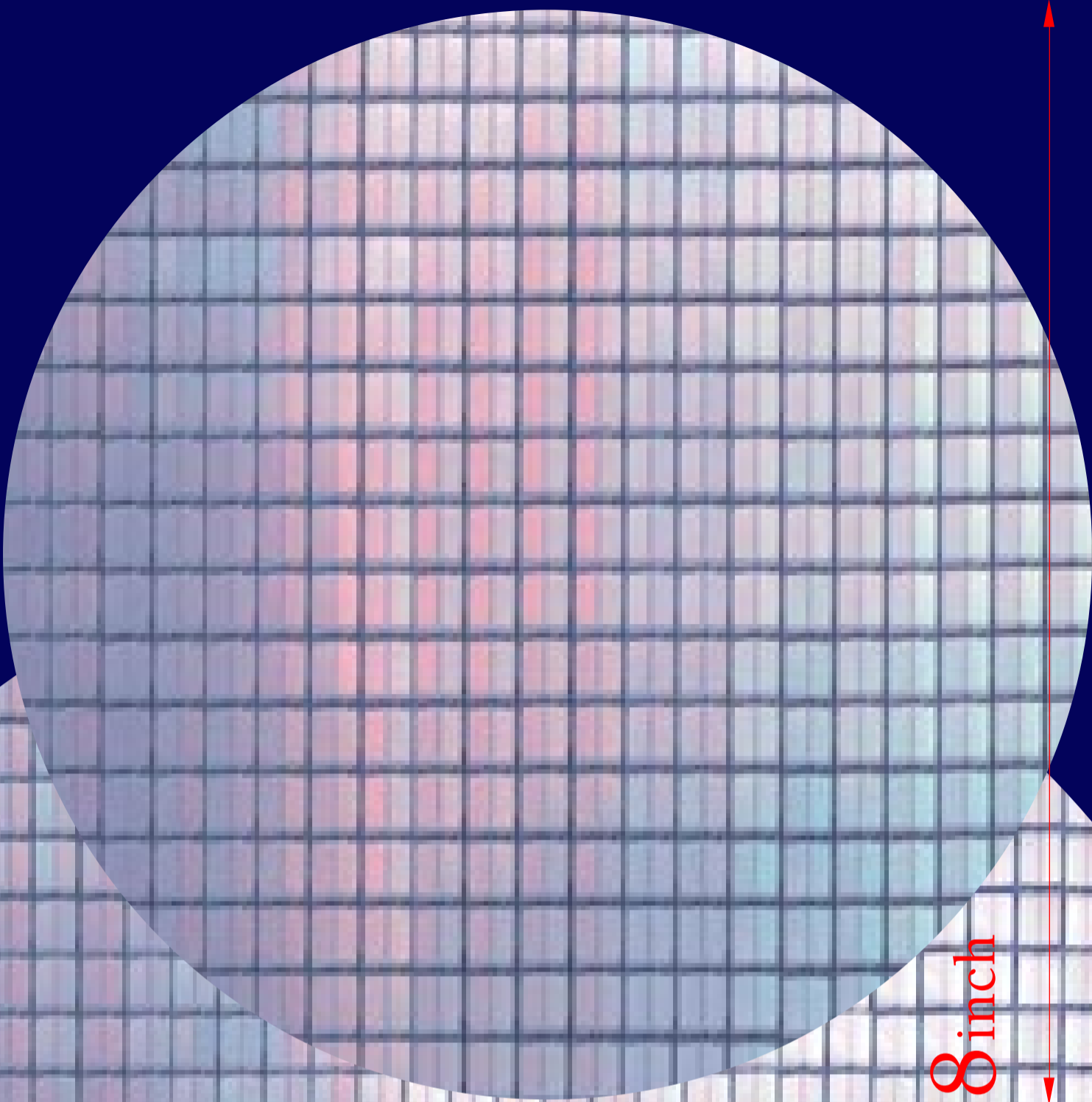




SHIN-ETSU CHEMICAL CO., LTD. *Annual Report* 2001

*Fiscal Year ended March 31, 2001*

*We started mass production of 300-millimeter silicon wafers at our Shirakawa plant in Japan in February 2001 to meet fast-growing market demand. Through close collaboration with customers, we are committed to providing the best products to the semiconductor market.*



8 inch

12 inch

(Images shown are actual silicon wafer sizes, however, semiconductor chips have been magnified for effect.)

## The Shin-Etsu Identity

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Shin-Etsu is a world-leading manufacturer of polyvinyl chloride (PVC) and silicon wafers.

Shin-Etsu also has other substantial business pillars: among the leaders are fast-growing sectors such as synthetic quartz and stable-growing product lines, including silicones and cellulose derivatives products.

In fiscal year 2001, Shin-Etsu returned record profits, the sixth year in a row that this has been achieved.

Shin-Etsu continues to strive to be one of the leading global companies of the 21st century.

- CONSOLIDATED NET SALES: US\$6.512 BILLION
- CONSOLIDATED NET INCOME: US\$520 MILLION
- RETURN ON EQUITY (ROE): 9.4%
- MARKET CAPITALIZATION: US\$14.65 BILLION *(as of March 31, 2001)*
- U.S. PATENTS GRANTED IN 2000: 170

Note: The U.S. dollar amounts represent conversions of Japanese yen, for convenience only, at the rate of ¥124=\$1.

### CONTENTS

- 1 Financial Highlights
- 2 To Our Shareowners
- 7 Review of Operations
- 18 Research and Development
- 20 A Commitment to the Environment
- 22 Shin-Etsu's Worldwide Network
- 24 Good Corporate Citizens
- 25 Board of Directors
- 26 Financial Section
- 53 Corporate Data

### FORWARD-LOOKING STATEMENTS

Statements in this annual report, other than those of historical fact, are forward-looking statements about the future performance of Shin-Etsu Chemical that are based on management's assumptions and beliefs in light of information currently available, and involve both known and unknown risks and uncertainties. Actual events and results may differ materially from those anticipated in these statements.

## Financial Highlights

*Shin-Etsu Chemical Co., Ltd. and Subsidiaries*  
*Fiscal years ended March 31, 2001, 2000 and 1999*

	Millions of Yen		
	2001	2000	1999
<b>For the Year:</b>			
Net sales	¥ 807,485	¥ 678,859	¥ 642,796
Operating income	112,677	87,465	86,323
Net income	64,505	48,229	43,363
Capital expenditures	96,770	80,003	73,641
Net income per share (Yen)	¥ 153.58	¥ 116.56	¥ 109.36
Cash dividends per share (Yen)	12.00	10.00	9.00
Return on equity (%)	9.4	7.9	8.2
<b>At Year-End:</b>			
Total assets	¥1,265,799	¥1,168,729	¥1,060,973
Working capital	350,273	273,193	261,691
Stockholders' equity	714,996	651,261	564,067

	Thousands of U.S. Dollars		
	2001	2000	1999
<b>For the Year:</b>			
Net sales	\$ 6,511,976	\$ 5,474,669	\$ 5,183,839
Operating income	908,685	705,363	696,153
Net income	520,202	388,944	349,702
Capital expenditures	780,403	645,185	593,879
Net income per share (Dollars)	\$ 1.239	\$ 0.940	\$ 0.882
Cash dividends per share (Dollars)	0.097	0.081	0.073
Return on equity (%)	9.4	7.9	8.2
<b>At Year-End:</b>			
Total assets	\$10,208,056	\$ 9,425,234	\$ 8,556,234
Working capital	2,824,782	2,203,169	2,110,411
Stockholders' equity	5,766,097	5,252,105	4,548,927

*Note: The U.S. dollar amounts represent conversions of yen, for convenience only, at the rate of ¥124=US\$1.*

## To Our Shareowners



CHIHIRO KANAGAWA *President and CEO*

*The fiscal year from April 2000 through March 2001 was the most successful year in Shin-Etsu's history. This fiscal year we achieved record-setting results in every major business segment. We have focused simultaneously on multiple business segments, and have developed a business structure so that depressed economic conditions in any particular business will have minimal effect on the company as a whole.*

Consolidated net sales of ¥807 billion (US\$6,512 million) represented a 18.9% increase, while consolidated net income rose 33.7% to a record ¥65 billion (US\$520 million). Shin-Etsu has now achieved eight consecutive years of profit increases, as well as record profits for six fiscal years in a row. Consolidated net income per share also increased by 31.8% from the last fiscal year.

During the fiscal year, several important projects were implemented in silicon wafers, polyvinyl chloride, silicones and optical fiber preforms, as described below. These projects will contribute to the future stability and growth of Shin-Etsu.

I continue to place high management priority on maintaining stable growth in both sales

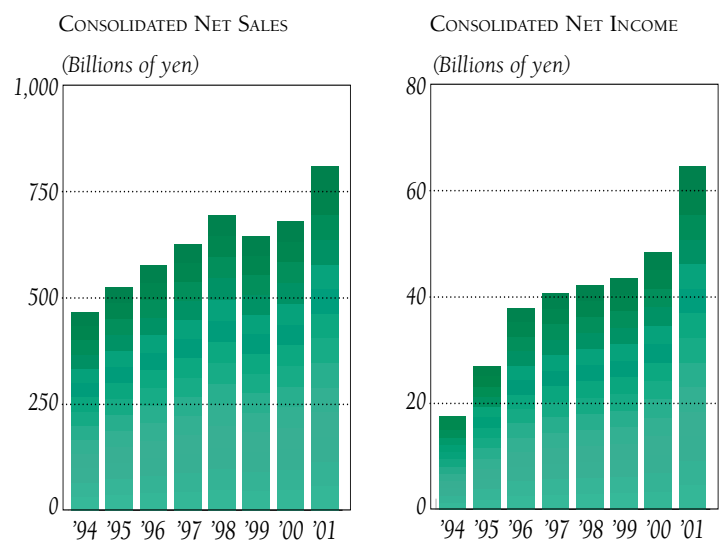
and profits. In order to achieve this, we are placing special emphasis on the following:

1. Maintaining our healthy financial condition
2. Specializing not only in rapid-growth product lines but also in stable though moderate-growth areas with high investment efficiency.
3. Developing new products that will have synergistic effects with our existing commercial products.

These guiding principles have proven to be the best method for rewarding our stockholders over an extended period. The results of our company over the past 5 to 10 years are solid proof of the validity of these principles.

Now for a closer look at the highlights of the fiscal year:

First, my policy to avoid becoming overly dependent on a single business is reflected in the breakdown of the operating profit by segments during the fiscal year. 42% of the operating income of Shin-Etsu was derived from the stable-growth businesses of organic and inorganic chemicals. This segment includes polyvinyl chloride, silicones, cellulose derivatives, etc., all of which have continued their stable long-term growth. On the other hand, our rapid-growth business segments produced 58% of the operating income of our company. In these rapid-growth businesses, 32% of the operating income was earned from electronics materials such as semiconductor silicon wafers, rare-earth magnets for hard-disk drives, photoresists, and epoxy-molding compounds. 26% of the operating income in this business segment was earned by functional materials and



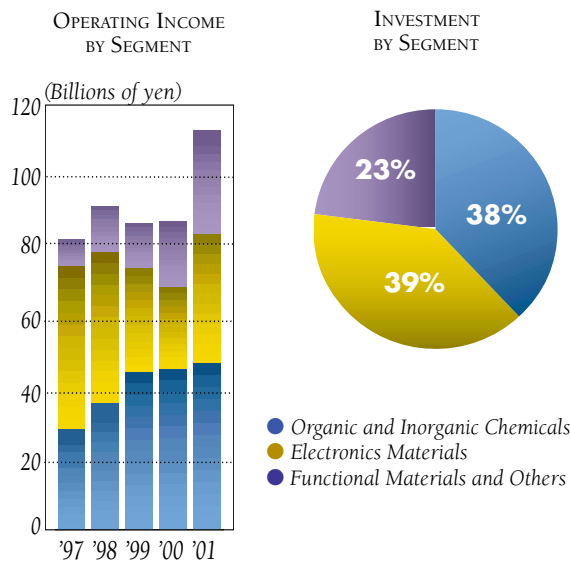
other products such as optical-fiber preforms, synthetic quartz for photomask substrates, and rare-earth magnets for general purposes.

Second, Shin-Etsu's total investments for the fiscal year were ¥97 billion (\$780 million), with 38% of this targeted for organic and inorganic chemicals, 39% for electronics materials, and 23% for functional materials and others.

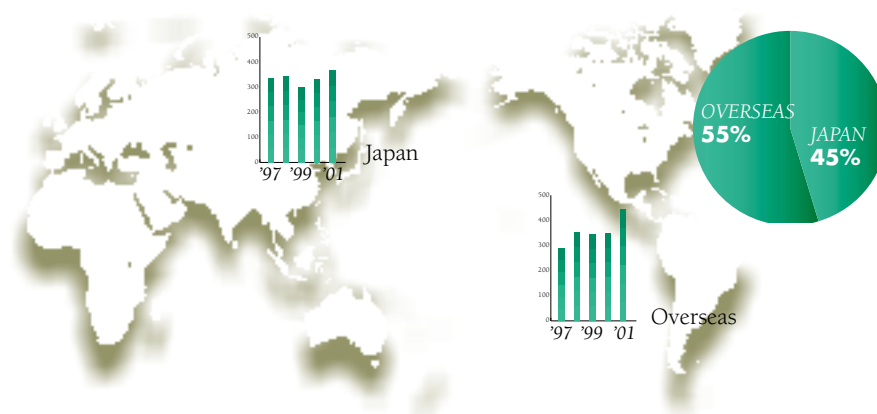
Third, 45% of our consolidated sales were generated in Japan and 55% were generated overseas. The breakdown of the overseas sales includes 21% from Japanese plants and the remaining 34% from production outside of Japan.

When we look for a potential new production location, we make our final decision only after carefully examining whether doing business in any given location will contribute to our market growth, the availability of raw materials, the manufacturing costs and the inherent risks involved in doing business in the country. In our PVC business, we have manufacturing facilities in the three key global regions—the U.S.A., Europe, and Japan. This geographic diversification is a result of our focus on cost competitiveness and large domestic demand in the U.S.A., our pursuit of a stable local demand in Europe, and our desire to spread the business risk of PVC by maintaining manufacturing facilities in these three key regions. In our semiconductor silicon business, we have production facilities in Japan, the U.S.A., Malaysia, the U.K. (Scotland), and Taiwan. This geographic diversification is also a result of our pursuit of both local demand and cost competitiveness in each area. In our electronics materials segment,

we have production plants in Southeast Asia as well as Japan for magnets and the epoxy-molding compounds for electronics devices. In addition, the ongoing silicone monomer project of Shin-Etsu and General Electric in Thailand will enable our silicone business to expand and be cost-competitive in response to the growth of those local markets.



OVERSEAS SALES  
(Billions of yen)



In our polyvinyl chloride segment, Shintech Incorporated, a wholly owned subsidiary in the U.S.A., achieved record profits for the fiscal year. The construction of the first half of Shintech's new plant in Addis, Louisiana, was completed on December 10, 2000. As a result, our total production capacity in the U.S.A., including the existing Freeport plant in Texas, has increased from 1,450,000t/year to 1,750,000t/year. The construction of the second half of the new plant in Addis is proceeding on schedule. Upon completion of the entire Louisiana project at the end of 2001, Shin-Etsu's total worldwide PVC production capacity will reach 3,190,000t/year. In order for Shin-Etsu to solidify its position as the world's largest manufacturer of PVC, we are continuing to make every effort to operate our facilities at full capacity, not only in the U.S.A., but also in Japan and in Europe, supported by our highly responsive marketing principles.

In our silicones business, we are now proceeding with plans to construct a new silicone monomer manufacturing plant in Thailand, which will begin production in April 2003. A joint-venture company to own and operate the plant was formed with General Electric Company in February 2001. The rapid growth in demand for silicones products in Asia is expected to continue well into the future. Upon completion of the silicone monomer plant with the combined state-of-the-art technology of both companies, we will expand our silicone business with cost-competitive products from the intermediate to the final stage of production.

In the rapid-growth segments, we are now constructing a new manufacturing facility for the production of optical-fiber preforms at the Kashima Coastal Industrial Zone in Japan. We already have an existing preforms manufacturing facility with an annual production capacity of 12 million kilometers in terms of optical-fiber, at our Gunma Complex in Japan. Upon completion of the new plant in Kashima, Shin-Etsu's total capacity for preforms will be

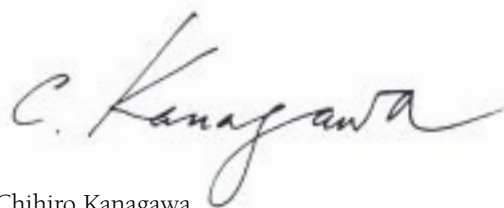
doubled. The demand for preforms is continuing to increase in line with expansion of the infrastructure for optical-fiber communications around the world.

Shin-Etsu was the first to market a 300mm diameter wafer—the next-generation semiconductor wafers. The demand for 300mm diameter wafers has risen because semiconductor device manufacturers realize significant cost savings by using the larger-diameter wafers. Shin-Etsu began commercial production of its 300mm wafers in the first quarter of 2001. This timing will allow us to establish a solid base for further growth in this next-generation wafer and will mitigate the impact of the current slowdown in the semiconductor markets on Shin-Etsu's results.

Since these capital investments can be principally funded by internally generated cash flow, we are able to implement these major investments with timing that is optimum for our businesses.

When we select an area of technology for research and development, it is very important to assess whether that area of technology can serve a large future market, create a synergistic effect with our existing businesses, and generate an original and unique technology for Shin-Etsu. Considering the rapid changes in technology, it is important for us to maximize the expertise of our research and development activities, achieve developmental results within a short period of time and rapidly convert developmental ideas into commercial reality. The new products developed through this approach, for example photoresists and SOI wafers, are steadily establishing solid business base for us. We are committed to the development of new products and markets in order to assure Shin-Etsu's long-term stable growth.

The U.S.A. economy has a major influence on the world economy. After ten-years of steady economic expansion, it began to decline in the second half of 2000. As a result, the present business environment for our company is not as good as it was last year. However, I would like to emphasize that the entire Shin-Etsu organization is making its best effort to maintain stable growth in both sales and profits despite the business cycle.



Chihiro Kanagawa  
President and CEO

June 2001

## Review of Operations

The principal business objective for Shin-Etsu Chemical is to maintain stable growth in both sales and profits. To achieve that goal, our key strategy has been to concentrate on both stable- and high-growth fields. Materials for the semiconductor and telecommunications industries provide the engine that drives rapid growth, while steady performers such as products for construction and housing, transportation equipment, toiletries, medical and antipollution generate cash flow and help offset the effects of the cyclical fluctuations that often impact high-tech markets.

# High Growth

● OPTICAL FIBER PREFORMS

No. 1

● SYNTHETIC QUARTZ

No.1 IN WORLD MARKET FOR PHOTOMASK SUBSTRATES AND STEPPER LENS

No. 1

● SILICON WAFERS

No.1 IN WORLD MARKET WITH 25%\* OF SHARE

● RARE EARTH MAGNETS

No.1 IN WORLD MARKET FOR HDD

No. 1

● PHOTORESISTS

No.1 IN WORLD MARKET FOR KRF PHOTORESISTS

● PVC

No. 1

● SILICONES

No.1 IN ASIAN MARKET  
No.3 IN WORLD MARKET

No. 1

No.1 IN WORLD MARKET WITH 13%\* OF SHARE

# New Materials

- OPTICAL ISOLATORS
- SOI WAFERS
- SIFEL®: NEW FLUOROELASTOMER
- PELLICLES

# Stable Growth

● CELLULOSE DERIVATIVES

No.1 IN THE WORLD MARKET FOR PHARMACEUTICAL USE

No. 1

# Shin-Etsu at a Glance

## Products

## Major Contributors

### Organic and Inorganic Chemicals



Polyvinyl chloride, Silicones, Vinyl acetate monomer, Polyvinyl alcohol, methanol, Caustic soda, Chloromethanes, Cellulose derivatives, Synthetic pheromones, Lime nitrogen, Fused phosphates, Silicon metal, Plastic products and others

**MANUFACTURING AND SALES:**  
Shin-Etsu Chemical Co., Ltd.  
Shintech Inc. (U.S.A.)  
Shin-Etsu PVC B.V. (Netherlands)  
Shin-Etsu VCM B.V. (Netherlands)  
Simcoa Operations Pty. Ltd. (Australia)  
Shin-Etsu Polymer Co., Ltd.  
Nissin Chemical Industry Co., Ltd.

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

and 51 other companies

### Electronics Materials



Semiconductor silicon, Organic materials for the electronics industry, Rare earth magnets for electronics industry, Photoresists

**MANUFACTURING AND SALES:**  
Shin-Etsu Chemical Co., Ltd.  
Shin-Etsu Handotai Co., Ltd.  
Shin-Etsu Handotai America, Inc.

**PROCESSING AND SALES:**  
S.E.H. Malaysia Sdn. Bhd.  
Shin-Etsu Handotai Europe, Ltd. (U.K.)  
Shin-Etsu (Malaysia) Sdn. Bhd.

**PROCESSING:**  
Naoetsu Electronics Co., Ltd.

and 22 other companies

### Functional Materials and Others



Synthetic quartz products (photomask substrates, optical fiber preforms), Oxide single crystals, Rare earths and rare earth magnets for general applications

**OTHERS:**  
Export and import of goods, Export of technology and plants, Construction and plant engineering, Information processing, Other services

**MANUFACTURING AND SALES:**  
Shin-Etsu Chemical Co., Ltd.  
Shin-Etsu Quartz Products Co., Ltd.  
Silica Products, Inc. (U.S.A.)

**ENGINEERING:**  
Shin-Etsu Engineering Co., Ltd.

**SALES:**  
Shin-Etsu Astech Co., Ltd.

and 29 other companies

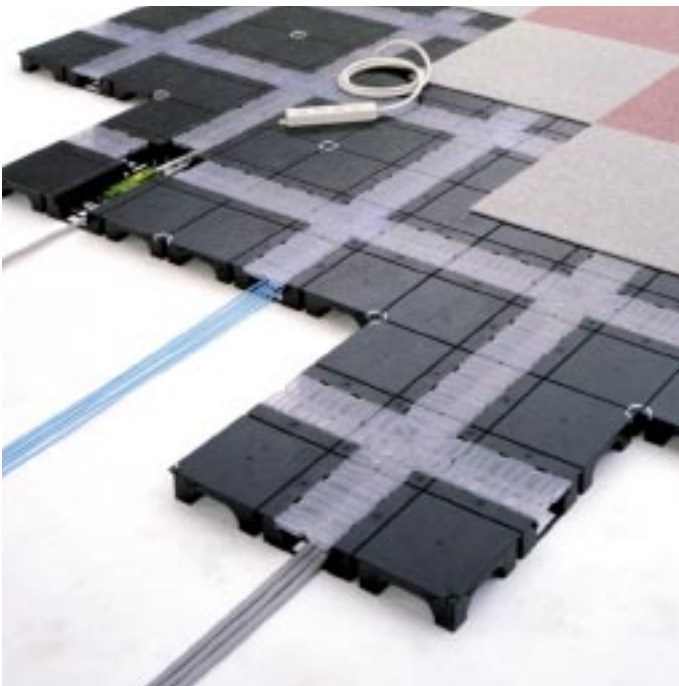
Note: The above list includes nonconsolidated subsidiaries and affiliated companies.

# Organic and Inorganic Chemicals

## Stable-Growth Products

Principal products in the Organic and Inorganic Chemicals business segment include polyvinyl chloride (PVC), silicones, cellulose derivatives, vinyl acetate monomer and polyvinyl alcohol (POVAL). In the fiscal year ended March 31, 2001, sales stood at ¥410,371 million, up ¥66,959 million, or 19.5%, from the previous term. Operating income reached ¥47,015 million, a gain of ¥1,853 million, or 4.1%, on the year before. Key products driving this solid growth were PVC, silicones and cellulose derivatives. Shin-Etsu Chemical has the top share of the world markets for PVC and cellulose derivatives used as pharmaceutical additives, and is the Asian market leader in silicones.

### Polyvinyl Chloride



The production of floor panels for channelling computer wires is one of the new applications for PVC

Courtesy of Matsushita Electric Works, Ltd.



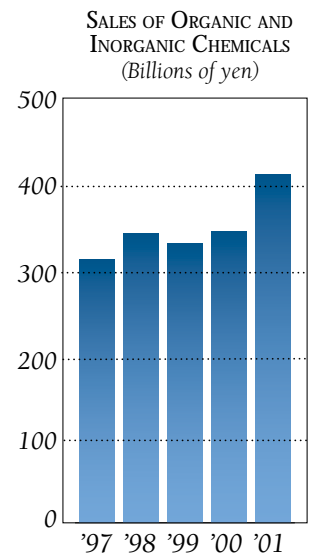
Pipes made from PVC have a wide range of uses, both industrial and domestic

As a material, PVC offers a wide range of advantages. In addition to its excellent physical properties and its contributions to the reduction of resource consumption, it is economical and easy to process. We expect this steady growth to continue for many years to come.

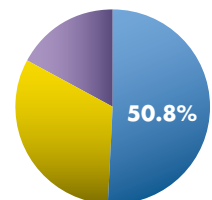
Shin-Etsu Chemical has manufacturing facilities in three key global regions: the United States, Europe and Japan. That structure reduces our exposure to economic fluctuations in any one region,

and enables stable earnings.

Shintech Inc., located in Texas, is the largest single PVC plant in the world. Shintech is currently building a second plant in Louisiana, which in December 2000 began first-phase production at 300,000 tons per year. As a result, our total capacity in the U.S., including that of the Freeport plant in Texas, has increased from 1.45 million tons per year to 1.75 million tons per



SEGMENT SALES AS A PERCENTAGE OF NET SALES



### SALES BY PRODUCTS

Polyvinyl Chloride  
Silicones  
Other Products

Total

Billions of yen

Years ended March 31

2001 2000

¥	208.1	¥ 152.5
	135.2	127.5
	67.0	63.4
¥	410.4	¥ 343.4

year. Second-phase production at Shintech's Louisiana plant, with an annual capacity of 290,000 tons, is scheduled to begin in 2001. A stable supply of raw materials, large-scale state-of-the-art facilities, and marketing ability combine to give Shintech a significant edge in the marketplace. When the second Shintech plant hits full capacity, the Shin-Etsu Group will boast annual production capabilities of 3.19 million tons and solidify its position as world leader in the PVC sector.

In the first half of the year under review, Shintech enjoyed strong demand for PVC in the North American market that accompanied the impressive U.S.A. economy. Although market conditions weakened in the second half of the year, Shintech was able to operate its facilities at full capacity through its cost competitiveness and strong ties with clients worldwide, with record high profits this fiscal year.

In Europe, the recently consolidated Shin-Etsu PVC B.V. in the Netherlands, purchased from Shell Chemicals Ltd. and Akzo Nobel N.V., outperformed initial expectations.

In Japan, the operating environment remains severe due to depressed demand in a weak domestic economy and surging crude oil prices. Under these circumstances, the Company raised prices in order to improve profitability.

### **Silicones**

In the period under review, our silicones segment recorded significant year-on-year gains in both sales and operating income. The impressive performance was largely attributable to a recovery in domestic demand, which bolstered sales of silicones intermediates in the chemicals industry as well as products for the electrical, electronics and automotive industries in the second half of the year.

Silicone is a high-performance material with diverse characteristics that has given it applications across the industrial spectrum. The silicones manufactured by the Shin-Etsu Group adds

value to more than 4,000 products in the electrical and electronics, transportation equipment, machinery, chemicals, textiles, toiletries and construction sectors. This diversity ensures a stable growth in demand, which should be supported in the future by significant growth in the rest of Asia. To respond to that increasing demand, in February 2001 the Company set up Asian Silicones Monomer Ltd., a joint venture with General Electric Company, to manufacture silicone monomer, an intermediate of silicones. The new company will build a plant that will come on stream in April 2003 with an annual siloxane capacity of 70,000 tons, making it the largest silicone monomer plant in Asia. The Shin-Etsu Group will take half of that annual output, strengthening its position as Asia's leading supplier of silicones.



*The popularity of shampoos, hair rinses and cosmetics is just one of the reasons for the huge demand for the 4,000 silicone products produced by Shin-Etsu*



*Improving the reliability of electronic products is one of many key uses for Silicones*

We also intend to maintain our edge in the markets for information technology and telecommunications applications. To respond to rising demand for mobile phones and personal computers, our subsidiary Shin-Etsu Polymer Co., Ltd., is stepping up global development of conductive silicone rubber switches. With operations commencing at new plants in Malaysia and China, the Company has bolstered its production capacity for these switches by 20%.

During this fiscal year, Shin-Etsu Chemical developed a revolutionary liquid silicone rubber, which boasts selective bonding performance. This new product bonds with thermoplastic resins, such as polyamide resins, but not with metal dies, and delivers two-color formation. After gearing up for volume production, the Company brought this offering to market in April 2001.

### **Cellulose Derivatives**

Cellulose derivatives are environment-friendly materials that are made from natural fibers. Their diverse uses and inherent safety have given them applications in construction and civil engineering, as additives for fine ceramics, and in paper processing, pharmaceuticals and toiletries. Our cellulose derivatives operations enjoyed healthy gains in the year under review, thanks to rising demand from the pharmaceuticals market.



*Cellulose derivatives are used in the production of a wide range of tablets for the pharmaceutical industry*

The Shin-Etsu Group began producing cellulose derivatives in 1962, and currently has the leading market share in Japan. We also take particular pride in our world-leading share of the market for pharmaceuticals applications. In the future, we are likely to witness rising demand for cellulose derivatives applications in ceramics parts used to purify emissions from diesel vehicles.

### **Other Products**

The Shin-Etsu Group produces vinyl acetate monomer (VAM), which is used in adhesives, paints and synthetic resins, and as a raw material for polyvinyl alcohol (POVAL). We also manufacture POVAL itself, for a broad array of applications in general adhesives, paper processing, film, textile agents, emulsifiers and other products. POVAL has earned high marks for its environment friendly characteristics, which include its water-soluble and biodegradable properties.

The Company's extensive product lineup includes many other offerings. For example, our synthetic aroma chemicals are used not only in perfumes and cosmetics but also in food flavorings. Our synthetic pheromones have been developed as agents to control the populations of harmful insects that attack cotton and fruits by disrupting the insects' mating cycle. We also produce lime nitrogen, which has won large markets for its environment-friendly properties.

The Shin-Etsu Group has earned a reputation as a pioneer in silicon chemistry. We produce silicon-derived products such as silicones, semiconductor silicon and synthetic quartz as a core business. One critical raw material for these products is silicon metal. Shin-Etsu's wholly owned silicon metal subsidiary, Simcoa Operations Pty. Ltd. in Western Australia, has an annual production capacity of 30,000 tons, giving the Company a sustainable supply of high-quality silicon metal.

# Electronics Materials

## High-Growth Products

Principal products in our electronics materials business segment include semiconductor silicon wafers, photoresists, epoxy molding compounds and rare earth magnets for the electronics industry. In the fiscal year ended March 31, 2001, this segment recorded sales of ¥258,746 million, rising ¥38,614 million, or 17.5%, from the previous year. Operating income reached ¥36,361 million, a gain of ¥13,017 million, or 55.8%, from the year before. This segment includes many of the products in our fastest growing areas, including silicon wafers and photoresists.



A range of electronics materials including semiconductor silicon supports the foundations of the information society

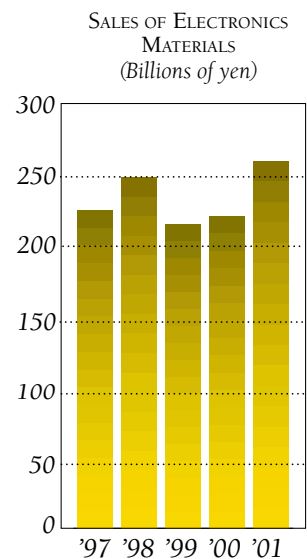
### Semiconductor Silicon

The silicon wafer business is an area of rapid growth for the Shin-Etsu Group. We operate manufacturing facilities in Japan, Malaysia, Taiwan, the United States and the United Kingdom, which together produce about 25% of global output, the leading world share.

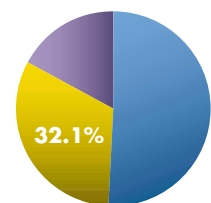
We posted gains in both sales and operating income in our silicon wafer segment in the period under review, thanks to robust demand from domestic and overseas manufacturers who are enjoying strong market conditions and

to rising investment in information technology. In addition to Japan, our performance was also strong in Southeast Asia, Europe and North America.

Both domestic and overseas device makers are keen to adopt 300mm wafers, which can be used to manufacture larger and higher performance chips, and which produce more than twice



SEGMENT SALES AS A PERCENTAGE OF NET SALES

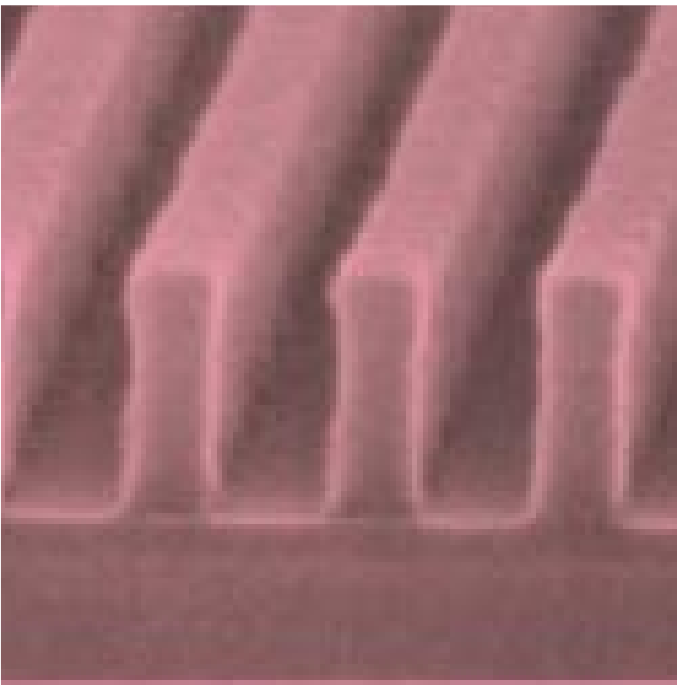


SALES BY PRODUCTS	Billions of yen	
	Years ended March 31	
	2001	2000
Semiconductor silicon	¥ 204.7	¥ 173.3
Other Products	54.0	46.8
<b>Total</b>	<b>¥ 258.7</b>	<b>¥ 220.1</b>

as many chips compared with the existing 200mm wafer. That means the 300mm wafer has significant advantages for device makers in terms of cost savings. A commitment undertaken in July 2000 to respond to this new demand has made us the world's first company to begin manufacturing a 300mm wafer when production started at the Shirakawa plant of Shin-Etsu Handotai Co., Ltd. (S.E.H.), in February 2001. At present, our commercial production capacity is 50,000 units per month. We are ready to move ahead with an expansion plan to meet growing demand in the future. Ultimately, the Shirakawa plant will be able to increase its monthly manufacturing capacity to 300,000 units. These initiatives will keep us at the forefront of the industry, and bolster our position as domestic and overseas market leader.

To satisfy the diverse semiconductor market requirements, S.E.H. now has a wide-ranging

product lineup, including polished, epitaxial, diffused, argon-annealed and compound semiconductor wafers. One of the new product segments S.E.H. is focusing on in coming years is Silicon On Insulator (SOI) wafers. Bonding two silicon wafers with an oxide layer in between, this product can provide an ideal solution for many semiconductor chip companies in producing devices that require high speed and low power consumption. Another type of SOI is produced by our UNIBOBD process, the technology of which has been licensed and transferred from SOITEC, a French company, to provide a "thin" device layer. Both types of SOI are definitely among the promising semiconductor materials for leading-edge devices of the present and future. In addition, S.E.H. became the second vendor of hydrogen-annealed wafers for Toshiba Ceramics Co., Ltd., in November 2000.



*High-resolution KrF photoresists are indispensable in the production of semiconductor device circuits with very narrow lines*

As the world-leading company in silicon wafers, S.E.H. will continue to meet the worldwide needs for silicon wafers by supplying more advanced products through its manufacturing and R&D facilities throughout the world.

### **Photoresists and Pellicles**

Photoresists are liquids that play a critical role in semiconductor fabrication. These high-polymer materials have a property that inhibits or prevents dissolution in a solvent when they are coated on a wafer and subjected to light or radiation, since only the radiated part transforms. The Shin-Etsu Group was a late entrant in the photoresist market, arriving in 1998 with a cutting-edge photoresist that boasted compatibility with krypton fluoride (KrF) excimer lasers. However, we have since become the world's leading producer, accounting for about one-third of the global market.

Our photoresists were strong performers in the year under review, in both the domestic and

overseas markets. This was thanks to a timely increase in production in April 2000 that accurately anticipated robust growth in demand accompanying a turnaround in the semiconductor market.

To respond to future growth in demand, we are planning the construction of a new plant in Japan that will double production capacity for KrF photoresists. In addition, we are already proceeding with the research and development of next-generation argon fluoride (ArF) photoresists.

The Shin-Etsu Group has also succeeded in developing and manufacturing pellicles that offer high light permeability and durability, as well as compatibility with excimer lasers. Our pellicles also feature advanced control of impurities, an issue that becomes increasingly critical as devices become more integrated.

### **Epoxy Molding Compounds**

Epoxy molding compounds are chip encapsulation materials that prevent semiconductor circuit leaks, protect regular and large-scale integrated circuits from humidity, and excel in heat and shock resistance. In the year under review, we enjoyed rising sales of these compounds, reflecting the strength of the semiconductor industry during the first half of the term. The Shin-Etsu Group is helping its customers develop smaller, lighter and higher performance electronics equipment, by calling on the cutting-edge technologies that the Company has accumulated through its silicone development to respond to diversifying mounting techniques and thinner, denser devices. We have also been a worldwide pioneer in introducing innovative, low-stress applications for epoxy molding compounds.



*Rare earth magnets form an important component of hard disk drives*

### **Rare Earth Magnets for the Electronics Industry**

Employing technologies enabling advanced separation and purification as well as physical property control, Shin-Etsu Chemical has been able to extract high-purity rare earths. This makes us the only company in the world to manufacture high-quality rare earth magnets, starting from the refinement of principal raw materials to precision magnetic assemblies and circuits. The key area of demand for rare earth magnets lies in voice coil motors for hard disk drives, a market in which we are the world leader. In the period under review, we posted slightly higher sales of our rare earth magnets, as a recovery in demand for servers during the term offset reduced output of hard disk drives for personal computers.

Hard disk drives have hitherto been used mostly for computers, especially personal computers and servers. However, with household audiovisual equipment increasingly incorporating hard disk drives, demand for rare earth magnets should be further stimulated in the coming years.

# Functional Materials and Others

## Rapid-Growth Products

Our synthetic quartz products are critical to our growth strategy. Our preforms for optical fibers play a major role in fiber-optic networks, the rapid proliferation of which is providing the infrastructure to enable advances in network communications. In addition, our photomask substrates are essential components of liquid crystal displays, another high-growth technology. Our product lineup extends further to stepper lens ingots, lithium tantalate and other oxide single crystals, as well as rare earths and rare earth magnets for general industrial applications, and other products.

In the fiscal year ended March 31, 2001, strong demand for synthetic quartz enabled us to achieve sales of ¥138,368 million, up ¥23,053 million, or 20.0%, from the previous term. We also registered an operating income of ¥29,328 million, a gain of ¥10,676 million, or 57.2%, compared with the year before.

### Synthetic Quartz Products

Our synthetic quartz products include preforms for optical fibers, photomask substrates

and stepper lens ingots. Demand for these products should grow strongly in the future. We also make optical isolators, which have a critical role to play in the information technology age.

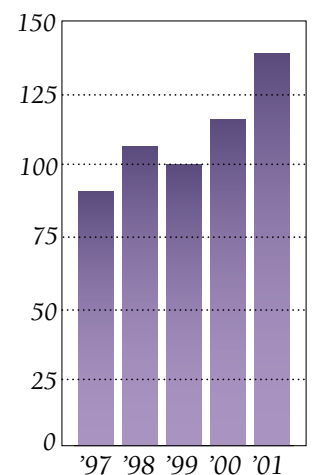
In the year under review, we registered a robust increase in sales of our synthetic quartz products to the electronics and telecommunications industries, which in turn produced a strong rise in operating income. These gains were fueled by global demand for fiber-optic networks during the period, which produced a



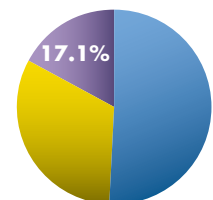
By expansion of undersea optical-fiber cable networks, global communication becomes ever easier

Courtesy of KDDI Corporation

SALES OF FUNCTIONAL MATERIALS AND OTHERS (Billions of yen)



SEGMENT SALES AS A PERCENTAGE OF NET SALES



SALES BY PRODUCTS	Billions of yen	
	Years ended March 31	
	2001	2000
Synthetic quartz	¥ 41.5	¥ 30.4
Rare earths, PBN, LT and other functional materials	32.4	27.9
Other Products	64.4	57.0
<b>Total</b>	<b>¥ 138.4</b>	<b>¥115.3</b>

dramatic rise in export sales of our preforms for optical fibers, an increase in sales of large mask substrates for liquid crystal displays, and a recovery in demand for semiconductor steppers.

The Shin-Etsu Group anticipates growing investment in information technology infrastructure in the coming years. To respond to the demand that this investment will generate, we are building a new plant for our preforms. Our present preform production capacity translates into 12 million kilometers of optical fibers. The completion of the new plant will



*Optical-fiber cable plays a key role in broadband networks*

double this capacity, and give us second position in the world market in terms of share. The

new plant will also deliver other advantages, as it will enable us to create a stable supply structure and benefit from the cost advantages represented by new technologies and expanded capabilities. Our increased capacity will give us the ability to respond quickly to rapid-growth market demand.

The Company has taken similar measures for its optical isolators, bolstering domestic production capacity in January 2001 in response to growing demand for this product in applications such as fiber-optic links. We are also leveraging our expertise in the preforms market to respond to market growth and develop new products. We have also been adding to our lineup, developing in-line isolators, attenuators and circulators. We enjoy an edge in this market, given our strength in through-process production of rare earth magnets and garnet crystals, which form the principal

components of isolators.

components of isolators.

Using these products as its foundation, the Shin-Etsu Group is planning a sustained program of aggressive R&D and investment. Our goal is to turn our materials for the high-growth optical communications market into a key pillar of the company, on a par with our semiconductor-related operations.

### **Oxide Single Crystals**

Rising demand for mobile phones has generated strong sales growth for our oxide single crystals, which include lithium tantalate and other materials. Although demand peaked in the second half of the term, sales for the full year under review significantly exceeded the figure for the previous year.



*Photomask substrates allow high definition of LCDs, which are becoming mainstream*

## Rare Earth Magnets for General Applications, and Rare Earths

The year under review produced robust sales gains for our rare earth magnets, fueled by demand for optical pickups and mobile phones. Rare earth magnets are roughly ten times more powerful than ferrite magnets, which themselves have many everyday applications, and are helping manufacturers of motors and other equipment make their products smaller, lighter and more productive. Rare earth magnets are now being used in motors for electric vehicles, which are increasingly being used in environment-friendly vehicles.

We also enjoyed healthy demand for our rare earths products. Thanks to our unique refining process, our rare earths have achieved 99.9999% purity, making them ideal for

many critical applications, such as the luminescent center of lasers, phosphors for color television sets and fluorescent lamps, and oxygen sensors and ceramic condensers for automobile engines. In addition, we expect rare earths to find many more uses in the future.

### SHIN-ETSU SIFEL® Liquid Fluoroelastomer

SHIN-ETSU SIFEL® is the world's first mass-produced liquid fluoroelastomer. With excellent resistance to cold, oils, solvents and chemicals, this product has found diverse applications in markets such as automobiles, aircraft, electronic components, semiconductor devices, chemical plants and optics.

### Other Businesses

The Shin-Etsu Group is committed to meeting the needs of its customers worldwide, and already exports 82 technologies and facilities to 28 countries.

One of our subsidiaries, Shin-Etsu Engineering Co., Ltd., manufactures mechatronics plant equipment and systems. Demand for mechatronics systems for liquid crystal devices is growing rapidly, and Shin-Etsu Engineering is enjoying rising sales of automatic assembly systems to liquid crystal device manufacturers in Taiwan, South Korea and Japan. Our mechatronics systems are able to handle the large, cutting-edge glass substrates that enable these manufacturers to reduce costs of LCD production.



*Shin-Etsu's rare earth magnets are used in the wind turbine generators in Tappisaki, Aomori Prefecture, in the northern part of mainland Japan. Our products serve to protect the environment.*



*A highly efficient, leading-edge automatic alignment system for LCD manufacturing is one of the best-selling products developed by Shin-Etsu Engineering*

## Research and Development in Progress

Research and development is a key asset that helps build the future of the Shin-Etsu Group. We employ more than 850 researchers and had invested ¥26 billion in R&D this fiscal year, equivalent to 3.2% of our total annual sales. This commitment is reflected in aggressive R&D activities, principally in eleven research centers operated by our Group companies.

Our R&D is guided by the following policies:

- ENSURING STRINGENT SELECTION AND FOCUS OF RESEARCH TOPICS BY DRAWING ON BOTH OUR UNIQUE TECHNICAL EXPERTISE AND INFORMATION FROM THE MARKET.
- ACHIEVING ORIGINALITY AND HIGH PROFITS.
- COMMERCIALIZING THE RESULTS OF OUR EFFORTS EFFICIENTLY IN A SHORT PERIOD OF TIME.

Our principal research topics can be divided into two broad groups.

The first consists of topics that involve our existing business segments, and hence are related to the core operations of the Group. We endeavor to keep the world-class technology and quality of existing products while maintaining or improving cost levels and employ the combined efforts of R&D specialists, production staff and our sales force to drive the innovative development of new materials and products of high originality and profitability.

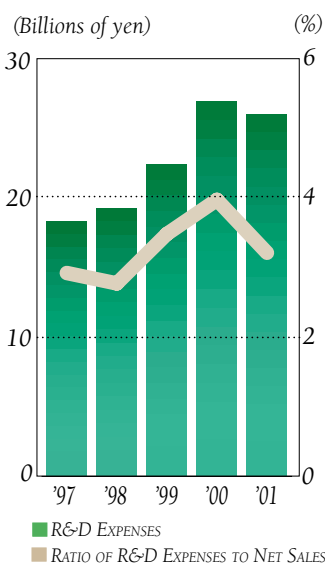
The second group of topics covers research into new areas of business for the Group, which will help sustain future growth. To be selected, research topics must pass a stringent examination by the Z Committee, which is chaired by our president. The strict process of evaluation and discussion considers such aspects as whether the topic leverages our existing technologies, the needs of the market and the future potential of the research area, including size of the market, potential profitability, and competitive products and technologies. The Z Committee process has produced some impressive results, such as photoresists for excimer lasers, which have been enjoying strong growth in recent years; pellicles for protecting photomasks; SIFEL<sup>®</sup>, a liquid fluoroelastomer using our proprietary technology; and optical isolators, which are optical telecommunications components.

We focus our basic research for new products not only on the semiconductor industry but also on information communications including optical and mobile communications. Certain themes, such as the environment, energy and food, will clearly be critical arenas in the 21st century, and we pay particular attention to these areas in searching for new research topics. In this way, we can design R&D initiatives that will create business able to register sustainable growth.

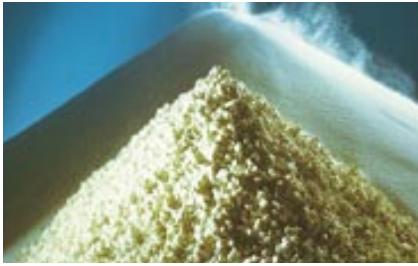
We work together with our customers to develop applications for the materials we develop. For greater efficiency, we contract certain basic research out to universities and research institutes.

The Shin-Etsu Group has always been quick to develop overseas business. That's why we have been committed to acquiring patents overseas as well as in Japan. As a result of our efforts, Shin-Etsu Chemical held 2,809 domestic and 2,832 overseas patents as of March 31, 2001, giving the company a total of 5,641 patents. In 2000, two Group companies—Shin-Etsu Chemical and Shin-Etsu Handotai—received 170 U.S. patents, ranking us first in that respect among Japanese chemical companies for the third consecutive year.

R&D EXPENSES AND RATIO OF R&D EXPENSES TO NET SALES



## Shin-Etsu Group's Research Facilities



PVC

### PVC Research Center (Shin-Etsu Chemical, Kashima)

This center conducts research into PVC manufacturing processes, to improve quality and productivity, in addition to conducting applied research. It is developing flexible copper-clad laminates that use the Company's unique plastic molding technologies.



Synthetic Pheromone

### Synthesis Technology Research Center (Shin-Etsu Chemical, Naoetsu)

Using our proprietary organic synthesis technologies, this center has developed cellulose derivatives, synthetic perfumes, synthetic pheromones, and special silanes. It also develops synthetic quartz for semiconductors.



Testing the tensile strength of Silicone Rubber

### Silicone-Electronics Materials Research Center (Shin-Etsu Chemical, Matsuida)

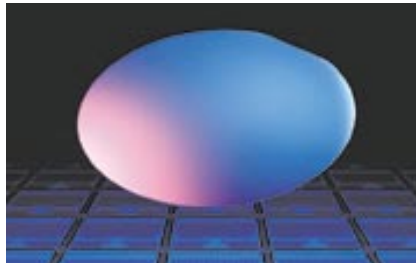
This is the largest research center in the Group, responsible for researching and developing silicones and organic electronic materials, such as junction coating resins (JCR), epoxy molding compounds (EMC) and optical fiber (OF) coating materials. The center is also in charge of developing SIFEL<sup>®</sup>, our new fluoroelastomer.



Rare Earth Magnets

### Magnetic Materials Research Center (Shin-Etsu Chemical, Takefu)

This center is engaged in research that ranges from the separation and refining of rare earths to their applications. The center focuses not only on the uses of rare earth metals and oxides but also on the development of rare earth magnets. In particular, the facility has earned high marks from customers for its magnetic field analysis and magnetic circuit design technologies.



Epitaxial Wafers

### Semiconductor Research Centers (Shin-Etsu Handotai, Isobe and Shirakawa)

These two centers are working together to improve the quality of silicon wafers in areas such as flatness. They are developing the technologies that will be required with the introduction of large-diameter and micro-devices. Recent results of this research include silicon-on-insulator (SOI) wafers and IG-NANA<sup>®</sup> annealed wafer.



Optical Fiber Preforms

### Advanced Functional Materials Research Center (Shin-Etsu Chemical, Isobe)

This center has called on accumulated expertise in single-crystal growing, fine processing and CVD technologies to develop an array of advanced materials, including oxide single crystals, synthetic quartz for preforms, and nonoxide ceramics. It is also developing pellicles for protecting photomasks, as well as optical components such as isolators.



Photoresists

### New Functional Materials Research Center (Shin-Etsu Chemical, Naoetsu)

The latest of our research facilities, founded on June 1, 2001, specializes in R&D of electronics-related materials such as photoresists. At present, the center is working on the development of next-generation ArF photoresists.



Synthetic Quartz Glass for UV steppers

### Research and Application Laboratory (Shin-Etsu Quartz Products, Koriyama)

This center is involved in all aspects of synthetic quartz glass R&D, and is currently developing quartz glass optical material for ArF-laser exposure equipment. This material, for use in next-generation lithographical technology for semiconductor production, has high homogeneity, high transmittance and other optical characteristics that do not change with laser irradiation.



iPAS

### Engineering and Technical Institute (ETI) (Shin-Etsu Polymer, Omiya)

This center excels in the applied research of manufacturing techniques and engineering technology. It has recently developed a new wiper rubber for automobiles. The center is currently researching a new printing system (iPAS), which can correspond to the input keys of a mobile terminal.

### Research and Development Institute (RDI) (Shin-Etsu Polymer, Omiya)

This center is involved in all aspects of plastic materials research. A recent result of this work is the production of a compound of silicone rubber and plastic, which is used for office automation (OA) apparatus parts.

## A Commitment to the Environment

*Shin-Etsu Chemical recognizes that preserving the global environment is the most important measure we can take to enhance the lives of people. That's why the Company contributes to the local communities associated with its global network of operating bases by means of protecting their surroundings.*

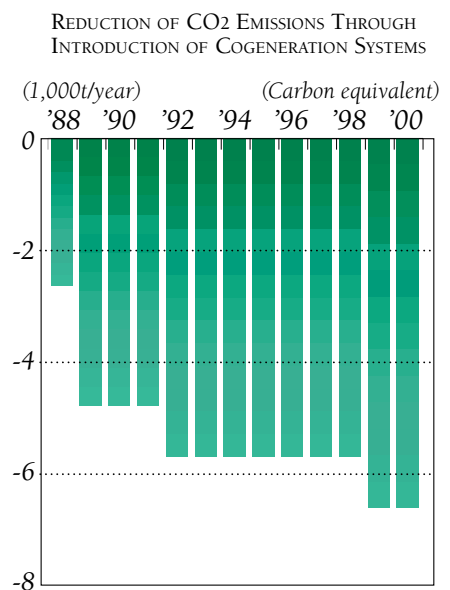
In 1998, we formulated an Environmental Charter that set out a basic philosophy and action plan for the environment. Based on this, each of our plants and research centers drafted an Environmental Policy. As one specific step, our production sites have all been working to achieve ISO 14001 qualification—the global standard for environmental management systems. Using this as a key tool, we have also launched a number of drives to contribute to society in a way that will allow for continuing development.

Every Shin-Etsu Group facility sets its own area of focus, be it minimizing greenhouse gas emissions, conserving energy, reducing waste, recycling materials and managing chemicals appropriately. Each one of our employees makes a sustained, daily effort to attenuate the load on the air, water and soil environments.

One of the critical areas that has been addressed by Shin-Etsu Chemical is energy conservation and the reduction of greenhouse gas emissions. Reducing energy consumption and making efficient use of electricity and steam will enable us to reduce emissions of the greenhouse gas carbon dioxide.

One highly effective way in which Shin-Etsu Chemical is achieving this goal is by the introduction of co-generation systems. These systems reuse waste heat—resulting from electricity generation—as fresh energy, to dramatically improve energy efficiency. Since 1988, we have been aggressively introducing this system whenever we expand or rebuild our boilers and electricity supply facilities. After using the high-pressure steam produced by a boiler to generate electricity, we use the steam under low pressure to provide an energy source for chemical reactions.

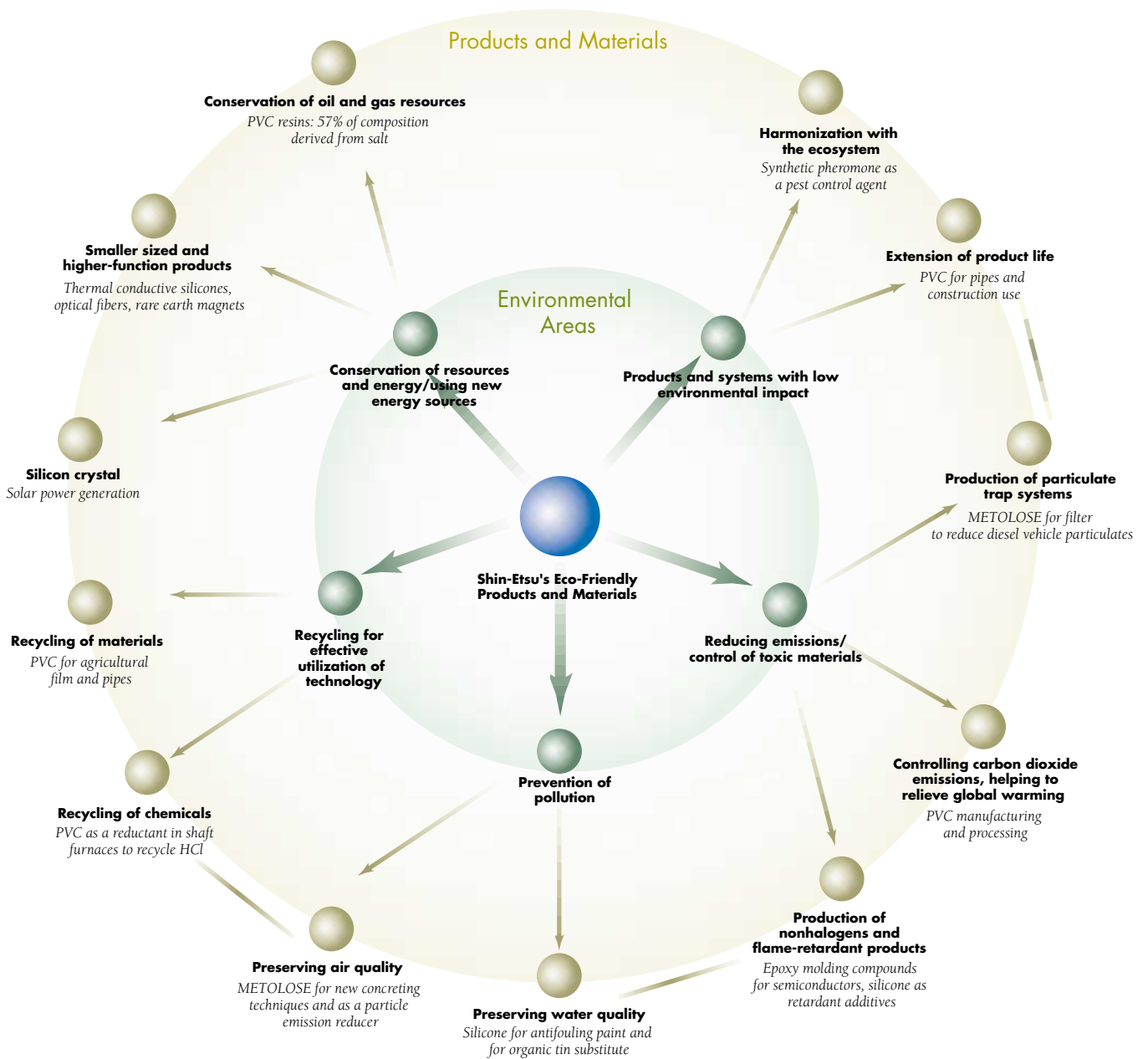
The results of our efforts have been reported through our Environmental Report and on the Group's website.



## Shin-Etsu's Eco-Friendly Products and Materials

Shin-Etsu Chemical manufactures and sells a range of products worldwide that are vital to the wellbeing of the population and limit the environmental impact of corporate activities.

The diagram below shows the applications of Shin-Etsu Chemical's many products and materials in environmental areas.



# Shin-Etsu's Worldwide Network

Country names are followed by country codes in parenthesis.

## Australia (61)

### BIOCONTROL LTD.

3 Acacia Crt., Mt. Crosby, Queensland 4306

Phone: 7-32011466

Fax: 7-32012492

### SIMCOA OPERATIONS PTY. LTD.

Lot 22 Marriott Road, Wellesley, WA 6233

Phone: 8-97-806666

Fax: 8-97-806777

## China (86)

### SUZHOU SHIN-ETSU POLYMER CO., LTD.

A-10 Fenu Economic and Technical  
Development Zone, Wujiang City, Jiansu

Phone: 512-3-255640

Fax: 512-3-255674

## France (33)

### S.E.H. EUROPE (FRENCH OFFICE)

1360 Route Des Dolines, Cardoulines B2,  
06560 Sophia Antipolis

Phone: 4.97.21.44.88

Fax: 4.97.21.44.80

## Germany (49)

### S.E.H. EUROPE (GERMAN OFFICE)

Fabrikstr. 8 D-85354, Freising

Phone: 8161-50611

Fax: 8161-50682

## Japan (81)

### SHIN-ETSU ASTECH CO., LTD.

2-1, Uchikanda 2-chome, Chiyoda-ku, Tokyo

Phone: 3-5298-3211

Fax: 3-3254-1931

### SHIN-ETSU CHEMICAL CO., LTD.

6-1, Otemachi 2-chome, Chiyoda-ku, Tokyo

Phone: 3-3246-5011

Fax: 3-3246-5350

### SHIN-ETSU ENGINEERING CO., LTD.

9, Kanda-Nishikicho 2-chome,

Chiyoda-ku, Tokyo

Phone: 3-3296-1080

Fax: 3-3296-1085

### SHIN-ETSU FILM CO., LTD.

5-13, Uchikanda 1-chome, Chiyoda-ku, Tokyo

Phone: 3-3259-1061

Fax: 3-3259-1064

### SHIN-ETSU HANDOTAI CO., LTD.

4-2, Marunouchi 1-chome,

Chiyoda-ku, Tokyo

Phone: 3-3214-1831

Fax: 3-3215-9040

### SHIN-ETSU KASEI CO., LTD.

5-13, Uchikanda 1-chome, Chiyoda-ku, Tokyo

Phone: 3-3293-3501

Fax: 3-3293-3507

### SHIN-ETSU POLYMER CO., LTD.

3-5, Nihonbashi Honcho 4-chome,  
Chuo-ku, Tokyo

Phone: 3-3279-1712

Fax: 3-3246-2529

### SHIN-ETSU QUARTZ PRODUCTS CO., LTD.

22-2, Nishi-Shinjuku 1-chome,

Shinjuku-ku, Tokyo

Phone: 3-3348-1911

Fax: 3-3348-4919

### SHIN-ETSU VINYL ACETATE CO., LTD.

11-1, Chikkoshinmachi 3-chome Sakai-shi,  
Osaka

Phone: 722-45-1131

Fax: 722-45-8144

### KASHIMA VINYL CHLORIDE MONOMER CO., LTD.

2, Towada, Kamisu-machi, Kashima-gun,  
Ibaraki

Phone: 299-96-6372

Fax: 299-96-6354

### NAGANO ELECTRONICS INDUSTRIAL CO., LTD.

1393, Yashiro, Koshoku-shi, Nagano

Phone: 26-261-3100

Fax: 26-261-3131

### NAOETSU ELECTRONICS CO., LTD.

596-2, Jonokoshishinden, Kubiki-mura,  
Nakakubiki-gun, Niigata

Phone: 255-30-2631

Fax: 255-30-2908

### NISSIN CHEMICAL INDUSTRY CO., LTD.

17-33, Kitago 2-chome, Takefu-shi, Fukui

Phone: 778-22-5100

Fax: 778-24-0657

### SHINANO ELECTRIC REFINING CO., LTD.

9, Kanda-Nishikicho 2-chome,

Chiyoda-ku, Tokyo

Phone: 3-3296-1501

Fax: 3-3296-1507

## Korea (82)

### SHIN-ETSU SILICONE KOREA CO., LTD.

International Insurance Bldg. 904,

120, 5-ka, Namdaemoon-ro, Chung-ku, Seoul

Phone: 2-775-9691

Fax: 2-775-9690

## Malaysia (60)

### SHIN-ETSU ELECTRONICS (MALAYSIA) SDN. BHD.

Lot 50, Jalan Serendah 26/17, HICOM

Industrial Estate, 40000 Shah Alam,

Selangor Darul Ehsan

Phone: 3-512-1081

Fax: 3-512-1068

### S.E.H. MALAYSIA SDN. BHD.

Lot No. 2, Lorong Enggang 35,

Ulu Klang Free Trade Zone,

Selangor Darul Ehsan

Phone: 3-4256-6155

Fax: 3-4257-5751





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

Lot 8, Jalan Sementa 27/91,  
Seksyen 27, 40400 Shah Alam,  
Selangor Darul Ehsan  
Phone: 3-518-0111  
Fax: 3-511-3111

**SHIN-ETSU (MALAYSIA) SDN. BHD.**

Lot 50, Jalan Serendah 26/17,  
HICOM Industrial Estate,  
40000 Shah Alam, Selangor Darul Ehsan  
Phone: 3-511-2233  
Fax: 3-511-2288

**SHIN-ETSU POLYMER (MALAYSIA) SDN.BHD.**

Lot 52, Jalan Sepintas 26/13,  
Kawasan, Perindustrian Hicom,  
40000 Shah Alam  
Selangor Darul Ehsan  
Phone: 3-511-1161  
Fax: 3-511-1181

**Netherlands (31)**

**SHIN-ETSU INTERNATIONAL EUROPE B.V.**

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

**SHIN-ETSU POLYMER EUROPE B.V.**

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

**SHIN-ETSU PVC B.V.**

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

**SHIN-ETSU SILICONES EUROPE B.V.**

Bolderweg 32, 1332 AV, Almere  
Phone: 36-5326380  
Fax: 36-5326459

**Portugal (351)**

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

Rua Castilho, 165-4º. Dtº-1070-050, Lisbon  
Phone: 21-384-5700  
Fax: 21-384-5706

**Singapore (65)**

**SHIN-ETSU ELECTRONICS MATERIALS SINGAPORE PTE. LTD.**

100 Beach Road,  
#23-01 Shaw Towers, 189702  
Phone: 297-9211  
Fax: 297-9311

**SHIN-ETSU SINGAPORE PTE. LTD.**

150 Ubi Avenue 4 #03-00,  
Singapore 408825  
Phone: 743-7277  
Fax: 743-7477

**Taiwan (886)**

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

No. 12, Industry E. Rd. IX, Science-Based  
Industrial Park, Hsin-Chu  
Phone: 3-5771188  
Fax: 3-5771199

**SHIN-ETSU OPTO ELECTRONIC CO., LTD.**

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

**SHIN-ETSU SILICONE TAIWAN CO., LTD.**

7F, No. 102, Civil Boulevard, Sec 4, Taipei  
Phone: 2-2751-6999  
Fax: 2-2751-6769

**U.K. (44)**

**SHIN-ETSU HANDOTAI EUROPE, LTD. (S.E.H. EUROPE)**

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

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

**SHIN-ETSU BIO, INC.**

6650 Lusk Blvd., Suite B-106, San Diego,  
CA 92121  
Phone: (619) 455-8500  
Fax: (619) 587-2716

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

4111 N.E. 112th Ave., Vancouver,  
WA 98682-6776  
Phone: (360) 883-7000  
Fax: (360) 254-6973

**SHIN-ETSU MAGNETICS, INC.**

2362 Qume Drive, Suite A, San Jose, CA  
95131-1841  
Phone: (408) 383-9240  
Fax: (408) 383-9245

**SHIN-ETSU MICROSI, INC.**

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

**SHIN-ETSU POLYMER AMERICA, INC.**

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

**SHIN-ETSU SILICONES OF AMERICA, INC.**

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

**SHINTECH INCORPORATED**

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

**HERAEUS SHIN-ETSU AMERICA, INC.**

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

**K-BIN, INC.**

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

**SHINCOR SILICONES, INC.**

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

**SILICA PRODUCTS, INC.**

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

## Good Corporate Citizens

Shin-Etsu Group companies strive to create new ways to help local communities worldwide achieve their goals. Wherever Shin-Etsu Group facilities are found, Shin-Etsu contributes by providing employment opportunities, stimulating regional economies and developing advanced technologies. As citizens of these communities, we participate in activities to help improve communities through both corporate policies and individual involvement.



### **Volunteers show they care for the needy**

Shin-Etsu Handotai America, in Vancouver, WA, volunteers participated in United Way's "Day of Caring" on September 16, 2000. This is a day-long, community-based event that partners local volunteers with organizations and agencies in need of volunteers. Participants assist by working on the facilities of organizations and agencies that help people in need.



### **Shin-Etsu Malaysia employees give gift of life**

At Shin-Etsu Malaysia, staff take part in blood donating sessions. Last year, employees were honored on April 21 when the Malaysian Ministry of Health invited them to receive recognition from the Malaysia Government for their blood donations. The company had the highest number of donors in the "factories" category in Malaysia.



### **CIRES assists community education**

Companhia Industrial de Resinas Sinteticas (CIRES), in Lisbon, Portugal, has a commitment to local communities that goes beyond a mere business relationship. Since 1997 it has developed initiatives to strengthen the connection between educational institutions and the business community by fine-tuning the technological course curricula to the needs of local corporations and by inviting students to learn on site.



### **Simcoa presents Japanese garden**

A traditional Japanese tea ceremony is performed at the Simcoa Tei-en Japanese garden, which Simcoa Operations presented to a hospital in the neighboring city of Bunbury in Western Australia, in December, 2000. The garden was created to provide a peaceful retreat for all who visit, and reflects the sister city relationship between Bunbury and Setagaya in Japan, in which Simcoa participates.

## Board of Directors

*President and CEO*

Chihiro Kanagawa

*Executive Vice President*

Shunichi Koyanagi

*Senior Managing Director*

Shunzo Mori

*Managing Directors*

Hiroaki Tsubokura

Hironobu Ichimura

Isao Iwashita

Fumio Akiya

Ryoei Miki

*Directors*

Kiichi Habata

Jirou Yamada

Kiyoshi Imai

Hajime Kitamura

Tetsuyu Suda

Frank P. Popoff\*

Toshinobu Ishihara

Masaki Miyajima

Yasuhiko Saitoh

*Full-Time Statutory Auditors*

Masahiko Watase

Hiroshi Arai

*Statutory Auditors*

Masao Okazaki

Tasuku Takagaki

(as of 28th June, 2001)



Chihiro Kanagawa



Shunichi Koyanagi



Shunzo Mori

**\*Frank P. Popoff appointed director of Shin-Etsu Chemical**

Frank P. Popoff, the former chairman of The Dow Chemical Company, was elected as a director of Shin-Etsu Chemical. He is the first foreign director in the history of the company. Mr. Popoff is also currently serving as a director of American Express Company and on the boards of several universities.

## Management's Discussion and Analysis of Operations

Shin-Etsu Chemical Co., Ltd. and Subsidiaries  
Years ended March 31

### Review of Operations

The operations of Shin-Etsu Chemical Co., Ltd. (the Company) and its subsidiaries are divided into three business segments according to product type, sales area, and other factors. The Organic and Inorganic Chemicals segment focuses on the manufacture and sale of polyvinyl chloride (PVC), silicones and other products. The Electronics Materials segment concentrates on the manufacture and sale of semiconductor silicon and other materials, and the Functional Materials and Others segment focuses on the manufacture and sale of synthetic quartz and other products as well as providing a variety of other services, including construction and maintenance. Consolidated data include the results of the Company and its 60 subsidiaries in Japan and overseas. The equity method of accounting is applied to 7 of the 36 unconsolidated subsidiaries and the 16 affiliated companies.

### Operating Environment

In this fiscal year (April 1, 2000 to March 31, 2001) there were some signs of economic recovery in Japan, such as an upward trend of capital investment in mainly IT-related fields. However, personal consumption continued to be weak, so the overall economy was not able to enter a sustained recovery mode.

On the other hand, the U.S. economy remained firm, as capital investment continued strong in the first half of the year. However, it began to slow during the second half, and this trend began to have a negative impact on the Japanese economy.

Under these circumstances, the Shin-Etsu Group companies aggressively proceeded with investments in growing business fields where the company had advantages in domestic and overseas markets and endeavored to secure and further develop its leading world market positions. At the same time, the Shin-Etsu Group companies were striving to increase net sales and net income, as they continued to pursue R&D activities aiming at developing strong new products, streamlining their management structure and improving productivity.

### Sales, Expenses and Earnings

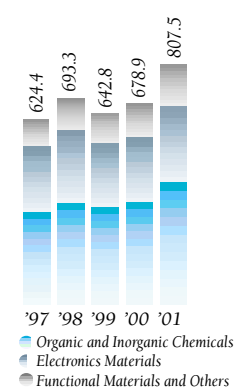
Consolidated net sales rose ¥128,626 million, or 18.9%, to ¥807,485 million (\$6,512 million). Operating income was up ¥25,212 million, or 28.8%, to ¥112,677 million (\$909 million).

Sales of Organic and Inorganic Chemicals increased ¥66,959 million, or 19.5%, to ¥410,371 million (\$3,309 million). This reflected solid first-half sales of PVC in the United States and the inclusion of European operations in reporting from fiscal 2001. On the negative side, operating income for this segment rose ¥1,853 million, or 4.1%, to ¥47,015 million (\$379 million). This stemmed from higher prices for raw materials used in PVC and sluggish domestic demand.

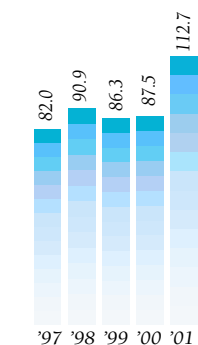
In Electronics Materials, sales increased ¥38,614 million, or 17.5%, to ¥258,746 million (\$2,087 million). Segment operating income was up ¥13,017 million, or 55.8%, to ¥36,361 million (\$293 million). These solid gains reflected strong shipments of semiconductor silicon and photoresists for the domestic and overseas device markets, which continued to boom.

Sales of Functional Materials and Others were up ¥23,053 million, or 20.0%, to ¥138,368 million (\$1,116 million), with operating income rose ¥10,676 million, or 57.2%, to ¥29,328 million (\$237 million). The main factors here were strong global telecommunications demand, supported by significantly higher sales of synthetic quartz, oxide single crystals, rare earth magnets and others.

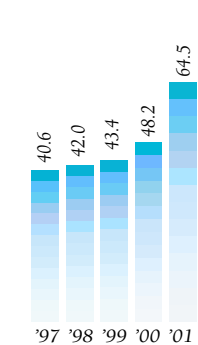
NET SALES  
(Billions of yen)



OPERATING INCOME  
(Billions of yen)



NET INCOME  
(Billions of yen)



Net other expenses were down ¥684 million, or 15.0%, to ¥3,876 million (\$31 million). The breakdown was principally ¥27,498 million of a special provision for retirement benefit costs, which was amortized at once, an increase of ¥15,078 million as net gains on sales of property, plant and equipment, which was to offset that special loss, and an increase of ¥15,623 million as net foreign exchange gain.

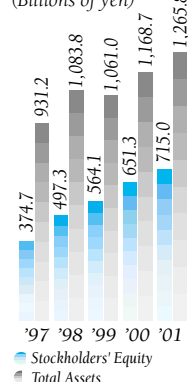
Income before income taxes increased ¥25,896 million, or 31.2%, to ¥108,801 million. Net income was up ¥16,276 million, or 33.7%, to ¥64,505 million. Net income per share rose ¥37.02, or 31.8%, to ¥153.58 (\$1.24).

Including an interim cash dividend of ¥6.00 (\$0.05), cash dividends for the period were ¥12.00 (\$0.10), up ¥2.00 from a year earlier.

## Financial Position

### STOCKHOLDERS' EQUITY/ TOTAL ASSETS

(Billions of yen)



At year-end, total assets were ¥1,265,799 million (\$10,208 million), up ¥97,070 million, or 8.3%, from a year earlier.

Total current assets increased ¥94,393 million, or 15.5%, to ¥704,686 million (\$5,683 million). This was primarily because of growth in notes and accounts receivable and in inventories as a result of sales expansion.

Total investments and advances were down ¥6,213 million, or 4.4%, to ¥135,027 million (\$1,089 million), mainly because of a reduction in investments in and advances to unconsolidated subsidiaries and affiliates.

Total property, plant and equipment increased ¥43,971 million, or 11.6%, to ¥422,243 million (\$3,405 million). Capital expenditures were ¥96,770 million (\$780 million), while depreciation was ¥70,767 million (\$571 million).

At year-end, total liabilities were up ¥32,355 million, or 6.5%, from a year earlier, at ¥526,523 million (\$4,246 million).

This amount included short- and long-term interest-bearing debt, which was down ¥62,833 million, or 24.8%, to ¥191,000 million (\$1,540 million). This decline was due to particularly a \$500 million redemption of the Company's debenture with warrant.

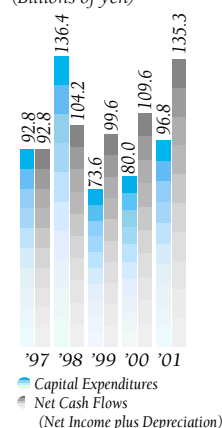
Also contributing to higher total liabilities were an increase of ¥30,031 million in notes and accounts payable owing to operational expansion, and a ¥22,508 million rise in accrued income taxes as a result of higher earnings. The company also had a special provision for retirement benefit costs of ¥27,498 million to cover amortization of differences arising from adopting the new standard.

Total stockholders' equity was up ¥63,735 million, or 9.8%, to ¥714,996 million (\$5,766 million). The equity ratio was up 0.8 percentage point, to 56.5%, primarily because of a ¥59,710 million rise in the consolidated legal reserve and retained earnings.

## Cash Flow Statement

### CAPITAL EXPENDITURES/ NET CASH FLOWS

(Billions of yen)



Net cash provided by operating activities was ¥142,202 million (\$1,147 million), an increase of ¥46,326 million. This rise was due principally to an increase in income before income taxes, as well as higher depreciation and amortization and increase in accrued retirement benefit costs—both noncash expenses.

Net cash used for investing activities amounted to ¥87,170 million (\$703 million). The main factor here was purchases of property, plant and equipment. The Company allocated much of its capital expenditure during the year to the construction of a PVC plant in Louisiana and investment in the semiconductor silicon business, particularly for 300-millimeter wafer production facilities.

Net cash used for financing activities was ¥70,364 million (\$567 million), compared with ¥12,142 provided by such activities in fiscal 2000. This amount included a \$500 million outlay to redeem debentures with warrants. Borrowings, debentures and convertible debentures were down ¥62,833 million from a year earlier.

As a result of these factors, cash and cash equivalents at end of year was ¥272,769 million (\$2,200 million), up ¥1,134 million from the previous period.

## Ten-Year Summary

*Shin-Etsu Chemical Co., Ltd. and Subsidiaries*  
*Years ended March 31*

(Millions of Yen, except per Share)

	2001	2000	1999
<b>For the Year:</b>			
Net sales	¥ 807,485	¥ 678,859	¥ 642,796
Operating income	112,677	87,465	86,323
Net income	64,505	48,229	43,363
<b>Per Share (Yen):</b>			
Net income—primary	153.58	116.56	109.36
Net income—fully diluted	150.24	113.46	103.17
Cash dividends	12.00	10.00	9.00
Capital expenditures	96,770	80,003	73,641
Depreciation	70,767	61,384	56,196
<b>At Year-End:</b>			
Total assets	¥1,265,799	¥1,168,729	¥1,060,973
Working capital	350,273	273,193	261,691
Common stock	110,247	107,664	98,243
Stockholders' equity	714,996	651,261	564,067
Stockholders' equity per share (Yen)	1,699.74	1,557.48	1,380.43
<b>General:</b>			
Number of employees	19,398	18,754	18,384
Number of shares issued (Thousands)	422,542	419,848	410,015

(Thousands of U.S. Dollars, except per Share)

	2001	2000	1999
<b>For the Year:</b>			
Net sales	\$ 6,511,976	\$ 5,474,669	\$ 5,183,839
Operating income	908,685	705,363	696,153
Net income	520,202	388,944	349,702
<b>Per Share (Dollars):</b>			
Net income—primary	1.239	0.940	0.882
Net income—fully diluted	1.212	0.915	0.832
Cash dividends	0.097	0.081	0.073
Capital expenditures	780,403	645,185	593,879
Depreciation	570,702	495,032	453,194
<b>At Year-End:</b>			
Total assets	\$10,208,056	\$ 9,425,234	\$ 8,556,234
Working capital	2,824,782	2,203,169	2,110,411
Common stock	889,089	868,258	792,282
Stockholders' equity	5,766,097	5,252,105	4,548,927
Stockholders' equity per share (Dollars)	13.708	12.560	11.133
<b>General:</b>			
Number of employees	19,398	18,754	18,384
Number of shares issued (Thousands)	422,542	419,848	410,015

Note: The U.S. dollar amounts represent conversions of yen, for convenience only, at the rate of ¥124=US\$1.

	1998	1997	1996	1995	1994	1993	1992
¥	693,275	¥624,405	¥575,176	¥522,917	¥464,449	¥460,929	¥478,351
	90,860	82,024	73,427	51,914	32,450	34,815	49,795
	42,027	40,614	37,825	26,862	17,547	15,989	24,581
	110.73	118.24	116.51	82.80	54.17	49.37	75.96
	101.69	103.95	106.66	—	—	—	—
	8.50	7.50	7.50	7.50	7.50	7.50	7.50
	136,384	92,844	66,791	67,689	34,421	41,292	69,875
	62,144	52,191	45,647	42,986	40,351	37,675	36,912
¥1,083,780	¥931,159	¥708,637	¥643,937	¥600,754	¥602,483	¥614,490	
	221,869	195,729	118,936	110,901	94,362	78,907	54,869
	83,957	44,256	36,440	36,384	35,829	35,800	35,781
	497,312	374,726	320,987	285,361	265,030	257,058	243,730
	1,265.39	1,071.97	988.59	879.06	818.12	793.64	752.56
	19,238	18,896	17,106	16,075	11,697	11,557	11,744
	393,722	349,569	324,691	324,621	323,949	323,899	323,867

	1998	1997	1996	1995	1994	1993	1992
\$	5,590,927	\$5,035,524	\$4,638,516	\$4,217,073	\$3,745,556	\$3,717,169	\$3,857,669
	732,742	661,484	592,153	418,661	261,694	280,766	401,573
	338,927	327,532	305,040	216,629	141,508	128,944	198,234
	0.893	0.954	0.940	0.668	0.437	0.398	0.613
	0.820	0.838	0.860	—	—	—	—
	0.069	0.060	0.060	0.060	0.060	0.060	0.060
	1,099,871	748,742	538,637	545,879	277,589	333,000	563,508
	501,161	420,895	368,121	346,661	325,411	303,831	297,677
\$	8,740,161	\$7,509,347	\$5,714,815	\$5,193,040	\$4,844,790	\$4,858,734	\$4,955,565
	1,789,266	1,578,460	959,161	894,363	760,984	636,347	442,492
	677,073	356,903	293,871	293,419	288,944	288,710	288,556
	4,010,581	3,021,984	2,588,605	2,301,298	2,137,339	2,073,048	1,965,565
	10.205	8.645	7.973	7.089	6.598	6.400	6.069
	19,238	18,896	17,106	16,075	11,697	11,557	11,744
	393,722	349,569	324,691	324,621	323,949	323,899	323,867

## Consolidated Balance Sheets

Shin-Etsu Chemical Co., Ltd. and Subsidiaries  
As of March 31, 2001 and 2000

### Assets

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2000	2001
<b>Current Assets:</b>			
Cash and time deposits	¥ 221,222	¥ 209,058	\$ 1,784,048
Securities (Note 6)	99,782	85,066	804,694
Notes and accounts receivable (Note 4):			
Trade	211,922	174,798	1,709,048
Unconsolidated subsidiaries and affiliates	16,845	11,565	135,847
Others	6,276	4,367	50,613
Less: Allowance for doubtful accounts (Note 2 (5))	(4,211)	(2,265)	(33,960)
	230,832	188,465	1,861,548
Inventories (Note 5)	118,279	97,456	953,863
Deferred taxes, current	24,005	17,121	193,589
Others	10,566	13,127	85,210
Total current assets	704,686	610,293	5,682,952
<b>Investments and Advances:</b>			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 8)	25,642	37,200	206,790
Investments in securities (Note 6)	84,507	87,917	681,508
Long-term loans	1,164	906	9,387
Deferred taxes, non-current	15,962	9,028	128,726
Others	7,804	6,265	62,935
Less: Allowance for doubtful accounts (Note 2 (5))	(52)	(76)	(419)
Total investments and advances	135,027	141,240	1,088,927
<b>Property, Plant and Equipment:</b>			
Buildings and structures	267,434	241,510	2,156,726
Machinery and equipment	738,435	652,237	5,955,121
Less: Accumulated depreciation	(642,206)	(578,228)	(5,179,081)
	363,663	315,519	2,932,766
Land	33,441	29,530	269,685
Construction in progress	25,139	33,223	202,734
Total property, plant and equipment	422,243	378,272	3,405,185
Deferred Charges and Other Assets	3,843	7,134	30,992
Foreign Currency Translation Adjustment (Note 2 (4))	—	31,790	—
	¥1,265,799	¥1,168,729	\$10,208,056

The accompanying notes are an integral part of the statements.

**Liabilities and  
Stockholders' Equity**

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2000	2001
<b>Current Liabilities:</b>			
Short-term borrowings (Note 9)	¥ 68,113	¥ 71,636	\$ 549,298
Current portion of long-term debt (Note 9)	17,546	67,753	141,500
Notes and accounts payable (Note 4):			
Trade	92,692	77,827	747,516
Unconsolidated subsidiaries and affiliates	19,904	13,012	160,516
Others	42,088	33,814	339,420
	154,684	124,653	1,247,452
Accrued income taxes	40,593	18,085	327,363
Accrued expenses	56,096	44,424	452,387
Advances received	4,504	1,532	36,322
Others	12,877	9,017	103,847
Total current liabilities	354,413	337,100	2,858,169
<b>Long-Term Liabilities:</b>			
Long-term debt (Note 9)	105,341	114,444	849,524
Accrued retirement benefits (Note 10)	27,967	7,222	225,540
Deferred taxes, non-current	19,243	15,718	155,185
Lease obligations	18,366	18,662	148,113
Others	1,193	1,022	9,622
<b>Contingent Liabilities (Note 11)</b>			
Total long-term liabilities	172,110	157,068	1,387,984
<b>Minority Interests in Consolidated Subsidiaries</b>	24,280	23,300	195,806
<b>Stockholders' Equity (Note 12):</b>			
Common stock: ¥50 per share	110,247	107,664	889,089
Authorized: 2000— 800,000,000 shares			
2001—1,670,000,000 shares			
Issued: 2000— 419,848,360 shares			
2001— 422,542,358 shares			
Additional paid-in capital	119,016	115,857	959,806
Legal reserve and retained earnings (Note 12)	493,170	433,460	3,977,178
Unrealized gain on available-for-sale securities	9,742	—	78,564
Foreign currency translation adjustment (Note 2 (4))	(9,530)	—	(76,855)
	722,645	656,981	5,827,782
Less: Treasury stock, at cost	(7,649)	(5,720)	(61,685)
Total stockholders' equity	714,996	651,261	5,766,097
	¥1,265,799	¥1,168,729	\$10,208,056

## Consolidated Statements of Income

*Shin-Etsu Chemical Co., Ltd. and Subsidiaries*  
 For the years ended March 31, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2001	2000	1999	2001
<b>Net Sales</b> (Note 15)	<b>¥807,485</b>	¥678,859	¥642,796	<b>\$6,511,976</b>
<b>Cost of Sales</b> (Notes 10, 13 and 15)	<b>603,561</b>	507,194	471,667	<b>4,867,428</b>
Gross profit	<b>203,924</b>	171,665	171,129	<b>1,644,548</b>
<b>Selling, General and Administrative Expenses</b> (Notes 10 and 13)	<b>91,247</b>	84,200	84,806	<b>735,863</b>
Operating income	<b>112,677</b>	87,465	86,323	<b>908,685</b>
<b>Other Income (Expenses):</b>				
Interest and dividend income	<b>9,230</b>	9,578	13,273	<b>74,435</b>
Foreign exchange gain (loss)	<b>9,080</b>	(6,543)	(11,246)	<b>73,226</b>
Gains on sales of investments in securities	<b>8,411</b>	—	—	<b>67,831</b>
Gains on sales of property, plant and equipment	<b>8,081</b>	1,414	—	<b>65,169</b>
Gain on transfer of securities to retirement benefits trust	<b>5,234</b>	—	—	<b>42,210</b>
Equity in earnings of affiliates	<b>1,925</b>	1,324	564	<b>15,524</b>
Interest expenses	<b>(7,841)</b>	(8,983)	(10,855)	<b>(63,234)</b>
Special provision for retirement benefits costs	<b>(27,498)</b>	—	—	<b>(221,758)</b>
Loss on write-down of investment securities	<b>(5,265)</b>	(2,932)	(3,533)	<b>(42,460)</b>
Other, net	<b>(5,233)</b>	1,582	2,681	<b>(42,201)</b>
Income before income taxes	<b>108,801</b>	82,905	77,207	<b>877,427</b>
<b>Income Taxes</b> (Note 16):				
Current	<b>61,031</b>	33,243	26,655	<b>492,185</b>
Deferred	<b>(19,342)</b>	(366)	5,660	<b>(155,984)</b>
	<b>41,689</b>	32,877	32,315	<b>336,201</b>
Income after income taxes	<b>67,112</b>	50,028	44,892	<b>541,226</b>
<b>Minority Interests in Earnings of Consolidated Subsidiaries</b>	<b>(2,607)</b>	(1,799)	(1,529)	<b>(21,024)</b>
<b>Net Income</b>	<b>¥ 64,505</b>	¥ 48,229	¥ 43,363	<b>\$ 520,202</b>

	Yen			U.S. Dollars (Note 3)
<b>Per Share</b> (Note 2 (15)):				
Net income—primary	<b>¥ 153.58</b>	¥ 116.56	¥ 109.36	<b>\$ 1.239</b>
Net income—fully diluted	<b>150.24</b>	113.46	103.17	<b>1.212</b>
Cash dividends	<b>12.00</b>	10.00	9.00	<b>0.097</b>
<b>Weighted Average Number of Shares</b> (Thousands)	<b>421,895</b>	415,536	397,752	<b>421,895</b>

The accompanying notes are an integral part of the statements.

## Consolidated Statements of Stockholders' Equity

Shin-Etsu Chemical Co., Ltd. and Subsidiaries  
For the years ended March 31, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2001	2000	1999	2001
<b>Common stock</b>				
Balance at beginning of year	¥107,664	¥ 98,243	¥ 83,957	\$ 868,258
Conversion of convertible debentures	312	1,094	13,954	2,516
Exercise of warrant attached to debentures	2,271	8,327	332	18,315
Balance at end of year	110,247	107,664	98,243	889,089
<b>Additional Paid-in Capital</b>				
Balance at beginning of year	115,857	104,324	89,976	934,330
Conversion of convertible debentures	312	1,093	13,931	2,516
Exercise of warrant attached to debentures	2,847	10,440	417	22,960
Balance at end of year	119,016	115,857	104,324	959,806
<b>Legal Reserve and Retained Earnings</b>				
Balance at beginning of year	433,460	365,253	325,499	3,495,645
Net income	64,505	48,229	43,363	520,202
Effect of increase in consolidated subsidiaries	—	429	50	—
Cash dividends	(4,613)	(3,911)	(3,444)	(37,202)
Directors' and statutory auditors' bonuses	(182)	(177)	(215)	(1,468)
Prior year's adjustment by application of deferred tax accounting	—	23,637	—	—
Balance at end of year	493,170	433,460	365,253	3,977,177
<b>Unrealized Gain on Available-for-sale securities</b>				
Balance at beginning of year	—	—	—	—
Balance at end of year	9,742	—	—	78,565
<b>Foreign Currency Translation Adjustment</b>				
Balance at beginning of year	—	—	—	—
Balance at end of year	(9,530)	—	—	(76,855)
<b>Treasury Stock at Cost</b>				
Balance at beginning of year	(5,720)	(3,753)	(2,120)	(46,129)
Acquisition	(2,970)	(3,231)	(1,800)	(23,951)
Exercise of stock options	1,041	1,264	167	8,395
Balance at end of year	(7,649)	(5,720)	(3,753)	(61,685)
<b>Number of Shares of Common Stock Issued</b>				
	Thousands of shares			
	2001	2000	1999	
Balance at beginning of year	419,848	410,015	393,722	
Conversion of convertible debentures	326	1,151	15,946	
Exercise of warrant attached to debentures	2,368	8,682	347	
Balance at end of year	422,542	419,848	410,015	

## Consolidated Statements of Cash Flows

Shin-Etsu Chemical Co., Ltd. and Subsidiaries  
For the years ended March 31, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2001	2000	1999	2001
<b>Cash Flows from Operating Activities:</b>				
Income before income taxes	¥108,801	¥ 82,905	¥ 77,207	\$ 877,427
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	71,348	63,128	57,940	575,387
Increase in accrued retirement benefits	26,915	2,033	(570)	217,056
Loss on write-down of investment securities	5,265	2,932	3,533	42,460
Interest and dividend income	(9,230)	(9,578)	(13,273)	(74,435)
Interest expenses	7,841	8,983	10,855	63,234
Exchange loss (gain)	(6,331)	5,478	207	(51,056)
Equity in earnings of affiliates	(1,925)	(1,324)	(564)	(15,524)
Transfer of securities to retirement benefits trust	7,255	—	—	58,508
Gains on transfer of securities to retirement benefits trust	(5,235)	—	—	(42,218)
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	(30,665)	(36,847)	19,974	(247,298)
Increase in inventories	(15,538)	(5,009)	(9,673)	(125,307)
Increase (decrease) in notes and accounts payable	25,652	12,519	(32,985)	206,871
Other, net	(3,594)	(6,622)	(5,033)	(28,984)
Subtotal	180,559	118,598	107,618	1,456,121
Proceeds from interest and dividend	9,328	9,578	13,272	75,226
Payment of interest	(9,004)	(8,838)	(10,852)	(72,613)
Payment of income taxes	(38,681)	(23,462)	(41,587)	(311,944)
<b>Net cash provided by operating activities</b>	<b>142,202</b>	<b>95,876</b>	<b>68,451</b>	<b>1,146,790</b>
<b>Cash Flows from Investing Activities:</b>				
Net (increase) decrease in marketable securities	(561)	(8,698)	13,095	(4,524)
Purchases of property, plant and equipment	(87,641)	(54,666)	(79,583)	(706,782)
Proceeds from sales of property, plant and equipment	8,741	1,463	546	70,492
Purchases of intangible fixed asset	(641)	(4,245)	—	(5,169)
Purchases of investment securities	(26,997)	(4,922)	(16,946)	(217,718)
Proceeds from sales and redeeming of investment securities	23,339	3,995	—	188,218
Payments of loans	(2,354)	(11,252)	4,453	(18,984)
Other, net	(1,056)	1,976	4,637	(8,517)
<b>Net cash used for investing activities</b>	<b>(87,170)</b>	<b>(76,349)</b>	<b>(73,798)</b>	<b>(702,984)</b>
<b>Cash Flows from Financing Activities:</b>				
Net increase (decrease) in short-term debt	(4,428)	78	16,570	(35,710)
Proceeds from long-term debt	10,945	17,871	10,003	88,266
Repayment of long-term debt	(21,957)	(12,640)	(12,071)	(177,073)
Payment of debentures on redemption	(52,351)	(3,558)	(2,631)	(422,185)
Proceeds from issue of shares	4,539	16,645	664	36,605
Cash dividends paid	(4,614)	(3,911)	(3,444)	(37,209)
Other, net	(2,498)	(2,343)	(1,962)	(20,145)
<b>Net cash provided by (used for) financing activities</b>	<b>(70,364)</b>	<b>12,142</b>	<b>7,129</b>	<b>(567,451)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>14,465</b>	<b>(10,434)</b>	<b>(3,324)</b>	<b>116,653</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(867)</b>	<b>21,235</b>	<b>(1,542)</b>	<b>(6,992)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>271,635</b>	<b>249,181</b>	<b>250,723</b>	<b>2,190,605</b>
<b>Net Increase in Cash and Cash Equivalents by Change of Consolidation Scope</b>	<b>2,001</b>	<b>1,219</b>	<b>—</b>	<b>16,137</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>¥272,769</b>	<b>¥271,635</b>	<b>¥249,181</b>	<b>\$2,199,750</b>

The accompanying notes are an integral part of the statements.

## Notes to Consolidated Financial Statements

*Shin-Etsu Chemical Co., Ltd. and Subsidiaries*  
*As of March 31, 2001, 2000 and 1999*

### Note 1

#### Basis of presenting financial statements

The accompanying consolidated financial statements have been prepared from accounts and records maintained by Shin-Etsu Chemical Co., Ltd. (the "Company") and its subsidiaries. The Company and its domestic consolidated subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with generally accepted accounting principles and practices prevailing in Japan, which are different in certain respects as to the application and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries. In general, no adjustments to the accounts of overseas consolidated subsidiaries have been reflected in the accompanying consolidated financial statements to present them in compliance with Japanese accounting principles and practices followed by the Company.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The presentation of the accompanying consolidated financial statements is made in conformity with the Consolidated Financial Statements Regulation (ordinance promulgated by the Ministry of Finance) and meets the requirements for disclosure of financial information of the Company on a consolidated basis. However, certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

### Note 2

#### Summary of significant accounting policies

##### *(1) Principles of consolidation*

The Company had 96 majority-owned subsidiaries as of March 31, 2001 (99 as of March 31, 2000 and 99 as of March 31, 1999). The consolidated financial statements include the accounts of the Company and its 60 (61 for 2000 and 58 for 1999) majority-owned subsidiaries (the Companies), of which principal firms are listed on page 47 with their respective fiscal year-ends.

The remaining 36 (38 for 2000 and 41 for 1999) unconsolidated subsidiaries whose combined assets, net sales, net income and retained earnings in the aggregate are not significant compared with those of the consolidated financial statements of the Companies, therefore, have not been consolidated with the Company. For consolidation of the accounts of subsidiaries whose fiscal year-ends are not in agreement with the Company, necessary adjustments are made on significant intercompany transactions which took place during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

Unrealized 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 amortized 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 36 (38 for 2000 and 41 for 1999) unconsolidated subsidiaries (majority-owned) and 16 (16 for 2000 and 21 for 1999) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in seven major affiliates since investments in the remaining unconsolidated subsidiaries and affiliates are not material for the consolidated financial statements.

The major unconsolidated subsidiaries and affiliates accounted for by the equity method are listed below:

Shin-Etsu Quartz Products Co., Ltd.

Kashima Vinyl Chloride Monomer Co., Ltd.

Nagano Electronics Industrial Co., Ltd.

*(3) Translation of foreign currency transactions*

Effective April 1, 2000, "Accounting for transaction in foreign currencies" has been adopted. Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates effective at the respective transaction dates.

Foreign currency deposits, receivables and payables denominated in foreign currencies are translated into yen at the exchange rate prevailing at the respective balance sheet dates and the resulting translation gain or loss is included in the determination of net income for the year.

However, all of the overseas consolidated subsidiaries apply the current rate method to translate transactions and account balances in foreign currencies into their respective home currencies.

*(4) Translation of foreign currency financial statements (accounts of overseas subsidiaries)*

The translation of foreign currency financial statements of overseas subsidiaries into yen for consolidation purposes is made by the method of translation prescribed by the statements issued by the Business Accounting Council (BAC) of Japan.

Under the BAC method, all assets and liabilities are translated into yen at current exchange rates while capital accounts and retained earnings are translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year. The resulting translation adjustments are, as before, shown as "Foreign Currency Statement Translation Adjustment" in the accompanying balance sheets as of March 31, 2001 and 2000.

*(5) Allowance for doubtful accounts*

The Company and consolidated subsidiaries provide the allowance for doubtful accounts by the method which uses the percentage of its own actual experience of bad debt loss written off against the balance of total receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.

*(6) Inventories*

Inventories of the Company and its domestic subsidiaries are valued at cost determined by the average cost method.

Inventories of the foreign subsidiaries are valued principally at cost determined by the first-in, first-out method.

*(7) Financial instruments*

Effective April 1, 2000, "Accounting for financial instruments" has been adopted.

Securities:

Bonds held to maturity: Amortized cost method

Available-for-sale securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amounts. Other securities for which market quotation are unavailable are stated at cost, which is determined by the moving-average cost method.

Derivatives:

Under the new standard, all derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments".

Hedge accounting:

Gains or losses arising from changes in fair value of the derivatives designated as “hedging instruments” are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are interest swaps. The related hedged items are long-term bank loans, and debt securities issued by consolidated subsidiaries.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company’s exposure to the risk of interest rate fluctuation. Thus, the Company’s purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items and not for speculation or dealing purposes.

The Company evaluates effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

*(8) Property, plant and equipment*

Depreciation of the Company and its domestic subsidiaries is principally computed on the declining-balance method, based on the estimated useful lives of assets prescribed by the Japanese tax laws. Depreciation of foreign subsidiaries is principally computed by the straight-line method over the estimated useful lives of the assets. The cost of property, plant and equipment retired or otherwise disposed of and accumulated depreciation are eliminated from the related accounts, and the resulting profit or loss is reflected in income.

*(9) Amortization*

New share issue expenses are charged to income as incurred. Discounts on bond issues are deferred and amortized on a straight-line basis over a period up to the maturity of the relevant bonds.

*(10) Repairs and maintenance*

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

*(11) 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.

*(12) Accrued retirement benefits*

Pension and severance costs for employees are accrued based on the estimates of the pension obligations and the plan assets at the end of the current fiscal year. The difference of ¥27,498 million resulting from the adoption of new accounting standards for retirement benefits is charged to income and reported in the income statement. The actuarial difference is amortized over a five-year period, which is within the average employee’s service year, using the straight-line method from the time when the difference was generated (see Note 10).

*(13) Income taxes*

Income taxes are provided based on amounts required by the tax return for the period. Tax effect is recorded for temporary differences in recognition of certain expenses between tax and financial reporting on the consolidated financial statements.

*(14) Research and development costs*

Research and development costs are charged to income as incurred.

*(15) Net income and dividends per share*

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

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

### (16) Dividends

Dividends are proposed by the Board of Directors and approved by the stockholders at meetings held subsequent to the fiscal year to which the dividends are applicable, and registered stockholders as of the end of such fiscal year are entitled to the subsequently declared dividends. Interim cash dividends are also paid (see Note 12).

Dividends charged to retained earnings in the accompanying consolidated statements of stockholders' equity represent dividends approved and paid during the year.

### (17) 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.

### (18) Consumption tax

The consumption tax withheld by the Company on sales of products is not included in the amount of net sales in the accompanying consolidated statements of income. The consumption tax borne by the Company on purchases of goods and services, and expenses, is not included in the related amounts in the accompanying consolidated statements of income, either.

## Note 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 ¥124 to US\$1, the approximate effective rate of exchange on March 31, 2001. 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 ¥124 to US\$1 or at any other rate.

## Note 4

### Notes and accounts receivable and payable

The companies recognize the settlements of notes receivable and notes payable at such time as the bank clearance of the notes are actually made. The balance sheet date of March 31, 2001 was incidentally a holiday for financial institutions and, therefore, the following accounts include the balances of notes receivable and notes payable due on that date as unsettled in the relevant amount in the accompanying consolidated balance sheet as of March 31, 2001.

	Millions of Yen	Thousands of U.S. Dollars
Notes and accounts receivable	¥6,927	\$55,863
Notes and accounts payable	5,601	45,169

## Note 5

### Inventories

Inventories as of March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Merchandise	¥ 9,322	¥ 5,982	\$ 75,177
Finished products	41,959	36,677	338,379
Semifinished products	16,040	15,149	129,355
Raw materials	33,290	25,143	268,468
Supplies	11,740	11,580	94,677
Others	5,928	2,925	47,807
	¥118,279	¥97,456	\$953,863

## Note 6

### Securities

Securities as of March 31, 2001 consisted of the following:

(1) *Market value of bonds held to maturity*

Description	Millions of Yen		
	Book value	Market value	Difference
Securities with fair value that exceed book value	¥2,020	¥2,038	¥18
Securities with fair value that do not exceed book value	20	20	0
Total	¥2,040	¥2,058	¥18

Description	Thousands of U.S. Dollars		
	Book value	Market value	Difference
Securities with fair value that exceed book value	\$16,291	\$16,436	\$145
Securities with fair value that do not exceed book value	161	161	0
Total	\$16,452	\$16,597	\$145

(2) *Available-for-sale securities with defined fair values*

Description	Millions of Yen		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with fair value that exceed book value			
Stocks	¥17,786	¥35,667	¥17,881
Others	2,243	2,288	45
Subtotal	¥20,029	¥37,955	¥17,926
Securities with fair value that do not exceed book value			
Stocks	¥18,174	¥17,077	¥(1,097)
Others	480	468	(12)
Subtotal	¥18,654	¥17,545	¥(1,109)
Total	¥38,683	¥55,500	¥16,817

Description	Thousands of U.S. Dollars		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with fair value that exceed book value			
Stocks	\$143,436	\$287,638	\$144,202
Others	18,088	18,451	363
Subtotal	\$161,524	\$306,089	\$144,565
Securities with fair value that do not exceed book value			
Stocks	\$146,565	\$137,718	\$ (8,847)
Others	3,871	3,774	(97)
Subtotal	\$150,436	\$141,492	\$ (8,944)
Total	\$311,960	\$447,581	\$135,621

(3) *“Available-for-sale securities” sold during the fiscal year ended March 31, 2001*

	Millions of Yen	Thousands of U.S. Dollars
Amount sold	¥10,033	\$80,911
Net gain	8,411	67,831

(4) *Major components and book values of securities without market value*

	Book value	
	Millions of Yen	Thousands of U.S. Dollars
Bonds held to maturity	¥65,362	\$527,113
Investments in non-consolidated subsidiaries and affiliates	24,385	196,653
Available-for-sale securities	61,387	495,056

(5) Repayment schedule of available-for-sale securities with maturity and bonds held to maturity

	Millions of Yen	Thousands of U.S. Dollars
Within one year	¥96,183	\$775,669
Over one year within five years	23,057	185,944
Over five years within ten years	4	32

**Note 7**

**Derivative transactions**

Derivative financial instruments were as follows:

As of March 31, 2001

Currency relatives

Description	Millions of Yen		
	Notional amounts	Market value	Unrealized gain (loss)
Foreign exchange contracts			
Sales Contracts:			
US\$	¥21,231	¥21,801	¥(570)
Other	419	427	(8)
Buys Contracts:			
US\$	3,956	4,167	211
Total	¥ —	¥ —	¥(367)

Description	Thousands of U.S. Dollars		
	Notional amounts	Market value	Unrealized gain (loss)
Foreign exchange contracts			
Sales Contracts:			
US\$	\$171,218	\$175,815	\$(4,597)
Other	3,379	3,444	(65)
Buys Contracts:			
US\$	31,903	33,605	1,702
Total	\$ —	\$ —	\$(2,960)

Notes: 1. Market rate represents the forward foreign exchange rate prevailing as of March 31, 2001.

2. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

Interest relatives

Description	Millions of Yen		
	Notional amounts	Market value	Unrealized gain (loss)
Interest swap contracts:			
Receive fixed, pay floating	¥10,000	¥ 467	¥ 467
Receive floating, pay fixed	10,000	(534)	(534)
Total	¥20,000	¥ (67)	¥ (67)

Description	Thousands of U.S. Dollars		
	Notional amounts	Market value	Unrealized gain (loss)
Interest swap contracts:			
Receive fixed, pay floating	\$ 80,645	\$ 3,766	\$ 3,766
Receive floating, pay fixed	80,645	(4,306)	(4,306)
Total	\$161,290	\$ (540)	\$ (540)

Notes: 1. The market value is provided by financial institutes with which we made the contracts of interest swap.

2. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

As of March 31, 2000  
Currency relatives

Description	Millions of Yen		
	Notional amounts	Market value	Unrealized gain (loss)
<b>Foreign exchange contracts</b>			
Sales Contracts:			
US\$	¥ 351	¥ 356	¥ (5)
DGL	7	7	0
Buys Contracts:			
US\$	2,196	2,104	(92)
<b>Total</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥(97)</b>

Notes: 1. Market rate represents the forward foreign exchange rate prevailing as of March 31, 2000.  
2. Any assets or liabilities denominated in foreign currencies, which are covered with the forward foreign exchange contracts to fix Japanese yen amount, and recorded in Japanese yen in the balance sheet, are excluded from the above.

Interest relatives

Description	Millions of Yen		
	Notional amounts	Market value	Unrealized gain (loss)
<b>Interest swap contracts:</b>			
Receive fixed, pay floating	¥15,000	¥ 504	¥ 504
Receive floating, pay fixed	29,500	(1,029)	(1,029)
<b>Total</b>	<b>¥44,500</b>	<b>¥ (525)</b>	<b>¥ (525)</b>

Note: The market value is provided by financial institutes with which we made the contracts of interest swap.

**Note 8**

**Investments in and advances to unconsolidated subsidiaries and affiliates**

Investments in and advances to unconsolidated subsidiaries and affiliates as of March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
<b>Held Directly by the Company:</b>			
Affiliates:			
Four affiliates accounted for by the equity method (See Note 2 (2))*			
Kashima Denkai Co., Ltd.	¥13,170	¥11,161	\$106,210
Unitika Chemical Co., Ltd.	805	805	6,492
Others	600	600	4,839
	228	228	1,838
	<b>14,803</b>	<b>12,794</b>	<b>119,379</b>
Unconsolidated subsidiaries:			
Shin-Etsu Electronics Malaysia Sdn. Bhd.	1,400	1,400	11,290
Shin-Etsu Film Co., Ltd.	199	199	1,605
Shin-Etsu Magnetics Philippines, Inc.	184	—	1,484
Others	155	320	1,250
	<b>1,938</b>	<b>1,919</b>	<b>15,629</b>
<b>Held Indirectly through Subsidiaries:</b>			
Unconsolidated subsidiaries and affiliates:			
Three affiliates accounted for by the equity method (See Note 2 (2))*			
Others	¥ 5,617	¥ 7,889	\$ 45,298
	2,078	1,799	16,758
	<b>¥ 7,695</b>	<b>¥ 9,688</b>	<b>\$ 62,056</b>
<b>Advances:</b>	<b>1,206</b>	<b>12,799</b>	<b>9,726</b>
	<b>¥25,642</b>	<b>¥37,200</b>	<b>\$206,790</b>

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

## Note 9

### Short-term borrowings and long-term debt

Short-term borrowings outstanding as of March 31, 2001 and 2000 are represented generally by one-year notes issued by the Companies to banks. Substantially all of the notes are issued to banks which have written basic agreements with the Companies to the effect that, with respect to all present or future loans with such banks, the Companies shall provide collateral (including sums on deposit with such banks), or guarantors for such loans, immediately upon the banks' request, and that any collateral furnished pursuant to such agreements or otherwise will be applicable to all indebtedness to such banks.

Long-term debt as of March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
<b>Loans with Banks and Other Financial Institutions:</b>			
Secured	¥ 11,170	¥ 28,420	\$ 90,081
Unsecured	47,231	38,266	380,895
<b>Unsecured Debentures:</b>			
3 <sup>3</sup> / <sub>8</sub> % notes in U.S. dollars, due August 2000 with warrants	—	51,661	—
6.7% debentures issued by a consolidated subsidiary, due April 2001	3,236	2,888	26,097
6 <sup>7</sup> / <sub>8</sub> % debentures issued by a consolidated subsidiary, due July 2002	13,910	12,413	112,177
2.7% debentures issued by a consolidated subsidiary, due August 2004	8,000	8,000	64,516
2.5% debentures issued by a consolidated subsidiary, due August 2003	5,000	5,000	40,322
2.2% debentures issued by a consolidated subsidiary, due August 2002	5,000	5,000	40,322
2.6% debentures issued by a consolidated subsidiary, due December 2007	3,000	3,000	24,194
2.5% debentures issued by a consolidated subsidiary, due February 2003	3,000	3,000	24,194
2.1% debentures issued by a consolidated subsidiary, due March 2003	2,000	2,000	16,129
2.1% debentures issued by a consolidated subsidiary, due March 2003	3,000	3,000	24,194
5.0% debentures issued by a consolidated subsidiary, due May 2008	—	584	—
<b>Unsecured Convertible Debentures:</b>			
0.4% convertible debentures, due September 2005	18,340	18,965	147,903
	122,887	182,197	991,024
<b>Less Portion Due within One Year</b>	<b>(17,546)</b>	<b>(67,753)</b>	<b>(141,500)</b>
	<b>¥105,341</b>	<b>¥114,444</b>	<b>\$ 849,524</b>

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

	Issue Date and Principal Amount at Issue	Terms of Conversion as of March 31, 2001			Additional Shares Issuable upon Full Conversion (Thousands)
		Balance as of March 31, 2001 in Denominated Currencies	Current Conversion Price per Share*	Fixed Exchange Rates for Conversion	
<b>Unsecured:</b>					
0.4% convertible debentures in yen, due 2005	August 8, 1996 (¥50,000 million)	¥18,340 million	¥1,917.0	—	9,567

As of March 31, 2001, 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	¥44,141	\$355,976

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

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31,		
2002	¥ 17,546	\$141,500
2003	50,835	409,960
2004	14,267	115,056
2005	15,068	121,516
2006	19,913	160,589
2007 and thereafter	5,258	42,403
	¥122,887	\$991,024

## Note 10

### Retirement and pension plans

The Company and its domestic consolidated subsidiaries have tax-qualified pension plans and lump-sum severance payment plans as part of their defined benefits scheme.

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.

Most overseas consolidated subsidiaries have defined contribution plans while others have defined benefit pension plans.

Effective April 1, 2000, "Accounting for retirement benefits" has been adopted. Pension and severance costs for employees are accrued based on the estimates of the pension obligations and the plan assets at the end of current fiscal year.

The Company set up "Retirement Benefits Trust" in the current fiscal year, contributed certain marketable equity securities to the Trust and recognized a gain of ¥5,234 million as "Gain on transfer of securities to retirement benefits trust" in the consolidated income statement. The adoption of the new accounting standards resulted in the increase in "Pension and Severance Costs" by ¥27,356 million and "Ordinary income" by ¥95 million. On the other hand, "Income before income taxes" was decreased by ¥22,168 million.

The reserve for retirement benefit is analyzed as follows:

#### *Benefit Obligation* (As of March 31, 2001)

	Millions of Yen	Thousands of U.S. Dollars
(a) Benefit Obligation	¥(68,999)	\$(556,444)
(b) Pension Assets	37,952	306,065
(c) Unfunded Benefit Obligation [(a)+(b)]	(31,047)	(250,379)
(d) Undisposed of Net Transition Assets	—	—
(e) Unrecognized actuarial differences	3,080	24,839
(f) Unrecognized prior service cost	—	—
(g) Amount shown on Balance Sheet [(c)+(d)+(e)+(f)]	(27,967)	(225,540)
(h) Prepaid pension expenses	—	—
(i) Accrued Retirement Benefits [(g)-(h)]	¥(27,967)	\$(225,540)

#### *Retirement Benefit Costs* (From April 1, 2000 to March 31, 2001)

	Millions of Yen	Thousands of U.S. Dollars
(a) Service costs	¥ 3,213	\$ 25,911
(b) Interest costs	1,947	15,702
(c) Expected return on plan assets	(894)	(7,210)
(d) Amortization of differences arising from adopting the new standard	27,498	221,758
(e) Recognized actuarial loss	778	6,274
(f) Amortization of prior service cost	—	—
(g) Retirement Benefit Costs [(a)+(b)+(c)+(d)+(e)+(f)]	¥32,542	\$262,435

### *Basic Assumption for Calculating Benefit Obligation*

(a) Period allocation method for estimated retirement benefits	Benefit / year of service approach
(b) Discount rate	Principally 3%
(c) Expected return on plan assets	Principally 3%
(d) Period of amortizing actuarial differences	Principally 5 years (expensed from current fiscal year based on straight-line method)
(e) Period of Amortization of differences arising from adopting the new standard	Expensed the total in current fiscal year incurred

### **Note 11**

#### **Contingent liabilities**

As of March 31, 2001, 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 ¥1,575 million (\$12,702 thousand).

In addition, as of March 31, 2001, the Companies had contingent liabilities arising from notes discounted by banks in the amounts of ¥427 million (\$3,444 thousand).

### **Note 12**

#### **Legal reserve and retained earnings**

The Japanese Commercial Code provides that an amount equal to at least 10% of cash distribution paid out of retained earnings should be appropriated to legal reserve until such reserve equals 25% 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 September 30 of each year in the case of the Company on a semiannual basis) may be distributed upon approval by the Board of Directors. The Company paid interim dividends during the years ended March 31, 2001, 2000 and 1999 in the amounts of ¥2,523 million (\$20,347 thousand) (¥6.0 per share), ¥2,072 million and ¥1,774 million, respectively, which were actually paid to stockholders on December 8, 2000, December 10, 1999, and December 10, 1998, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended March 31, 2001, 2000 and 1999, respectively.

### **Note 13**

#### **Research and development costs**

Research and development costs incurred and charged to income for the years ended March 31, 2001, 2000 and 1999 were ¥25,939 million (\$209,185 thousand), ¥26,967 million and ¥22,351 million, respectively.

### **Note 14**

#### **Lease transactions**

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended March 31, 2001 and 2000 amounted to ¥624 million (\$5,032 thousand) and ¥392 million, respectively. Lease expenses corresponding to depreciation expenses for the year ended March 31, 2001, 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 ¥624 million (\$5,032 thousand).

Pro forma information regarding leased property such as acquisition cost and accumulated depreciation under finance leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Acquisition cost	¥2,959	¥1,847	\$23,863
Accumulated depreciation	2,016	1,120	16,258
Net book value	¥ 943	¥ 727	\$ 7,605

The amount of outstanding future lease payments due in respect of finance lease contracts at March 31, 2001 and 2000, which included the portion of interest thereon, was summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
<b>Future Lease Payments:</b>			
Within one year	¥545	¥313	\$4,395
Over one year	398	414	3,210
	¥943	¥727	\$7,605

The amount of outstanding future lease payments due in respect of operating lease contracts at March 31, 2001 and 2000 was summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
<b>Future Lease Payments:</b>			
Within one year	¥ 866	¥1,229	\$ 6,983
Over one year	2,039	2,191	16,444
	¥2,905	¥3,420	\$23,427

## Note 15

### Related party transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2001, 2000 and 1999 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Sales	¥10,082	¥15,875	¥18,663	\$ 81,306
Purchases	56,794	46,428	50,031	458,016

## Note 16

### Income taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended March 31, 2001, 2000 and 1999 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	2001	2000	1999
Corporate income tax	30.0%	30.0%	34.5%
Enterprise tax	9.6	9.6	11.0
Resident income taxes	6.1	6.1	7.0
	45.7%	45.7%	52.5%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid (unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid)	41.7%	41.7%	47.3%

Tax effects of material temporary differences and loss carry forwards which resulted in deferred tax assets or liability at March 31, 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
<b>Deferred Tax Assets</b>			
Special provision for retirement benefits costs	¥12,160	¥ 2,479	\$ 98,065
Depreciation	7,006	3,986	56,500
Unsettled accounts payable	5,782	4,492	46,629
Tax loss carryforwards	3,734	4,329	30,113
Unrealized profit	3,558	3,470	28,694
Accrued enterprise taxes	3,457	1,762	27,879
Accrued bonus allowance	2,456	1,680	19,806
Repair cost	2,064	2,725	16,645
Others	18,495	12,221	149,153
Valuation allowance	(4,772)	(4,975)	(38,484)
<b>Total</b>	<b>¥53,940</b>	<b>¥32,169</b>	<b>\$435,000</b>
<b>Deferred Tax Liabilities</b>			
Depreciation	¥23,509	¥19,863	\$189,589
Unrealized gain on available-for-sale securities	7,013	—	56,556
Reserve for special depreciation	1,122	1,138	9,048
Others	1,572	1,031	12,678
<b>Total</b>	<b>¥33,216</b>	<b>¥22,032</b>	<b>\$267,871</b>
<b>Net Deferred Tax Assets</b>	<b>¥20,724</b>	<b>¥10,137</b>	<b>\$167,129</b>

Reconciliation of the difference between the statutory tax rate and effective rate on taxable income are as follows:

	2001
Statutory tax rate	41.7%
Rate difference from foreign subsidiaries	(3.1)
Dividend income not taxable	(0.8)
Entertainment and other non-deductible expenses	0.3
Other, net	0.2
<b>Effective tax rate</b>	<b>38.3</b>

No significant difference arisen between statutory tax rate and rate on taxable income was noted in the fiscal year of 2000.

## Note 17

### Cash and cash equivalents on consolidated statements of cash flows

Cash and cash equivalents on consolidated statements of cash flows consist of cash on hand, deposits that can be withdrawn without limitation and liquid investments which are easily convertible into cash, and are matured within approximately three months since acquisition date and have insignificant risk exposure in terms of fluctuation on value of the investments.

Reconciliation between cash and cash equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2001, 2000 and 1999 are presented below:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Cash and time deposits	¥221,222	¥209,058	¥184,021	\$1,784,048
Marketable securities	99,782	85,066	76,336	804,694
Time deposits for which maturities are approximately over three months	(1,672)	(922)	(873)	(13,484)
Marketable securities (maturities approximately over three months)	(46,563)	(21,567)	(10,303)	(375,508)
<b>Cash and cash equivalents</b>	<b>¥272,769</b>	<b>¥271,635</b>	<b>¥249,181</b>	<b>\$2,199,750</b>

## Note 18

### Segment information

#### (1) Business segment information

The Companies operate principally in the following three lines of business: "Organic and Inorganic Chemicals," "Electronics Materials" and "Functional Materials and Others." These lines of

business deal in the following main products and merchandise:

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

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

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

Sales, related operating costs and expenses, operating income, assets, depreciation and capital expenditure of the Companies at March 31, 2001, 2000 and 1999 and for the years then ended, classified by business segments, have been presented as follows:

	Millions of Yen				
	2001				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets <sup>+</sup>	Consolidated Total
Sales:					
Sales to outside customers	¥410,371	¥258,746	¥138,368	¥ —	¥ 807,485
Intersegment sales	11,503	2,299	67,142	(80,944)	—
Total	421,874	261,045	205,510	(80,944)	807,485
Operating costs and expenses	374,859	224,684	176,182	(80,917)	694,808
Operating income	¥ 47,015	¥ 36,361	¥ 29,328	¥ (27)	¥ 112,677
Assets	¥430,164	¥432,768	¥188,000	¥214,867	¥1,265,799
Depreciation	23,503	35,286	12,243	(265)	70,767
Capital expenditures <sup>1,2,3</sup>	50,304	37,985	21,838	(303)	109,824

	Millions of Yen				
	2000				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets <sup>+</sup>	Consolidated Total
Sales:					
Sales to outside customers	¥343,412	¥220,132	¥115,315	¥ —	¥ 678,859
Intersegment sales	13,373	1,565	56,715	(71,653)	—
Total	356,785	221,697	172,030	(71,653)	678,859
Operating costs and expenses	311,623	198,353	153,378	(71,960)	591,394
Operating income	¥ 45,162	¥ 23,344	¥ 18,652	¥ 307	¥ 87,465
Assets	¥366,882	¥386,321	¥151,531	¥263,995	¥1,168,729
Depreciation	20,994	29,793	10,888	(291)	61,384
Capital expenditures	26,397	25,025	7,842	(154)	59,110

	Millions of Yen				
	1999				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets <sup>+</sup>	Consolidated Total
Sales:					
Sales to outside customers	¥328,925	¥214,605	¥ 99,266	¥ —	¥ 642,796
Intersegment sales	14,341	1,656	55,372	(71,369)	—
Total	343,266	216,261	154,638	(71,369)	642,796
Operating costs and expenses	298,900	186,863	141,840	(71,130)	556,473
Operating income	¥ 44,366	¥ 29,398	¥ 12,798	¥ (239)	¥ 86,323
Assets	¥356,663	¥392,399	¥115,796	¥196,115	¥1,060,973
Depreciation	19,106	27,150	9,940	—	56,196
Capital expenditures	23,029	42,737	8,009	(134)	73,641

Thousands of U.S. Dollars					
2001					
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets <sup>4</sup>	Consolidated Total
Sales:					
Sales to outside customers	\$3,309,444	\$2,086,661	\$1,115,871	\$ —	\$ 6,511,976
Intersegment sales	92,766	18,540	541,468	(652,774)	—
Total	3,402,210	2,105,201	1,657,339	(652,774)	6,511,976
Operating costs and expenses	3,023,057	1,811,967	1,420,823	(652,556)	5,603,291
Operating income	\$ 379,153	\$ 293,234	\$ 236,516	\$ (218)	\$ 908,685
Assets	\$3,469,065	\$3,490,065	\$1,516,129	\$1,732,797	\$10,208,056
Depreciation	189,540	284,565	98,734	(2,137)	570,702
Capital expenditures <sup>1,2,3</sup>	405,677	306,331	176,113	(2,444)	885,677

Notes: 1. ¥7,839 million of investments in equipment that Silica Products Inc. made in 1999 is not included in the capital expenditure ("Functional materials and others") for 1999 due to the initial consolidation of the company in 2000. It is substantially accounted as the capital expenditure of 2000.

2. ¥13,053 million paid in January 2000 for acquisition of PVC business in Europe is included in the capital expenditure ("Organic and inorganic chemicals") of 2001. It is substantially accounted as the capital expenditure of 2000.

3. Had the investments of 1 and 2 above been included, total capital expenditure would be amounted to ¥80,003 million for 2000, and ¥96,770 for 2001.

4. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2001, 2000 and 1999 were ¥271,303 million (\$2,187,927 thousand), ¥294,942 million and ¥225,494 million, respectively, which mainly consist of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

## (2) Geographical segment information

The analysis of the sales, operating costs and expenses, operating income and assets of the Companies by geographical segments as of March 31, 2001, 2000 and 1999 and for the years then ended are presented below:

Millions of Yen						
2001						
	Japan	North America	Asia	Other Areas	Elimination or Common Assets <sup>2</sup>	Consolidated Total
Sales:						
Sales to outside customers	¥495,560	¥171,452	¥ 71,620	¥68,853	¥ —	¥ 807,485
Intersegment sales	98,588	17,114	32,545	4,418	(152,665)	—
Total	594,148	188,566	104,165	73,271	(152,665)	807,485
Operating costs and expenses	514,551	168,237	95,815	68,560	(152,355)	694,808
Operating income	¥ 79,597	¥ 20,329	¥ 8,350	¥ 4,711	¥ (310)	¥ 112,677
Assets	¥667,046	¥261,713	¥92,636	¥76,132	¥168,272	¥1,265,799

Millions of Yen						
2000						
	Japan	North America	Asia	Other Areas	Elimination or Common Assets <sup>2</sup>	Consolidated Total
Sales:						
Sales to outside customers	¥457,603	¥136,602	¥56,997	¥27,657	¥ —	¥ 678,859
Intersegment sales	80,763	16,154	30,126	4,610	(131,653)	—
Total	538,366	152,756	87,123	32,267	(131,653)	678,859
Operating costs and expenses	472,943	137,862	80,368	31,644	(131,423)	591,394
Operating income	¥ 65,423	¥ 14,894	¥ 6,755	¥ 623	¥ (230)	¥ 87,465
Assets	¥606,878	¥230,231	¥77,875	¥65,102	¥188,643	¥1,168,729

Millions of Yen						
1999						
	Japan	North America	Asia	Other Areas	Elimination or Common Assets <sup>2</sup>	Consolidated Total
Sales:						
Sales to outside customers	¥420,281	¥140,330	¥52,010	¥30,175	¥ —	¥ 642,796
Intersegment 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

Thousands of U.S. Dollars						
2001						
	Japan	North America	Asia	Other Areas	Elimination or Common Assets <sup>2</sup>	Consolidated Total
Sales:						
Sales to outside customers	\$3,996,452	\$1,382,677	\$577,581	\$555,266	\$ —	\$ 6,511,976
Intersegment sales	795,064	138,017	262,459	35,629	(1,231,169)	—
Total	4,791,516	1,520,694	840,040	590,895	(1,231,169)	6,511,976
Operating costs and expenses	4,149,605	1,356,750	772,701	552,903	(1,228,668)	5,603,291
Operating income	\$ 641,911	\$ 163,944	\$ 67,339	\$ 37,992	\$ (2,501)	\$ 908,685
Assets	\$5,379,403	\$2,110,589	\$747,065	\$613,968	\$1,357,031	\$10,208,056

Notes: 1. Main countries or areas other than Japan:

North America ..... U.S.A.  
 Asia ..... Malaysia, Singapore, Korea, Taiwan  
 Other areas ..... U.K., Netherlands, Australia

2. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2001, 2000 and 1999 were ¥271,303 million (\$2,187,927 thousand), ¥294,942 million and ¥225,494 million, respectively, which mainly consist of surplus working funds (cash, deposits and marketable securities) and long-term investment funds (investments in securities) of the Company.

### (3) Overseas sales information

Overseas sales of the Companies for the years ended March 31, 2001, 2000 and 1999 are summarized as follows:

Millions of Yen				
2001				
	North America	Asia	Other Areas	Total
Overseas sales	¥183,060	¥167,721	¥90,865	¥441,646
Consolidated sales	—	—	—	¥807,485
Percentage of overseas sales over consolidated sales	22.7%	20.8%	11.2%	54.7%

Millions of Yen				
2000				
	North America	Asia	Other Areas	Total
Overseas sales	¥153,789	¥146,091	¥47,912	¥347,792
Consolidated sales	—	—	—	¥678,859
Percentage of overseas sales over consolidated sales	22.6%	21.5%	7.1%	51.2%

Millions of Yen				
1999				
	North America	Asia	Other Areas	Total
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%
Thousands of U.S. Dollars				
<b>2001</b>				
	North America	Asia	Other Areas	Total
Overseas sales	<b>\$1,476,290</b>	<b>\$1,352,589</b>	<b>\$732,782</b>	<b>\$3,561,661</b>
Consolidated sales	—	—	—	<b>\$6,511,976</b>
Percentage of overseas sales over consolidated sales	<b>22.7%</b>	<b>20.8%</b>	<b>11.2%</b>	<b>54.7%</b>

Notes: 1. Main countries or areas:  
North America ..... U.S.A., Canada  
Asia ..... Korea, Taiwan, China  
Other areas ..... Europe, Middle South America, Oceania  
2. "Overseas sales" means sales to "outside Japan" by the Company and its consolidated subsidiaries.

## Note 19

### Subsequent events

#### (1) Appropriation of retained earnings

Subsequent to March 31, 2001, the Company's Board of Directors, with the subsequent approval of stockholders on June 28, 2001 declared a cash dividend of ¥2,523 million (\$20,347 thousand) equal to ¥6.00 (\$0.048) per share, applicable to earnings of the year ended March 31, 2001 and payable to stockholders on the stockholders' register on March 31, 2001.

#### (2) Stock options

At the stockholders meeting held in June 2001, 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 646 thousand shares of the Company's par-value common stock at a cost that shall not exceed ¥4,000 million (US\$32 million).

## Note 20

### Change in accounting presentation

Certain reclassifications have been made in the 2000 and 1999 financial statements to conform to the presentation for 2001.

## Consolidated Subsidiaries

As of March 31, 2001

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

<sup>(1)</sup> Overseas subsidiary

<sup>(2)</sup> S.E.H. Malaysia Sdn. Bhd. issues non-voting shares

## Report of Independent 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 consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years ended March 31, 2001, 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 consolidated subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years ended March 31, 2001 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 2, effective from the year ended March 31, 2001, the Company and its consolidated subsidiaries have adopted the new Japanese accounting standards for financial instruments, retirement benefits, and foreign currency translation.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

Tokyo, Japan  
June 28, 2001



ChuoAoyama Audit Corporation

## Corporate Data

### Shin-Etsu Chemical Co., Ltd.

DATE OF ESTABLISHMENT: SEPTEMBER 16, 1926

CAPITAL: ¥110,247 MILLION (US\$889 MILLION) *(as of March 31, 2001)*

NUMBER OF EMPLOYEES: 19,398 *(including 60 consolidated subsidiaries)*

NUMBER OF SHARES ISSUED: 422,542,358 SHARES *(as of March 31, 2001)*

NUMBER OF SHAREHOLDERS: 16,485 *(as of March 31, 2001)*

STOCK LISTINGS: TOKYO, OSAKA, NAGOYA

TRANSFER AGENT: MITUBISHI TRUST & BANKING CORP.

**SHIN-ETSU CHEMICAL CO., LTD.**

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