

Consolidated Balance Sheets

Shin-Etsu Chemical Co., Ltd. and Subsidiaries
As of 31st March, 1998 and 1999

	31st March,		31st March,
	1998	1999	1999
	(millions of yen)		(thousands of U.S. dollars) (Note 3)
ASSETS			
Current Assets:			
Cash and time deposits	¥ 197,967	¥ 184,021	\$ 1,520,835
Marketable securities (Note 5)	71,227	76,336	630,876
Notes and accounts receivable:			
Trade	165,233	143,391	1,185,050
Unconsolidated subsidiaries and affiliates	13,535	12,978	107,256
Other	7,570	6,635	54,835
Less: allowance for doubtful accounts	(3,764)	(2,771)	(22,901)
	182,574	160,233	1,324,240
Inventories (Note 4)	87,148	94,421	780,339
Other current assets	6,949	8,310	68,677
Total current assets	545,865	523,321	4,324,967
Investments and Advances:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 6)	34,353	34,786	287,488
Investments in securities (Note 5)	91,569	89,910	743,058
Long-term loans	2,144	1,462	12,083
Other	13,943	8,548	70,644
Less: allowance for doubtful accounts	(64)	(88)	(727)
Total investments and advances	141,945	134,618	1,112,546
Property, Plant and Equipment (Note 7):			
Buildings and structures	237,723	242,305	2,002,521
Machinery and equipment	604,132	630,845	5,213,595
Less: accumulated depreciation	(504,860)	(540,669)	(4,468,339)
	336,995	332,481	2,747,777
Land	29,579	29,500	243,802
Construction in progress	23,685	29,484	243,669
Total property, plant and equipment	390,259	391,465	3,235,248
Deferred Charges and Other Assets	5,711	6,751	55,793
Adjustments on Foreign Currency Statement Translation (Note 2 (4))	—	4,818	39,818
	¥1,083,780	¥1,060,973	\$ 8,768,372

The accompanying notes are an integral part of the statements.

	31st March,		31st March,
	1998	1999	1999
	(millions of yen)		(thousands of U.S. dollars) (Note 3)
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans (Note 7)	¥ 52,752	¥ 70,152	\$ 579,769
Current portion of long-term debt (Note 7)	40,369	11,653	96,306
Notes and accounts payable:			
Trade	93,005	69,846	577,240
Unconsolidated subsidiaries and affiliates	11,624	12,513	103,413
Other	45,951	33,924	280,363
	150,580	116,283	961,016
Accrued income taxes	20,958	8,174	67,554
Accrued expenses	44,893	42,479	351,066
Advance received	2,706	1,467	12,124
Other current liabilities	11,738	11,422	94,396
Total current liabilities	323,996	261,630	2,162,231
Long-Term Liabilities:			
Long-term debt (Note 7)	176,274	169,255	1,398,802
Accrued employees' severance indemnities (Note 8)	6,161	5,591	46,207
Deferred taxes—non-current	13,384	16,896	139,636
Other	25,452	22,734	187,884
Total long-term liabilities	221,271	214,476	1,772,529
Excess of Investment Cost Over Equity in Net Assets of Consolidated Subsidiaries	717	478	3,950
Adjustments on Foreign Currency Statement Translation (Note 2 (4))	21,460	—	—
Minority Interests in Consolidated Subsidiaries	19,024	20,322	167,951
Contingent Liabilities (Note 9)	—	—	—
Stockholders' Equity (Note 10):			
Common stock:			
Authorized: 800,000,000 shares			
Issued, par value ¥50 per share:			
393,721,883 shares and 410,014,600 shares as of			
31st March, 1998 and 1999, respectively	83,957	98,243	811,926
Additional paid-in capital	89,976	104,324	862,182
Legal reserve	5,273	—	—
Retained earnings (Note 16)	320,226	—	—
Legal reserve and retained earnings (Note 16)	—	365,253	3,018,620
	499,432	567,820	4,692,728
Less: treasury stock	(2,120)	(3,753)	(31,017)
Total stockholders' equity	497,312	564,067	4,661,711
	¥1,083,780	¥1,060,973	\$8,768,372

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, 1997, 1998 and 1999

	For the years ended 31st March,			For the year ended
	1997	1998	1999	31st March,
	(millions of yen)			(thousands of U.S. dollars) (Note 3)
Net Sales (Note 13)	¥624,405	¥693,275	¥642,796	\$5,312,364
Cost of Sales (Notes 8, 11 and 13)	452,974	515,728	471,667	3,898,075
Gross profit	171,431	177,547	171,129	1,414,289
Selling, General and Administrative Expenses (Notes 8 and 11)	89,407	86,687	84,806	700,876
Operating income	82,024	90,860	86,323	713,413
Other Income/(Expenses):				
Interest and dividend income	7,296	10,075	10,029	82,884
Equity in earnings of affiliates	—	—	564	4,661
Amortisation of difference between cost of investment and equity in net assets of consolidated subsidiaries	—	—	198	1,636
Interest expenses	(7,669)	(9,220)	(10,855)	(89,711)
Amortisation of bond discounts	(1,163)	(1,744)	(1,744)	(14,413)
Loss on sale/disposal of property, plant and equipment	(1,136)	(1,433)	(700)	(5,785)
Foreign exchange gain/(loss)	3,463	(950)	(11,246)	(92,942)
Other, net	(1,117)	1,050	4,638	38,331
Income before income taxes	81,698	88,638	77,207	638,074
Income Taxes (Note 14):				
Current	39,398	46,105	26,655	220,289
Deferred	2,363	820	5,660	46,777
	41,761	46,925	32,315	267,066
Income after income taxes	39,937	41,713	44,892	371,008
Minority Interests in Earnings of Consolidated Subsidiaries	(1,032)	(1,310)	(1,529)	(12,636)
Equity in Earnings of Affiliates	1,502	1,352	—	—
Amortisation of Difference Between Cost of Investment and Equity in Net Assets of Consolidated Subsidiaries	207	272	—	—
Net income	¥ 40,614	¥ 42,027	¥ 43,363	\$ 358,372
		(Yen)		(U.S. dollars) (Note 3)
Per Share (Note 2 (14)):				
Net income—primary	¥118.24	¥110.73	¥109.36	\$0.904
Net income—fully diluted	¥103.95	¥101.69	¥103.17	\$0.853
Cash dividends	¥ 7.50	¥ 8.50	¥ 9.00	\$0.074
Weighted Average Number of Shares (Thousands)	343,490	380,084	397,752	397,752

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, 1997, 1998 and 1999

	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, 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 and Retained earnings
	(thousands)		(millions of yen)	
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

	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, 1998	393,722	\$693,860	\$743,604	\$2,690,075
Net income for the year	—	—	—	358,372
Increase in retained earnings due to increase in ownership percentage in consolidated subsidiaries	—	—	—	413
Cash dividends	—	—	—	(28,463)
Directors' and statutory auditors' bonuses	—	—	—	(1,777)
Conversion of convertible debentures	15,946	115,322	115,132	—
Exercise of warrant attached to debentures	347	2,744	3,446	—
Balance as of 31st March, 1999	410,015	\$811,926	\$862,182	\$3,018,620

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, 1997, 1998 and 1999

	For the years ended 31st March,			For the year ended
	1997	1998	1999	31st March,
	(millions of yen)			(thousands of U.S. dollars) (Note 3)
Cash Flows From Operating Activities:				
Net income	¥ 40,614	¥ 42,027	¥ 43,363	\$ 358,372
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortisation	54,554	63,147	58,295	481,777
Equity in earnings of affiliates	(1,502)	(1,352)	(564)	(4,661)
Loss on sale/disposal of property, plant and equipment	1,136	1,433	700	5,785
Other, net	13,779	12,122	4,183	34,570
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	(3,814)	(14,111)	23,334	192,843
Increase in inventories	(11,109)	(13,214)	(7,273)	(60,107)
Increase (decrease) in notes and accounts payable	15,824	8,937	(34,297)	(283,446)
Increase (decrease) in accrued income taxes	4,531	(1,247)	(12,784)	(105,653)
Other, net	10,663	14,313	(10,604)	(87,637)
Net cash provided by operating activities	124,676	112,055	64,353	531,843
Cash Flows From Investing Activities:				
Purchase of properties	(110,570)	(135,452)	(79,515)	(657,149)
Proceeds from sales of properties	1,383	811	596	4,926
Decrease (increase) in investments in securities	(6,996)	(22,258)	2,486	20,545
Increase in investments in unconsolidated subsidiaries and affiliates	(2,220)	(5,677)	(625)	(5,165)
Other, net	410	(2,143)	6,082	50,264
Net cash used for investing activities	(117,993)	(164,719)	(70,976)	(586,579)
Cash Flows From Financing Activities:				
Proceeds from issue of debentures	105,065	49,189	—	—
Borrowing of long-term debt	15,025	24,906	10,003	82,669
Payment of long-term debt	(16,243)	(35,591)	(17,822)	(147,289)
Increase (decrease) in short-term loans	10,621	(20,601)	17,400	143,802
Cash dividends paid	(2,501)	(2,927)	(3,444)	(28,462)
Other, net	13,667	41,886	(3,063)	(25,315)
Net cash provided by financing activities	125,634	56,862	3,074	25,405
Effect of Exchange Rate Changes on Cash	(6,856)	(5,995)	(5,288)	(43,702)
Net Increase (Decrease) in Cash and Cash Equivalents	125,461	(1,797)	(8,837)	(73,033)
Cash and Cash Equivalents at Beginning of Year	145,530	270,991	269,194	2,224,744
Cash and Cash Equivalents at End of Year	¥ 270,991	¥ 269,194	¥ 260,357	\$ 2,151,711

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, 1997, 1998 and 1999

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 application and disclosure requirement 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.

Although the consolidated statements of cash flows are not disclosed in Japan for domestic reporting purposes, such statements for the years ended 31st March, 1997, 1998 and 1999 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 99 majority-owned subsidiaries as of 31st March, 1999 (96 as of 31st March, 1998 and 96 as of 31st March, 1997). The consolidated financial statements include the accounts of the Company and its 58 (57 for 1998 and 54 for 1997) majority-owned subsidiaries listed on page 43 with closing dates for their respective fiscal years (the "Companies").

The remaining 41 (39 for 1998 and 42 for 1997) 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 41 (39 for 1998 and 42 for 1997) unconsolidated subsidiaries (majority-owned) and 21 (21 for 1998 and 21 for 1997) 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, 1998 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 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 18 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.

(18) Changes in accounting presentation

In the ended 31st March, 1999 the Company made accounting presentation as follows:

- (i) The column "Legal earned reserve" and "Retained earnings" are combined and shown as "Legal reserve and retained earnings" with effect from this fiscal year.
- (ii) The amounts of "Amortisation of difference between cost of investment and equity in net assets of consolidated subsidiaries" and "Equity in earnings of affiliates" are included in "Non-operating Expenses" with effect from this fiscal year.

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 ¥121 to U.S.\$1, the approximate effective rate of exchange on 31st March, 1999.

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 ¥121 to U.S.\$1 or at any other rate.

4. Inventories

Inventories as of 31st March, 1998 and 1999 consisted of the following:

	31st March,		1999 (thousands of U.S. dollars)
	1998	1999	
	(millions of yen)		
Merchandise	¥ 5,916	¥ 4,959	\$ 40,983
Finished products	35,072	39,520	326,612
Semifinished products	13,418	13,679	113,050
Raw materials	22,357	24,089	199,083
Supplies	8,149	10,073	83,248
Others	2,236	2,101	17,363
	¥87,148	¥94,421	\$780,339

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, 1998 and 1999 consisted of the following:

	31st March,		1999 (thousands of U.S. dollars)
	1998	1999	
	(millions of yen)		
Marketable securities (current portfolio):			
Listed corporate shares	¥ 1,164	¥ 1,023	\$ 8,455
Bonds, debentures and others	70,063	75,313	622,421
	¥71,227	¥76,336	\$630,876
Investments in securities (non-current portfolio):			
Listed corporate shares	¥37,811	¥37,859	\$312,884
Other shares (unquoted)	4,035	3,114	25,736
Bonds, debentures and others	49,723	48,937	404,438
	¥91,569	¥89,910	\$743,058

The aggregate market value of listed corporate shares (marketable equity securities) and net unrealised gains as of 31st March, 1998 and 1999 amounted to as follows:

	31st March,		
	1998	1999	1999
	(millions of yen)		(thousands of U.S. dollars)
Current:			
Market value	¥ 1,446	¥ 1,099	\$ 9,083
Net unrealised gains	282	76	628
Non-current:			
Market value	¥69,907	¥65,243	\$539,198
Net unrealised gains	32,096	27,384	226,314

6. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates as of 31st March, 1998 and 1999 consisted of the following:

	31st March,		
	1998	1999	1999
	(millions of yen)		(thousands of U.S. dollars)
Held directly by the Company:			
Affiliates:			
Four affiliates accounted for by the equity method (See Note 2 (2))	*¥ 8,586	*¥ 9,513	*\$ 78,620
Kashima Denkai Co., Ltd.	805	805	6,653
Unitika Chemical Co., Ltd.	600	600	4,959
Others	228	228	1,884
	10,219	11,146	92,116
Unconsolidated subsidiaries:			
Shin-Etsu Electronics Malaysia Sdn. Bhd.	1,400	1,400	11,570
Shin-Etsu Silicones Europe B.V.	734	734	6,066
Shin-Etsu Film Co., Ltd.	199	199	1,645
Others	225	384	3,174
	2,558	2,717	22,455
Held indirectly through subsidiaries			
Unconsolidated subsidiaries and affiliates:			
Two unconsolidated subsidiaries and three affiliates accounted for by the equity method (See Note 2 (2))	* 12,407	* 11,495	* 95,000
Others	4,369	4,207	34,769
	16,776	15,702	129,769
Advances	4,800	5,221	43,148
	¥34,353	¥34,786	\$287,488

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

7. Short-term loans and long-term debt

Short-term loans outstanding as of 31st March, 1998 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, 1998 and 1999 consisted of the following:

	31st March,		
	1998	1999	1999
	(millions of yen)		(thousands of U.S. dollars)
Loans with banks and other financial institutions:			
Secured	¥ 17,896	¥ 18,563	\$ 153,414
Unsecured	44,481	38,730	320,083
Unsecured debentures:			
3 ³ / ₈ % notes in U.S. dollars, due August 2000 with warrants	52,562	52,562	434,397
2.7% debentures issued by a consolidated subsidiary, due April 2001	3,669	3,263	26,967
6 ⁷ / ₈ % debentures issued by a consolidated subsidiary, due July 2002	19,833	17,638	145,769
2.7% debentures issued by a consolidated subsidiary, due August 2004	8,000	8,000	66,116
2.5% debentures issued by a consolidated subsidiary, due August 2003	5,000	5,000	41,322
2.2% debentures issued by a consolidated subsidiary, due August 2002	5,000	5,000	41,322
2.6% debentures issued by a consolidated subsidiary, due December 2007	3,000	3,000	24,793
2.5% debentures issued by a consolidated subsidiary, due February 2003	3,000	3,000	24,793
2.1% debentures issued by a consolidated subsidiary, due March 2003	2,000	2,000	16,529
2.1% debentures issued by a consolidated subsidiary, due March 2003	3,000	3,000	24,793
Unsecured convertible debentures:			
3.0% convertible debentures in U.S. dollars, due May 2000	27	26	215
1.3% convertible debentures, due March 1999	27,917	—	—
0.4% convertible debentures, due September 2005	21,154	21,126	174,595
Secured convertible debentures:			
2.4% convertible mortgage debentures issued by a consolidated subsidiary, due March 1999	104	—	—
	216,643	180,908	1,495,108
Less portion due within one year	(40,369)	(11,653)	(96,306)
	¥176,274	¥169,255	\$1,398,802

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, 1999 in denominated currencies	Terms of conversion of 31st March, 1999		
			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.\$0.100 million	¥1,112.2	U.S.\$1=¥262.60	24
0.4% convertible debentures in yen, due 2005	8th August, 1996 (¥50,000 million)	¥21,126 million	¥1,917.0	—	11,020
					11,044

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

	Issue date and principal amount at issue	Balance as of 31st March, 1999 in denominated currencies	Terms of exercise of 31st March, 1999		
			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.\$194 million	¥1,917.0	U.S.\$1=¥109.45	11,051
					11,051

*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, 1999, ¥409 million (\$3,380 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, 1999. The unamortised balance was included in "Other current liabilities" in an amount of ¥409 million (\$3,380 thousand) and in "Other" in the Long-term Liabilities section in an amount of ¥136 million (\$1,124 thousand), respectively in the accompanying Consolidated Balance Sheet at 31st March, 1999. Under the Japanese tax laws, such translation gains are not taxable until such time as the forward exchange contract is performed.

term loans, mortgage debentures and long-term loans were as follows:

As of 31st March, 1999, assets pledged as collateral for short-

	(millions of yen)	(thousands of U.S. dollars)
Net book value of property, plant and equipment	¥52,512	\$433,983

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

	(millions of yen)	(thousands of U.S. dollars)
Year ending 31st March, 2000	¥ 11,653	\$ 96,306
2001	65,123	538,207
2002	11,341	93,727
2003 and thereafter	92,791	766,868
	¥180,908	\$1,495,108

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, 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, 1997, 1998 and 1999 were ¥3,498 million, ¥3,360 million and ¥3,081 million (\$25,463 thousand), respectively.

9. Contingent liabilities

As of 31st March, 1999, 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 ¥1,270 million (\$10,496 thousand).

In addition, as of 31st March, 1999, the Companies had contingent liabilities arising from notes discounted by banks in the amounts of ¥368 million (\$3,041 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, 1997, 1998 and 1999 in the amounts of ¥1,283 million, ¥1,616 million and ¥1,774 million (\$14,661 thousand) (¥4.50 per share) respectively, which were actually paid to stockholders on 10th December, 1996, 10th December, 1997 and 10th December, 1998, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended 31st March, 1997, 1998 and 1999, respectively.

11. Research and development costs

Research and development costs incurred and charged to income for the years ended 31st March, 1997, 1998 and 1999

were ¥18,256 million, ¥19,174 million and ¥22,351 million (\$184,719 thousand), respectively.

12. Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended 31st March, 1998 and 1999 amounted to ¥304 million and ¥380 million (\$3,140 thousand), respectively. Lease expenses corresponding to depreciation expenses for the year ended 31st March, 1999, 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 ¥380 million (\$3,140 thousand).

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

	31st March, 1999	
	(millions of yen)	(thousands of U.S. dollars)
The amount corresponding to acquisition cost	¥1,767	\$14,603
The amount corresponding to accumulated depreciation	882	7,289
The amount corresponding to net book value	¥ 885	\$ 7,314

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

	31st March,		
	1998	1999	1999
	(millions of yen)		(thousands of U.S. dollars)
Future lease payments			
Within one year	¥290	¥335	\$2,769
Over one year	456	550	4,545
	¥746	¥885	\$7,314

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

	31st March,		
	1998	1999	1999
	(millions of yen)		(thousands of U.S. dollars)
Future lease payments			
Within one year	¥ 765	¥ 511	\$ 4,223
Over one year	1,192	770	6,364
	¥1,957	¥1,281	\$10,587

13. Related party transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended 31st March, 1997, 1998 and 1999 are summarised as follows:

	Year ended 31st March,			
	1997	1998	1999	1999
	(millions of yen)			(thousands of U.S. dollars)
Sales	¥14,891	¥17,401	¥18,663	\$154,240
Purchases	28,316	31,069	50,031	413,479

14. Income taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended 31st March, 1997, 1998 and 1999 consisted of corporate income tax (national),

enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	Rates on taxable income		
	1997	1998	1999
Corporate income tax	37.5%	37.5%	34.5%
Enterprise tax	12.1	12.1	11.0
Resident income taxes	7.5	7.1	6.5
	57.1%	56.7%	52.0%
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)	50.9%	50.6%	46.9%

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 operate principally in the following three lines of business, "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, 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

Sales, related operating costs and expenses, operating income, assets, depreciation and capital expenditure of the Companies at 31st March, 1997, 1998 and 1999 and for the years then ended, classified by business segments had been presented below.

	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, 1999				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	¥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 expenditure	23,029	42,737	8,009	(134)	73,641

	For the year ended 31st March, 1999				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	\$2,718,388	\$1,773,595	\$ 820,381	\$ —	\$5,312,364
Inter-segment sales	118,521	13,686	457,620	(589,827)	—
Total	2,836,909	1,787,281	1,278,001	(589,827)	5,312,364
Operating costs and expenses	2,470,248	1,544,322	1,172,231	(587,850)	4,598,951
Operating income	\$ 366,661	\$ 242,959	\$ 105,770	\$ (1,977)	\$ 713,413
Assets	\$2,947,628	\$3,242,967	\$ 956,992	\$1,620,785	\$8,768,372
Depreciation	157,901	224,380	82,149	—	464,430
Capital expenditure	190,322	353,198	66,190	(1,107)	608,603

Note: The amounts of the common assets included in the column "Elimination or common assets" for the years ended 31st March, 1997, 1998 and 1999 were ¥199,078 million, ¥222,189 million and ¥225,494 million (\$1,863,587 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, 1997, 1998 and 1999 and for the years then ended are presented below.

	Year ended 31st March, 1997				Consolidated total
	Within Japan	Outside Japan	Elimination or common assets (Note 3)		
	(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					Consolidated total
	Japan	North America	Asia	Other area	Elimination or common assets (Note 3)	
	(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, 1999					Consolidated total
	Japan	North America	Asia	Other area	Elimination or common assets (Note 3)	
	(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, 1999					Consolidated total
	Japan	North America	Asia	Other area	Elimination or common assets (Note 3)	
	(thousands of U.S. dollars)					
Sales						
Sales to outside customers	\$3,473,397	\$1,159,752	\$429,835	\$249,380	\$ —	\$5,312,364
Inter-segment sales	566,620	95,579	236,860	38,554	(937,613)	—
Total	4,040,017	1,255,331	666,695	287,934	(937,613)	5,312,364
Operating costs and expenses	3,549,926	1,104,769	617,025	274,248	(947,017)	4,598,951
Operating income	\$ 490,091	\$ 150,562	\$ 49,670	\$ 13,686	\$ 9,404	\$ 713,413
Assets	\$4,629,240	\$1,991,479	\$563,959	\$446,719	\$1,136,975	\$8,768,372

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, 1997, 1998 and 1999 were ¥199,078 million, ¥222,189 million and ¥225,494 million (\$1,863,587 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, 1997, 1998 and 1999 are summarised as follows:

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

	Year ended 31st March, 1998			Total
	North America	Asia	Other area	
	(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, 1999			Total
	North America	Asia	Other area	
	(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, 1999			Total
	North America	Asia	Other area	
	(thousands of U.S. dollars)			
Overseas sales	\$1,157,917	\$1,236,339	\$457,959	\$2,852,215
Consolidated sales				\$5,312,364
Percentage of overseas sales over consolidated sales	21.8%	23.3%	8.6%	53.7%

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.

16. Subsequent events

(1) Appropriation of retained earnings

Subsequent to 31st March, 1999, the Company's Board of Directors, with the subsequent approval of stockholders on 29th June, 1999, declared a cash dividend of ¥1,838 million (\$15,190 thousand) equal to ¥4.50 (\$0.037) per share, applicable to earnings of the year ended 31st March, 1999 and payable to stockholders on the stockholders' register on 31st March, 1999.

(2) Stock options

At the stockholders meeting held in June 1999, 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 759 thousand shares of the Company's par-value common stock at a cost that shall not exceed ¥3,800 million (US\$31 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.	52.2	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
Shin-yo Home Service Company	100.0	31st March
Naoetsu Sangyo Limited	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 Magnet Co., Ltd.	100.0	31st March
Shin-Etsu Delivery 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 December
Shin-Etsu Polymer Europe B.V. ⁽¹⁾	100.0	31st December
Shin-Etsu 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
SFSC, Inc. ⁽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

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 1998 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years ended 31st March 1999, 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 1998 and 1999, and the consolidated results of their operations and their cash flows for each of the three years ended 31st March 1999 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.

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
29th June, 1999

Chuo Audit Corporation

Chuo Audit Corporation