

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: | | | |
| 3½% 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 |
| 6½% 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