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TEN-YEAR SUMMARY

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

Years ended March 31

(Millions of Yen, except per Share)

	2002	2001	2000	1999
For the Year:				
Net sales	¥ 775,097	¥ 807,485	¥ 678,859	¥ 642,796
Operating income	114,724	112,677	87,465	86,323
Net income	68,519	64,505	48,229	43,363
Per Share (Yen):				
Net income—primary	162.93	153.58	116.56	109.36
Net income—fully diluted	159.38	150.24	113.46	103.17
Cash dividends	12.00	12.00	10.00	9.00
Capital expenditures	81,543	96,770	80,003	73,641
Depreciation	70,878	70,767	61,384	56,196
At Year-End:				
Total assets	¥1,288,432	¥1,265,799	¥1,168,729	¥1,060,973
Working capital	363,677	350,273	273,193	261,691
Common stock	110,260	110,247	107,664	98,243
Stockholders' equity	812,068	714,996	651,261	564,067
Stockholders' equity per share (Yen)	1,930.30	1,699.74	1,557.48	1,380.43
General:				
Number of employees	16,456	19,398	18,754	18,384
Number of shares issued (Thousands)	422,555	422,542	419,848	410,015

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

	2002	2001	2000	1999
For the Year:				
Net sales	\$5,827,797	\$6,071,316	\$5,104,203	\$4,833,053
Operating income	862,586	847,195	657,632	649,045
Net income	515,180	485,000	362,624	326,038
Per Share (Dollars):				
Net income—primary	1.225	1.155	0.876	0.822
Net income—fully diluted	1.198	1.130	0.853	0.776
Cash dividends	0.090	0.090	0.075	0.068
Capital expenditures	613,105	727,594	601,526	553,692
Depreciation	532,917	532,083	461,534	422,526
At Year-End:				
Total assets	\$9,687,459	\$9,517,286	\$8,787,436	\$7,977,241
Working capital	2,734,414	2,633,632	2,054,083	1,967,602
Common stock	829,023	828,925	809,504	738,669
Stockholders' equity	6,105,775	5,375,910	4,896,699	4,241,105
Stockholders' equity per share (Dollars)	14.514	12.780	11.710	10.379
General:				
Number of employees	16,456	19,398	18,754	18,384
Number of shares issued (Thousands)	422,555	422,542	419,848	410,015

Note: The U.S. dollar amounts represent conversions of yen, for convenience only, at the rate of ¥133=US\$1.

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

1998	1997	1996	1995	1994	1993
\$5,212,594	\$4,694,774	\$4,324,632	\$3,931,707	\$3,492,098	\$3,465,632
683,158	616,722	552,083	390,331	243,985	261,767
315,992	305,368	284,398	201,970	131,932	120,218
0.833	0.889	0.876	0.623	0.407	0.371
0.765	0.782	0.802	—	—	—
0.064	0.056	0.056	0.056	0.056	0.056
1,025,444	698,075	502,188	508,940	258,804	310,466
467,248	392,414	343,211	323,203	303,391	283,271
\$8,148,722	\$7,001,195	\$5,328,098	\$4,841,632	\$4,516,947	\$4,529,947
1,668,188	1,471,647	894,256	833,842	709,489	593,286
631,256	332,752	273,985	273,564	269,391	269,173
3,739,188	2,817,489	2,413,436	2,145,571	1,992,707	1,932,767
9.514	8.060	7.433	6.609	6.151	5.967
19,238	18,896	17,106	16,075	11,697	11,557
393,722	349,569	324,691	324,621	323,949	323,899

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

Years ended March 31

Overview of Consolidation

The operations of Shin-Etsu Chemical Co., Ltd. (the Company) and its subsidiaries are divided into three business segments according to product type 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 58 subsidiaries in Japan and overseas. The equity method of accounting is applied to 8 of the 35 unconsolidated subsidiaries and the 17 affiliated companies.

Consolidated Operating Performance

In the fiscal year under review (April 1, 2001 to March 31, 2002) the Japanese economy was strongly influenced by the worldwide economic recession. In addition to suffering a decline in exports and a cutback in facility investment in Japan, the Japanese economy rapidly worsened due to a further deterioration in the employment situation that led to continued weakness in personal consumption. On the other hand, there were bright signs in some areas in the U.S. economy that had generally slowed down. Yet the U.S. economy still did not see an overall recovery trend set in.

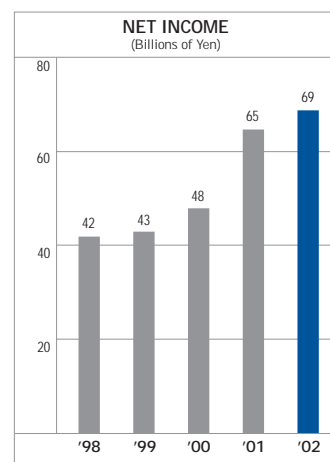
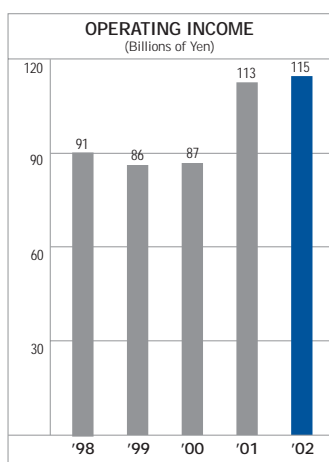
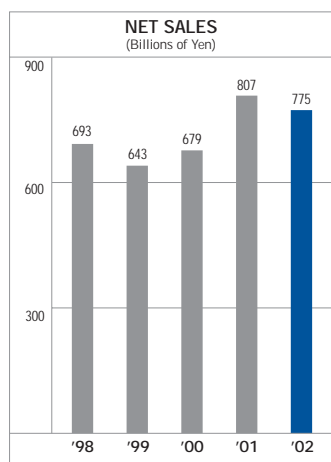
Under these severe circumstances, the Shin-Etsu Group fully demonstrated the positive results of its R&D activities and the fruits of its strategic facility investments in recent years, both in Japan and other business regions. Moreover, by utilizing its sales power that was

nurtured through long experience in global markets, Shin-Etsu carried out strong sales activities, bolstered by the superior characteristics of its products, to a wide range of customers around the world. In addition, by utilizing the Group's firm financial base and global production system, the Shin-Etsu Group dedicated itself to pursuing improving productivity and streamlining its business structure to achieve maximum efficiencies and profitability.

As a result, consolidated net sales for the fiscal year decreased 4.0%, or ¥32,388 million, compared to the previous fiscal year, to ¥775,097 million (\$5,828 million). Operating income increased 1.8%, or ¥2,047 million, to ¥114,724 million (\$863 million). Net other expenses were ¥1,632 million (\$12 million), a ¥2,244 million decline from the previous fiscal year. This decrease reflected the absence of ¥27,498 million in special provision for retirement benefit costs and a ¥15,078 million (\$113 million) gain on the sale of assets to cover these costs that were recorded in the previous fiscal year. Special additional payments for early retirement of ¥7,997 million (\$60 million) were recorded in the year under review. Net income increased 6.2%, or ¥4,014 million, to ¥68,519 million (\$515 million). Net income per share amounted to ¥162.93 (\$1.23), up ¥9.35 from the previous fiscal year. Including interim cash dividends of ¥6.00, cash dividends for the fiscal year were ¥12.00.

Organic and Inorganic Chemicals

In the U.S. PVC market, a core market for Shin-Etsu's global PVC business strategy, the cost of basic raw materials for producing PVC increased due to the record rise in the price of raw materials for ethylene at the beginning of 2001, and the selling price was sluggish. These conditions, as well as the slowdown in the American economy, constituted severe business challenges for the U.S. PVC industry.



NET SALES BY SEGMENTS

	Billions of yen	
	Years ended March 31	
	2002	2001
Organic and inorganic chemicals	¥398.0	¥410.4
Polyvinyl chloride	199.8	208.1
Silicones	119.9	135.2
Others	78.3	67.0
Electronics materials	226.5	258.7
Semiconductor silicon	176.4	204.7
Others	50.0	54.0
Functional materials and others	150.7	138.4
Synthetic quartz products	57.1	41.5
Rare earths, oxide single crystals, etc	21.8	32.4
Others	71.7	64.4
Total	¥775.1	¥807.5

Under these circumstances, Shintech, Inc., Shin-Etsu's U.S. PVC base, which accurately anticipated the trends in the PVC market, put in place a business strategy that emphasized not only U.S. domestic sales but also export sales. Thus, Shintech was able to continue full operations at both its Texas plant, whose annual production capacity is 1.45 million tons, and its Louisiana plant, which, with the completion of second-phase construction in November 2001, saw its annual PVC production capacity jump from 300,000 tons to 590,000 tons. Furthermore, Shin-Etsu PVC B.V. in the Netherlands continued steady production and sales. On the other hand, the Japanese PVC business saw continued sluggishness in domestic demand and exports to Southeast Asian countries were bearish until the end of 2001. As a result, net sales of PVC were slightly down from the previous term, and operating income increased.

Silicones are marketed in diverse business fields, with more than 4,000 kinds of products for such industries as electric, electronic, automobile, chemical manufacturing, toiletries, cosmetics and construction. Domestic sales in this fiscal year remained steady for the toiletries, cosmetics and pharmaceutical industries; however, demand in such fields as the electric and electronics industries was sluggish. As a result, domestic sales decreased. On the other hand, the fiscal year saw steady shipments to China. Shipments to other areas, however, remained sluggish. Thus, net sales and operating income both decreased.

Cellulose derivatives saw steady growth in both domestic and international shipments to the pharmaceutical industry and the export of other industrial-use products saw steady growth, mainly in automobile-related areas. As a result, net sales were higher than in the previous fiscal year.

OPERATING INCOME BY SEGMENTS

	Billions of yen	
	Years ended March 31	
	2002	2001
Organic and inorganic chemicals	¥48.8	¥47.0
Polyvinyl chloride	15.8	13.6
Silicones	20.6	21.9
Others	12.4	11.5
Electronics materials	33.7	36.4
Semiconductor silicon	26.4	25.8
Others	7.3	10.6
Functional materials and others	32.2	29.3
Synthetic quartz products	23.1	18.1
Rare earths, oxide single crystals, etc	5.4	8.1
Others	3.7	3.1
Total	¥114.7	¥112.7

Accordingly, this business segment's net sales decreased 3.0%, or ¥12,387 million, compared to the previous fiscal year, to ¥397,984 million (\$2,992 million). Operating income increased 3.8%, or ¥1,793 million, to ¥48,808 million (\$367 million).

Electronics Materials

Reflecting the sudden decline in both the domestic and global semiconductor device markets, the volume of shipments from April 2001 decreased greatly. However, since September 2001, demand has recovered and shipments have increased. Moreover, production and sales of next-generation 300mm silicon wafers, whose commercial production began in February 2001, steadily increased. SOI wafers and such special wafers as annealed wafers also made steady contributions to the Company's profit. As a result, in the semiconductor silicon business field as a whole, although net sales declined, operating income increased over that of the previous fiscal year.

Sales of rare earth magnets for the electronics industry decreased due to weak demand globally for hard disk drives. Sales of organic materials for the electronics industry and photoresists decreased because of the weakness of the semiconductor device market.

As a result, net sales in this business segment decreased 12.5%, or ¥32,286 million, compared to the previous fiscal year, to ¥226,460 million (\$1,703 million). Operating income decreased 7.4%, or ¥2,682 million, to ¥33,679 million (\$253 million).

Functional Materials and Others

In the first half of the fiscal year, supported by increased worldwide demand for optical fiber, sales of optical-fiber preforms, which is one application of synthetic quartz, climbed in a tight market. However, during the second half of the fiscal year, the market softened due to a decrease in optical fiber demand in U.S. and other markets. Under these circumstances, Shin-Etsu constructed a new plant for optical-fiber preforms at the Kashima Chemical Complex in Japan, which significantly increased the Company's supply capacity to meet expected growth in demand for this product. The Company made a strong effort to strengthen sales in the Japanese market as well as in Asian and European markets and increased its optical-fiber preform sales. In addition, photomasks for large-size LCDs—another application of synthetic quartz—have seen steady sales.

Demand for rare earth magnets was sluggish in the fields of optical pick-ups and mobile phone applications, and sales decreased sharply. The market for oxide single crystals was adversely influenced by production adjustments in mobile phone parts, etc., and sales decreased.

As a result, net sales in this business segment increased 8.9%, or ¥12,285 million, compared to the previous fiscal year, to ¥150,653 million (\$1,133 million). Operating income increased 9.8%, or ¥2,866 million, to ¥32,194 million (\$242 million).

Financial Position

Total assets at fiscal year-end amounted to ¥1,288,432 million (\$9,687 million), up 1.8%, or ¥22,633 million, from the end of the previous fiscal year. Current assets declined ¥12,489 million from the end of the previous fiscal year to ¥692,197 million (\$5,204 million). This decrease was due mainly to a decline in notes and accounts receivable that accompanied the drop in net sales. Property, plant and equipment rose ¥33,603 million to ¥455,846 million (\$3,427 million). Capital expenditures during the fiscal year under review amounted to ¥81,543 million (\$613 million), and depreciation expense was ¥70,878 million (\$533 million).

Investments and other assets increased ¥1,426 million to ¥136,880 million (\$1,029 million).

On the liabilities side, total liabilities at fiscal year-end amounted to ¥452,493 million (\$3,402 million), a 14.1%, or ¥74,030 million decrease from the previous fiscal year-end. Among liabilities, long- and short-term interest-bearing debt declined ¥13,543 million to ¥177,457 million (\$1,334 million). This decrease was due to the procurement of

alternative sources of funds and the repayment of debt and redemption of bonds. Other factors underlying this decrease included a ¥27,976 million decline in notes and accounts payable as well as a ¥12,752 million drop in accrued retirement benefits accompanying the establishment of a retirement benefit trust and other factors.

Total stockholders' equity rose ¥97,072 million to ¥812,068 million (\$6,106 million). The equity ratio was up 6.5 percentage points to 63.0%, mainly reflecting a ¥63,296 million rise in legal reserve and retained earnings.

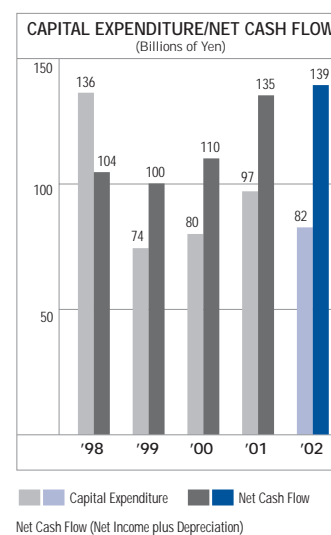
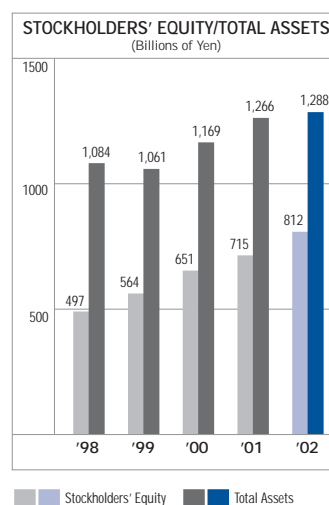
Cash Flows

Net cash provided by operating activities totaled ¥118,637 million (\$892 million). This mainly reflected income before income taxes of ¥113,092 million (\$850 million) and ¥70,878 million (\$533 million) in depreciation expense. On the other hand, principal cash outflows included ¥62,952 million (\$473 million) in payment of income taxes.

Net cash used in investing activities amounted to ¥127,409 million (\$958 million). This consisted mainly of ¥81,875 million (\$616 million) in purchases of property, plant and equipment as well as a ¥50,725 million (\$381 million) net increase in marketable securities.

Net cash used in financing activities amounted to ¥24,985 million (\$188 million), mainly consisting of ¥21,782 million (\$164 million) in repayment of long-term debt.

As a result of these factors, cash and cash equivalents at the end of the year were ¥249,847 million (\$1,879 million), down ¥22,922 million from the previous period.



CONSOLIDATED STATEMENTS OF INCOME

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2002, 2001 and 2000

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2002	2001	2000	2002
Net Sales (Note 15)	¥775,097	¥807,485	¥678,859	\$5,827,797
Cost of Sales (Notes 10, 13 and 15)	572,366	603,561	507,194	4,303,504
Gross profit	202,731	203,924	171,665	1,524,293
Selling, General and Administrative Expenses (Notes 10 and 13)	88,007	91,247	84,200	661,707
Operating income	114,724	112,677	87,465	862,586
Other Income (Expenses):				
Interest and dividend income	6,344	9,230	9,578	47,699
Foreign exchange gain (loss)	5,868	9,080	(6,543)	44,120
Gain on transfer of securities to retirement benefits trust (Note 10)	5,107	5,234	—	38,398
Equity in earnings of affiliates	664	1,925	1,324	4,992
Gains on sales of property, plant and equipment	368	8,081	1,414	2,767
Gains on sales of investments in securities	—	8,411	—	—
Special additional payments for early retirement (Note 10)	(7,997)	—	—	(60,128)
Interest expenses	(6,125)	(7,841)	(8,983)	(46,052)
Special provision for retirement benefits costs	—	(27,498)	—	—
Loss on write-down of investment securities	—	(5,265)	(2,932)	—
Other, net	(5,861)	(5,233)	1,582	(44,067)
Income before income taxes	113,092	108,801	82,905	850,315
Income Taxes (Note 16):				
Current	36,045	61,031	33,243	271,015
Deferred	7,735	(19,342)	(366)	58,158
	43,780	41,689	32,877	329,173
Income after income taxes	69,312	67,112	50,028	521,142
Minority Interests in Earnings of Consolidated Subsidiaries	(793)	(2,607)	(1,799)	(5,962)
Net Income	¥ 68,519	¥ 64,505	¥ 48,229	\$ 515,180

	Millions of Yen			U.S. Dollars (Note 3)
Per Share (Note 2 (14)):				
Net income—primary	¥ 162.93	¥153.58	¥116.56	\$ 1.225
Net income—fully diluted	159.38	150.24	113.46	1.198
Cash dividends	12.00	12.00	10.00	0.090
Weighted Average Number of Shares (Thousands)	420,539	420,023	413,780	420,539

The accompanying notes are an integral part of the statements.

CONSOLIDATED BALANCE SHEETS

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

As of March 31, 2002 and 2001

Assets	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2001	2002
Current Assets:			
Cash and time deposits (Note 17)	¥ 233,865	¥ 221,222	\$1,758,383
Securities (Note 6)	107,473	99,782	808,068
Notes and accounts receivable (Note 4):			
Trade	182,870	211,922	1,374,962
Unconsolidated subsidiaries and affiliates	12,749	16,845	95,857
Others	7,143	6,276	53,707
Less: Allowance for doubtful accounts (Note 2 (5))	(4,204)	(4,211)	(31,609)
	198,558	230,832	1,492,917
Inventories (Note 5)	119,619	118,279	899,391
Deferred taxes, current (Note 16)	22,219	24,005	167,060
Others	10,463	10,566	78,670
Total current assets	692,197	704,686	5,204,489
Property, Plant and Equipment:			
Buildings and structures	292,350	267,342	2,198,120
Machinery and equipment	799,087	738,007	6,008,173
Less: Accumulated depreciation	(704,982)	(641,686)	(5,300,616)
	386,455	363,663	2,905,677
Land	34,203	33,441	257,166
Construction in progress	35,188	25,139	264,571
Total property, plant and equipment	455,846	422,243	3,427,414
Intangible Fixed Assets	3,509	3,416	26,383
Investments and Other Assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 8)	29,581	25,642	222,414
Investments in securities (Note 6)	82,357	84,507	619,226
Long-term loans	1,211	1,164	9,105
Deferred taxes, non-current (Note 16)	14,158	15,962	106,451
Others	9,606	8,231	72,225
Less: Allowance for doubtful accounts (Note 2 (5))	(33)	(52)	(248)
Total investments and other assets	136,880	135,454	1,029,173
Total assets	¥1,288,432	¥1,265,799	\$9,687,459

The accompanying notes are an integral part of the statements.

Liabilities and Stockholders' Equity	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2001	2002
Current Liabilities:			
Short-term borrowings (Note 9)	¥ 63,522	¥ 68,113	\$ 477,609
Current portion of long-term debt (Note 9)	50,030	17,546	376,165
Notes and accounts payable (Note 4):			
Trade	84,591	92,692	636,023
Unconsolidated subsidiaries and affiliates	12,885	19,904	96,880
Others	29,232	42,088	219,789
	126,708	154,684	952,692
Accrued income taxes	13,887	40,593	104,414
Accrued expenses	63,659	56,096	478,639
Advances received	2,372	4,504	17,835
Others	8,342	12,877	62,721
Total current liabilities	328,520	354,413	2,470,075
Long-Term Liabilities:			
Long-term debt (Note 9)	63,905	105,341	480,489
Accrued retirement benefits (Note 10)	15,215	27,967	114,398
Deferred taxes, non-current (Note 16)	23,498	19,243	176,677
Lease obligations	20,128	18,366	151,338
Others	1,227	1,193	9,226
Contingent Liabilities (Note 11)			
Total long-term liabilities	123,973	172,110	932,128
Minority Interests in Consolidated Subsidiaries	23,871	24,280	179,481
Stockholders' Equity (Note 12):			
Common stock:	110,260	110,247	829,023
Authorized: 1,670,000,000 shares			
Issued: 422,555,397 shares and 422,542,358 shares as of March 31, 2002 and 2001, respectively			
Additional paid-in capital	119,029	119,016	894,955
Legal reserve and retained earnings (Note 12)	556,466	493,170	4,183,955
Unrealized gain on available-for-sale securities (Note 2 (7))	6,138	9,742	46,150
Foreign currency translation adjustment (Note 2 (4))	28,531	(9,530)	214,519
	820,424	722,645	6,168,602
Less: Treasury stock, at cost (Note 19 (2))	(8,356)	(7,649)	(62,827)
Total stockholders' equity	812,068	714,996	6,105,775
Total liabilities and stockholders' equity	¥1,288,432	¥1,265,799	\$9,687,459

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2002, 2001 and 2000

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2002	2001	2000	2002
Common stock				
Balance at beginning of year	¥110,247	¥107,664	¥ 98,243	\$ 828,925
Conversion of convertible debentures	13	312	1,094	98
Exercise of warrant attached to debentures	—	2,271	8,327	—
Balance at end of year	110,260	110,247	107,664	829,023
Additional Paid-in Capital				
Balance at beginning of year	119,016	115,857	104,324	894,857
Conversion of convertible debentures	13	312	1,093	98
Exercise of warrant attached to debentures	—	2,847	10,440	—
Balance at end of year	119,029	119,016	115,857	894,955
Legal Reserve and Retained Earnings				
Balance at beginning of year	493,170	433,460	365,253	3,708,045
Net income	68,519	64,505	48,229	515,181
Effect of increase in consolidated subsidiaries	—	—	429	—
Cash dividends	(5,046)	(4,613)	(3,911)	(37,940)
Directors' and statutory auditors' bonuses	(177)	(182)	(177)	(1,331)
Prior year's adjustment by application of deferred tax accounting	—	—	23,637	—
Balance at end of year	556,466	493,170	433,460	4,183,955
Unrealized Gain on Available-for-sale securities				
Balance at beginning of year	9,742	—	—	73,248
Balance at end of year	6,138	9,742	—	46,150
Foreign Currency Translation Adjustment				
Balance at beginning of year	(9,530)	—	—	(71,654)
Balance at end of year	28,531	(9,530)	—	214,519
Treasury Stock at Cost				
Balance at beginning of year	(7,649)	(5,720)	(3,753)	(57,511)
Acquisition	(3,023)	(2,970)	(3,231)	(22,729)
Exercise of stock options	1,515	787	1,260	11,391
Resale	801	254	4	6,022
Balance at end of year	(8,356)	(7,649)	(5,720)	(62,827)
Number of Shares of Common Stock Issued				
	Thousands of shares			
	2002	2001	2000	
Balance at beginning of year	422,542	419,848	410,015	
Conversion of convertible debentures	13	326	1,151	
Exercise of warrant attached to debentures	—	2,368	8,682	
Balance at end of year	422,555	422,542	419,848	

CONSOLIDATED STATEMENTS OF CASH FLOWS

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2002, 2001 and 2000

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2002	2001	2000	2002
Cash Flows from Operating Activities:				
Income before income taxes	¥113,092	¥108,801	¥ 82,905	\$ 850,315
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	70,878	71,348	63,128	532,917
Increase (decrease) in accrued retirement benefits	(12,701)	26,915	2,033	(95,496)
Loss on write-down of investment securities	501	5,265	2,932	3,767
Interest and dividend income	(6,344)	(9,230)	(9,578)	(47,699)
Interest expenses	6,125	7,841	8,983	46,052
Exchange loss (gain)	(3,598)	(6,331)	5,478	(27,053)
Equity in earnings of affiliates	(664)	(1,925)	(1,324)	(4,992)
Transfer of securities to retirement benefits trust	10,930	7,255	—	82,180
Gains on transfer of securities to retirement benefits trust	(5,107)	(5,235)	—	(38,398)
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	35,428	(30,665)	(36,847)	266,376
(Increase) decrease in inventories	2,690	(15,538)	(5,009)	20,226
Increase (decrease) in notes and accounts payable	(30,697)	25,652	12,519	(230,804)
Other, net	1,120	(3,594)	(6,622)	8,421
Subtotal	181,653	180,559	118,598	1,365,812
Proceeds from interest and dividend	6,354	9,328	9,578	47,774
Payment of interest	(6,418)	(9,004)	(8,838)	(48,256)
Payment of income taxes	(62,952)	(38,681)	(23,462)	(473,322)
Net cash provided by operating activities	118,637	142,202	95,876	892,008
Cash Flows from Investing Activities:				
Net increase in marketable securities	(50,725)	(561)	(8,698)	(381,391)
Purchases of property, plant and equipment	(81,875)	(87,641)	(54,666)	(615,602)
Proceeds from sales of property, plant and equipment	1,240	8,741	1,463	9,323
Purchases of intangible fixed asset	(1,160)	(641)	(4,245)	(8,722)
Purchases of investment securities	(23,952)	(26,997)	(4,922)	(180,090)
Proceeds from sales and redeeming of investment securities	26,143	23,339	3,995	196,564
Payments of loans	4,218	(2,354)	(11,252)	31,714
Other, net	(1,298)	(1,056)	1,976	(9,758)
Net cash used for investing activities	(127,409)	(87,170)	(76,349)	(957,962)
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt	(4,726)	(4,428)	78	(35,534)
Proceeds from long-term debt	11,284	10,945	17,871	84,842
Repayment of long-term debt	(21,782)	(21,957)	(12,640)	(163,774)
Payment of debentures on redemption	(3,427)	(52,351)	(3,558)	(25,767)
Proceeds from issue of shares	—	4,539	16,645	—
Cash dividends paid	(5,046)	(4,614)	(3,911)	(37,940)
Other, net	(1,288)	(2,498)	(2,343)	(9,684)
Net cash provided by (used for) financing activities	(24,985)	(70,364)	12,142	(187,857)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	11,071	14,465	(10,434)	83,240
Net Increase (Decrease) in Cash and Cash Equivalents	(22,686)	(867)	21,235	(170,571)
Cash and Cash Equivalents at Beginning of Year	272,769	271,635	249,181	2,050,895
Net Increase (Decrease) in Cash and Cash Equivalents by Change of Consolidation Scope	(236)	2,001	1,219	(1,775)
Cash and Cash Equivalents at End of Year (Note 17)	¥249,847	¥272,769	¥271,635	\$1,878,549

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, 2002, 2001 and 2000

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 from the application and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries. In general, no adjustments to the accounts of overseas consolidated subsidiaries have been reflected in the accompanying consolidated financial statements to present them in compliance with Japanese accounting principles and practices followed by the Company.

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

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

2 Summary of significant accounting policies

(1) Principles of consolidation

The Company had 93 majority-owned subsidiaries as of March 31, 2002 (96 as of March 31, 2001 and 99 as of March 31, 2000). The consolidated financial statements include the accounts of the Company and 58 (60 for 2001 and 61 for 2000) majority-owned subsidiaries (the Companies), of which principal firms are listed on page 47 with their respective fiscal year-ends.

The remaining 35 (36 for 2001 and 38 for 2000) 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 35 (36 for 2001 and 38 for 2000) unconsolidated subsidiaries (majority-owned) and 17 (16 for 2001 and 16 for 2000) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 8 major affiliates and the cost method is applied to investments in the remaining unconsolidated subsidiaries and affiliates since they 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

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, 2002 and 2001.

(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 are valued principally at cost determined by the average cost method.

(7) Financial instruments

Securities:

Bonds held to maturity are stated at amortized cost using straight-line 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 net-of-tax amounts. Other securities for which market quotations are unavailable are stated at cost, which is determined by the moving-average cost method.

Derivatives:

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. 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) Repairs and maintenance

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

(10) Accounting for leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

However, all leases, whether transfer of ownership or not, relating to the overseas consolidated subsidiaries are recognized as sales/purchases of assets on installments payments.

(11) 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 actuarial difference is amortized over a five-year period, which is within the average remaining service period, using the straight-line method from the fiscal year when the difference was generated. The prior service cost is amortized over a ten-year period, which is within the average remaining service period, using

straight-line method from the time when the difference was generated (see Note 10).

(12) 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.

(13) Research and development costs

Research and development costs are charged to income as incurred.

(14) Net income and dividends per share

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

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

(15) Dividends

Dividends are proposed by the Board of Directors and approved by the stockholders at meetings held subsequent to the fiscal year to which the dividends are applicable, and registered stockholders as of the end of such fiscal year are entitled to the subsequently declared dividends. 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.

(16) Appropriation of retained earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (primarily for cash dividend payments) proposed by the Board of Directors should be approved by the stockholders' meeting which must be held within three months after the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the results of such appropriations which relate to the immediately preceding fiscal year but were approved by the stockholders' meeting and disposed of during that year. As is customary practice in Japan, the payment of bonuses to directors and statutory auditors is made out of retained earnings instead of being charged to income for the year and constitutes a part of appropriations cited above.

(17) Consumption tax

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

(18) Reclassifications

Certain reclassifications have been made in the 2001 and 2000 financial statements to conform to the presentation for 2002.

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 ¥133 to US\$1, the approximate effective rate of exchange on March 31, 2002. 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 ¥133 to US\$1 or at any other rate.

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, 2002 was 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, 2002.

	Millions of Yen	Thousands of U.S. Dollars
Notes and accounts receivable	¥4,812	\$36,180
Notes and accounts payable	1,759	13,226

5 Inventories

Inventories as of March 31, 2002 and 2001 consisted of the following:

Description	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Merchandise	¥ 11,268	¥ 9,322	\$ 84,722
Finished products	43,550	41,959	327,444
Semifinished products	17,075	16,040	128,383
Raw materials	32,893	33,290	247,316
Supplies	11,744	11,740	88,301
Others	3,089	5,928	23,225
	¥119,619	¥118,279	\$899,391

6 Securities

Securities as of March 31, 2002 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	¥ 0	¥ 0	¥ 0
Securities with fair value that do not exceed book value	2,020	2,006	(14)
Total	¥ 2,020	¥ 2,006	¥ (14)

Description	Thousands of U.S. Dollars		
	Book value	Market value	Difference
Securities with fair value that exceed book value	\$ 0	\$ 0	\$ 0
Securities with fair value that do not exceed book value	15,188	15,083	(105)
Total	\$15,188	\$15,083	\$(105)

(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	¥17,668	¥30,277	¥12,609
Others	460	490	30
Subtotal	¥18,128	¥30,767	¥12,639
Securities with fair value that do not exceed book value			
Stocks	¥11,898	¥ 9,882	¥ (2,016)
Others	1,383	1,249	(134)
Subtotal	¥13,281	¥11,131	¥ (2,150)
Total	¥31,409	¥41,898	¥10,489

Description	Thousands of U.S. Dollars		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with fair value that exceed book value			
Stocks	\$132,842	\$227,647	\$ 94,805
Others	3,459	3,684	225
Subtotal	\$136,301	\$231,331	\$ 95,030
Securities with fair value that do not exceed book value			
Stocks	\$ 89,459	\$ 74,301	\$(15,158)
Others	10,398	9,391	(1,007)
Subtotal	\$ 99,857	\$ 83,692	\$(16,165)
Total	\$236,158	\$315,023	\$ 78,865

(3) "Available-for-sale securities" sold during the fiscal year ended March 31, 2002

"Available-for-sale securities" sold during the fiscal year ended March 31, 2002 are assumed insignificant.

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

Description	Book value	
	Millions of Yen	Thousands of U.S. Dollars
Bonds held to maturity	¥61,692	\$463,850
Investments in non-consolidated subsidiaries and affiliates	28,648	215,398
Available-for-sale securities	84,220	633,233

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

Description	Thousands of U.S. Dollars	
	Millions of Yen	Thousands of U.S. Dollars
Within one year	¥89,127	\$670,128
Over one year within five years	25,280	190,075
Over five years within ten years	8,514	64,015

7 Derivative transactions

Derivative financial instruments were as follows:

As of March 31, 2002

Currency relatives

Description	Millions of Yen		
	National amounts	Market value	Unrealized gain (loss)
Foreign exchange contracts			
Sales Contracts:			
US\$	¥10,074	¥10,439	¥(365)
EUR	1,216	1,219	(3)
Buys Contracts:			
US\$	73	75	2
EUR	105	112	7
Total	¥ —	¥ —	¥(359)

Description	Thousands of U.S. Dollars		
	National amounts	Market value	Unrealized gain (loss)
Foreign exchange contracts			
Sales Contracts:			
US\$	\$75,744	\$78,488	\$(2,744)
EUR	9,142	9,165	(23)
Buys Contracts:			
US\$	549	564	15
EUR	789	842	53
Total	\$ —	\$ —	\$(2,699)

Notes: 1. Market rate represents the forward foreign exchange rate prevailing as of March 31, 2002.
2. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

Interest relatives

Description	Millions of Yen		
	National amounts	Market value	Unrealized gain (loss)
Interest swap contracts:			
Receive fixed, pay floating	¥20,000	¥ 317	¥ 317
Receive floating, pay fixed	20,000	(480)	(480)
Total	¥40,000	¥(163)	¥(163)

Description	Thousands of U.S. Dollars		
	National amounts	Market value	Unrealized gain (loss)
Interest swap contracts:			
Receive fixed, pay floating	\$150,376	\$ 2,383	\$ 2,383
Receive floating, pay fixed	150,376	(3,609)	(3,609)
Total	\$300,752	\$(1,226)	\$(1,226)

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, 2001

Currency relatives

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

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		
	National 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)

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.

Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates as of March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Held Directly by the Company:			
Affiliates:			
Five affiliates accounted for by the equity method (See Note 2 (2))*	¥14,805	¥13,170	\$111,316
Kashima Denkai Co., Ltd.	805	805	6,053
Unitika Chemical Co., Ltd.	1,338	600	10,060
Others	228	228	1,714
	17,176	14,803	129,143
Unconsolidated subsidiaries:			
Shin-Etsu Silicones (Thailand) Ltd.	1,589	14	11,947
Shin-Etsu Electronics Malaysia Sdn. Bhd.	1,400	1,400	10,526
Shin-Etsu Film Co., Ltd.	199	199	1,496
Shin-Etsu Magnetics Philippines, Inc.	184	184	1,383
Others	140	141	1,053
	3,512	1,938	26,405
Held Indirectly through Subsidiaries:			
Unconsolidated subsidiaries and affiliates:			
Three affiliates accounted for by the equity method (See Note 2 (2))*	¥ 5,842	¥ 5,617	\$ 43,925
Others	2,170	2,078	16,317
	¥ 8,012	¥ 7,695	\$ 60,242
Advances:	881	1,206	6,624
	¥29,581	¥25,642	\$222,414

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

Short-term borrowings and long-term debt

Short-term borrowings outstanding as of March 31, 2002 and 2001 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, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Loans with Banks and Other Financial Institutions:			
Secured	¥ 8,251	¥ 11,170	\$ 62,038
Unsecured	42,373	47,231	318,594
Unsecured Debentures:			
6.7% debentures issued by a consolidated subsidiary, due April 2001	—	3,236	—
6.875% debentures issued by a consolidated subsidiary, due August 2002	15,996	13,910	120,271
2.7% debentures issued by a consolidated subsidiary, due August 2004	8,000	8,000	60,150
2.5% debentures issued by a consolidated subsidiary, due August 2003	5,000	5,000	37,594
2.2% debentures issued by a consolidated subsidiary, due August 2002	5,000	5,000	37,594
2.6% debentures issued by a consolidated subsidiary, due December 2007	3,000	3,000	22,556
2.5% debentures issued by a consolidated subsidiary, due February 2003	3,000	3,000	22,556
2.1% debentures issued by a consolidated subsidiary, due March 2003	2,000	2,000	15,038
2.1% debentures issued by a consolidated subsidiary, due March 2003	3,000	3,000	22,556
Unsecured Convertible Debentures:			
0.4% convertible debentures, due September 2005	18,315	18,340	137,707
	113,935	122,887	856,654
Less Portion Due within One Year	(50,030)	(17,546)	(376,165)
	¥ 63,905	¥ 105,341	\$ 480,489

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

Unsecured: 0.4% convertible debentures in yen, due 2005

(Issue date: August 8, 1996, Principal amount at issue: ¥50,000 million)

Terms of Conversion as of March 31, 2002			
Balance at of March 31, 2002 in Denominated Currencies	Current Conversion Price per Share	Fixed Exchange Rates for Conversion	Additional Shares Issuable upon Full Conversion (Thousands)
¥18,315 million	¥1,917.0	—	9,554

As of March 31, 2002, 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	¥38,014	\$285,820

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

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2003	¥ 50,030	\$376,165
2004	17,263	129,797
2005	17,894	134,541
2006	21,439	161,196
2007	2,615	19,662
2008 and thereafter	4,694	35,293
	¥113,935	\$856,654

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.

Shin-Etsu Group temporarily framed a system of special additional payments for early retirement in this fiscal year, which is not included in benefit obligations based on Accounting for retirement benefits.

The Company set up additionally "Retirement Benefits Trust" in the current fiscal year, contributed certain marketable equity securities to the Trust and recognized a gain of ¥5,107 million as "Gain on transfer of securities to retirement benefits trust" in the consolidated income statement.

The reserve for retirement benefit as of March 31, 2002 and 2001 is analyzed as follows:

Benefit Obligations

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
(a) Benefit Obligations	¥(63,487)	¥(68,999)	\$(477,345)
(b) Pension Assets	45,924	37,952	345,293
(c) Unfunded Benefit Obligations [(a)+(b)]	(17,563)	(31,047)	(132,052)
(d) Unrecognized actuarial differences	3,489	3,080	26,233
(e) Unrecognized prior service cost (negative) (Note 2)	(1,141)	—	(8,579)
(f) Amount shown on Balance Sheet [(c)+(d)+(e)]	(15,215)	(27,967)	(114,398)
(g) Prepaid pension expenses	—	—	—
(h) Accrued Retirement Benefits [(f)-(g)]	¥(15,215)	¥(27,967)	\$(114,398)

- Notes: 1. Special additional payments for early retirement of 7,997 millions of yen, which will be paid next fiscal year is included in "Accrued expenses", not included in "Accrued retirement benefits" on Balance Sheet as of March 31, 2002.
2. The Company and certain consolidated subsidiaries changed system on tax-qualified pension plan, so that prior service cost (negative) is generated.
3. Some subsidiaries adopt a simplified method for calculations of benefit obligations.

Retirement Benefit Costs

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
(a) Service costs (Note 2)	¥ 3,318	¥ 3,213	\$ 24,947
(b) Interest costs	1,987	1,947	14,940
(c) Expected return in plan assets	(1,075)	(894)	(8,083)
(d) Amortization of differences arising from adopting the new standard	—	27,498	—
(e) Recognized actuarial loss	1,000	778	7,519
(f) Amortization of prior service cost	(106)	—	(797)
(g) Retirement Benefit Costs [(a)+(b)+(c)+(d)+(e)+(f)]	¥ 5,124	¥ 32,542	\$ 38,526

- Notes: 1. The Company reports "Special additional payments for early retirement" in "Extraordinary losses" for fiscal year ended March 31, 2002, other than "Retirement Benefit Costs" as above.
2. Retirement benefit costs for subsidiaries adopting a simplified method is reported in "Service costs".

Basic Assumption for Calculating Benefit Obligations

(a) Period allocation method for estimates retirement benefit	Benefit/years of service approach
(b) Discount rate	Principally 3%
(c) Expected rate of return on plan assets	Principally 3%
(d) Amortization of prior service cost	Principally 10 years
(e) Amortization of actuarial differences	Principally 5 years
(f) Amortization of differences arising from adopting the new standard	Expensed the total in fiscal year 2001

11 Contingent liabilities

As of March 31, 2002, the Companies were contingently liable as a guarantor of housing loans for employees and loans to unconsolidated subsidiaries, affiliates and others in the aggregate amount of ¥2,165 million (\$16,280 thousand).

In addition, as of March 31, 2002, the Companies had contingent liabilities arising from notes discounted by banks and notes endorsed and delivered for payment to vendors in the amounts of ¥294 million (\$2,211 thousand) and ¥40 million (\$301 thousand), respectively.

12 Legal reserve and retained earnings

Until September 30, 2001, the Japanese Commercial Code required that an amount equal to at least 10% of the cash distribution paid out of retained earnings should be appropriated to the legal reserve until equal to 25% of common stock. Effective from October 1, 2001, the Japanese Commercial Code was amended such that an amount equal to at least 10% of the cash distribution paid out of retained earnings should be appropriated to the legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. Thus, in accordance with the modified Japanese Commercial Code, the Company does not appropriate to the legal reserve.

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, 2002, 2001 and 2000 in the amounts of ¥2,522 million (\$18,962 thousand) (¥6.0 per share), ¥2,523 million and ¥2,072 million, respectively, which were actually paid to stockholders on December 10, 2001, December 8, 2000, and December 10, 1999, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend

payments are reflected in the years ended March 31, 2002, 2001 and 2000, respectively.

13 Research and development costs

Research and development costs incurred and charged to income for the years ended March 31, 2002, 2001 and 2000 were ¥28,207 million (\$212,083 thousand), ¥25,939 million and ¥26,967 million, respectively.

14 Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2002 and 2001 amounted to ¥895 million (\$6,729 thousand) and ¥624 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2002, 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 ¥895 million (\$6,729 thousand).

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

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Acquisition cost	¥4,624	¥2,959	\$34,767
Accumulated depreciation	2,533	2,016	19,045
Net book value	¥2,091	¥ 943	\$15,722

The amount of outstanding future lease payments due in respect of finance lease contracts at March 31, 2002 and 2001, which included the portion of interest thereon, was summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Future Lease Payments:			
Within one year	¥ 690	¥545	\$ 5,188
Over one year	1,401	398	10,534
	¥2,091	¥943	\$15,722

The amount of outstanding future lease payments due in respect of operating lease contracts at March 31, 2002 and 2001 was summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Future Lease Payments:			
Within one year	¥1,934	¥ 866	\$14,541
Over one year	3,728	2,039	28,030
	¥5,662	¥2,905	\$42,571

15 Related party transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2002, 2001 and 2000 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2002	2001	2000	2002
Sales	¥31,131	¥10,082	¥15,875	\$234,068
Purchases	68,365	56,794	46,428	514,023

16 Income taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended March 31, 2002, 2001 and 2000 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	2002	2001	2000
Corporate income tax	30.0%	30.0%	30.0%
Enterprise tax	9.7	9.7	9.6
Resident income taxes	6.0	6.0	6.1
	45.7%	45.7%	45.7%

	2002	2001	2000
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%	41.7%

Tax effects of material temporary differences and loss carry forwards which resulted in deferred tax assets or liabilities at March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Deferred Tax Assets			
Special provision for retirement benefits costs	¥ 9,574	¥ 12,160	\$ 71,985
Depreciation	7,356	7,006	55,308
Unsettled accounts payable	7,448	5,782	56,000
Tax loss carryforwards	5,351	3,734	40,233
Unrealized profit	3,628	3,558	27,278
Accrued enterprise taxes	1,148	3,457	8,632
Accrued bonus allowance	2,734	2,456	20,556
Repair cost	1,945	2,064	14,624
Others	16,220	18,495	121,955
Valuation allowance	(5,787)	(4,772)	(43,511)
Total	¥ 49,617	¥ 53,940	\$ 373,060
Deferred Tax Liabilities			
Depreciation	¥ 29,807	¥ 23,509	\$ 224,113
Unrealized gain on available-for-sale securities	4,330	7,013	32,556
Reserve for special depreciation	953	1,122	7,165
Others	1,648	1,572	12,392
Total	¥ 36,738	¥ 33,216	\$ 276,226
Net Deferred Tax Assets	¥ 12,879	¥ 20,724	\$ 96,834

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

	2002	2001
Statutory tax rate	41.7%	41.7%
Rate difference from foreign subsidiaries	(2.8)	(3.1)
Dividend income not taxable	(0.8)	(0.8)
Entertainment and other non-deductible expenses	0.3	0.3
Other, net	0.3	0.2
Effective tax rate	38.7	38.3

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, 2002, 2001 and 2000 are presented below:

	Millions of Yen			Thousands of U.S. Dollars
	2002	2001	2000	2002
Cash and time deposits	¥ 233,865	¥ 221,222	¥ 209,058	\$ 1,758,383
Marketable securities	107,473	99,782	85,066	808,068
Time deposits for which maturities are approximately over three months	(1,217)	(1,672)	(922)	(9,150)
Marketable securities (maturities approximately over three months)	(90,274)	(46,563)	(21,567)	(678,752)
Cash and cash equivalents	¥ 249,847	¥ 272,769	¥ 271,635	\$ 1,878,549

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, 2002, 2001 and 2000 and for the years then ended, classified by business segments, have been presented as follows:

	Millions of Yen				
	2002				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ⁴	Consolidated Total
Sales:					
Sales to outside customers	¥397,984	¥226,460	¥150,653	¥ —	¥ 775,097
Intersegment sales	10,095	2,419	62,171	(74,685)	—
Total	408,079	228,879	212,824	(74,685)	775,097
Operating costs and expenses					
Operating income	¥ 48,808	¥ 33,679	¥ 32,194	¥ 43	¥ 114,724
Assets					
Depreciation	23,727	32,312	15,086	(247)	70,878
Capital expenditures	26,122	36,744	18,903	(226)	81,543

	Millions of Yen				
	2001				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ⁴	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					
Operating income	¥ 47,015	¥ 36,361	¥ 29,328	¥ (27)	¥ 112,677
Assets					
Depreciation	23,503	35,286	12,243	(265)	70,767
Capital expenditures ^{2,3}	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 ⁴	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					
Operating income	¥ 45,162	¥ 23,344	¥ 18,652	¥ 307	¥ 87,465
Assets					
Depreciation	20,994	29,793	10,888	(291)	61,384
Capital expenditures ^{1,2,3}	26,397	25,025	7,842	(154)	59,110

Thousands of U.S. Dollars					
2002					
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ⁴	Consolidated Total
Sales:					
Sales to outside customers	\$2,992,361	\$1,702,707	\$1,132,729	\$ —	\$5,827,797
Intersegment sales	75,902	18,188	467,451	(561,541)	—
Total	3,068,263	1,720,895	1,600,180	(561,541)	5,827,797
Operating costs and expenses	2,701,286	1,467,669	1,358,120	(561,864)	4,965,211
Operating income	\$ 366,977	\$ 253,226	\$ 242,060	\$ 323	\$ 862,586
Assets	\$3,502,962	\$3,254,346	\$1,296,534	\$1,633,617	\$9,687,459
Depreciation	178,398	242,947	113,429	(1,857)	532,917
Capital expenditures	196,406	276,270	142,128	(1,699)	613,105

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, 2002, 2001 and 2000 were ¥268,465 million (\$2,018,534 thousand), ¥271,303 million and ¥294,942 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, 2002, 2001 and 2000 and for the years then ended are presented below:

Millions of Yen						
2002						
	Japan	North America	Asia	Other Areas	Elimination or Common Assets ²	Consolidated Total
Sales:						
Sales to outside customers	¥479,016	¥168,708	¥ 67,078	¥60,295	¥ —	¥ 775,097
Intersegment sales	89,078	11,535	31,307	3,965	(135,885)	—
Total	568,094	180,243	98,385	64,260	(135,885)	775,097
Operating costs and expenses	481,061	161,635	93,658	59,875	(135,856)	660,373
Operating income	¥ 87,033	¥ 18,608	¥ 4,727	¥ 4,385	¥ (29)	¥ 114,724
Assets	¥647,035	¥305,969	¥ 96,879	¥74,606	¥ 163,943	¥1,288,432

Millions of Yen						
2001						
	Japan	North America	Asia	Other Areas	Elimination or Common Assets ²	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 ²	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

Thousands of U.S. Dollars						
2002						
	Japan	North America	Asia	Other Areas	Elimination or Common Assets ²	Consolidated Total
Sales:						
Sales to outside customers	\$3,601,624	\$1,268,481	\$504,346	\$453,346	\$ —	\$5,827,797
Intersegment sales	669,759	86,730	235,391	29,812	(1,021,692)	—
Total	4,271,383	1,355,211	739,737	483,158	(1,021,692)	5,827,797
Operating costs and expenses	3,617,000	1,215,301	704,196	450,188	(1,021,474)	4,965,211
Operating income	\$ 654,383	\$ 139,910	\$ 35,541	\$ 32,970	\$ (218)	\$ 862,586
Assets	\$4,864,925	\$2,300,519	\$728,414	\$560,947	\$ 1,232,654	\$9,687,459

Notes: 1. Main countries or areas other than Japan:
North AmericaU.S.A.
AsiaMalaysia, Singapore, Korea, Taiwan
Other areasU.K., Netherlands, Australia
2. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2002, 2001 and 2000 were ¥268,465 million (\$2,018,534 thousand), ¥271,303 million and ¥294,942 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, 2002, 2001 and 2000 are summarized as follows:

	Millions of Yen			
	2002			
	North America	Asia	Other Areas	Total
Overseas sales	¥164,089	¥199,289	¥82,893	¥446,271
Consolidated sales	—	—	—	775,097
Percentage of overseas sales over consolidated sales	21.2%	25.7%	10.7%	57.6%

	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%

	Thousands of U.S. Dollars			
	2002			
	North America	Asia	Other Areas	Total
Overseas sales	\$1,233,751	\$1,498,414	\$623,256	\$3,355,421
Consolidated sales	—	—	—	5,827,797
Percentage of overseas sales over consolidated sales	21.2%	25.7%	10.7%	57.6%

Notes: 1. Main countries or areas:

North AmericaU.S.A., Canada

AsiaKorea, Taiwan, China

Other areasEurope, Middle South America, Oceania

2. "Overseas sales" means sales to "outside Japan" by the Company and its consolidated subsidiaries.

(1) Appropriation of retained earnings

Subsequent to March 31, 2002, the Company's Board of Directors, with the subsequent approval of stockholders on June 27, 2002 declared a cash dividend of ¥2,524 million (\$18,977 thousand) equal to ¥6.00 (\$0.045) per share, applicable to earnings of the year ended March 31, 2002 and payable to stockholders on the stockholders' register on March 31, 2002.

(2) Acquisition of treasury stock

At stockholders meeting held in June 2002, approval was given for the acquisition of treasury stock. Main purpose of the acquisition is to grant stock options. The amendment to the Articles of Incorporation provides for the acquisition of no more than 510 thousand shares of the Company's par-value common stock at a cost that shall not exceed ¥4,000 million (US\$30 million).

CONSOLIDATED SUBSIDIARIES

As of March 31, 2002

Principal Consolidated Subsidiaries	Equity Ownership Percentage	Fiscal Year-End	Principal Consolidated Subsidiaries	Equity Ownership Percentage	Fiscal Year-End
Shintech Inc. ⁽¹⁾	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. ⁽¹⁾	100.0	December 31	Shinano Electric Refining Co., Ltd.	70.4	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. ⁽¹⁾	100.0	December 31
S.E.H. Malaysia Sdn. Bhd. ⁽¹⁾⁽²⁾	100.0	December 31	Shin-Etsu Silicones of America, Inc. ⁽¹⁾	100.0	December 31
Naoetsu Electronics Co., Ltd.	90.0	February 28	Shin-Etsu Polymer (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	December 31
Shin-Etsu Handotai Europe, Ltd. ⁽¹⁾	100.0	December 31	Shincor Silicones, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31	Shin-Etsu Polymer America, Inc. ⁽¹⁾	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 28	Shin-Etsu Polymer Europe B.V. ⁽¹⁾	100.0	December 31
S-E, Inc. ⁽¹⁾	100.0	December 31	Shin-Etsu MicroSi, Inc. ⁽¹⁾	100.0	December 31
Silicon Metal Company of Australia Ltd. ⁽¹⁾	100.0	December 31	Shin-Etsu Unit Co., Ltd.	100.0	March 31
Shin-Etsu (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	December 31	Shin-Etsu Handotai Taiwan Co., Ltd. ⁽¹⁾	70.0	December 31
Shin-Etsu International Europe B.V. ⁽¹⁾	100.0	December 31	Polymer East Japan Co., Ltd.	100.0	March 31
Shin-Etsu Silicone Korea Co., Ltd. ⁽¹⁾	100.0	December 31	Silica Products, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Electronics Materials			Shinano Polymer Co., Ltd.	100.0	March 31
Singapore Pte. Ltd. ⁽¹⁾	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. ⁽¹⁾	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. ⁽¹⁾	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. ⁽¹⁾	100.0	December 31
Shin-Etsu Delivery Co., Ltd.	100.0	March 31	Shin-Etsu PVC B.V. ⁽¹⁾	100.0	December 31
Naoetsu Precision Co., Ltd.	100.0	February 28	K-Bin, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Silicone Taiwan Co., Ltd. ⁽¹⁾	93.3	December 31	Suzhou Shin-Etsu Polymer Co., Ltd. ⁽¹⁾	88.0	December 31
Shinkoh Mold Co., Ltd.	100.0	March 31			

⁽¹⁾ Overseas subsidiary

⁽²⁾ 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, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years ended March 31, 2002, 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, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years ended March 31, 2002 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

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.

ChuoAoyama Audit Corporation

Tokyo, Japan
June 27, 2002

ChuoAoyama Audit Corporation