

Consolidated Balance Sheets

Shin-Etsu Chemical Co., Ltd. and Subsidiaries
As of 31st March, 1997 and 1998

	31st March,		31st March,
	1997	1998	1998
	(millions of yen)		(thousands of U.S. dollars) (Note 3)
ASSETS			
Current Assets:			
Cash and time deposits	¥ 234,152	¥ 197,967	\$1,499,750
Marketable securities (Note 5)	36,839	71,227	539,598
Notes and accounts receivable:			
Trade	156,080	165,233	1,251,765
Unconsolidated subsidiaries and affiliates	10,721	13,535	102,538
Other	5,426	7,570	57,349
Less: allowance for doubtful accounts	(3,148)	(3,764)	(28,515)
	169,079	182,574	1,383,137
Inventories (Note 4)	73,934	87,148	660,212
Other current assets	4,686	6,949	52,644
Total current assets	518,690	545,865	4,135,341
Investments and Advances:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 6)	25,186	34,353	260,250
Investments in securities (Note 5)	48,767	91,569	693,705
Long-term loans	1,510	2,144	16,242
Other	9,707	13,943	105,629
Less: allowance for doubtful accounts	(31)	(64)	(485)
Total investments and advances	85,139	141,945	1,075,341
Property, Plant and Equipment (Note 7):			
Buildings and structures	196,072	237,723	1,800,932
Machinery and equipment	525,335	604,132	4,576,758
Less: accumulated depreciation	(454,626)	(504,860)	(3,824,697)
	266,781	336,995	2,552,993
Land	27,206	29,579	224,083
Construction in progress	25,968	23,685	179,432
Total property, plant and equipment	319,955	390,259	2,956,508
Deferred Charges and Other Assets	7,375	5,711	43,265
	¥ 931,159	¥1,083,780	\$8,210,455

The accompanying notes are an integral part of the statements.

	31st March,		31st March,
	1997	1998	1998
	(millions of yen)		(thousands of U.S. dollars) (Note 3)
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans (Note 7)	¥ 73,353	¥ 52,752	\$ 399,636
Current portion of long-term debt (Note 7)	30,315	40,369	305,826
Notes and accounts payable:			
Trade	84,138	93,005	704,583
Unconsolidated subsidiaries and affiliates	11,485	11,624	88,061
Other	46,020	45,951	348,114
	141,643	150,580	1,140,758
Accrued income taxes	22,205	20,958	158,773
Accrued expenses	38,832	44,893	340,098
Advance received	2,103	2,706	20,500
Other current liabilities	14,510	11,738	88,924
Total current liabilities	322,961	323,996	2,454,515
Long-Term Liabilities:			
Long-term debt (Note 7)	168,192	176,274	1,335,410
Accrued employees' severance indemnities (Note 8)	6,287	6,161	46,674
Deferred taxes—non-current	11,095	13,384	101,394
Other	15,974	25,452	192,818
Total long-term liabilities	201,548	221,271	1,676,296
Excess of Investment Cost Over Equity in Net Assets of Consolidated Subsidiaries	955	717	5,432
Adjustments on Foreign Currency Statement Translation (Note 2 (4))	12,741	21,460	162,576
Minority Interests in Consolidated Subsidiaries	18,228	19,024	144,121
Contingent Liabilities (Note 9)	—	—	—
Stockholders' Equity (Note 10):			
Common stock:			
Authorized: 800,000,000 shares			
Issued, par value ¥50 per share:			
349,569,337 shares and 393,721,883 shares as of			
31st March, 1997 and 1998, respectively	44,256	83,957	636,038
Additional paid-in capital	46,180	89,976	681,636
Legal reserve	4,967	5,273	39,947
Retained earnings (Note 16)	279,326	320,226	2,425,955
	374,729	499,432	3,783,576
Less: treasury stock	(3)	(2,120)	(16,061)
Total stockholders' equity	374,726	497,312	3,767,515
	¥931,159	¥1,083,780	\$8,210,455

The accompanying notes are an integral part of the statements.

Consolidated Statements of Income

Shin-Etsu Chemical Co., Ltd. and Subsidiaries
For the years ended 31st March, 1996, 1997 and 1998

	For the years ended 31st March,			For the year ended
	1996	1997	1998	31st March,
	(millions of yen)			(thousands of U.S. dollars) (Note 3)
Net Sales (Note 13)	¥575,176	¥624,405	¥693,275	\$5,252,083
Cost of Sales (Notes 8, 11 and 13)	420,818	452,974	515,728	3,907,030
Gross profit	154,358	171,431	177,547	1,345,053
Selling, General and Administrative Expenses (Notes 8 and 11)	80,931	89,407	86,687	656,720
Operating income	73,427	82,024	90,860	688,333
Other Income/(Expenses):				
Interest and dividend income	4,656	7,296	10,075	76,325
Interest expenses	(5,369)	(7,669)	(9,220)	(69,848)
Amortisation of bond discounts	—	(1,163)	(1,744)	(13,212)
Loss on sale/disposal of property, plant and equipment	(2,701)	(1,136)	(1,433)	(10,856)
Foreign exchange gain/(loss)	1,120	3,463	(950)	(7,197)
Other, net	771	(1,117)	1,050	7,955
Income before income taxes	71,904	81,698	88,638	671,500
Income Taxes (Note 14):				
Current	33,547	39,398	46,105	349,280
Deferred	1,014	2,363	820	6,212
Income after income taxes	34,561	41,761	46,925	355,492
Income after income taxes	37,343	39,937	41,713	316,008
Minority Interests in Earnings of Consolidated Subsidiaries	(813)	(1,032)	(1,310)	(9,924)
Equity in Earnings of Affiliates	1,291	1,502	1,352	10,242
Amortisation of Difference Between Cost of Investment and Equity in Net Assets of Consolidated Subsidiaries	4	207	272	2,060
Net income	¥ 37,825	¥ 40,614	¥ 42,027	\$ 318,386

	(Yen)			(U.S. dollars) (Note 3)
Per Share (Note 2 (14)):				
Net income—primary	¥ 116.51	¥ 118.24	¥ 110.73	\$ 0.839
Net income—fully diluted	¥ 106.66	¥ 103.95	¥ 101.69	\$ 0.770
Cash dividends	¥ 7.50	¥ 7.50	¥ 8.50	\$ 0.064
Weighted Average Number of Shares (Thousands)	324,649	343,490	380,084	380,084

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, 1996, 1997 and 1998

	Number of shares of common stock issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
	(thousands)	(millions of yen)			
Balance as of 31st March, 1995	324,621	¥36,384	¥38,273	¥4,448	¥206,258
Net income for the year	—	—	—	—	37,825
Increase in retained earnings due to additional consolidation of subsidiaries	—	—	—	—	320
Increase in retained earnings due to increase in ownership percentage in consolidated subsidiaries	—	—	—	—	4
Cash dividends	—	—	—	—	(2,434)
Transfer to legal reserve	—	—	—	257	(257)
Directors' and statutory auditors' bonuses	—	—	—	—	(203)
Conversion of convertible debentures	70	56	56	—	—
Increase in equity interests in a consolidated subsidiary due to conversion of convertible debentures issued by the consolidated subsidiary	—	—	1	—	—
Balance as of 31st March, 1996	324,691	36,440	38,330	4,705	241,513
Net income for the year	—	—	—	—	40,614
Increase in retained earnings due to additional consolidation of subsidiaries	—	—	—	—	151
Increase in retained earnings due to increase in ownership percentage in consolidated subsidiaries	—	—	—	—	1
Cash dividends	—	—	—	—	(2,501)
Transfer to legal reserve	—	—	—	262	(262)
Directors' and statutory auditors' bonuses	—	—	—	—	(190)
Conversion of convertible debentures	8,463	7,643	7,633	—	—
Exercise of warrant attached to debentures	180	173	216	—	—
Stock split on 20th May, 1996 (1 into 1.05)	16,235	—	—	—	—
Increase in equity interests in a consolidated subsidiary due to conversion of convertible debentures issued by the consolidated subsidiary	—	—	1	—	—
Balance as of 31st March, 1997	349,569	44,256	46,180	4,967	279,326
Net income for the year	—	—	—	—	42,027
Increase in retained earnings due to additional consolidation of subsidiaries	—	—	—	—	2,318
Cash dividends	—	—	—	—	(2,927)
Transfer to legal reserve	—	—	—	306	(306)
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	¥5,273	¥320,226

The accompanying notes are an integral part of the statements.

	Number of shares of common stock issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
	(thousands)		(thousands of U.S. dollars) (Note 3)		
Balance as of 31st March, 1997	349,569	\$335,273	\$349,848	\$37,629	\$2,116,106
Net income for the year	—	—	—	—	318,386
Increase in retained earnings due to additional consolidation of subsidiaries	—	—	—	—	17,561
Cash dividends	—	—	—	—	(22,174)
Transfer to legal reserve	—	—	—	2,318	(2,318)
Directors' and statutory auditors' bonuses	—	—	—	—	(1,606)
Conversion of convertible debentures	27,183	177,477	177,212	—	—
Exercise of warrant attached to debentures	16,970	123,288	154,576	—	—
Balance as of 31st March, 1998	393,722	\$636,038	\$681,636	\$39,947	\$2,425,955

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, 1996, 1997 and 1998

	For the years ended 31st March,			For the year ended
	1996	1997	1998	31st March,
	(millions of yen)			(thousands of U.S. dollars) (Note 3)
Cash Flows From Operating Activities:				
Net income	¥ 37,825	¥ 40,614	¥ 42,027	\$ 318,386
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortisation	46,034	54,554	63,147	478,386
Equity in earnings of affiliates	(1,291)	(1,502)	(1,352)	(10,242)
Loss on sale/disposal of property, plant and equipment	2,701	1,136	1,433	10,856
Other, net	(7,171)	13,779	12,122	91,833
Changes in assets and liabilities:				
Increase in notes and accounts receivable	(20,331)	(3,814)	(14,111)	(106,902)
Increase in inventories	(8,681)	(11,109)	(13,214)	(100,106)
Increase in notes and accounts payable	22,881	15,824	8,937	67,705
Decrease (increase) in accrued income taxes	1,933	4,531	(1,247)	(9,447)
Other, net	6,813	10,663	14,313	108,432
Net cash provided by operating activities	80,713	124,676	112,055	848,901
Cash Flows From Investing Activities:				
Purchase of properties	(71,863)	(110,570)	(135,452)	(1,026,151)
Proceeds from sales of properties	15,000	1,383	811	6,144
Increase in investments in securities	(1,335)	(6,996)	(22,258)	(168,621)
Decrease in investments in unconsolidated subsidiaries and affiliates	(2,952)	(2,220)	(5,677)	(43,008)
Other, net	1,155	410	(2,143)	(16,235)
Net cash used for investing activities	(59,995)	(117,993)	(164,719)	(1,247,871)
Cash Flows From Financing Activities:				
Proceeds from issue of debentures	—	105,065	49,189	372,644
Borrowing of long-term debt	10,822	15,025	24,906	188,682
Payment of long-term debt	(11,597)	(16,243)	(35,591)	(269,629)
Decrease (increase) in short-term loans	375	10,621	(20,601)	(156,068)
Cash dividends paid	(2,434)	(2,501)	(2,927)	(22,174)
Other, net	(1,154)	13,667	41,886	317,318
Net cash provided by (used for) financing activities	(3,988)	125,634	56,862	430,773
Effect of Exchange Rate Changes on Cash	(1,320)	(6,856)	(5,995)	(45,417)
Net Decrease (Increase) in Cash and Cash Equivalents	15,410	125,461	(1,797)	(13,614)
Cash and Cash Equivalents at Beginning of Year	130,120	145,530	270,991	2,052,962
Cash and Cash Equivalents at End of Year	¥145,530	¥ 270,991	¥269,194	\$2,039,348

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, 1996, 1997 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 prevailing in Japan. 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 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.

Although the consolidated statements of cash flows are not disclosed in Japan for domestic reporting purposes, such statements for the years ended 31st March, 1996, 1997 and 1998 have been prepared in compliance with the methods recommended by the Japanese Institute of Certified Public Accountants.

2. Summary of significant accounting policies

(1) Principles of consolidation

The Company had 96 majority-owned subsidiaries as of 31st March, 1998 (96 as of 31st March, 1997 and 97 as of 31st March, 1996). The consolidated financial statements include the accounts of the Company and its 57 (54 for 1997 and 51 for 1996) majority-owned subsidiaries listed on page 45 with closing dates for their respective fiscal years (the “Companies”).

The remaining 39 (42 for 1997 and 46 for 1996) 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 closing dates are not in agreement with the Company, necessary adjustments are made on significant intercompany transactions which took place during the periods between the closing dates for the fiscal years 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 39 (42 for 1997 and 46 for 1996) unconsolidated subsidiaries (majority-owned) and 21 (21 for 1997 and 22 for 1996) affiliates (meaning 20 percent to 50 percent ownership of company’s equity interest). The equity method is applied to the investments in two unconsolidated subsidiaries and 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 Handotai Taiwan Co., Ltd.

Shin-Etsu Quartz Products Co., Ltd.

Kashima Vinyl Chloride Monomer Co., Ltd.

Nagano Electronics Industrial Co., Ltd.

(3) Translation of foreign currency transactions

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 current exchange rate prevailing at the respective balance sheet dates and the resulting translation gain or loss is included in 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, 1997 and 1998.

(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 returns for the period. No tax effect is recorded for timing differences in recognition of certain expenses between tax and financial reporting, except for those of 17 subsidiaries including Shintech, Inc., Shin-Etsu Handotai America, Inc., which follow the interperiod income tax allocation.

(13) Research and development costs

Research and development costs are charged to income as incurred.

(14) Net income and dividend 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 ¥132 to U.S.\$1, the approximate effective rate of exchange on 31st March, 1998.

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 ¥132 to U.S.\$1 or at any other rate.

4. Inventories

Inventories as of 31st March, 1997 and 1998 consisted of the following:

	31st March,		1998 (thousands of U.S. dollars)
	1997	1998	
	(millions of yen)		
Merchandise	¥ 4,197	¥ 5,916	\$ 44,818
Finished products	30,544	35,072	265,697
Semifinished products	11,419	13,418	101,652
Raw materials	16,960	22,357	169,371
Supplies	7,808	8,149	61,735
Others	3,006	2,236	16,939
	¥73,934	¥87,148	\$660,212

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, 1997 and 1998 consisted of the following:

	31st March,		1998 (thousands of U.S. dollars)
	1997	1998	
	(millions of yen)		
Marketable securities (current portfolio):			
Listed corporate shares	¥ 1,395	¥ 1,164	\$ 8,818
Bonds, debentures and others	35,444	70,063	530,780
	¥36,839	¥71,227	\$539,598
Investments in securities (non-current portfolio):			
Listed corporate shares	¥37,003	¥37,811	\$286,447
Other shares (unquoted)	2,113	4,035	30,568
Bonds, debentures and others	9,651	49,723	376,690
	¥48,767	¥91,569	\$693,705

The aggregate market value of listed corporate shares (marketable equity securities) and net unrealised gains as of 31st March, 1997 and 1998 amounted to as follows:

	31st March,		
	1997	1998	1998
	(millions of yen)		(thousands of U.S. dollars)
Current:			
Market value	¥ 2,726	¥ 1,446	\$ 10,954
Net unrealised gains	1,331	282	2,136
Non-current:			
Market value	¥80,303	¥69,907	\$529,599
Net unrealised gains	43,300	32,096	243,152

6. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates as of 31st March, 1997 and 1998 consisted of the following:

	31st March,		
	1997	1998	1998
	(millions of yen)		(thousands of U.S. dollars)
Held directly by the Company:			
Affiliates:			
Four (three for 1997) affiliates accounted for by the equity method (See Note 2 (2))	*¥ 7,525	*¥ 8,586	*\$ 65,045
Kashima Denkai Co., Ltd.	805	805	6,098
Unitika Chemical Co., Ltd.	600	600	4,545
Others	203	228	1,729
	9,133	10,219	77,417
Unconsolidated subsidiaries:			
Shin-Etsu Electronics Malaysia Sdn. Bhd.	1,400	1,400	10,606
Shin-Etsu Silicones Europe B.V.	734	734	5,561
MicroSi, Inc. ⁽¹⁾	499	—	—
Shin-Etsu Film Co., Ltd.	199	199	1,508
Others	332	225	1,704
	3,164	2,558	19,379
Held indirectly through subsidiaries			
Unconsolidated subsidiaries and affiliates:			
Two unconsolidated subsidiaries and three (one for 1997) affiliates accounted for by the equity method (See Note 2 (2))	* 5,318	* 12,407	* 93,992
Others	5,710	4,369	33,098
	11,028	16,776	127,090
Advances	1,861	4,800	36,364
	¥25,186	¥34,353	\$260,250

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

⁽¹⁾ Newly consolidated with effect from the year ended 31st March, 1998.

7. Short-term loans and long-term debt

Short-term loans outstanding as of 31st March, 1997 and 1998 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, 1997 and 1998 consisted of the following:

	31st March,		
	1997	1998	1998
	(millions of yen)		(thousands of U.S. dollars)
Loans with banks and other financial institutions:			
Secured	¥ 16,474	¥ 17,896	\$ 135,576
Unsecured	28,105	44,481	336,977
Secured debentures:			
6.5% mortgage debentures issued by a consolidated subsidiary, due November 1997	2,000	—	—
Unsecured debentures:			
3 ³ / ₈ % notes in U.S. dollars, due August 2000 with warrants	52,562	52,562	398,197
2.7% debentures issued by a consolidated subsidiary, due April 2001	3,274	3,669	27,796
6 ⁷ / ₈ % debentures issued by a consolidated subsidiary, due July 2002	—	19,833	150,250
2.7% debentures issued by a consolidated subsidiary, due August 2004	—	8,000	60,606
2.5% debentures issued by a consolidated subsidiary, due August 2003	—	5,000	37,879
2.2% debentures issued by a consolidated subsidiary, due August 2002	—	5,000	37,879
2.6% debentures issued by a consolidated subsidiary, due December 2007	—	3,000	22,727
2.5% debentures issued by a consolidated subsidiary, due February 2003	—	3,000	22,727
2.1% debentures issued by a consolidated subsidiary, due March 2003	—	2,000	15,152
2.1% debentures issued by a consolidated subsidiary, due March 2003	—	3,000	22,727
Unsecured convertible debentures:			
3.0% convertible debentures in U.S. dollars, due May 2000	29	27	205
2.1% convertible debentures, due May 1997	357	—	—
2.0% convertible debentures, due March 1998	17,966	—	—
1.3% convertible debentures, due March 1999	37,538	27,917	211,492
0.4% convertible debentures, due September 2005	40,098	21,154	160,258
Secured convertible debentures:			
2.4% convertible mortgage debentures issued by a consolidated subsidiary, due March 1999	104	104	788
	198,507	216,643	1,641,236
Less portion due within one year	(30,315)	(40,369)	(305,826)
	¥168,192	¥176,274	\$1,335,410

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

	Issue date and principal amount at issue	Balance as of 31st March, 1998 in denominated currencies	Terms of conversion of 31st March, 1998		
			Current conversion price per share**	Fixed exchange rates for conversion	Additional shares issuable upon full conversion (in thousands)
Unsecured:					
3.0% convertible debentures in U.S. dollars, due 2000	4th March, 1985 (U.S.\$30 million)	U.S.\$0.105 million	¥1,112.2	U.S.\$1=¥262.60	25
1.3% convertible debentures in yen, due 1999	13th February, 1990 (¥40,000 million)	¥27,917 million	¥1,748.6	—	15,965
0.4% convertible debentures in yen, due 2005	8th August, 1996 (¥50,000 million)	¥21,154 million	¥1,917.0	—	11,035
Secured:					
2.4% convertible mortgage debentures in yen, due 1999*	31st March, 1987 (¥5,000 million)	¥104 million	¥ 540.7	—	N/A
					27,025

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

	Issue date and principal amount at issue	Balance as of 31st March, 1998 in denominated currencies	Terms of exercise of 31st March, 1998		
			Current exercise price per share**	Fixed exchange rates for exercise	Additional shares issuable upon full exercise (in thousands)
Warrants attached to:					
3 ³ / ₈ % notes in U.S. dollars, due 2000	8th August, 1996 (U.S.\$500 million)	U.S.\$200 million	¥1,917.0	U.S.\$1=¥109.45	11,397
					11,397

*Issued by a subsidiary Shin-Etsu Polymer Co., Ltd.

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

3³/₈% 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, 1998, ¥409 million (\$3,098 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, 1998. The unamortised balance was included in "Other current liabilities" in an amount of ¥409 million (\$3,098 thousand) and in "Other" in the Long-term Liabilities section in an amount of ¥546 million (\$4,136 thousand), respectively in the accompanying Consolidated Balance Sheet at 31st March, 1998. 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, 1998, 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	¥59,596	\$451,485

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

	(millions of yen)	(thousands of U.S. dollars)
Year ending 31st March, 1999	¥ 40,369	\$ 305,826
2000	14,614	110,712
2001	66,969	507,341
2002 and thereafter	94,691	717,357
	¥216,643	\$1,641,236

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 29-year period.

In addition to the programmes described above, the Company and certain subsidiaries have also established employee early retirement plans. In 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 date.

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, which is the maximum amount permitted by the Japanese tax laws, if all employees voluntarily terminated their employment at the respective balance sheet date.

Charges to income for such retirement and pension plan costs for the years ended 31st March, 1996, 1997 and 1998 were ¥2,803 million, ¥3,498 million and ¥3,360 million (\$25,455 thousand), respectively.

9. Contingent liabilities

As of 31st March, 1998, 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 ¥1,192 million (\$9,030 thousand).

In addition, as of 31st March, 1998, the Companies had contingent liabilities arising from notes discounted by banks and notes endorsed and delivered for payment to vendors in the amounts of ¥417 million (\$3,159 thousand) and ¥13 million (\$98 thousand), respectively.

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, 1996, 1997 and 1998 in the amounts of ¥1,217 million, ¥1,283 million and ¥1,616 million (\$12,242 thousand) (¥4.25 per share) respectively, which were actually paid to stockholders on 8th December, 1995, 10th December,

1996 and 10th December, 1997, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended 31st March, 1996, 1997 and 1998, respectively.

11. Research and development costs

Research and development costs incurred and charged to income for the years ended 31st March, 1996, 1997 and 1998

were ¥17,634 million, ¥18,256 million and ¥19,174 million (\$145,258 thousand), respectively.

12. Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended 31st March, 1997 and 1998 amounted to ¥377 million and ¥304 million (\$2,303 thousand), respectively.

The amount of outstanding future lease payments due in respect of finance lease contracts at 31st March, 1998, which included the portion of interest thereon, was summarised as follows:

	31st March,	
	1998	
	(millions of yen)	(thousands of U.S. dollars)
Future lease payments		
Within one year	¥ 290	\$ 2,197
Over one year	456	3,455
	¥ 746	\$ 5,652

The amount of outstanding future lease payments due in respect of operating lease contracts at 31st March, 1998 was summarised as follows:

	31st March,	
	1998	
	(millions of yen)	(thousands of U.S. dollars)
Future lease payments		
Within one year	¥ 765	\$ 5,795
Over one year	1,192	9,030
	¥1,957	\$14,825

13. Related party transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended 31st March, 1996, 1997 and 1998 are summarised as follows:

	Year ended 31st March,			1998 (thousands of U.S. dollars)
	1996	1997	1998	
	(millions of yen)			
Sales	¥26,016	¥14,891	¥17,401	\$131,826
Purchases	25,290	28,316	31,069	235,371

14. Income taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended 31st March, 1996, 1997 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		
	1996	1997	1998
Corporate income tax	37.5%	37.5%	37.5%
Enterprise tax	12.1	12.1	12.1
Resident income taxes	7.7	7.5	7.1
	57.3%	57.1%	56.7%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid (unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid)	51.1%	50.9%	50.6%

Income tax expenses as shown in the accompanying consolidated statements of income are different from the amounts computed by applying the above-mentioned statutory rates to income before income taxes. The principal reasons such differences arise

are that no tax effects have been recognised by the Company and its domestic subsidiaries on certain timing differences between financial accounting and tax reporting purposes consisting primarily of accrued enterprise tax not deductible until paid.

15. Segment information

(1) Business segment information

The Companies had operated principally in the following three lines of business, "Chemicals", "Electronics Materials" and "Other," until the year ended 31st March, 1997. These lines of business had dealt with the following main products and merchandise:

Chemicals

Synthetic resins Polyvinyl chloride, Silicones, Vinyl acetate monomer, Polyvinyl alcohol

Organic chemicals Methanol, Chloromethanes, Cellulose derivatives

Other chemicals Caustic soda, Lime nitrogen, Fused phosphates, Ferroalloys, Silicon metal

Electronics Materials Semiconductor silicon, Oxide single-crystals, Synthetic quartz, Organic materials for electronics industry, Rare earths, Rare earth magnets

Other Export of technology and plants, Export and import of merchandise, 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, 1996 and 1997 and for the years then ended, classified by business segments had been presented below.

	For the year ended 31st March, 1996				
	Chemicals	Electronics materials	Other	Elimination or common assets	Consolidated total
	(millions of yen)				
Sales					
Sales to outside customers	¥303,285	¥214,635	¥57,256	¥ —	¥575,176
Inter-segment sales	12,628	1,208	34,990	(48,826)	—
Total	315,913	215,843	92,246	(48,826)	575,176
Operating costs and expenses	282,134	176,788	91,393	(48,566)	501,749
Operating income	¥ 33,779	¥ 39,055	¥ 853	¥ (260)	¥ 73,427
Assets	¥303,905	¥270,529	¥42,941	¥ 91,262	¥708,637
Depreciation	17,918	27,200	529	—	45,647
Capital expenditure	23,513	42,964	546	(232)	66,791

	For the year ended 31st March, 1997				Consolidated total
	Chemicals	Electronics materials	Other	Elimination or common assets (Note)	
	(millions of yen)				
Sales					
Sales to outside customers	¥310,030	¥255,840	¥ 58,535	¥ —	¥624,405
Inter-segment sales	12,844	1,595	47,861	(62,300)	—
Total	322,874	257,435	106,396	(62,300)	624,405
Operating costs and expenses	294,429	205,942	104,334	(62,324)	542,381
Operating income	¥ 28,445	¥ 51,493	¥ 2,062	¥ 24	¥ 82,024
Assets	¥336,365	¥366,980	¥ 55,852	¥171,962	¥931,159
Depreciation	18,434	33,079	678	—	52,191
Capital expenditure	15,478	76,846	835	(315)	92,844

The above-mentioned three business segments, “Chemicals”, “Electronics Materials” and “Other” were changed to the following three lines of business in the light of the type of products and their markets with effect from the year ended 31st March, 1998: “Organic and inorganic chemicals business segment”, “Electronics materials business segment” and “Functional materials and other business segment”.

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, Alloys, Silicon metal
- Electronics materials business segment Semiconductor silicon, Organic materials for the electronics industry, Rare earth magnets for the electronics industry
- Functional materials and other 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

Though synthetic quartz products, oxide single-crystals, rare earths and rare earth magnets for the non-electronics industry had been included in the “Electronics materials business segment” until the year ended 31st March, 1997, it has been included in “Functional materials and other business segment” with effect from the year ended 31st March, 1998 in order to clearly reflect the quality and the use of the products. And also, the name of the industrial segment of “Organic and inorganic chemicals business” have been changed from “Chemicals business” in the previous presentation.

The segment information classified by business segment for the year ended 31st March, 1997 as below are restated to conform to the presentation of the business segment for the year ended 31st March, 1998.

	For the year ended 31st March, 1997				Consolidated total
	Organic and inorganic chemicals	Electronics materials	Functional materials and others	Elimination or common assets (Note)	
	(millions of yen)				
Sales					
Sales to outside customers	¥310,030	¥224,608	¥ 89,767	¥ —	¥624,405
Inter-segment sales	12,844	1,133	47,882	(61,859)	—
Total	322,874	225,741	137,649	(61,859)	624,405
Operating costs and expenses	294,429	179,829	130,006	(61,883)	542,381
Operating income	¥ 28,445	¥ 45,912	¥ 7,643	¥ 24	¥ 82,024
Assets	¥336,365	¥323,175	¥ 99,665	¥171,954	¥931,159
Depreciation	18,434	29,022	4,735	—	52,191
Capital expenditure	15,478	67,876	9,805	(315)	92,844

	For the year ended 31st March, 1998				Consolidated total
	Organic and inorganic chemicals	Electronics materials	Functional materials and others	Elimination or common assets (Note)	
	(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 expenditure	20,849	91,373	24,581	(419)	136,384

	For the year ended 31st March, 1998				Consolidated total
	Organic and inorganic chemicals	Electronics materials	Functional materials and others	Elimination or common assets (Note)	
	(thousands of U.S. dollars)				
Sales					
Sales to outside customers	\$2,576,144	\$1,876,576	\$ 799,363	\$ —	\$5,252,083
Inter-segment sales	105,992	15,523	437,538	(559,053)	—
Total	2,682,136	1,892,099	1,236,901	(559,053)	5,252,083
Operating costs and expenses	2,411,280	1,570,076	1,137,508	(555,114)	4,563,750
Operating income	\$ 270,856	\$ 322,023	\$ 99,393	\$ (3,939)	\$ 688,333
Assets	\$2,794,039	\$3,043,280	\$ 929,061	\$1,444,075	\$8,210,455
Depreciation	141,924	265,636	63,227	—	470,787
Capital expenditure	157,947	692,220	186,220	(3,175)	1,033,212

Note: The amounts of the common assets included in the column "Elimination or common assets" for the years ended 31st March, 1996, 1997 and 1998 were ¥113,904 million, ¥199,078 million and ¥222,189 million (\$1,683,250 thousand), 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 of 31st March, 1996, 1997 and 1998 and for the years then ended are presented below. The disclosure of assets

for each segment classified by geographic area has become mandatory with effect from the year ended 31st March, 1996, as a result of the amendments to the Consolidated Financial Statement Regulations:

	Year ended 31st March, 1996			Consolidated total
	Within Japan	Outside Japan	Elimination or common assets	
	(millions of yen)			
Sales				
Sales to outside customers	¥397,026	¥178,150	¥ —	¥575,176
Inter-segment sales	45,323	15,531	(60,854)	—
Total	442,349	193,681	(60,854)	575,176
Operating costs and expenses	398,343	164,981	(61,575)	501,749
Operating income	¥ 44,006	¥ 28,700	¥ 721	¥ 73,427
Assets	¥447,690	¥198,313	¥ 62,634	¥708,637

	Year ended 31st March, 1997			
	Within Japan	Outside Japan	Elimination or common assets (Note 3)	Consolidated total
	(millions of yen)			
Sales				
Sales to outside customers	¥404,109	¥220,296	¥ —	¥624,405
Inter-segment sales	65,073	17,261	(82,334)	—
Total	469,182	237,557	(82,334)	624,405
Operating costs and expenses	418,712	206,511	(82,842)	542,381
Operating income	¥ 50,470	¥ 31,046	¥ 508	¥ 82,024
Assets	¥498,088	¥304,004	¥129,067	¥931,159

	Year ended 31st March, 1998					
	Japan	North America	Asia	Other area	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, 1998					
	Japan	North America	Asia	Other area	Elimination or common assets (Note 3)	Consolidated total
	(thousands of U.S. dollars)					
Sales						
Sales to outside customers	\$3,381,598	\$1,122,439	\$505,008	\$243,038	\$ —	\$5,252,083
Inter-segment sales	556,682	119,470	211,470	16,606	(904,228)	—
Total	3,938,280	1,241,909	716,478	259,644	(904,228)	5,252,083
Operating costs and expenses	3,455,409	1,109,977	653,144	256,439	(911,219)	4,563,750
Operating income	\$ 482,871	\$ 131,932	\$ 63,334	\$ 3,205	\$ 6,991	\$ 688,333
Assets	\$4,189,553	\$1,960,962	\$612,545	\$467,258	\$ 980,137	\$8,210,455

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, 1996, 1997 and 1998 were ¥113,904 million, ¥199,078 million and ¥222,189 million (\$1,683,250 thousand), 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, 1996, 1997 and 1998 are summarised as follows:

	Year ended 31st March,	
	1996	1997
(millions of yen)		
Overseas sales	¥246,829	¥289,451
Consolidated sales	¥575,176	¥624,405
Percentage of overseas sales over consolidated sales	42.9%	46.4%

	Year ended 31st March, 1998			
	North America	Asia	Other area	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, 1998			
	North America	Asia	Other area	Total
(thousands of U.S. dollars)				
Overseas sales	\$1,097,894	\$1,174,409	\$378,288	\$2,650,591
Consolidated sales				\$5,252,083
Percentage of overseas sales over consolidated sales	20.9%	22.4%	7.2%	50.5%

Notes:—

(1) The above segments are classified geographically.

(2) Main countries or areas other than Japan

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.

16. Subsequent events

(1) Appropriation of retained earnings

Subsequent to 31st March, 1998, the Company's Board of Directors, with the subsequent approval of stockholders on 26th June, 1998, declared a cash dividend of ¥1,670 million (\$12,652 thousand) equal to ¥4.25 (\$0.032) per share, applicable to earnings of the year ended 31st March, 1998 and payable to stockholders on the stockholders' register on 31st March, 1998.

(2) Stock options

At the stockholders meeting held in June 1998, 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 745 thousand shares of the Company's par-value common stock at a cost that shall not exceed ¥2,500 million (US\$19 million).

Consolidated Subsidiaries

Name of Consolidated Subsidiary	Equity Ownership Percentage	Closing Date
Shintech, Inc. ⁽¹⁾	100.0	31st December
Shin-Etsu Handotai Co., Ltd.	100.0	31st March
Shin-Etsu Handotai America, Inc. ⁽¹⁾	100.0	31st December
Shin-Etsu Polymer Co., Ltd.	52.5	31st March
Shin-Etsu Astech Co., Ltd.	89.4	31st March
S.E.H. Malaysia Sdn. Bhd. ⁽¹⁾⁽²⁾	100.0	31st December
Naoetsu Electronics Co., Ltd.	90.0	28th February
Shin-Etsu Handotai Europe, Ltd. ⁽¹⁾	100.0	31st December
Shin-Etsu Engineering Co., Ltd.	100.0	31st March
Shin-Etsu Vinyl Acetate Co., Ltd.	51.0	31st March
Nissin Chemical Industry Co., Ltd.	100.0	28th February
S-E, Inc. ⁽¹⁾	100.0	31st December
Silicon Metal Company of Australia Ltd. ⁽¹⁾	100.0	31st December
Shin-Etsu (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	31st December
Shin-Etsu International Europe B.V. ⁽¹⁾	100.0	31st December
Shin-Etsu Silicone Korea Co., Ltd. ⁽¹⁾	100.0	31st December
Shin-Etsu Electronics Materials Singapore Pte. Ltd. ⁽¹⁾	100.0	31st December
Shin-Etsu Kasei Co., Ltd.	100.0	31st March
Shin-Etsu Metallurgical Co., Ltd.	100.0	31st March
Naoetsu Sangyo Limited	100.0	31st March
Shin-yo Home Service Company	100.0	31st March
Shin-Etsu Sealant Co., Ltd.	100.0	31st March
Shin-Etsu Singapore Pte. Ltd. ⁽¹⁾	100.0	31st December
Shin-Etsu Delivery Co., Ltd.	100.0	31st March
Shin-Etsu Magnet Co., Ltd.	100.0	31st March
Naoetsu Precision Co., Ltd.	100.0	28th February
Shin-Etsu Silicone Taiwan Co., Ltd. ⁽¹⁾	93.3	31st December
Shinkoh Mold Co., Ltd.	100.0	31st March
Skyward Information System Co., Ltd.	100.0	31st March

Name of Consolidated Subsidiary	Equity Ownership Percentage	Closing Date
Human Create Co., Ltd.	100.0	31st March
Shinano Electric Refining Co., Ltd.	68.7	31st March
Shin-Etsu Technology Service Co., Ltd.	76.9	28th February
S.E.H. (Shah Alam) Sdn. Bhd. ⁽¹⁾	100.0	31st December
Shin-Etsu Silicones of America, Inc. ⁽¹⁾	100.0	31st December
Shin-Etsu Polymer (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	31st December
Shincor Silicones, Inc. ⁽¹⁾	100.0	31st December
Shin-Etsu Polymer America, Inc. ⁽¹⁾	100.0	31st January
Shin-Etsu Polymer Europe B.V. ⁽¹⁾	100.0	31st December
MicroSi, Inc. ⁽¹⁾	100.0	31st December
Shin-Etsu Unit Co., Ltd.	100.0	31st December
Polymer East Japan Co., Ltd.	100.0	31st March
Shinano Polymer Co., Ltd.	100.0	28th February
Niigata Polymer Company Limited	100.0	31st December
Nihon Resin Co., Ltd.	100.0	31st December
Polymer Chemicals Co., Ltd.	100.0	31st March
Urawa Polymer Co., Ltd.	100.0	31st January
Sanshin Electronics Co., Ltd.	100.0	31st March
Saitama Shinkoh Mold Co., Ltd.	100.0	31st March
San-Ace Co., Ltd.	100.0	28th February
S.E.H. Techno Service Sdn. Bhd. ⁽¹⁾	100.0	31st December
Simcoa Operations Pty. Ltd. ⁽¹⁾	100.0	31st December
S.E.H. Urus Khidmat Sdn. Bhd. ⁽¹⁾	100.0	31st December
K-Bin, Inc. ⁽¹⁾	100.0	31st December
S.E.H. America Foreign Sales Corporation ⁽¹⁾	100.0	31st December
Microsilica Pty. Ltd. ⁽¹⁾	100.0	31st December
Simcoa International Pty. Ltd. ⁽¹⁾	100.0	31st December
Suzhou Shin-Etsu Polymer Co., Ltd. ⁽¹⁾	88.0	31st December

⁽¹⁾ Overseas subsidiary

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

Report of Independent Certified Public Accountants

To the Board of Directors
Shin-Etsu Chemical Co., Ltd.

We have audited the consolidated balance sheets of Shin-Etsu Chemical Co., Ltd. and its consolidated subsidiaries as of 31st March, 1997 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended 31st March, 1998, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin-Etsu Chemical Co., Ltd. and its consolidated subsidiaries as of 31st March, 1997 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March, 1998, in conformity with generally accepted accounting principles in Japan.

As described in Note 15 of the Notes to Consolidated Financial Statements, during the year ended 31st March, 1998, the Companies changed their business segments in which a certain part of products included. The change was made to reflect the quality and use of the products included in electronics materials business segment more clearly because that the electronics materials business segment has grown materially and, we concur the change as appropriate. The effect of the change to the segment information has been described in Note 15 of the Notes to Consolidated Financial Statements.

Tokyo, Japan
26th June, 1998


Chuo Audit Corporation