** (including the parent company, affiliates, and subsidiaries)

■ **Market Capitalization: US\$ 24.68 billion** (as of March 31, 2000)

■ **Number of U.S. Patents newly granted in 1999: 195**

Note: The U.S. dollar amounts represent conversions of Japanese yen, for convenience only, at the rate of ¥106=\$1.

Contents

1	Financial Highlights
2	To Our Shareowners
5	Shin-Etsu at a Glance
6	Review of Operations
15	Research and Development
16	The Environment
17	Good Corporate Citizens
18	Worldwide Network
20	Board of Directors
21	Management's Discussion and Analysis of Operations
24	Ten-year Summary
26	Financial Statements and Notes

F I N A N C I A L H I G H L I G H T S

Shin-Etsu Chemical Co., Ltd. and Subsidiaries

Fiscal year ended 31st March, 2000 (1st April, 1999 to 31st March, 2000)

(millions of yen)	31st March,		
	2000	1999	1998
For the Year:			
Net Sales	¥ 678,859	¥ 642,796	¥ 693,275
Operating Income	87,465	86,323	90,860
Net Income	48,229	43,363	42,027
Capital Expenditures	80,003	73,641	136,384
Net Income per Share (in yen)	¥ 116.56	¥ 109.36	¥ 110.73
Cash Dividends per Share (in yen)	10.00	9.00	8.50
Return on Equity (percent)	7.9	8.2	9.6
At Year-End:			
Total Assets	¥1,168,729	¥1,060,973	¥1,083,780
Working Capital	273,193	261,691	221,869
Stockholders' Equity	651,261	564,067	497,312

(thousands of U.S. dollars)	31st March,		
	2000	1999	1998
For the Year:			
Net Sales	\$ 6,404,330	\$ 6,064,113	\$ 6,540,330
Operating Income	825,142	814,368	857,170
Net Income	454,991	409,085	396,481
Capital Expenditures	754,745	694,726	1,286,642
Net Income per Share (in dollars)	\$ 1.100	\$ 1.032	\$ 1.045
Cash Dividends per Share (in dollars)	0.094	0.085	0.080
Return on Equity (percent)	7.9	8.2	9.6
At Year-End:			
Total Assets	\$11,025,745	\$10,009,179	\$10,224,340
Working Capital	2,577,292	2,468,783	2,093,104
Stockholders' Equity	6,143,972	5,321,387	4,691,623

Note: The U.S. dollar amounts represent conversions of Japanese yen, for convenience only, at the rate of ¥106=\$1.

Seventh Consecutive Year of Net Income Gains, Fifth Straight Year of Record Net Profits



Chihiro Kanagawa

President and CEO

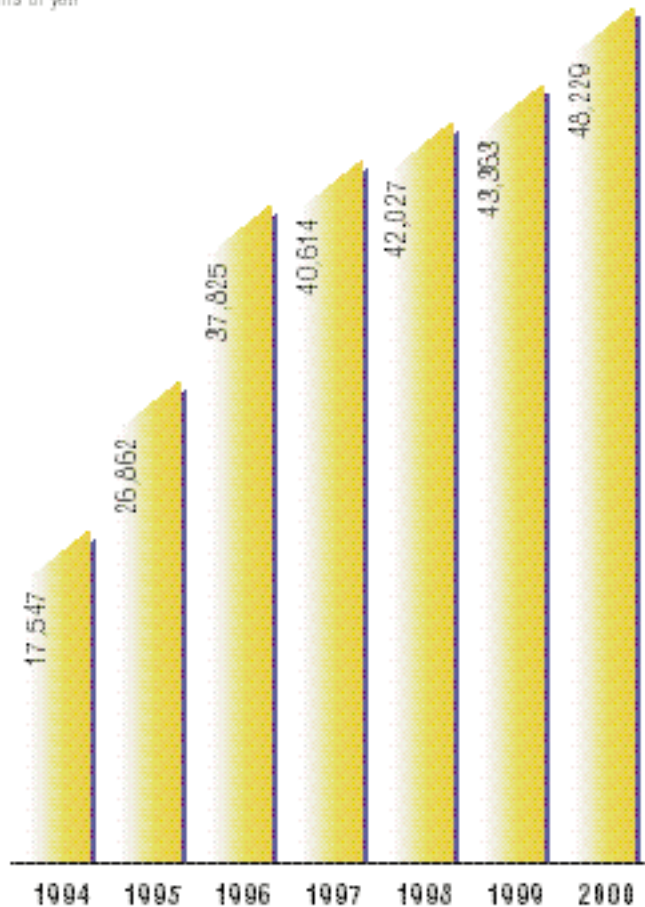
In the most recent fiscal year, April 1999 through March 2000, Shin-Etsu recorded higher annual sales and net income than the previous year. Consolidated net sales of ¥679 billion (US\$6,404 million) represented a 5.6% increase. Consolidated net income was ¥48 billion (US\$455 million), an increase of 11.2%. Net income has increased in each of the last seven fiscal years. Cash flow was quite strong at ¥106 billion (US\$997 million), a jump of 10% over that of the previous year. In order to enhance our shareowner value, I am placing high management priority on maintaining stable growth of both sales and profit. The fact that Shin-Etsu has achieved seven consecutive years of profit increases despite the fluctuations of the global economy resulted from management's policies and efforts to execute our plans and expand our business segments into various industries with a wide variety of customers instead of relying on a limited numbers of industries.

In our polyvinyl chloride (PVC) business, we have moved ahead with our current worldwide strategy by the acquisition of PVC and VCM businesses

from Shell Chemicals and Akzo-Nobel in Europe and the initiation of construction of a new greenfield PVC manufacturing facility in Louisiana, U.S.A. by Shin-tech Inc., a wholly owned subsidiary of Shin-Etsu. These investments will not only strengthen our position as the world's largest PVC manufacturer by volume, but they will also improve our global product distribution. The magnitude of these investments are sufficient to make a long-term positive contribution to Shin-Etsu's globalization strategy. In our silicones business, we continue to develop new high-value-added products and to diversify the sales base of commodity type products. In addition, we are focusing on global business opportunities for our silicones. In our semiconductor silicon business, we expect growth over the next ten years, even though the demand will sometimes be cyclical and a substantial amount of investment will be required. We continue with maximum efforts to develop new and valuable applications for synthetic quartz, rare-earth magnets, epoxy molding compounds, and cellulose derivatives.

We have a large number of products to serve the semiconductor industries. Our broad array of products provides us with a strong competitive advantage in supplying these industries. By developing new products to meet changing customers' needs, we are able to exceed the average growth of the overall industry sector. For example, we supply our worldwide customers with silicon wafers that are an

Shin-Etsu Consolidated Net Income
Millions of yen



indispensable material for semiconductor devices; photoresists that are also used for semiconductor manufacturing processes; synthetic quartz that is used in the manufacture of photomasks and lenses of semiconductor steppers and epoxy molding compound that is used for encapsulation for semiconductor devices. The silicon wafer business acquired from Hitachi, Ltd., a major Japanese company, is also contributing to our business.

During the recent fiscal year, we were able to achieve price adjustments to help improve our overall margins. We believe customers satisfaction can be maintained only by our research and development, stable supply of products, environmental safety, superior service to our customers and reinvestment in plants and facilities, all of which requires adequate funding. Shin-Etsu remains sensitive to the impact of pricing on our loyal customers.

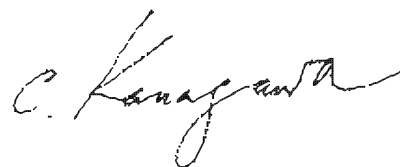
As for the development of new products, I am chairing the “Z committee” where new products for development are selected using strict criteria. The committee is composed of select staff members who research, develop and commercialize the new products. Using this approach, we have carried several new products to market. Recent examples are photoresists for excimer laser applications, pellicles for protecting photomasks, and a new fluoro-elastomer. Silicon On Insulator (SOI) wafer is also one of the new products that we expect to grow in the semiconductor industry. My current target is to significantly shorten the period from the selection of a new product to its commercialization.

As soon as we decide that a new development product will likely be commercially viable for us, we will make the necessary investments using principally internally generated funds. We categorize our investments in two major parts — those that are ongoing and generally predictable, such as the funds for building new manufacturing facilities,

expanding capacity and keeping our existing facilities safe, efficient, and technically up-to-date — and the less predictable opportunities that arise, for example, mergers and acquisitions (M&A). We carefully manage our cash flow to be able to take advantage of strategically significant M&A opportunities.

Finally, we trust our shareowners are supportive of the policies and the programs as described above. The financial markets have endorsed Shin-Etsu’s strategies and policies as they increased Shin-Etsu’s market capitalization to ¥2,616 billion (US\$24.68 billion) as of March 31, 2000. Shin-Etsu is ranked No. 1 among Japanese chemical companies and one of the five largest chemical companies in the world based on market capitalization.

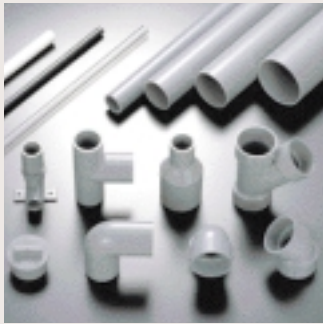
In conclusion, I would like to say that the entire Shin-Etsu organization is working to meet the expectations of our shareowners by executing in a timely manner the basic strategies I have outlined.



Chihiro Kanagawa
President and CEO

June 2000

ORGANIC AND INORGANIC CHEMICALS



Products

Polyvinyl chloride, silicones, vinyl acetate monomer, polyvinyl alcohol, methanol, caustic soda, chloromethanes, cellulose derivatives, synthetic pheromones, lime nitrogen, fused phosphates, silicon metal, plastic products and others

Major Contributors

Manufacturing and Sales:

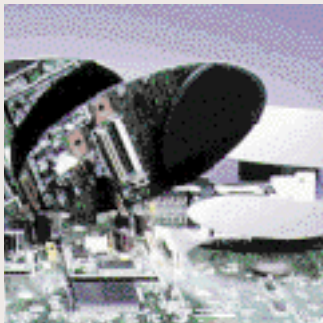
Shin-Etsu Chemical Co., Ltd.
Shintech Inc.
Shin-Etsu PVC B.V.
Shin-Etsu VCM B.V.
Simcoa Operations Pty. Ltd.
Shin-Etsu Polymer Co., Ltd.
Nissin Chemical Industry Co., Ltd.

Manufacturing:

Shin-Etsu Vinyl Acetate Co., Ltd.
Kashima Vinyl Chloride Monomer Co., Ltd.

and 51 other companies

ELECTRONICS MATERIALS



Products

Semiconductor silicon; organic materials for the electronics industry; rare earth magnets for electronics industry; photoresists

Major Contributors

Manufacturing and Sales:

Shin-Etsu Chemical Co., Ltd.
Shin-Etsu Handotai Co., Ltd.
Shin-Etsu Handotai America, Inc.

Processing and Sales:

S.E.H. Malaysia Sdn. Bhd.
Shin-Etsu Handotai Europe, Ltd.

Processing:

Naoetsu Electronics Co., Ltd.

and 25 other companies

FUNCTIONAL MATERIALS AND OTHERS



Products

Functional Materials:

Synthetic quartz products (photomask substrates, optical fiber preform); oxide single crystals; rare earths and rare earth magnets for nonelectronics industries

Others:

Export of technology and plants; export and import of goods; construction and plant engineering; information processing; other services

Major Contributors

Manufacturing and Sales:

Shin-Etsu Chemical Co., Ltd.
Shin-Etsu Quartz Products Co., Ltd.

Engineering:

Shin-Etsu Engineering Co., Ltd.

Sales:

Shin-Etsu Astech Co., Ltd.

and 31 other companies

Note: The above list includes non-consolidated subsidiaries and affiliated companies

Organic and Inorganic Chemicals



PVC is a very durable, resource-saving plastic used in many applications that contribute to improving the quality of life, including building materials such as vinyl siding and window frames for houses.

Completion of Global PVC Strategy

The globalization of Shin-Etsu's PVC business has successfully moved ahead.

In December 1999, Shin-Etsu completed the acquisition of Rovin, based in Rotterdam, the Netherlands, from Shell Chemicals Ltd. and Akzo Nobel Chemicals NV. Currently, Rovin is divided into two companies: Shin-Etsu PVC B.V. and Shin-Etsu VCM B.V. The annual production of the two companies is 400,000 tons of PVC and 500,000 tons of VCM, respectively. In the United States, Shin-tech Inc., a wholly owned subsidiary based

in Freeport, Texas, boasts the largest PVC production capacity of any single facility in the world at 1.45 million tons annually. Shin-tech has also started construction of a second facility in Addis, Louisiana. Completion is scheduled for the second half of 2001 and annual production capacity for the new plant will be 590,000 tons.

Both Shintech plants purchase VCM from adjacent Dow Chemical facilities. With these moves, Shin-Etsu has further solidified its position as the world's largest manufacturer of PVC. Shin-Etsu's facilities in Kashima, Japan, produce 550,000 tons of PVC annual-

ly, and CIRES, S.A., the Company's subsidiary in Lisbon, Portugal, produces 150,000 tons per year, giving Shin-Etsu a total PVC production capacity of 2.55 million tons per year. When the Addis plant comes on-line that total will rise to 3.14 million tons per year, giving the Company an estimated 12% of the world market for PVC. Shin-Etsu has further strengthened its position in terms of production in the three key regions of Asia, North America, and Europe.

The world market for PVC grew solidly in 1999. In North America, in particular, helped by the strong U.S. economy, sales grew by

7.4% on a year-on-year basis, especially pipes, siding, window frames, and other construction and building-related materials. Although growth in Japan was not so strong, the Company achieved double-digit sales growth in Asia as a result of the economic recovery of the ASEAN nations and increased demand in China. In addition, sales in European markets enjoyed strong growth due to increases in sales of window frames and other materials.

As a result, Shin-Etsu successfully improved revenues in the United States, Europe, and Asia, and the Company's PVC business achieved good sales results.

Silicones Business Posts Steady Growth

Shin-Etsu is the largest manufacturer of silicones in Japan and the fourth worldwide. In fiscal 2000, Shin-Etsu's silicones business grew steadily in the major markets of Asia, including Japan, North America, and Europe. Shin-Etsu increased production capacity for crude methylsilane at the Matsuida Plant of the Gunma Complex by about 35% in September 1999, and the facilities are still operating at high capacity. A major factor behind this situation was the quick recovery of the Asian economies, with South Korea and the ASEAN nations at the fore. Sales of all silicones products increased. Demand for heat-cure rubber for use in mobile phones, keyboards, and copier and printer rolls, was quite strong, both in Japan and abroad, particularly in Asia. In Japan, sales of specialty silane for pharmaceutical and electronics applications grew steadily, and CF silane as a coupling agent for tires, also performed well. In addition, new products for personal care applications attracted attention worldwide.

Both Shin-Etsu Silicones of America, Inc., based in Akron, Ohio and Shin-Etsu Silicones Europe B.V., based in Almere, in the Netherlands reinforced their RTV rubber operations during the period under review. The market for silicones grew steadily in the U.S. and Europe with demand for elastomers leading the way.

Prices for some products in the Asian region were revised to help improve profitability.

Cellulose Derivatives Emerging as the Third Key Segment

Cellulose derivatives are the third largest product group in the Organic and Inorganic Chemicals Sector in terms of sales and revenue. In fiscal 2000, sales of cellulose derivatives achieved positive growth both in Japan and abroad.

Shin-Etsu maintained production of METOLOSE® near its maximum capacity of 15,000 tons per year.

METOLOSE® is used in industrial applications, for example, as a binder for ceramics in industrial electronics, as a thickener in body shampoos, and in construction applications to improve the water retention of cement and mortar. Both the Japanese and international markets for this product have grown. The greatest growth has been as an additive in pharmaceuticals. Used as film coating for tablets intended to dissolve in the stomach or intestines, cellulose derivatives have enjoyed good sales both in Japan and abroad. International sales, in particular, have expanded, pushed by the development of new dosage forms, which in turn has led to new applications. Shin-Etsu's exclusive low-substituted hydroxypropyl cellulose (L-HPC), used as a binder for tablets, has also enjoyed good sales in both Japanese and international markets.

During the second half of the period under review, Shin-Etsu increased prices for a number of products.

Production of Silicon Metal: A Core Material

Shin-Etsu Chemical's wholly owned, Australian-based subsidiary, Silicon Metal Company of Australia Ltd. (Simcoa), produces 30,000 tons of silicon a year.

In addition to playing a leading role in the stable supply of the principal material for such core Shin-Etsu products as semiconductor silicon, synthetic quartz, and silicones, Simcoa is also competitive in markets in Oceania, Asia and the U.S.

Ferroalloy operations conducted by a subsidiary, Shin-Etsu Metallurgical Co., Ltd., were transferred to Toyo Denka Kogyo Co., Ltd., in April 1999, due to poor profitability projections.

Pheromones, POVAL, and Other Chemicals

Synthetic sex pheromones have a special place in Shin-Etsu's range of products.

Shin-Etsu's pheromones are a type of acetylene derivatives that disrupt the mating of harmful insects and when applied to cotton, apples, pears, grapes, tea, and other agricultural products, harmlessly prevent the insects' reproduction.

Currently, the business is not significant in terms of production volume or revenues, but Shin-Etsu is the world leader in synthetic pheromones, and achieved approximately 20% growth in the world market during the year. The main reason for this growth was the increased use of pheromones to protect apple crops from harmful insects in the United States. Shin-Etsu is confident that demand for pheromones as an environmentally safe replacement for conventional agricultural pesticides will increase.

Polyvinyl alcohol (POVAL) is a water-soluble polymer like METOLOSE® but less expensive, and used as a coating for paper and as an adhesive. As growth for existing applications has been slow, the development of new applications is indispensable and competition among firms has been fierce. One such new application is for film. POVAL film is used in polarizer film and food packaging, and the Company expects future growth in this area.

Caustic soda is produced in tandem with chlorine. While the volume of caustic soda sold has increased, demand for chlorine for vinyl chloride has shown even stronger growth, leading to an oversupply of caustic soda and a stagnating market. The result was revenues roughly equal to those of the previous fiscal year.

Production of chloromethane increased as a result of improved sales in such promising fields as pharmaceuticals and agriculture, as well as increased consumption for home use. Shin-Etsu strengthened its methylene chloride business by purchasing operations from Mitsui Chemicals, Inc., on April 1, 2000.

Electronics Materials

In 1999, the market for semiconductor devices bounced back from the decrease of the previous year and grew strongly. The strong markets for communications equipment and PCs in 1999 are expected to continue in 2000. Accordingly, the buoyant markets for the various materials used for these devices are also expected to continue. Shin-Etsu makes wafers, photoresists, photomasks, and other items used in the pre-production processes of semiconductors. These products, together with the Company's synthetic quartz, which is used in the production of stepper lenses, make Shin-Etsu the only company in the world offering such a wide assortment of pre-production materials for semiconductors.

Semiconductor Silicon Business Rebounds

Increased production of communications devices, principally mobile phones, and personal computers (PCs) led to greater demand for semiconductor silicon products in fiscal 2000. Growth centered on DRAMs for PCs, flash memory, microcomputers for communications devices, and microprocessing units (MPUs) for PCs. Inventory adjustments for analog semiconductors and discrete semiconductors have progressed, but the recovery of demand for audio-visual equipment and other consumer electronics devices, which make up the bulk of applications, was slow, only finally turning around in the second quarter of 1999.

Production capacity on lines for leading-edge devices was insufficient when demand for MOS memory and MOS micro took off in

the second half of 1999 so device makers increased production capacity for 8-inch wafers and announced new plans to increase production in Taiwan and Korea. In 2000, they also announced plans to increase production capacity for 8-inch wafers in Japan.

The market for silicon wafers bottomed out in Asia in the third quarter of 1998 and in the Japanese market in the fourth quarter of the same year. Demand has since trended toward recovery and the market is currently expanding.

However, price competition in the wafer market in the first half of 1999 has had a lasting effect, and real recovery in terms of sales revenue did not occur until the second half of the year.

By region, the sharp increase in demand in Asia, including South Korea, which specializes in memory production, and Taiwan,

where foundry production capability increased rapidly, was of special note in 1999.

Shin-Etsu Handotai (SEH) is the world's largest wafer maker. Shin-Etsu is not merely responding to growing markets but also moving ahead with developments to improve device makers' chip acceptance rates and the development and production of more advanced wafers. In preparation to supply 300 mm (12-inch)-diameter wafers, demand for which is expected to take off in 2000 or 2001, a pilot plant capable of producing up to 10,000 units a month has been set up at the Shirakawa Plant in Fukushima, Japan. It is located in spacious facilities, allowing easy expansion and enabling Shin-Etsu to meet the increased demand for this product.

Shin-Etsu has also begun to produce next-generation wafers, Silicon On Insulator (SOI), and is prepared for their full-scale use in the 21st century.

Greater Market Share for Photoresists and Pellicles

There are two types of photoresists: those for semiconductors and those for magnetic heads.

Shin-Etsu's photoresists for semiconductors are leading-edge KrF excimer photoresists, which allow detailing finer than 0.30 microns in precision processing for semiconductors. Sales are rising steadily.

The need for photoresists is increasing because demand for smaller and smaller semiconductors is growing as the overall market for semiconductors continues to expand. Shin-Etsu is a late entrant in this field but the Company's efforts to narrow its focus are bearing fruit as Shin-Etsu's share of the world market is increasing rapidly.

Photoresists are also used in magnetic heads used to read hard disk drives. The market is small but growing and Shin-Etsu holds considerable market share for such a technologically critical component.

The Company doubled production capacity for photoresists at its Naoetsu facilities in April 2000.

The market for pellicles, film-like coating materials used to cover semiconductor reticles (the portion of semiconductors where circuits are drawn) to protect them from dust and other impurities, is small and specialized. The Company's sales are growing steadily.

Strong Sales for Epoxy Molding Compound

Ignited by fast growth in the demand for PCs, mobile phones, digital home electronics, and other devices in 1999, shipments of epoxy molding compound (EMC), used to encapsulate semiconductors, rose steadily both in Japan and abroad. In particular, shipments to semiconductor manufacturers in Asia that are consigned by Japanese and U.S. firms increased considerably. On a component basis, sales of EMC for use on discrete semiconductors, microprocessing units, and DRAMs increased. While the Company expects shipments of EMC for semiconductor use to hold steady in 2000, Shin-Etsu also plans to meet the demands of "green procurement policies" by devoting resources to expanding sales of "green compounds" that do not use bromine or antimony as flame retardants.

Use of Rare Earth Magnets in the Electronics Industry Stagnates

About half the demand for rare earth magnets is for use in the voice coil motors (VCMs) of hard disk drives (HDDs). In terms of total units, the HDD industry has grown 10%. Sales of high-end devices with VCMs have struggled, while demand for lower-priced low-end devices has increased, causing overall sales revenue to stagnate. The increase in low-priced computers has led to a strong movement to reduce the number of components and reconsider their functionality. However, the Company expects new applications for HDDs in consumer information devices.

Functional Materials and Others

Growth in the Range of Applications for Synthetic Quartz

Synthetic quartz sold well during the period under review. Shin-Etsu produces chlorosilane, a base material also used in the production of silicones, in a vertically integrated framework extending through the manufacture of a commercial product. Shin-Etsu possesses all production techniques for synthetic quartz in all application fields for the electronics and telecommunications sectors. As a pioneering manufacturer of synthetic quartz, Shin-Etsu maintains a superior position in terms of quality and stability of supply.

In particular, sales of optical fiber preform, used in fiber-optic cables, rose considerably. This was because demand was driven by the sudden increase in non-voice data accompanying the expansion of the Internet and e-commerce. Shin-Etsu is the only firm in the world to manufacture optical fiber preform solely on a commercial basis.

Sales also grew for synthetic quartz photomask substrates used in production processes for IC semiconductors and for synthetic quartz ingots used in the production of synthetic quartz lenses.

Production also increased steadily at

Shin-Etsu's subsidiary Silica Products, Inc., based in Freeport, Texas, in the United States.

Shin-Etsu as well as manufacturers of both equipment and photoresists is conducting research into synthetic quartz materials that will meet the needs of the next generation of optical lithography. The Company also anticipates swift growth in the market for larger photomasks required for the production of larger LCDs.

Surging Oxide Single Crystal Business

The principal application for lithium tantalate (LT) single crystals is in SAW filters for mobile phones. Sales for LT single crystals enjoyed tremendous growth in fiscal 2000 because of the explosive surge in the mobile field. As the world's largest LT manufacturer, Shin-Etsu has supported the growth of mobile telephony by repeatedly expanding production capacity. Shin-Etsu expects further growth, as the number of mobile phones will increase and more filters will be used per phone due to their enhanced functionality.

High Growth in the Use of Rare Earth Magnets for Nonelectronics Industries

Sales of rare earth magnets in applications other than voice coil motors of HDDs — in particular for use in mobile phones, motors for factory automation devices, and optical pick-ups for CD-ROM, CD-R, and DVD drives — grew as a result of the growth in information-related industries and an underlying trend toward recovery in facilities investments. In addition, magnets for use in high-performance motors such as for elevators and energy-efficient air conditioners also improved steadily. Shin-Etsu expects a further improvement for these materials, driven by their use in mobile phones and factory automation devices.

Rare Earths Seek New Demand

Rare earths are used as a key material in a broad range of electronics components. Shipments for these products increased during the period under review. Chip condensers and other electronics components for mobile phones and other leading-edge devices are the main applications for rare earths, and the demand for rare earths grew in line with the growth in demand for these devices.

On the other hand, sales of rare earths for use in fluorescent lights and televisions, a mainstay in the past, have stumbled under pressure from overseas suppliers.

Fluoroelastomer SHIN-ETSU SIFEL®: A New Product with a Bright Future

SIFEL is drawing attention from around the world as Shin-Etsu's revolutionary new high-performance fluoroelastomer. The new material has superior characteristics under low temperatures when compared with similar fluoroelastomers, and also offers superior moldability and resistance to a wide range of fuels, solvents and chemicals. Shin-Etsu sees a bright future for the use of SIFEL as a replacement for rubber currently used in cars, aircraft and other applications.

Other Business

In addition to supervising the export of facilities and technologies, Shin-Etsu's International Division is engaged in the import and export of products not handled by other Shin-Etsu sales divisions and the products of the Company's subsidiaries and affiliates. These include flexible copper-clad laminates (FCLs), non-scaling materials for PVC and other materials, and PVC shrink film produced at Shin-Etsu Chemical's Kashima Plant, vinyl chloride-vinyl acetate-copolymer Solbin®, and various thermal interface materials produced by Shin-Etsu's subsidiary, Nissin Chemical Industry Co., Ltd.

Spotlight on Shin-Etsu Engineering Co., Ltd.

Shin-Etsu Chemical is supported by a number of subsidiaries that serve group companies as well as other parties.

Shin-Etsu Engineering Co., Ltd. (SEE) provides engineering services in a broad range of fields from chemicals to leading-edge electronics materials. In addition, SEE draws on years of experience to develop and produce mechatronics products combining proprietary optical technologies with computers. Examples of SEE's work include systems for the production and inspection of flat panel displays (FPDs), such as liquid crystal displays (LCDs) and plasma display panels (PDPs).

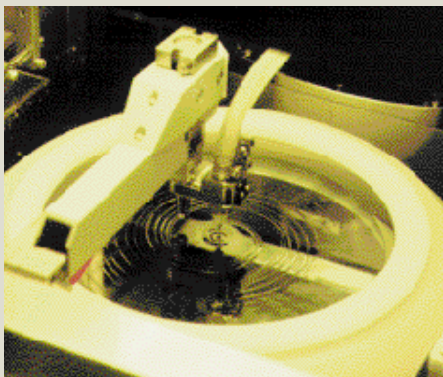
SEE has also developed an auto alignment system for extremely small devices with projection applications, a field in which SEE anticipates future market growth. Accurate to within 5 microns and allowing a similar degree of precision in gap control, SEE's successful research has solved some of its clients most difficult problems, and a number of the world's leading manufacturers have ordered the new systems.

Pioneering R&D Centers and Cutting-Edge Products

Shin-Etsu continues to enrich life through new technologies and products. The Shin-Etsu Group has more than eight R&D centers throughout Japan. Five centers are introduced below in connection with products they have developed. The major centers not included here are the PVC Research Center and the Silicones-Electronics Materials Research Center.



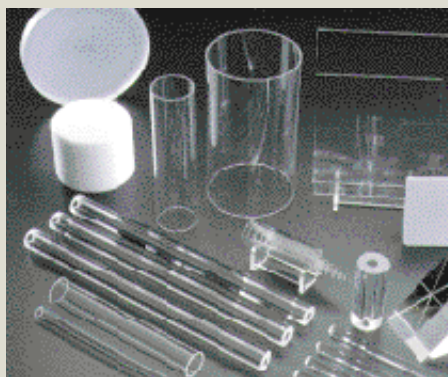
Lithium Tantalate (LT)



Photoresists



Silicon Wafers



Diffusion Tubes of Quartz



Magnets

Lithium Tantalate (LT) Wafers for Mobile Phones

Surface Acoustic Wave (SAW) filters, which use lithium tantalate wafers, contribute to the high functionality of today's mobile phones. Shin-Etsu's Advanced Functional Materials Research Center is developing materials that will be used in the next generation of information technologies.

Photoresists Bringing IC Designs Down to 120 Nanometers

There seems to be no limit to reductions in the size of integrated circuits. Photoresists are photosensitive materials used in the lithography process. The Specialty Chemicals Research Center conducts research into photoresists for use in leading-edge KrF excimer lasers, and is working on photoresists for the next generation of lithography technologies using ArF, F2, electron beams and other illumination sources.

Silicon Wafers Used for IC Devices

The jewel of modern industry, semiconductors, are made from silicon wafer substrates. Shin-Etsu Handotai's research centers in Shirakawa and Isobe are working to create silicon wafers with a larger diameter and improved surface flatness.

Diffusion Tubes of Quartz for IC Processing

Processed, high-grade quartz products are used in diffusion tubes, smelting equipment, and other stages of the semiconductor manufacturing process. Quartz products are also essential in optical fiber and optical communications parts. The research center of Shin-Etsu Quartz Products Co. Ltd., a joint venture between Shin-Etsu and Heraeus Quarzglas International GmbH, is developing quartz products for a broad range of applications from fundamental research through processing technologies at Koriyama.

Magnets — Beyond Voice Coil Motors

Shin-Etsu's Magnetic Materials Research Center conducts research into areas ranging from the development of magnetic materials to magnetic field design technologies. The main demand for these materials has been for use in voice coil motors, but use in nonelectronics industries is on the increase.

An Environmental Philosophy Combining Technology with Commitment

Environmental Policy: Guiding Principles and ISO14001

The 20th century, an era of rapid industrial growth accompanied by the deterioration of the global environment, is drawing to a close, and we are entering the new millennium. In this new age more than ever, environmental problems have become major issues at the heart of corporate management.

Safety and the protection of the environment are the first and foremost management goals of Shin-Etsu Chemical Co., Ltd. The Company's Environmental Charter, formulated in 1998, expresses Shin-Etsu's basic philosophy: a commitment to realizing a society in which sustainable development is possible by limiting the environmental impact of corporate activities to a minimum.

A key element in achieving the goals set out in the Charter is the ISO14001 Environmental Management System.

Since becoming the first Japanese chemical manufacturer to gain ISO14001 certification in 1996, Shin-Etsu completed its plan to have all production sites certified as conforming to ISO14001 standards in early 2000. The Shin-Etsu Group, including subsidiaries and affiliates, has received ISO14001 certification for a total of 22 production sites.

With the goals of reducing greenhouse gas emissions and waste materials, conserving



PVC used as a reductant in a shaft furnace: proof of the great contribution the recycling of waste PVC can make.

energy, and properly managing chemical substances, Group companies and production sites are working to minimize the load on the environment through a process of continual improvement. The results of these activities are presented to the public at large in environmental reports and through other means.

PVC and Environmental Issues

Japan's Vinyl Environmental Council (VEC), led by Chihiro Kanagawa, president of Shin-Etsu Chemical, has promoted the accurate understanding of PVC as an extremely durable and useful plastic that can make great contributions to reduce resource consumption.

The VEC also promotes the development and implementation of such recycling technologies as material recycling and feedstock recycling for waste PVC.

NKK Corporation, Japan's second largest steelmaker, has begun using waste PVC as a reductant in shaft furnaces, thus disposing of 5,000 tons of PVC per year. Tokuyama Corporation began using waste PVC as a base



Synthetic pheromones: attracting attention as a breakthrough method of pest control that is harmless to humans and the environment.

fuel in processes for the production of cement. Both recycling operations are done in cooperation with the VEC.

Synthetic Pheromones

Integrated Pest Management (IPM) is a form of agriculture recognized as beneficial to the global environment and a departure from conventional pesticide-intensive agriculture. Synthetic pheromones play a key role in IPM, and Shin-Etsu Chemical is the world leader in this ever-growing market.

Synthetic pheromones are an effective means of reducing agricultural pests from sites without affecting the defenses of the pest's natural predators, by rendering males unable to recognize signals from the scents of females, thereby suppressing the rise of the next generation.

Synthetic pheromones are bringing about a new form of agriculture that respects the environment.

Good Corporate Citizens

As good corporate citizens, the Shin-Etsu Group companies constantly endeavor to create new approaches that help the many communities around the world in which the Shin-Etsu Group has facilities to realize their goals. We contribute to local communities by providing employment opportunities, stimulating regional economies, and developing cutting-edge technologies. As citizens of the community, we participate in community activities and work to improve the local communities through both corporate policies and individual efforts.



Shin-Etsu Handotai America receives MS Society's Employer Award

S.E.H. America's core corporate values are exemplified by the company's policy of employing and accommodating physically-challenged individuals, including people who have multiple sclerosis. In recognition of this policy, the National Multiple Sclerosis Society represented by General Michael Dugan, USAF, Ret. (left), presented the MS Employer of the Year Award in 1999 to Vancouver, Washington-based S.E.H. America President Isao Iwashita (right) and QA Engineer Charlene Ryan (center).



Providing children's play facilities at a local Dutch park

To show its commitment to the local community, Shin-Etsu Polymer Europe has donated €70,000 to the city of Venlo, which the city has decided to use to install additional children's play facilities in Nolens Park.



Shintech employee helps train young minds at local school

John Brodrich, a process technician at Shintech Inc. the Shin-Etsu Group company in Freeport, Texas, has been a volunteer tutor for nine years in a special tutoring program at a local elementary school. Today he tells a class of second graders about PVC.



Scholarship program aims to help develop future leaders

Shin-Etsu awarded two-year college scholarships to 12 Malaysian students this past year. The Shin-Etsu scholarship program was created to support students of high ability and academic motivation who can be expected to play a key role in international society in the 21st century.



Simcoa earns prestigious Western Australia ecology award

The South West WA Local Government Association Waste Management Advisory Committee presented Simcoa Operations, a Shin-Etsu Group company in Wellesley, Australia, with its 3R Award in recognition of Simcoa's strong commitment to reduce, recycle and reuse in the company's total operations. Simcoa Operations, represented by Gerry McLennan (left), donated its prize money for this award to Mrs. McNeil (right) a teacher at the local Eaton Primary School, who will use the money for her proposed worm farm, which will turn the school's waste matter into useful castings.



Orphans, physically-challenged kids invited to share in Family Day fun

Two Shin-Etsu Group companies in Malaysia, Shin-Etsu Malaysia and Shin-Etsu Electronics (Malaysia), invited children from a local orphanage and a training center for the physically challenged to join employees and their families for all the fun and games as well as the delicious food on Family Day.

Country names are followed by country codes in parenthesis.

Australia (61)

Biocontrol Ltd.

3 Acacia Crt. Mt. Crosby Queensland 4306
Phone: 7-32011466 Fax: 7-32012492

Simcoa Operations Pty. Ltd.

Lot 22 Marriott Road, Wellesley, WA 6233
Phone: 8-97-806666 Fax: 8-97-806777

China (86)

Suzhou Shin-Etsu Polymer Co., Ltd.

A-10 Fenfu Economic and Technical
Development Zone
Wujiang City, Jiansu
Phone: 512-3255640 Fax: 512-3255674

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)

S.E.H. Europe German Office

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

Japan (81)

Shin-Etsu Astech Co., Ltd.

2-1, Uchikanda 2-chome, Chiyoda-ku, Tokyo
Phone: (03) 5298-3211 Fax: (03) 3254-1931

Shin-Etsu Chemical Co., Ltd.

6-1, Otemachi 2-chome, Chiyoda-ku, Tokyo
Phone: (03) 3246-5011 Fax: (03) 3246-5350

Shin-Etsu Engineering Co., Ltd.

9, Kanda-Nishikicho 2-chome
Chiyoda-ku, Tokyo
Phone: (03) 3296-1080 Fax: (03) 3296-1085

Shin-Etsu Film Co., Ltd.

5-13, Uchikanda 1-chome, Chiyoda-ku, Tokyo
Phone: (03) 3259-1061 Fax: (03) 3259-1064

Shin-Etsu Handotai Co., Ltd.

4-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Phone: (03) 3214-1831 Fax: (03) 3215-9040

Shin-Etsu Kasei Co., Ltd.

5-13, Uchikanda 1-chome, Chiyoda-ku, Tokyo
Phone: (03) 3293-3501 Fax: (03) 3293-3507

Shin-Etsu Polymer Co., Ltd.

3-5, Nihonbashi Honcho 4-chome
Chuo-ku, Tokyo
Phone: (03) 3279-1712 Fax: (03) 3246-2529



Shin-Etsu Quartz Products Co., Ltd.

22-2, Nishi-Shinjuku 1-chome
Shinjuku-ku, Tokyo
Phone: (03) 3348-1911 Fax: (03) 3348-4919

Shin-Etsu Vinyl Acetate Co., Ltd.

11-1, Chikkoshinmachi 3-cho
Sakai-shi, Osaka
Phone: (0722) 45-1131 Fax: (0722) 45-8144

Kashima Vinyl Chloride Monomer Co., Ltd.

2, Towada, Kamisu-machi
Kashima-gun, Ibaraki
Phone: (0299) 96-6372 Fax: (0299) 96-6354

Nagano Electronics Industrial Co., Ltd.

1393, Yashiro, Koshoku-shi, Nagano
Phone: (026) 261-3100 Fax: (026) 261-3131

Naoetsu Electronics Co., Ltd.

596-2, Jonokoshishinden, Kubiki-mura
Nakakubiki-gun, Niigata
Phone: (0255) 30-2631 Fax: (0255) 30-2908

Nissin Chemical Industry Co., Ltd.

17-33, Kitago 2-chome, Takefu-shi, Fukui
Phone: (0778) 22-5100 Fax: (0778) 24-0657

Shinano Electric Refining Co., Ltd.

9, Kanda-Nishikicho 2-chome
Chiyoda-ku, Tokyo
Phone: (03) 3296-1501 Fax: (03) 3296-1507

Korea (82)

Shin-Etsu Silicone Korea Co., Ltd.

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Chung-ku, Seoul
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Malaysia (60)

Shin-Etsu Electronics (Malaysia) Sdn. Bhd.

Lot 50, Jalan Serendah 26/17
HICOM Industrial Estate
40000 Shah Alam
Selangor Darul Ehsan
Phone: 3-512-1081 Fax: 3-512-1068



S.E.H. Malaysia Sdn. Bhd.
 Lot No. 2, Lorong Enggang 35
 Ulu Klang Free Trade Zone
 Selangor Darul Ehsan
 Phone: 3-456-6155 Fax: 3-457-5751

S.E.H. (Shah Alam) Sdn. Bhd.
 Lot 8, Jalan Sementa 27/91
 Seksyen 27, 40400 Shah Alam
 Selangor Darul Ehsan
 Phone: 3-518-0111 Fax: 3-511-3111

Shin-Etsu (Malaysia) Sdn. Bhd.
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 HICOM Industrial Estate
 40000 Shah Alam
 Selangor Darul Ehsan
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Shin-Etsu Polymer (Malaysia) Sdn. Bhd.
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 Kawasan, Perindustrian Hicom,
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 Selangor Darul Ehsan
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 World Trade Center Amsterdam
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 1077 XX Amsterdam
 Phone: 20-6621359 Fax: 20-6649000

Shin-Etsu Polymer Europe B.V.
 Groot Bollweg 10
 5928 NS, Venlo
 Phone: 77-323-6000 Fax: 77-323-6001

Shin-Etsu PVC B.V.
 Stationsplein 4
 P.O. Box 247,
 3800 AE Amersfoort
 Phone: 33-422-8010 Fax: 33-465-5272

Shin-Etsu Silicones Europe B.V.
 Bolderweg 32, 1332 AV, Almere
 Phone: 36-5326380 Fax: 36-5326459

Portugal (351)

CIRES, S.A. (Companhia Industrial de Resinas Sinteticas, S.A.)
 Rua Castilho, 165-4° Dt°-1070-050, Lisbon
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Singapore (65)

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 Phone: 297-9211 Fax: 297-9311

Shin-Etsu Singapore Pte. Ltd.
 150 Ubi Avenue 4 #03-00
 Singapore 408825
 Phone: 743-7277 Fax: 743-7477

Taiwan (886)

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 Science-Based Industrial Park
 Hsin-Chu
 Phone: 3-5771188 Fax: 3-5771199

Shin-Etsu Opto Electronic Co., Ltd.
 No. 30, Industry East Road 4
 Hsin-Chu Science-Based Industrial Park
 Hsin-Chu
 Phone: 3-5784566 Fax: 3-5789864

Shin-Etsu Silicone Taiwan Co., Ltd.
 7F, No. 102, Civil Boulevard
 Sec 4, Taipei
 Phone: 2-2751-6999 Fax: 2-2751-6769

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)

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 6650 Lusk Blvd., Suite B-106
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 Phone: (619) 455-8500 Fax: (619) 587-2716

Shin-Etsu Handotai America, Inc. (S.E.H. America)
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 Phone: (360) 883-7000 Fax: (360) 254-6973

Shin-Etsu Magnetics, Inc.
 2362 Qume Drive, Suite A
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 Phone: (408) 383-9240 Fax: (408) 383-9245

Shin-Etsu MicroSi, Inc.
 10028 South 51st St., Phoenix, AZ 85044
 Phone: (602) 893-8898 Fax: (602) 893-8637

Shin-Etsu Polymer America, Inc.
 5600 Mowry School Road, Suite 320
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 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

Shintech Inc.
 Wesleyan Tower, #24 Greenway Plaza
 Suite 811, Houston, TX 77046
 Phone: (713) 965-0713 Fax: (713) 965-0629

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

K-BIN, Inc.
 Wesleyan Tower, #24 Greenway Plaza
 Suite 811, Houston, TX 77046
 Phone: (713) 965-0713 Fax: (713) 965-0629

Shincor Silicones, Inc.
 1030 Evans Avenue, Akron, OH 44305
 Phone: (330) 630-9460 Fax: (330) 630-1491

Silica Products, Inc.
 5640 Hwy 332 East, Freeport, TX 77541
 Phone: (713) 965-0713 Fax: (713) 965-0629

B O A R D O F D I R E C T O R S

President and CEO

Chihiro Kanagawa

Executive Vice President

Shunichi Koyanagi

Senior Managing Directors

Osamu Hiura

Toshiji Miyaji

Shunzo Mori

Managing Directors

Hiroaki Tsubokura

Hironobu Ichimura

Isao Iwashita

Fumio Akiya

Directors

Ryoei Miki

Kiichi Habata

Jiro Yamada

Kiyoshi Imai

Hajime Kitamura

Tetsuyu Suda

Full-Time Statutory Auditors

Masahiko Watase

Ryoji Endo

Statutory Auditors

Masao Okazaki

Tasuku Takagaki



Chihiro Kanagawa



Shunichi Koyanagi



Osamu Hiura



Toshiji Miyaji



Shunzo Mori

(as of 29th June, 2000)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

SHIN-ETSU CHEMICAL CO., LTD. and Subsidiaries

For the years ended 31st March

Review of Operations

The operations of Shin-Etsu Chemical Co., Ltd. (the Company) and its subsidiaries are divided into three business segments according to product type, sales area, 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 and other products as well as providing a variety of other services, including construction and maintenance. Consolidated data include the results of the Company and its 61 subsidiaries in Japan and overseas. The equity method of accounting is applied to 7 of the 38 unconsolidated subsidiaries and the 16 affiliated companies.

Operating Environment

There were signs of an economic recovery in Japan in the fiscal year ended March 31, 2000, as public expenditures and housing construction increased during the first half of the period as a result of government economic policies. The second half of the fiscal year saw an upturn in capital expenditures, centering on IT-related fields. However, a deteriorating environment for employment and income led to continued stagnation in consumer spending and the recovery lacked strength. On the other hand, although there are uncertainties

about the future, the US economy continued to grow steadily led by increases in consumer spending and capital expenditures.

In this operating environment, the companies of the Shin-Etsu Group strove to further improve their competitive strength in their core international business fields. In addition, Group companies made every effort to improve profitability, develop new products and bring them to market.

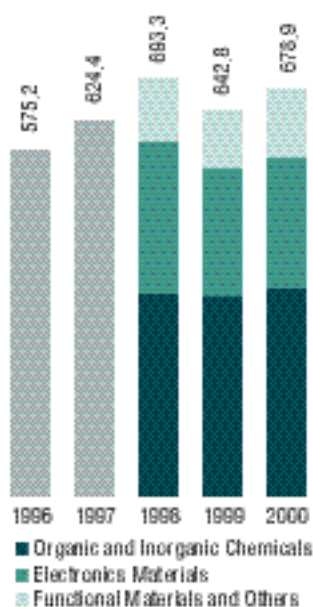
Net Sales

Overseas sales made up 51.2% of consolidated net sales for the year ended March 31, 2000 so the appreciation of the yen and the accompanying foreign exchange loss had an effect on the Company's results. However, growth in demand in each business segment, both abroad and in Japan, more than compensated for this negative factor and consolidated net sales increased 5.6%, or ¥36,063 million, to ¥678,859 million (US\$6,404 million).

Net sales for the Organic and Inorganic Chemicals segment rose 4.4%, or ¥14,487 million, to ¥343,412 million (US\$3,240 million). Sales in this segment accounted for 50.6% of total net sales, down from the previous fiscal year's figure of 51.2%. Increased net sales for the segment made up 40.2% of the total increase.

Although sales of PVC did not perform well in the Japanese market, demand overseas, led by the United States, turned around and grew steadily. Sales of silicones surpassed those of the

Net Sales
Billions of yen



Operating Income
Billions of yen



Net Income
Billions of yen



previous period as demand in Japan recovered, led by sales for use in communications devices. Sales of silicones overseas also expanded, led by sales in other parts of Asia.

Net sales for the Electronics Materials segment during the period under review rose 2.6% compared to the previous period, up ¥5,527 million to ¥220,132 million (US\$2,077 million). Sales in this segment accounted for 32.4% of total net sales, down from 33.4% for the previous period. Increased net sales for the segment made up 15.3% of the total increase.

With regard to performance by product category, falling prices and the sudden recovery in demand for electronic devices, driven by increased demand worldwide for personal computers and mobile phones, pushed sales of semiconductor silicon to surpass those of the previous period despite falling prices. Sales of rare earth magnets for use in electronics applications were affected by significant adjustments in the production of hard disk drives (HDDs) and suffered a downturn.

The Functional Materials and Others segment recorded a 16.2% increase in net sales compared to the previous period, climbing ¥16,049 million to ¥115,315 million (US\$1,088 million). Sales for the segment as a proportion of total net sales rose 1.6%, from 15.4% to 17.0%. Exports of synthetic quartz products for optical fiber increased and other sales to the electronics and telecommunications industries also rose. Sales of rare earth magnets for use in optical pickups, factory automation devices, and

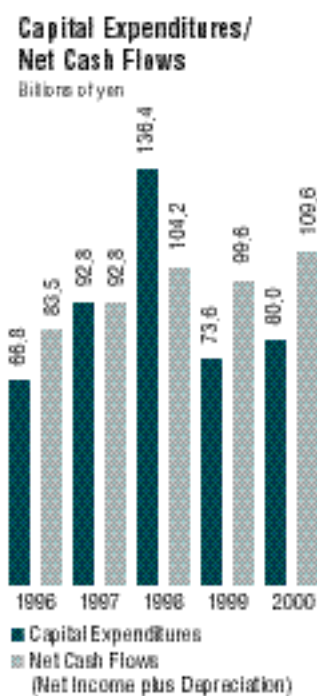
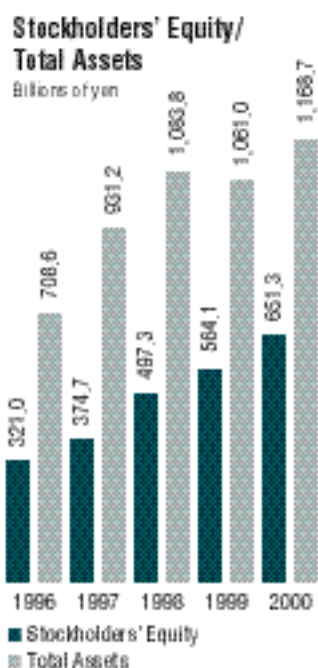
mobile phones were also strong. Overall, increased net sales for the segment made up 44.5% of the total increase in sales.

Overseas sales accounted for ¥347,792 million compared with total net sales of ¥678,859. The proportion of overseas sales to total sales dropped 2.5%, from 53.7% in the previous fiscal period to 51.2%. This reflects stronger growth in domestic sales than in overseas sales as well as the effect of the appreciation of the yen and the accompanying foreign exchange loss.

Expenses and Earnings

Operating income for the period under review rose 1.3%, or ¥1,142 million, to ¥87,465 million (US\$825 million). Operating income for the Organic and Inorganic Chemicals segment increased 1.8%, or ¥796 million, to ¥45,162 million. The Electronics Materials segment was affected by falling prices for some products and inventory adjustments, and operating profit fell 20.6%, or ¥6,054 million, to ¥23,344 million. The Functional Materials and Others segment recorded a significant increase in operating income, surging 45.7%, or ¥5,854 million, to ¥18,652 million.

Other expenses (net) totaled ¥4,560 million (US\$43 million), roughly half of the figure for the previous fiscal year, ¥9,116 million, largely because the loss associated with foreign exchange fluctuations was reduced to ¥4,703 million. Net interest expense rose ¥1,823 million as a result of lower interest earned following the reduced use of US dollar-based funds.



Income before income taxes increased 7.4%, or ¥5,698 million, to ¥82,905 million, while consolidated net income soared 11.2%, rising ¥4,866 million, to ¥48,229 million. This difference is attributed to the transition to tax-effect accounting made during this fiscal period by the Company, its domestic subsidiaries and affiliates, which resulted in an increase in net profits of ¥943 million and a reduction in Japanese income tax rates.

Primary net income per share was ¥116.56 (US\$1.10), an increase of ¥7.20.

With regard to the Company's cash dividends for the period under review, including the interim cash dividend of ¥5 per share paid previously, the Company plans to declare an annual cash dividend of ¥10 (US\$0.094) per share, an increase of ¥1 compared with the previous fiscal year.

Financial Position

As of March 31, 2000, total assets were ¥1,168,729 million (US\$11,026 million), an increase of ¥107,756 million, or 10.2%.

Current assets grew ¥86,972 million to ¥610,293 million (US\$5,757 million). The main factors contributing to this rise were the growth in notes and accounts receivable of ¥28,232 million, increased retained earnings, and a ¥33,767 million rise in short-term marketable securities and cash equivalent. In addition, deferred tax assets increased significantly in line with the adoption of tax-effect accounting from this fiscal period.

Total investments and advances rose ¥6,622 million to ¥141,240 million (US\$1,332 million), largely as a result of investments in, and advances to, unconsolidated affiliates.

Total property, plant and equipment declined ¥13,193 million to ¥378,272 million (US\$3,569 million).

Investment in plant and facilities and actual depreciation were approximately balanced. In addition to an increase in fixed assets of ¥16,977 million as a result of the consolidation of three firms, the reduction in recorded costs of exchange due to the appreciation of the yen was significant for foreign subsidiaries and tangible fixed assets decreased.

Adjustments on foreign currency statement translation increased ¥26,972 million, to ¥31,790 million (US\$300 million), as yen equivalent increased due to the appreciation of the yen on foreign currency based financial statements.

Total liabilities increased 3.7%, or ¥17,823 million, to ¥493,929 million (US\$4,660 million). Short- and long-term interest-bearing debt rose ¥2,773 million, to ¥253,833 million (US\$2,395 million) due to new procurement and redemption activities. Operating and other liabilities rose ¥15,050 million, to ¥240,096 million (US\$2,265 million), largely due to an increase of ¥8,370 million in notes and

accounts payable used to expand business and an increase in accrued income taxes of ¥9,911 million against higher earnings.

Total stockholders' equity increased 15.5%, or ¥87,194 million, to ¥651,261 million (US\$6,144 million). The equity ratio rose 2.5%, to 55.7%, largely due to an increase of ¥20,954 million in common stock and additional paid-in capital. This was as a result of the conversion of convertible bonds, the exercise of subscription rights, and an increase of ¥68,207 million in legal reserve and earnings, which includes an adjustment of ¥23,637 million for the prior year's caused by the application of deferred tax accounting.

Cash Flow

Cash and cash equivalents as of March 31, 2000, were ¥271,635 million (US\$2,563 million), an increase of ¥22,454 million. This is equivalent to 4.8 times average monthly net sales of ¥56,572 million, and provides liquidity adequate to maintain the Company's business activities.

Net cash provided by operating activities jumped ¥27,425 million, to ¥95,876 million (US\$904 million). The main factors behind the increase were cash inflows, which kept non-cash items, such as depreciation costs within bounds, and lower income taxes.

Net cash used for investing activities slightly surpassed the figure for the previous year, amounting to ¥76,349 million (US\$720 million), up ¥2,551 million. The increase stems from increased investment in marketable securities and loans, although investment in property, plant and equipment decreased slightly.

Net cash from financing activities surged ¥5,013 million, to ¥12,142 million (US\$115 million). While short- and long-term interest-bearing debt was reduced through new procurement and bond conversion and redemption, income from the issue of new shares through the exercise of warrants jumped ¥15,981 million, to ¥16,645 million (US\$157 million).

Exchange loss affecting cash and cash equivalents due to the appreciation of the yen climbed ¥7,110 million, to ¥10,434 million (US\$98 million).

Year 2000 (Y2K)

In consultation with their suppliers, customers, and other relevant parties, the companies of the Shin-Etsu Group launched a coordinated plan of action in anticipation of possible problems associated with Y2K. As of the date of this report, Shin-Etsu has experienced no significant problems related to Y2K conversion, either in Japan or abroad. The Company successfully met its primary Y2K goals of uninterrupted business activities, continued preservation of the environment, and the maintenance of safety standards at its business sites as well as in the communities where it operates.

TEN-YEAR SUMMARY

SHIN-ETSU CHEMICAL CO., LTD. and Subsidiaries
Years ended 31st March, 2000 through 1991

	2000	1999	1998
(millions of yen, except per share)			
For the Year:			
Net sales	¥ 678,859	¥ 642,796	¥ 693,275
Operating income	87,465	86,323	90,860
Net income	48,229	43,363	42,027
Per Share (yen):			
Net income — primary	116.56	109.36	110.73
Net income — fully diluted	113.46	103.17	101.69
Cash dividends	10.00	9.00	8.50
Capital expenditures	80,003	73,641	136,384
Depreciation	61,384	56,196	62,144
At Year-End:			
Total assets	¥1,168,729	¥1,060,973	¥1,083,780
Working capital	273,193	261,691	221,869
Common stock	107,664	98,243	83,957
Stockholders' equity	651,261	564,067	497,312
Stockholders' equity per share (Yen)	1,557.48	1,380.43	1,265.39
General:			
Number of employees	18,754	18,384	19,238
Number of shares issued (Thousands)	419,848	410,015	393,722

	2000	1999	1998
(thousands of U.S. dollars, except per share)			
For the Year:			
Net sales	\$ 6,404,330	\$ 6,064,113	\$ 6,540,330
Operating income	825,142	814,368	857,170
Net income	454,991	409,085	396,481
Per Share (dollars):			
Net income — primary	1.100	1.032	1.045
Net income — fully diluted	1.070	0.973	0.959
Cash dividends	0.094	0.085	0.080
Capital expenditures	754,745	694,726	1,286,642
Depreciation	579,094	530,151	586,264
At Year-End:			
Total assets	\$11,025,745	\$10,009,179	\$10,224,340
Working capital	2,577,292	2,468,783	2,093,104
Common stock	1,015,698	926,821	792,047
Stockholders' equity	6,143,972	5,321,387	4,691,623
Stockholders' equity per share (Dollars)	14.693	13.023	11.938
General:			
Number of employees	18,754	18,384	19,238
Number of shares issued (Thousands)	419,848	410,015	393,722

Note: The U.S. dollar amounts represent conversions of Japanese yen, for convenience only, at the rate of ¥106=\$1.

1997	1996	1995	1994	1993	1992	1991
(millions of yen, except per share)						
¥624,405	¥575,176	¥522,917	¥464,449	¥460,929	¥478,351	¥466,993
82,024	73,427	51,914	32,450	34,815	49,795	54,588
40,614	37,825	26,862	17,547	15,989	24,581	26,528
118.24	116.51	82.80	54.17	49.37	75.96	82.15
103.95	106.66	—	—	—	—	—
7.50	7.50	7.50	7.50	7.50	7.50	7.50
92,844	66,791	67,689	34,421	41,292	69,875	65,444
52,191	45,647	42,986	40,351	37,675	36,912	33,884
¥931,159	¥708,637	¥643,937	¥600,754	¥602,483	¥614,490	¥587,692
195,729	118,936	110,901	94,362	78,907	54,869	82,511
44,256	36,440	36,384	35,829	35,800	35,781	35,418
374,726	320,987	285,361	265,030	257,058	243,730	224,716
1,071.97	988.59	879.06	818.12	793.64	752.56	695.11
18,896	17,106	16,075	11,697	11,557	11,744	11,930
349,569	324,691	324,621	323,949	323,899	323,867	323,283

1997	1996	1995	1994	1993	1992	1991
(thousands of U.S. dollars, except per share)						
\$5,890,613	\$5,426,189	\$4,933,179	\$4,381,594	\$4,348,387	\$4,512,745	\$4,405,594
773,811	692,708	489,755	306,132	328,443	469,764	514,981
383,151	356,840	253,415	165,538	150,840	231,896	250,264
1.115	1.099	0.781	0.511	0.466	0.717	0.775
0.981	1.006	—	—	—	—	—
0.071	0.071	0.071	0.071	0.071	0.071	0.071
875,887	630,104	638,575	324,726	389,547	659,198	617,396
492,368	430,632	405,528	380,670	355,425	348,226	319,660
\$8,784,519	\$6,685,255	\$6,074,877	\$5,667,491	\$5,683,802	\$5,797,075	\$5,544,264
1,846,500	1,122,038	1,046,236	890,208	744,406	517,632	778,406
417,509	343,774	343,245	338,009	337,736	337,557	334,132
3,535,151	3,028,179	2,692,085	2,500,283	2,425,075	2,299,340	2,119,962
10.113	9.326	8.293	7.718	7.487	7.100	6.558
18,896	17,106	16,075	11,697	11,557	11,744	11,930
349,569	324,691	324,621	323,949	323,899	323,867	323,283

CONSOLIDATED BALANCE SHEETS

SHIN-ETSU CHEMICAL CO., LTD. and Subsidiaries

As of 31st March, 2000 and 1999

	2000	1999	2000
	(millions of yen)		(thousands of U.S. dollars) (Note 3)
ASSETS			
Current Assets:			
Cash and time deposits	¥ 209,058	¥ 184,021	\$ 1,972,245
Marketable securities (Note 5)	85,066	76,336	802,509
Notes and accounts receivable:			
Trade	174,798	143,391	1,649,038
Unconsolidated subsidiaries and affiliates	11,565	12,978	109,104
Other	4,367	6,635	41,198
Less: allowance for doubtful accounts	(2,265)	(2,771)	(21,368)
	188,465	160,233	1,777,972
Inventories (Note 4)	97,456	94,421	919,396
Deferred income taxes, current	17,121	713	161,519
Other current assets	13,127	7,597	123,839
Total current assets	610,293	523,321	5,757,480
Investments and Advances:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 6)	37,200	34,786	350,943
Investments in securities (Note 5)	87,917	89,910	829,406
Long-term loans	906	1,462	8,547
Other	15,293	8,548	144,273
Less: allowance for doubtful accounts	(76)	(88)	(717)
Total investments and advances	141,240	134,618	1,332,452
Property, Plant and Equipment (Note 7):			
Buildings and structures	241,510	242,305	2,278,396
Machinery and equipment	652,237	630,845	6,153,180
Less: accumulated depreciation	(578,228)	(540,669)	(5,454,981)
	315,519	332,481	2,976,595
Land	29,530	29,500	278,585
Construction in progress	33,223	29,484	313,425
Total property, plant and equipment	378,272	391,465	3,568,605
Deferred Charges and Other Assets	7,134	6,751	67,302
Adjustments on Foreign Currency Statement Translation (Note 2 (4))	31,790	4,818	299,906
	¥1,168,729	¥1,060,973	\$11,025,745

The accompanying notes are an integral part of the statements.

	2000	1999	2000
	(millions of yen)		(thousands of U.S. dollars) (Note 3)
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans (Note 7)	¥ 71,636	¥ 70,152	\$ 675,811
Current portion of long-term debt (Note 7)	67,753	11,653	639,179
Notes and accounts payable:			
Trade	77,827	69,846	734,217
Unconsolidated subsidiaries and affiliates	13,012	12,513	122,755
Other	33,814	33,924	319,000
	124,653	116,283	1,175,972
Accrued income taxes	18,085	8,174	170,613
Accrued expenses	44,424	42,479	419,094
Advance received	1,532	1,467	14,453
Other current liabilities	9,017	11,422	85,066
Total current liabilities	337,100	261,630	3,180,188
Long-Term Liabilities:			
Long-term debt (Note 7)	114,444	169,255	1,079,660
Accrued employees' severance indemnities (Note 8)	7,720	5,591	72,830
Deferred income taxes, non-current	15,718	16,896	148,283
Other	18,947	22,734	178,746
Total long-term liabilities	156,829	214,476	1,479,519
Excess of Investment Cost over Equity in Net Assets of Consolidated Subsidiaries	239	478	2,255
Minority Interests in Consolidated Subsidiaries	23,300	20,322	219,811
Contingent Liabilities (Note 9)			
Stockholders' Equity (Note 10):			
Common stock:			
Authorized: 800,000,000 shares			
Issued, par value ¥50 per share:			
419,848,360 shares and 410,014,600 shares as of 31st March, 2000 and 1999, respectively	107,664	98,243	1,015,698
Additional paid-in capital	115,857	104,324	1,092,991
Legal reserve and retained earnings (Note 17)	433,460	365,253	4,089,245
	656,981	567,820	6,197,934
Less: treasury stock	(5,720)	(3,753)	(53,962)
Total stockholders' equity	651,261	564,067	6,143,972
	¥1,168,729	¥1,060,973	\$11,025,745

CONSOLIDATED STATEMENTS OF INCOME

SHIN-ETSU CHEMICAL CO., LTD. and Subsidiaries

For the years ended 31st March, 2000, 1999 and 1998

	2000	1999	1998	2000
	(millions of yen)			(thousands of U.S. dollars) (Note 3)
Net Sales (Note 13)	¥678,859	¥642,796	¥693,275	\$6,404,330
Cost of Sales (Notes 8, 11 and 13)	507,194	471,667	515,728	4,784,849
Gross profit	171,665	171,129	177,547	1,619,481
Selling, General and Administrative Expenses (Notes 8 and 11)	84,200	84,806	86,687	794,339
Operating income	87,465	86,323	90,860	825,142
Other Income/(Expenses):				
Interest and dividend income	9,578	13,273	11,154	90,358
Equity in earnings of affiliates	1,324	564	—	12,491
Amortisation of difference between cost of investment and equity in net assets of consolidated subsidiaries	239	198	—	2,255
Interest expenses	(8,983)	(10,855)	(9,220)	(84,740)
Amortisation of bond discounts	(1,744)	(1,744)	(1,744)	(16,453)
Loss on sale/disposal of property, plant and equipment	(971)	(700)	(1,433)	(9,160)
Foreign exchange loss	(6,543)	(11,246)	(950)	(61,726)
Other, net	2,540	1,394	(29)	23,956
Income before income taxes	82,905	77,207	88,638	782,123
Income Taxes (Note 14):				
Current	33,243	26,655	46,105	313,613
Deferred	(366)	5,660	820	(3,453)
	32,877	32,315	46,925	310,160
Income after income taxes	50,028	44,892	41,713	471,963
Minority Interests in Earnings of Consolidated Subsidiaries	(1,799)	(1,529)	(1,310)	(16,972)
Equity in Earnings of Affiliates	—	—	1,352	—
Amortisation of Difference between Cost of Investment and Equity in Net Assets of Consolidated Subsidiaries	—	—	272	—
Net income	¥ 48,229	¥ 43,363	¥ 42,027	\$ 454,991
		(yen)	(U.S. dollars) (Note 3)	
Per Share (Note 2 (14)):				
Net income—primary	¥ 116.56	¥ 109.36	¥ 110.73	\$ 1.100
Net income—fully diluted	113.46	103.17	101.69	1.070
Cash dividends	10.00	9.00	8.50	0.094
Weighted Average Number of Shares (Thousands)	415,536	397,752	380,084	415,536

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 31st March, 2000, 1999 and 1998

	Number of shares of common stock issued	Common stock	Additional paid-in capital	Legal reserve and retained earnings
	(thousands)		(millions of yen)	
Balance as of 31st March, 1997	349,569	¥ 44,256	¥ 46,180	¥284,293
Net income for the year	—	—	—	42,027
Increase in retained earnings due to additional consolidation of subsidiaries	—	—	—	2,318
Cash dividends	—	—	—	(2,927)
Directors' and statutory auditors' bonuses	—	—	—	(212)
Conversion of convertible debentures	27,183	23,427	23,392	—
Exercise of warrant attached to debentures	16,970	16,274	20,404	—
Balance as of 31st March, 1998	393,722	83,957	89,976	325,499
Net income for the year	—	—	—	43,363
Increase in retained earnings due to increase in ownership percentage in consolidated subsidiaries	—	—	—	50
Cash dividends	—	—	—	(3,444)
Directors' and statutory auditors' bonuses	—	—	—	(215)
Conversion of convertible debentures	15,946	13,954	13,931	—
Exercise of warrant attached to debentures	347	332	417	—
Balance as of 31st March, 1999	410,015	98,243	104,324	365,253
Prior year's adjustment by application of deferred tax accounting	—	—	—	23,637
Net income for the year	—	—	—	48,229
Increase in retained earnings due to additional consolidation of subsidiaries	—	—	—	429
Cash dividends	—	—	—	(3,911)
Directors' and statutory auditors' bonuses	—	—	—	(177)
Conversion of convertible debentures	1,151	1,094	1,093	—
Exercise of warrant attached to debentures	8,682	8,327	10,440	—
Balance as of 31st March, 2000	419,848	¥107,664	¥115,857	¥433,460

	Number of shares of common stock issued	Common stock	Additional paid-in capital	Legal reserve and retained earnings
	(thousands)		(thousands of U.S. dollars) (Note 3)	
Balance as of 31st March, 1999	410,015	\$ 926,821	\$ 984,189	\$ 3,445,783
Prior year's adjustment by application of deferred tax accounting	—	—	—	222,990
Net income for the year	—	—	—	454,991
Increase in retained earnings due to additional consolidation of subsidiaries	—	—	—	4,047
Cash dividends	—	—	—	(36,896)
Directors' and statutory auditors' bonuses	—	—	—	(1,670)
Conversion of convertible debentures	1,151	10,321	10,311	—
Exercise of warrant attached to debentures	8,682	78,556	98,491	—
Balance as of 31st March, 2000	419,848	\$1,015,698	\$1,092,991	\$4,089,245

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 31st March, 2000, 1999 and 1998

	2000	1999	1998	2000
	(millions of yen)			(thousands of U.S. dollars) (Note 3)
Cash Flows from Operating Activities:				
Income before income taxes	¥ 82,905	¥ 77,207	¥ 88,638	\$ 782,123
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortisation	61,384	56,196	62,144	579,094
Loss on sale/disposal of property, plant and equipment	971	700	1,433	9,160
Interest and dividend income	(9,578)	(13,273)	(11,154)	(90,358)
Interest expenses	8,983	10,855	9,220	84,736
Foreign exchange loss	5,478	207	1,741	51,679
Amortisation of bond discounts	1,744	1,744	1,744	16,453
Other, net	411	(717)	(2,479)	3,887
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	(36,847)	19,974	(15,248)	(347,613)
Increase in inventories	(5,009)	(9,673)	(14,277)	(47,255)
Increase (decrease) in notes and accounts payable	12,519	(32,985)	11,294	118,104
Other, net	(4,363)	(2,617)	18,275	(41,160)
Sub-total	118,598	107,618	151,331	1,118,850
Proceeds from interest and dividend income	9,578	13,272	11,100	90,358
Payment of interest	(8,838)	(10,852)	(9,217)	(83,377)
Payment of income taxes	(23,462)	(41,587)	(46,790)	(221,340)
Net cash provided by operating activities	95,876	68,451	106,424	904,491
Cash Flows from Investing Activities:				
Purchases of property, plant and equipment	(54,666)	(79,583)	(133,319)	(515,717)
Decrease (increase) in marketable securities	(8,698)	13,095	(18,158)	(82,057)
Purchases of investment securities	(4,922)	(16,946)	(23,857)	(46,434)
Proceeds from sales of investments in securities	3,977	8,889	20,640	37,519
Decrease (increase) in loans	(11,253)	4,453	(7,647)	(106,160)
Other, net	(787)	(3,706)	5,800	(7,425)
Net cash used for investing activities	(76,349)	(73,798)	(156,541)	(720,274)
Cash Flows from Financing Activities:				
Increase (decrease) in short-term loans	78	16,570	(19,952)	736
Borrowing of long-term debt	17,871	10,003	24,906	168,594
Payment of long-term debt	(12,640)	(12,071)	(15,272)	(119,245)
Proceeds from issue of debentures	—	—	49,189	—
Proceeds from exercise of warrant attached to debentures	16,645	664	32,531	157,028
Cash dividends paid	(3,911)	(3,444)	(2,927)	(36,896)
Other, net	(5,901)	(4,593)	(4,533)	(55,670)
Net cash provided by financing activities	12,142	7,129	63,942	114,547
Effect of Exchange Rate Changes on Cash	(10,434)	(3,324)	7,919	(98,434)
Net Increase (Decrease) in Cash and Cash Equivalents	21,235	(1,542)	21,744	200,330
Net Increase in Cash and Cash Equivalents				
Due to Change in Scope of Consolidation	1,219	—	—	11,500
Cash and Cash Equivalents at Beginning of Year	249,181	250,723	228,979	2,350,764
Cash and Cash Equivalents at End of Year	¥271,635	¥249,181	¥250,723	\$2,562,594

The accompanying notes are an integral part of the statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SHIN-ETSU CHEMICAL CO., LTD. and Subsidiaries

As of 31st March, 2000, 1999 and 1998

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 and practices prevailing in Japan, which are different in certain respects as to the application and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices 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 and practices followed by the Company.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than 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 99 majority-owned subsidiaries as of 31st March, 2000 (99 as of 31st March, 1999 and 96 as of 31st March, 1998). The consolidated financial statements include the accounts of the Company and its 61 (58 for 1999 and 57 for 1998) majority-owned subsidiaries (the "Companies"), of which principal firms are listed on page 45 with their respective fiscal year-ends.

The remaining 38 (41 for 1999 and 39 for 1998) unconsolidated subsidiaries whose combined assets, net sales, net income

and retained earnings in the aggregate are not significant compared to 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 the Company, necessary adjustments are made on significant intercompany transactions which took place during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

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

Elimination of cost of investments in consolidated subsidiaries with the underlying equity in net assets of such subsidiaries has been made by the Company to include equity in the net income (loss) of subsidiaries earned subsequent to the acquisition of each block of shares. Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is treated as an asset or a liability, as the case may be, and amortised over a period of five 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 38 (41 for 1999 and 39 for 1998) unconsolidated subsidiaries (majority-owned) and 16 (21 for 1999 and 21 for 1998) affiliates (meaning 20 percent to 50 percent ownership of a company's equity interest). The equity method is applied to the investments in seven major affiliates since investments in the remaining unconsolidated subsidiaries and affiliates 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.
Nagano Electronics Industrial Co., Ltd.

(3) Translation of foreign currency transaction— Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the rates effective at the respective transaction dates.

Foreign currency deposits and short-term receivables and payables denominated in foreign currencies are translated into Japanese 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.

Long-term receivables and payables denominated in foreign currencies including investments in overseas unconsolidated subsidiaries and affiliates are translated at the historical rates prevailing at the transaction dates.

Exceptionally, receivables and payables denominated in foreign currencies which are hedged by forward exchange contracts are translated at the contracted rate of exchange.

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 Japanese 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 Japanese 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 “Adjustments on Foreign Currency Statement Translation” in the accompanying balance sheets as of 31st March, 2000 and 1999.

(5) Inventory valuation— Inventories are valued principally at cost determined by the annual average method.

(6) Valuation of securities— Investments in securities, both quoted and non-quoted, are valued principally at cost determined by the moving average method.

(7) Property, plant and equipment— Depreciation of property, plant and equipment is principally computed on the declining-balance method, based on the estimated useful lives of assets prescribed by the Japanese tax laws. 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.

(8) Amortisation— New share issue expenses are charged to income as incurred. Discounts on bond issues are deferred and amortised on a straight-line basis over a period up to the maturity of the relevant bonds. Research and development costs are charged to income as incurred.

(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.

(11) Recognition of certain accrued expenses— In general, the Companies follow the accrual basis of accounting for all income and expense items. However, the Japanese income tax laws provide for limits deductible for tax purposes with respect to certain accrued expenses which are essentially the estimates of amounts to be determined in future years. The accrued expenses of the Companies to which such limits apply under the laws are: accrued bonuses to employees, accrued employees’ severance indemnities and allowance for doubtful accounts. The Companies generally record such accrued expense items on the Companies’ own estimate, which is deemed to be adequate for financial reporting purposes.

(12) Income taxes— Income taxes are provided based on amounts required by the tax return for the period. Tax effect is recorded for timing differences in recognition of certain expenses between tax and financial reporting on the consolidated financial statements from this fiscal year, in compliance with the regulations of the consolidated financial statements, which have been recently changed. As a result, net income for the year ended increased by ¥943 million and the legal reserve and retained earnings at the year-end increased by ¥24,580 million due to the initial application of deferred tax accounting. Eighteen overseas’ subsidiaries have previously applied deferred tax accounting.

(13) Research and development costs— Research and development costs are charged to income as incurred.

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

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

(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. Also the interim cash dividends are paid. (See Note 10)

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. And the consumption tax borne by the Company on purchases of goods and services, and expenses is not included in the related amounts in the accompanying Consolidated Statements of Income, either.

3 United States dollar amounts

The Company prepares its consolidated financial statements in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥106 to U.S.\$1, the approximate effective rate of exchange on 31st March, 2000. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realised or settled in dollars at ¥106 to U.S.\$1 or at any other rate.

4 Inventories

Inventories as of 31st March, 2000 and 1999 consisted of the following:

	31st March		2000 (thousands of U.S. dollars)
	2000 (millions of yen)	1999	
Merchandise	¥ 5,982	¥ 4,959	\$ 56,434
Finished products	36,677	39,520	346,010
Semifinished products	15,149	13,679	142,915
Raw materials	25,143	24,089	237,198
Supplies	11,580	10,073	109,245
Others	2,925	2,101	27,594
	¥97,456	¥94,421	\$919,396

5 Marketable securities and investments in securities

Marketable securities (current portfolio) and investments in securities (non-current portfolio) held by the Companies as of 31st March, 2000 and 1999 consisted of the following:

	31st March		
	2000	1999	2000
	(millions of yen)		(thousands of U.S. dollars)
Marketable Securities (current portfolio):			
Listed corporate shares	¥ 236	¥ 1,023	\$ 2,226
Listed bonds, debentures and others	301	290	2,840
Bonds, debentures and others	84,529	75,023	797,443
	¥85,066	¥76,336	\$802,509
Investments in Securities (non-current portfolio):			
Listed corporate shares	¥34,193	¥37,859	\$322,575
Listed bonds, debentures and others	1,722	4,292	16,245
Other shares (unquoted)	6,362	3,114	60,019
Bonds, debentures and others	45,640	44,645	430,567
	¥87,917	¥89,910	\$829,406

The aggregate market value of listed corporate shares (marketable equity securities) and listed bonds, debentures and others, and net unrealised gains (losses) as of 31st March, 2000 and 1999 amounted to as follows:

	31st March		
	2000	1999	2000
	(millions of yen)		(thousands of U.S. dollars)
Current:			
Listed corporate shares			
Market value	¥ 505	¥ 1,099	\$ 4,764
Net unrealised gains (losses)	269	76	2,538
Listed bonds, debentures and others			
Market value	¥ 225	¥ 204	\$ 2,123
Net unrealised gains (losses)	(76)	(86)	(717)
Non-Current:			
Listed corporate shares			
Market value	¥70,291	¥65,243	\$663,122
Net unrealised gains (losses)	36,098	27,384	340,547
Listed bonds, debentures and others			
Market value	¥ 1,708	¥ 4,253	\$ 16,113
Net unrealised gains (losses)	(14)	(39)	(132)

6 Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates as of 31st March, 2000 and 1999 consisted of the following:

	31st March		2000 (thousands of U.S. dollars)
	2000 (millions of yen)	1999	
Held Directly by the Company:			
Affiliates:			
Four affiliates accounted for by the equity method (See Note 2 (2))*	¥11,161	¥ 9,513	\$105,292
Kashima Denkai Co., Ltd.	805	805	7,594
Unitika Chemical Co., Ltd.	600	600	5,660
Others	228	228	2,151
	12,794	11,146	120,697
Unconsolidated subsidiaries:			
Shin-Etsu Electronics Malaysia Sdn. Bhd.	1,400	1,400	13,208
Shin-Etsu Silicones Europe B.V. ⁽¹⁾	—	734	—
Shin-Etsu Film Co., Ltd.	199	199	1,877
Others	320	384	3,019
	1,919	2,717	18,104
Held Indirectly through Subsidiaries:			
Unconsolidated subsidiaries and affiliates:			
Three affiliates (and two unconsolidated subsidiaries for 1999) accounted for by the equity method (See Note 2 (2))*	¥ 7,889	¥11,495	\$ 74,425
Others	1,799	4,207	16,972
	¥ 9,688	¥15,702	\$ 91,397
Advances:			
	12,799	5,221	120,745
	¥37,200	¥34,786	\$350,943

* Accounted for by the equity method. Others are carried at cost or less.

(1) Newly consolidated with effect from the year ended 31st March, 2000.

7 Short-term loans and long-term debt

Short-term loans outstanding as of 31st March, 2000 and 1999 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 agreement or otherwise will be applicable to all indebtedness to such banks.

Long-term debt as of 31st March, 2000 and 1999 consisted of the following:

	31st March		2000 (thousands of U.S. dollars)
	2000 (millions of yen)	1999	
Loans with Banks and Other Financial Institutions:			
Secured	¥ 28,420	¥ 18,563	\$ 268,113
Unsecured	38,266	38,730	361,000
Unsecured Debentures:			
3% notes in U.S. dollars, due August 2000 with warrants	51,661	52,562	487,367
6.7% debentures issued by a consolidated subsidiary, due April 2001	2,888	3,263	27,245
6% debentures issued by a consolidated subsidiary, due July 2002	12,413	17,638	117,104
2.7% debentures issued by a consolidated subsidiary, due August 2004	8,000	8,000	75,472
2.5% debentures issued by a consolidated subsidiary, due August 2003	5,000	5,000	47,170
2.2% debentures issued by a consolidated subsidiary, due August 2002	5,000	5,000	47,170
2.6% debentures issued by a consolidated subsidiary, due December 2007	3,000	3,000	28,302
2.5% debentures issued by a consolidated subsidiary, due February 2003	3,000	3,000	28,302
2.1% debentures issued by a consolidated subsidiary, due March 2003	2,000	2,000	18,868
2.1% debentures issued by a consolidated subsidiary, due March 2003	3,000	3,000	28,302
5.0% debentures issued by a consolidated subsidiary, due May 2008	584	—	5,509
Unsecured Convertible Debentures:			
3.0% convertible debentures in U.S. dollars, due May 2000	—	26	—
0.4% convertible debentures, due September 2005	18,965	21,126	178,915
	182,197	180,908	1,718,839
Less Portion Due within One Year	(67,753)	(11,653)	(639,179)
	¥114,444	¥169,255	\$1,079,660

Additional information with respect to the Companies' convertible debentures is summarised as follows:

	Terms of conversion as of 31st March, 2000				
	Issue date and principal amount at issue	Balance as of 31st March, 2000 in denominated currencies	Current conversion price per share*	Fixed exchange rates for conversion	Additional shares issuable upon full conversion (in thousands)
Unsecured:					
0.4% convertible debentures in yen, due 2005	8th August, 1996 (¥ 50,000 million)	¥18,965 million	¥1,917.0	—	9,893
					9,893

Additional information with respect to the Companies' warrants is summarised as follows:

	Terms of exercise as of 31st March, 2000				
	Issue date and principal amount at issue	Balance as of 31st March, 2000 in denominated currencies	Current exercise price per share*	Fixed exchange rates for exercise	Additional shares issuable upon full exercise (in thousands)
Warrants attached to:					
3½% notes in U.S. dollars, due 2000	8th August, 1996 (U.S.\$500 million)	U.S.\$41 million	¥1,917.0	U.S.\$1= 109.45	2,368
					2,368

*Subject to adjustment for subsequent stock dividends, stock splits and others.

3½% notes with warrants denominated in foreign currency are covered by a long-term forward exchange contract and accordingly are translated into yen at the contracted exchange rate. The difference between the amount translated at the contract rates and the amount translated at the historical exchange rates is deferred and amortised over a period from the date of concluding the forward exchange contract to the date of settlement based on the number of months. As a result, during the year ended 31st March, 2000, ¥410 million (\$3,868 thousand) was amortised to income as a

credit to "Foreign exchange loss" in "Other Income/(Expenses)" in the accompanying Consolidated Statements of Income for the year ended 31st March, 2000. The unamortised balance is included in "Other current liabilities" in an amount of ¥137 million (\$1,292 thousand) in the accompanying Consolidated Balance Sheets at 31st March, 2000. Under the Japanese tax laws, such translation gains are not taxable until such time as the forward exchange contract is performed.

As of 31st March, 2000 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	¥ 49,717	\$ 469,028

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

Year ending 31st March,	(millions of yen)	(thousands of U.S. dollars)
2001	¥ 67,753	\$ 639,179
2002	14,832	139,925
2003	40,992	386,717
2004	8,748	82,528
2005	10,882	102,660
2006 and thereafter	38,990	367,830
	¥182,197	\$1,718,839

8 Retirement and pension plans

Employees of the Company and certain subsidiaries are covered by non-contributory funded pension plans. Benefits under these

plans are based on the current rate of pay, length of service and conditions under which terminations occur. The plans provide for either a lump sum payment to terminating employees after 20 years of service or pension payments for a period of 10 years at

their option. Employees with more than three years but less than 20 years of service are also entitled to receive a lump-sum payment upon retirement under the plans.

Unamortised past service liability, arising from the adoption of the plan during 1970, is being funded and amortised over a 22-year period.

In addition to the programmes described above, the Company and certain subsidiaries have also established employee early retirement plans. Under such plans, the employees are entitled to receive lump-sum payments which are determined according to their age at the time of voluntary termination of their employment. Reserves for liabilities for payments under such plans are provided for 100 percent of the amounts payable if all eligible employees voluntarily terminated employment at the respective balance sheet dates.

In certain subsidiaries which have not adopted the above-mentioned plans, employees are entitled to receive lump sum payments based on the current rate of pay, length of service and conditions under which terminations occur. These subsidiaries provide reserves for liabilities for payments under the plans for 40 percent of the amount payable, if all employees voluntarily terminated their employment at the respective balance sheet dates.

Charges to income for such retirement and pension plan costs for the years ended 31st March, 2000, 1999 and 1998 were ¥6,200 million (\$58,491 thousand), ¥3,081 million and ¥3,360 million, respectively.

9 Contingent liabilities

As of 31st March, 2000, 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 ¥2,855 million (\$26,934 thousand).

In addition, as of 31st March, 2000, the Companies had contingent liabilities arising from notes discounted by banks in the amounts of ¥409 million (\$3,858 thousand).

10 Legal reserve and retained earnings

The Japanese Commercial Code provides that an amount equal to at least 10 percent of cash distribution paid out of retained earnings should be appropriated to legal reserve until such reserve equals 25 percent of stated common stock. The legal reserve may

be used to reduce a deficit or may be transferred to a common stock account through appropriate stockholder and director actions, but is not available for dividend payment.

The legal reserve of consolidated subsidiaries is included in the retained earnings and is not shown separately in the accompanying consolidated financial statements.

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 30th September of each year in the case of the Company on a semi-annual basis) may be distributed upon approval by the Board of Directors. The Company paid interim dividends during the years ended 31st March, 2000, 1999 and 1998 in the amounts of ¥2,072 million (\$19,547 thousand) (¥5.0 per share), ¥1,774 million and ¥1,616 million, respectively, which were actually paid to stockholders on 10th December, 1999, 10th December, 1998 and 10th December, 1997, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended 31st March, 2000, 1999 and 1998, respectively.

11 Research and development costs

Research and development costs incurred and charged to income for the years ended 31st March, 2000, 1999 and 1998 were ¥26,967 million (\$254,406 thousand), ¥22,351 million and ¥19,174 million, respectively.

12 Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended 31st March, 2000 and 1999 amounted to ¥392 million (\$3,698 thousand) and ¥380 million, respectively. Lease expenses corresponding to depreciation expenses for the year ended 31st March, 2000, 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 ¥392 million (\$3,698 thousand).

The amount corresponding to acquisition cost, accumulated depreciation and net book value was summarised as follows:

	31st March, 2000	
	(millions of yen)	(thousands of U.S. dollars)
The amount corresponding to acquisition cost	¥1,847	\$17,425
The amount corresponding to accumulated depreciation	1,120	10,566
The amount corresponding to net book value	¥ 727	\$ 6,859

The amount of outstanding future lease payments due in respect of finance lease contracts at 31st March, 2000 and 1999, which included the portion of interest thereon, was summarised as follows:

	31st March		
	2000	1999	2000
	(millions of yen)		(thousands of U.S. dollars)
Future lease payments:			
Within one year	¥ 313	¥ 335	\$ 2,953
Over one year	414	550	3,906
	¥ 727	¥ 885	\$ 6,859

The amount of outstanding future lease payments due in respect of operating lease contracts at 31st March, 2000 and 1999 was summarised as follows:

	31st March		
	2000	1999	2000
	(millions of yen)		(thousands of U.S. dollars)
Future lease payments:			
Within one year	¥1,229	¥ 511	\$11,594
Over one year	2,191	770	20,670
	¥3,420	¥1,281	\$32,264

13 Related party transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended 31st March, 2000, 1999 and 1998 are summarised as follows:

	Year ended 31st March			
	2000	1999	1998	2000
	(millions of yen)			(thousands of U.S. dollars)
Sales	¥15,875	¥18,663	¥17,401	\$149,764
Purchases	46,428	50,031	31,069	438,000

14 Income taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended 31st March, 2000, 1999 and 1998 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	Rates on taxable income		
	2000	1999	1998
Corporate income tax	30.0%	34.5%	37.5%
Enterprise tax	9.6	11.0	12.0
Resident income taxes	6.1	7.0	7.7
	45.7%	52.5%	57.2%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid (unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid)	41.7%	47.3%	51.1%

Accounting for deferred taxes is applied to the consolidated financial statements from this fiscal year in compliance with the regulations of the consolidated financial statements, which has

been recently changed. No significant difference arisen between statutory tax rate and rates on taxable income is noted from this fiscal year.

15 Cash and cash equivalents on consolidated statements of cash flows

Cash and cash equivalents on consolidated statements of cash flows consist of cash on hand, deposits that can be withdrawn without limitation and liquid investments which are easily

convertible into cash, and are matured within approximately three months since acquisition date and have insignificant risk exposure in terms of fluctuation on value of the investments.

Reconciliation between cash and cash equivalents and the related accounts shown in the consolidated balance sheets as of 31st March, 2000, 1999 and 1998 are presented below:

	31st March			2000 (thousands of U.S. dollars)
	2000	1999	1998	
	(millions of yen)			
Cash and time deposits	¥209,058	¥184,021	¥197,968	\$1,972,245
Marketable securities	85,066	76,336	71,227	802,509
Time deposits for which maturities are approximately over three months	(922)	(873)	(1,121)	(8,698)
Marketable securities (approximately over three months maturities)	(21,567)	(10,303)	(17,351)	(203,462)
Cash and cash equivalents	¥271,635	¥249,181	¥250,723	\$2,562,594

16 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 with the following main products and merchandise:

Organic and inorganic chemicals business segment: Polyvinyl chloride, Silicones, Vinyl acetate monomer, Polyvinyl alcohol, Methanol, Chloromethanes, Cellulose derivatives, Caustic soda, Fertilizers, Silicon metal

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

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

Sales, related operating costs and expenses, operating income, assets, depreciation and capital expenditure of the Companies at 31st March, 2000, 1999 and 1998 and for the years then ended, classified by business segments, have been presented as follows:

For the year ended 31st March, 2000

	Organic and inorganic chemicals	Electronics materials	Functional materials and others	Elimination or common assets (Note)	Consolidated total
(millions of yen)					
Sales:					
Sales to outside customers	¥343,412	¥220,132	¥115,315	¥ —	¥ 678,859
Inter-segment sales	13,373	1,565	56,715	(71,653)	—
Total	356,785	221,697	172,030	(71,653)	678,859
Operating costs and expenses	311,623	198,353	153,378	(71,960)	591,394
Operating income	¥ 45,162	¥ 23,344	¥ 18,652	¥ 307	¥ 87,465
Assets	¥366,882	¥386,321	¥151,531	¥263,995	¥1,168,729
Depreciation	20,994	29,793	10,888	(291)	61,384
Capital expenditures (Notes (1) (2) (3))	26,397	25,025	7,842	(154)	59,110

For the year ended 31st March, 1999

	Organic and inorganic chemicals	Electronics materials	Functional materials and others	Elimination or common assets (Note)	Consolidated total
(millions of yen)					
Sales:					
Sales to outside customers	¥328,925	¥214,605	¥ 99,266	¥ —	¥ 642,796
Inter-segment sales	14,341	1,656	55,372	(71,369)	—
Total	343,266	216,261	154,638	(71,369)	642,796
Operating costs and expenses	298,900	186,863	141,840	(71,130)	556,473
Operating income	¥ 44,366	¥ 29,398	¥ 12,798	¥ (239)	¥ 86,323
Assets	¥356,663	¥392,399	¥115,796	¥196,115	¥1,060,973
Depreciation	19,106	27,150	9,940	—	56,196
Capital expenditures	23,029	42,737	8,009	(134)	73,641

For the year ended 31st March, 1998

	Organic and inorganic chemicals	Electronics materials	Functional materials and others	Elimination or common assets (Note)	Consolidated total
(millions of yen)					
Sales:					
Sales to outside customers	¥340,051	¥247,708	¥105,516	¥ —	¥ 693,275
Inter-segment sales	13,991	2,049	57,755	(73,795)	—
Total	354,042	249,757	163,271	(73,795)	693,275
Operating costs and expenses	318,289	207,250	150,151	(73,275)	602,415
Operating income	¥ 35,753	¥ 42,507	¥ 13,120	¥ (520)	¥ 90,860
Assets	¥368,813	¥401,713	¥122,636	¥190,618	¥1,083,780
Depreciation	18,734	35,064	8,346	—	62,144
Capital expenditures	20,849	91,373	24,581	(419)	136,384

For the year ended 31st March, 2000

	Organic and inorganic chemicals	Electronics materials	Functional materials and others	Elimination or common assets (Note)	Consolidated total
(thousands of U.S. dollars)					
Sales:					
Sales to outside customers	\$3,239,736	\$2,076,717	\$1,087,877	\$ —	\$ 6,404,330
Inter-segment sales	126,161	14,764	535,047	(675,972)	—
Total	3,365,897	2,091,481	1,622,924	(675,972)	6,404,330
Operating costs and expenses	2,939,839	1,871,255	1,446,962	(678,868)	5,579,188
Operating income	\$ 426,058	\$ 220,226	\$ 175,962	\$ 2,896	\$ 825,142
Assets	\$3,461,151	\$3,644,538	\$1,429,537	\$2,490,519	\$11,025,745
Depreciation	198,057	281,066	102,717	(2,746)	579,094
Capital expenditures (Notes (1) (2) (3))	249,028	236,085	73,981	(1,452)	557,642

Notes:(1) ¥7,839 million (\$73,953 thousand) of investments to equipment that Silica Products Inc. made in last fiscal year is not included in the capital expenditures ("Functional materials and others") noted above due to initial consolidation of the company from this fiscal year.

(2) ¥13,053 million (\$123,142 thousand) of the expenditures for the acquisition of PVC business in Europe, which was paid out in January 2000, are recognized as transactions in the next fiscal year and not included in the capital expenditures ("Organic and inorganic chemicals") of this fiscal year.

(3) Had the investments of 1 and 2 above been included, total capital expenditures would be amounted to ¥80,003 million (\$754,745 thousand) in this fiscal year.

(4) The amounts of the common assets included in the column "Elimination or common assets" for the years ended 31st March, 2000, 1999 and 1998 were ¥294,942 million (\$2,782,472 thousand), ¥225,494 million and ¥222,189 million, respectively, which mainly consist 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 31st March, 2000, 1999 and 1998 and for the years then ended are presented below:

Year ended 31st March, 2000

	Japan	North America	Asia	Other areas	Elimination or common assets (Note 3)	Consolidated total
(millions of yen)						
Sales:						
Sales to outside customers	¥457,603	¥136,602	¥56,997	¥27,657	¥ —	¥ 678,859
Inter-segment sales	80,763	16,154	30,126	4,610	(131,653)	—
Total	538,366	152,756	87,123	32,267	(131,653)	678,859
Operating costs and expenses	472,943	137,862	80,368	31,644	(131,423)	591,394
Operating income	¥ 65,423	¥ 14,894	¥ 6,755	¥ 623	¥ (230)	¥ 87,465
Assets	¥606,878	¥230,231	¥77,875	¥65,102	¥188,643	¥1,168,729

Year ended 31st March, 1999

	Japan	North America	Asia	Other areas	Elimination or common assets (Note 3)	Consolidated total
(millions of yen)						
Sales:						
Sales to outside customers	¥420,281	¥140,330	¥52,010	¥30,175	¥ —	¥ 642,796
Inter-segment sales	68,561	11,565	28,660	4,665	(113,451)	—
Total	488,842	151,895	80,670	34,840	(113,451)	642,796
Operating costs and expenses	429,541	133,677	74,660	33,184	(114,589)	556,473
Operating income	¥ 59,301	¥ 18,218	¥ 6,010	¥ 1,656	¥ 1,138	¥ 86,323
Assets	¥560,138	¥240,969	¥68,239	¥54,053	¥137,574	¥1,060,973

Year ended 31st March, 1998

	Japan	North America	Asia	Other areas	Elimination or common assets (Note 3)	Consolidated total
(millions of yen)						
Sales:						
Sales to outside customers	¥446,371	¥148,162	¥66,661	¥32,081	¥ —	¥ 693,275
Inter-segment sales	73,482	15,770	27,914	2,192	(119,358)	—
Total	519,853	163,932	94,575	34,273	(119,358)	693,275
Operating costs and expenses	456,114	146,517	86,215	33,850	(120,281)	602,415
Operating income	¥ 63,739	¥ 17,415	¥ 8,360	¥ 423	¥ 923	¥ 90,860
Assets	¥553,021	¥258,847	¥80,856	¥61,678	¥129,378	¥1,083,780

Year ended 31st March, 2000

	Japan	North America	Asia	Other areas	Elimination or common assets (Note 3)	Consolidated total
(thousands of U.S. dollars)						
Sales:						
Sales to outside customers	\$4,317,009	\$1,288,698	\$537,708	\$260,915	\$ —	\$ 6,404,330
Inter-segment sales	761,915	152,396	284,207	43,491	(1,242,009)	—
Total	5,078,924	1,441,094	821,915	304,406	(1,242,009)	6,404,330
Operating costs and expenses	4,461,726	1,300,585	758,189	298,528	(1,239,840)	5,579,188
Operating income	\$ 617,198	\$ 140,509	\$ 63,726	\$ 5,878	\$ (2,169)	\$ 825,142
Assets	\$5,725,264	\$2,171,990	\$734,670	\$614,170	\$1,779,651	\$11,025,745

Notes: (1) The above segments are classified geographically.

(2) Main countries or areas other than Japan

North America U.S.A.

Asia Malaysia, Singapore, Korea, Taiwan

Other area U.K., Netherlands, Australia

(3) The amounts of the common assets included in the column "Elimination or common assets" for the years ended 31st March, 2000, 1999 and 1998 were ¥294,942 million (\$2,782,472 thousand), ¥225,494 million and ¥222,189 million, respectively, which mainly consist of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

(3) Overseas sales information—Overseas sales of the Companies for the years ended 31st March, 2000, 1999 and 1998 are summarised as follows:

	Year ended 31st March, 2000			
	North America	Asia	Other areas	Total
(millions of yen)				
Overseas sales	¥153,789	¥146,091	¥47,912	¥347,792
Consolidated sales	—	—	—	¥678,859
Percentage of overseas sales over consolidated sales	22.6%	21.5%	7.1%	51.2%

	Year ended 31st March, 1999			
	North America	Asia	Other areas	Total
	(millions of yen)			
Overseas sales	¥140,108	¥149,597	¥55,413	¥345,118
Consolidated sales	—	—	—	¥642,796
Percentage of overseas sales over consolidated sales	21.8%	23.3%	8.6%	53.7%

	Year ended 31st March, 1998			
	North America	Asia	Other areas	Total
	(millions of yen)			
Overseas sales	¥144,922	¥155,022	¥49,934	¥349,878
Consolidated sales	—	—	—	¥693,275
Percentage of overseas sales over consolidated sales	20.9%	22.4%	7.2%	50.5%

	Year ended 31st March, 2000			
	North America	Asia	Other areas	Total
	(thousands of U.S. dollars)			
Overseas sales	\$1,450,840	\$1,378,217	\$452,000	\$3,281,057
Consolidated sales	—	—	—	\$6,404,330
Percentage of overseas sales over consolidated sales	22.6%	21.5%	7.1%	51.2%

Notes: (1) The above segments are classified geographically.

(2) Main countries or areas

North America U.S.A., Canada

Asia Korea, Taiwan, China

Other area Europe, Middle South America, Oceania

(3) "Overseas sales" means sales to "outside Japan" by the Company and its consolidated subsidiaries.

17 Subsequent events

(1) Appropriation of retained earnings—Subsequent to 31st March, 2000, the Company's Board of Directors, with the subsequent approval of stockholders on 29th June, 2000 declared a cash dividend of ¥2,090 million (\$19,717 thousand) equal to ¥5.00 (\$0.047) per share, applicable to earnings of the year ended 31st March, 2000 and payable to stockholders on the stockholders' register on 31st March, 2000.

(2) Stock options—At the stockholders meeting held in June 2000, approval was given for the acquisition of treasury stock for the purpose of granting stock options. The amendment to the Articles of Incorporation provides for the acquisition of no more than 561 thousand shares of the Company's par-value common stock at a cost that shall not exceed ¥4,000 million (US\$38 million).

18 Change in accounting presentation

Certain reclassifications have been made in the 1999 and 1998 financial statements to conform to the presentation for 2000.

CONSOLIDATED SUBSIDIARIES

Principal Consolidated Subsidiaries	Equity Ownership Percentage	Fiscal Year-End	Principal Consolidated Subsidiaries	Equity Ownership Percentage	Fiscal Year-End
Shintech Inc. ⁽¹⁾	100.0	31st December	Shinkoh Mold Co., Ltd.	100.0	31st March
Shin-Etsu Handotai Co., Ltd.	100.0	31st March	Skyward Information System Co., Ltd.	100.0	31st March
Shin-Etsu Handotai America, Inc. ⁽¹⁾	100.0	31st December	Human Create Co., Ltd.	100.0	31st March
Shin-Etsu Polymer Co., Ltd.	52.2	31st March	Shinano Electric Refining Co., Ltd.	68.7	31st March
Shin-Etsu Astech Co., Ltd.	89.4	31st March	Shin-Etsu Technology Service Co., Ltd.	76.9	28th February
S.E.H. Malaysia Sdn. Bhd. ⁽¹⁾⁽²⁾	100.0	31st December	S.E.H. (Shah Alam) Sdn. Bhd. ⁽¹⁾	100.0	31st December
Naoetsu Electronics Co., Ltd.	90.0	28th February	Shin-Etsu Silicones of America, Inc. ⁽¹⁾	100.0	31st December
Shin-Etsu Handotai Europe, Ltd. ⁽¹⁾	100.0	31st December	Shin-Etsu Polymer (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	31st December
Shin-Etsu Engineering Co., Ltd.	100.0	31st March	Shincor Silicones, Inc. ⁽¹⁾	100.0	31st December
Shin-Etsu Vinyl Acetate Co., Ltd.	51.0	31st March	Shin-Etsu Polymer America, Inc. ⁽¹⁾	100.0	31st December
Nissin Chemical Industry Co., Ltd.	100.0	28th February	Shin-Etsu Polymer Europe B.V. ⁽¹⁾	100.0	31st December
S-E, Inc. ⁽¹⁾	100.0	31st December	Shin-Etsu MicroSi, Inc. ⁽¹⁾	100.0	31st December
Silicon Metal Company of Australia Ltd. ⁽¹⁾	100.0	31st December	Shin-Etsu Unit Co., Ltd.	100.0	31st March
Shin-Etsu (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	31st December	Shin-Etsu Handotai Taiwan Co., Ltd. ⁽¹⁾	70.0	31st December
Shin-Etsu International Europe B.V. ⁽¹⁾	100.0	31st December	Polymer East Japan Co., Ltd.	100.0	31st March
Shin-Etsu Silicone Korea Co., Ltd. ⁽¹⁾	100.0	31st December	Silica Products, Inc. ⁽¹⁾	100.0	31st December
Shin-Etsu Electronics Materials			Shinano Polymer Co., Ltd.	100.0	31st March
Singapore Pte. Ltd. ⁽¹⁾	100.0	31st December	Niigata Polymer Company Limited	100.0	31st March
Shin-Etsu Kasei Co., Ltd.	100.0	31st March	Nihon Resin Co., Ltd.	100.0	31st December
Shin-yo Home Service Company	100.0	31st March	Polymer Chemicals Co., Ltd.	100.0	31st March
Naoetsu Sangyo Limited	100.0	31st March	Urawa Polymer Co., Ltd.	100.0	31st March
Shin-Etsu Silicones Europe B.V. ⁽¹⁾	100.0	31st December	Sanshin Electronics Co., Ltd.	100.0	31st March
Shin-Etsu Sealant Co., Ltd.	100.0	31st March	Saitama Shinkoh Mold Co., Ltd.	100.0	31st March
Shin-Etsu Singapore Pte. Ltd. ⁽¹⁾	100.0	31st December	San-Ace Co., Ltd.	100.0	31st March
Shin-Etsu Magnet Co., Ltd.	100.0	31st March	Simcoa Operations Pty. Ltd. ⁽¹⁾	100.0	31st December
Shin-Etsu Delivery Co., Ltd.	100.0	31st March	K-Bin, Inc. ⁽¹⁾	100.0	31st December
Naoetsu Precision Co., Ltd.	100.0	28th February	Suzhou Shin-Etsu Polymer Co., Ltd. ⁽¹⁾	88.0	31st December
Shin-Etsu Silicone Taiwan Co., Ltd. ⁽¹⁾	93.3	31st December			

⁽¹⁾ Overseas subsidiary

⁽²⁾ S.E.H. Malaysia Sdn. Bhd. issues non-voting shares.

As of 31st March, 2000

**The Board of Directors
Shin-Etsu Chemical Co., Ltd.**

We have audited the accompanying consolidated balance sheets of Shin-Etsu Chemical Co., Ltd. and its subsidiaries as of 31st March 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years ended 31st March 2000, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of the Shin-Etsu Chemical Co., Ltd. and its subsidiaries as of 31st March 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years ended 31st March 2000 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

The amount expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan
29th June, 2000

C O R P O R A T E D A T A

Shin-Etsu Chemical Co., Ltd.

Date of Establishment

16th September, 1926

Capital

¥107,664 million (US\$1,016 million)

(as of 31st March, 2000)

Number of Employees

18,754 (including 61 consolidated subsidiaries)

Number of Shares Issued

419,848,360 shares

(as of 31st March, 2000)

Stock Listings

Tokyo, Osaka, Nagoya

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ShinEtsu