

Financial Section

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Ten-Year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

Years ended March 31

(Millions of Yen, except per share figures)

	2003	2002	2001	2000
For the Year:				
Net sales	¥ 797,523	¥ 775,097	¥ 807,485	¥ 678,859
Operating income	122,150	114,724	112,677	87,465
Net income	73,016	68,519	64,505	48,229
Per Share (Yen):				
Net income—primary	173.13	162.93	153.58	116.56
Net income—fully diluted	169.36	159.38	150.24	113.46
Cash dividends	14.00	12.00	12.00	10.00
Capital expenditures	75,221	81,543	96,770	80,003
Depreciation	66,566	70,878	70,767	61,384
At Year-End:				
Total assets	¥1,310,875	¥1,288,432	¥1,265,799	¥1,168,729
Working capital	409,262	363,677	350,273	273,193
Common stock	110,272	110,260	110,247	107,664
Stockholders' equity	846,962	812,068	714,996	651,261
Stockholders' equity per share (Yen)	2,014.11	1,930.30	1,699.74	1,557.48
General:				
Number of employees	16,573	16,456	19,398	18,754
Number of shares issued (Thousands)	422,567	422,555	422,542	419,848

(Thousands of U.S. Dollars, except per share figures)

	2003	2002	2001	2000
For the Year:				
Net sales	\$ 6,646,025	\$ 6,459,142	\$ 6,729,042	\$5,657,158
Operating income	1,017,917	956,033	938,975	728,875
Net income	608,467	570,992	537,542	401,908
Per Share (Dollars):				
Net income—primary	1.443	1.358	1.280	0.971
Net income—fully diluted	1.411	1.328	1.252	0.946
Cash dividends	0.117	0.100	0.100	0.083
Capital expenditures	626,842	679,525	806,417	666,692
Depreciation	554,717	590,650	589,725	511,533
At Year-End:				
Total assets	\$10,923,958	\$10,736,933	\$10,548,325	\$9,739,408
Working capital	3,410,517	3,030,642	2,918,942	2,276,608
Common stock	918,933	918,833	918,725	897,200
Stockholders' equity	7,058,017	6,767,233	5,958,300	5,427,175
Stockholders' equity per share (Dollars)	16.784	16.086	14.165	12.979
General:				
Number of employees	16,573	16,456	19,398	18,754
Number of shares issued (Thousands)	422,567	422,555	422,542	419,848

Note: The U.S. dollar amounts represent conversions of yen, for convenience only, at the rate of ¥120=US\$1.

1999	1998	1997	1996	1995	1994
¥ 642,796	¥ 693,275	¥624,405	¥575,176	¥522,917	¥464,449
86,323	90,860	82,024	73,427	51,914	32,450
43,363	42,027	40,614	37,825	26,862	17,547
109.36	110.73	118.24	116.51	82.80	54.17
103.17	101.69	103.95	106.66	—	—
9.00	8.50	7.50	7.50	7.50	7.50
73,641	136,384	92,844	66,791	67,689	34,421
56,196	62,144	52,191	45,647	42,986	40,351
¥1,060,973	¥1,083,780	¥931,159	¥708,637	¥643,937	¥600,754
261,691	221,869	195,729	118,936	110,901	94,362
98,243	83,957	44,256	36,440	36,384	35,829
564,067	497,312	374,726	320,987	285,361	265,030
1,380.43	1,265.39	1,071.97	988.59	879.06	818.12
18,384	19,238	18,896	17,106	16,075	11,697
410,015	393,722	349,569	324,691	324,621	323,949

1999	1998	1997	1996	1995	1994
\$5,356,633	\$5,777,292	\$5,203,375	\$4,793,133	\$4,357,642	\$3,870,408
719,358	757,167	683,533	611,892	432,617	270,417
361,358	350,225	338,450	315,208	223,850	146,225
0.911	0.923	0.985	0.971	0.690	0.451
0.860	0.847	0.866	0.889	—	—
0.075	0.071	0.063	0.063	0.063	0.063
613,675	1,136,533	773,700	556,592	564,075	286,842
468,300	517,867	434,925	380,392	358,217	336,258
\$8,841,442	\$9,031,500	\$7,759,658	\$5,905,308	\$5,366,142	\$5,006,283
2,180,758	1,848,908	1,631,075	991,133	924,175	786,350
818,692	699,642	368,800	303,667	303,200	298,575
4,700,558	4,144,267	3,122,717	2,674,892	2,378,008	2,208,583
11.504	10.540	8.933	8.238	7.326	6.818
18,384	19,238	18,896	17,106	16,075	11,697
410,015	393,722	349,569	324,691	324,621	323,949

Management's Discussion and Analysis

Overview of Consolidation

The Shin-Etsu Group is composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 87 subsidiaries, and 15 affiliates as of March 31, 2003.

The operations of the Company and its subsidiaries are divided into three business segments according to product type, sales markets, 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 repair.

Consolidated Operating Performance

During the consolidated fiscal year (April 1, 2002 to March 31, 2003), Japan's economy remained mired in difficult economic conditions. Despite signs of a recovery during the first half of the fiscal year, the U.S. economy, considered a barometer for global economic conditions, slowed toward the fiscal year-end and the major European countries also exhibited signs of economic recession. Although the economy in Japan experienced a partial recovery, such negative factors as high unemployment and uncertainty concerning incomes contributed to a slump in domestic demand and deepening economic stagnation.

Against this backdrop, each Shin-Etsu Group company continued strong sales efforts toward global customers by emphasizing the special features of Shin-Etsu products. At the same

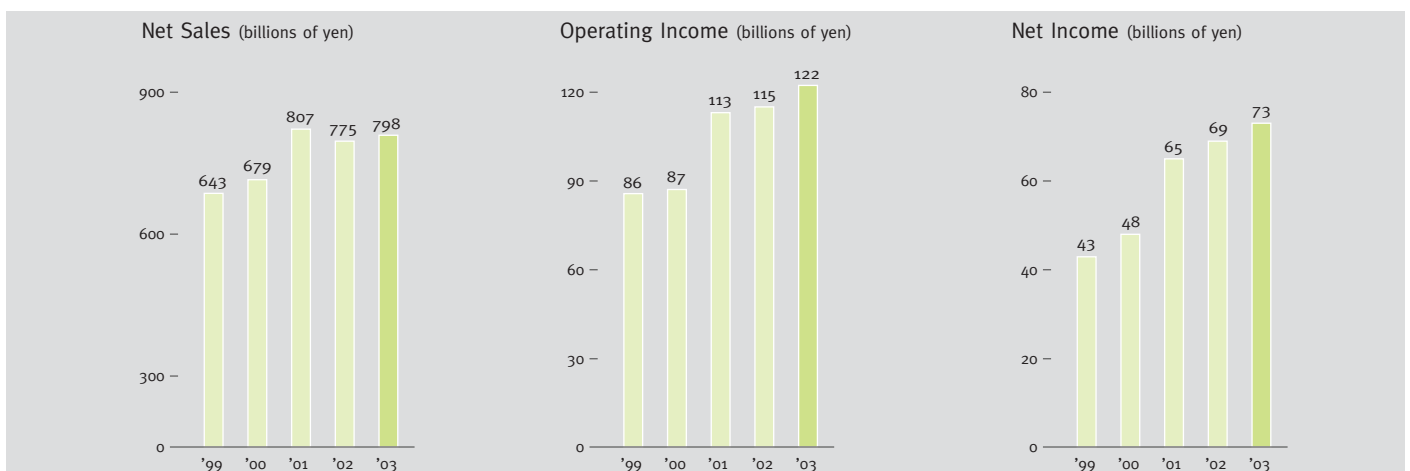
time, the Group actively promoted efforts to raise efficiency by optimizing use of its global production network and through the introduction of advanced automation systems.

As a result, consolidated net sales for the fiscal year increased 2.9%, or ¥22,426 million compared to the previous fiscal year, to ¥797,523 million. Compared to the performance of the previous year, operating income rose 6.5%, or ¥7,426 million, to ¥122,150 million.

Net income for the period climbed 6.6%, or ¥4,497 million, to ¥73,016 million translating to net income per share of ¥173.13, up ¥10.20 compared with the previous fiscal year. Cash dividends per share for the full year was ¥14, which included an interim dividend of ¥7.

Organic and Inorganic Chemicals

From the beginning of 2002, the U.S. PVC market, which is a core market for Shin-Etsu Chemical's global PVC business strategy, recovered, supported by the upturn in housing construction, and sustained price increases, which extended through the summer. Thereafter, the market weakened for a period, however again recovered toward the end of the year, driven by soaring raw material costs and a rise in energy prices. Shintech Inc., Shin-Etsu's U.S. PVC base, accurately anticipated this market trend and continued full operation of both its Texas and Louisiana plants, producing annual capacity of 1.45 million tons and 0.59 million tons, respectively. As a result, Shintech recorded its highest-ever net sales and net income. Also, Shin-Etsu PVC B.V. in the Netherlands, increased its earnings underpinned by continued steady production and sales. In the domestic PVC business, performance stalled due to



NET SALES BY SEGMENT

	Billions of yen	
	Years ended March 31	
	2003	2002
Organic and inorganic chemicals	¥421.0	¥398.0
Polyvinyl chloride	224.6	199.8
Silicones	130.3	119.9
Others	66.1	78.3
Electronics materials	243.4	226.5
Semiconductor silicon	196.7	176.4
Others	46.7	50.0
Functional materials and others	133.1	150.7
Synthetic quartz products	35.0	57.1
Rare earths and rare earth magnets, etc.	25.3	21.8
Others	72.8	71.7
Total	¥797.5	¥775.1

the drop in sales to the construction and housing markets. Combining both overseas and domestic performance, the PVC Division increased its sales steadily and was able to substantially increase its operating income.

Silicones have a wide range of application in a variety of areas including electric, electronic, automotive, chemicals, toiletries, cosmetics, and construction products. Driven by the automobile-related and many other fields, domestic sales during this fiscal year were bullish due to an upward trend in demand. Overseas, sales to the electric and electronic sectors were strong particularly shipments to Southeast Asia. In addition, silicone-processed products also performed well again in the electric and electronics fields.

Sales of cellulose derivatives climbed year on year for products in the medical and automobile-related industrial sectors both at home and overseas.

The VAM and POVAL businesses that were included previously in this business segment were transferred to Japan VAM & POVAL Co., Ltd. as of May 1, 2002, and the lime nitrogen fertilizer business was sold to Co-op Chemical Co., Ltd. as of June 30, 2002.

As a result of these factors, net sales in this business segment increased 5.8%, or ¥23,037 million, to ¥421,021 million. Operating income surged 27.9%, or ¥13,601 million, to ¥62,409 million.

Electronics Materials

In the semiconductor silicon business, the recovery in demand for semiconductor devices both in Japan and overseas, spurred an increase in shipments of silicon wafers. Sales of the Company's main wafer product, the 8-inch (200mm) wafer, achieved record

OPERATING INCOME BY SEGMENT

	Billions of yen	
	Years ended March 31	
	2003	2002
Organic and inorganic chemicals	¥ 62.4	¥ 48.8
Polyvinyl chloride	20.5	15.8
Silicones	27.2	20.6
Others	14.7	12.4
Electronics materials	35.2	33.7
Semiconductor silicon	28.7	26.4
Others	6.5	7.3
Functional materials and others	24.3	32.2
Synthetic quartz products	14.5	23.1
Rare earths and rare earth magnets, etc.	5.8	5.4
Others	4.0	3.7
Elimination	0.2	—
Total	¥122.1	¥114.7

levels in May and June 2002, on par with the peak sales generated in 2001. In addition, production and sales of the next-generation 300mm wafer, which the Company began producing commercially in February 2001, increased steadily. Sales of specialty wafers such as SOI wafers, annealed wafers and others also continued to rise resulting in an increase in net sales and operating income for this business segment.

Rare earth magnets continued to face difficult conditions buffeted by the miniaturization of hard disk drives and the drop in global demand for hard disk drives for servers. On the other hand, sales of photoresist products and organic materials for the electronics industry increased buoyed by the recovery in demand for semiconductor devices.

As a result, net sales of this business segment were ¥243,428 million, an increase of 7.5%, or ¥16,968 million compared with the previous fiscal year. Operating income was ¥35,248 million, a rise of ¥1,569 million, or 4.7%.

Functional Materials and Others

In synthetic quartz products, demand for optical fiber preforms saw a significant slowdown in demand from the communication-related industry worldwide. To combat these difficult conditions, Shin-Etsu stepped up its sales efforts to global customers. Despite a substantial drop in sales, preforms continued to provide a solid contribution to earnings. Sales of synthetic quartz for electronics fields such as synthetic quartz substrates for photomasks however were weak.

Sales of rare earth magnets increased spurred by a recovery in overall demand and a jump in new orders for optical pickups and for automobile applications. The demand for mobile phone-

application products recovered and rare earth magnet sales were up year on year. With the decline of the oxide single-crystal market, however, sales in this business segment fell short of those in the previous fiscal year.

As a result, net sales of this business segment decreased 11.7%, or ¥17,579 million, to ¥133,074 million and operating income was ¥24,252 million, a drop of ¥7,942 million, or 24.7%.

Financial Position

Total assets at the fiscal year-end amounted to ¥1,310,875 million, up 1.7%, or ¥22,443 million, from the end of the previous fiscal year. Current assets increased ¥15,169 million to ¥707,366 million. This increase was due mainly to the increase in notes and accounts receivable (net of allowance for doubtful accounts) of ¥3,221 million to a year-end balance of ¥201,779 million, in line with the rise in net sales. Property, plant and equipment fell ¥14,373 million to ¥441,473 million. Investments and other assets increased ¥20,864 million to ¥157,744 million. The principal component was investments in securities, which increased ¥18,679 million to ¥101,036 million.

On the liabilities side, total liabilities at year-end amounted to ¥438,395 million at the fiscal year-end, a 3.1%, or ¥14,098 million decrease from the previous fiscal year-end. Of this amount, long-term and short-term interest-bearing debt totaled ¥167,363 million, a net decrease of ¥10,094 million.

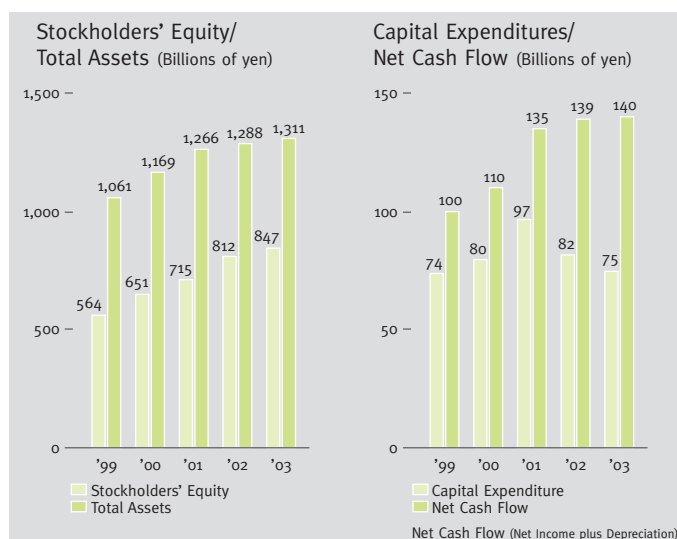
Total stockholders' equity rose ¥34,894 million to ¥846,962 million. The equity ratio was up 1.6 percentage points to 64.6%, mainly reflecting a ¥69,676 million rise in retained earnings.

Cash Flows

Net cash provided by operating activities totaled ¥130,199 million. This mainly reflected income before income taxes of ¥120,503 million and depreciation expense of ¥66,566 million.

Net cash used for investing activities narrowed to ¥53,898 million. This consisted mainly of ¥62,272 million in purchases of property, plant and equipment including semiconductor silicon 300mm wafer manufacturing facilities and net proceeds of ¥11,895 million from purchases, sales and redemption of marketable securities and investment securities.

Net cash used for financing activities amounted to ¥18,803 million, mainly comprised of ¥28,195 million in payment of debentures on redemption.



Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2003, 2002, and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2003	2002	2001	2003
Net Sales (Notes 14 and 17)	¥ 797,523	¥ 775,097	¥ 807,485	\$ 6,646,025
Cost of Sales (Notes 9, 12 and 14)	585,220	572,366	603,561	4,876,833
Gross profit	212,303	202,731	203,924	1,769,192
Selling, General and Administrative Expenses				
(Notes 9 and 12)	90,153	88,007	91,247	751,275
Operating income (Note 17)	122,150	114,724	112,677	1,017,917
Other Income (Expenses):				
Interest and dividend income	4,130	6,344	9,230	34,417
Reversal of prior year's accrued maintenance expenses	3,298	—	4,039	27,483
Gains on sales of property, plant and equipment	2,916	368	8,081	24,300
Settlement income	2,528	—	—	21,067
Gain on transfer of securities to retirement benefit trust (Note 9)	2,364	5,107	5,234	19,700
Equity in earnings of affiliates	1,727	664	1,925	14,392
Gains on sales of investments in securities	—	—	8,411	—
Loss on write-down of investment securities	(10,494)	—	(5,265)	(87,450)
Interest expenses	(4,956)	(6,125)	(7,841)	(41,300)
Foreign exchange gain (loss)	(3,848)	5,868	9,080	(32,067)
Adjustment to prior years' license fee	(1,728)	—	—	(14,400)
Special additional payments for early retirement (Note 9)	—	(7,997)	—	—
Special provision for retirement benefit costs	—	—	(27,498)	—
Other, net	2,416	(5,861)	(9,272)	20,133
Income before income taxes	120,503	113,092	108,801	1,004,192
Income Taxes (Note 15):				
Current	34,367	36,045	61,031	286,392
Deferred	10,866	7,735	(19,342)	90,550
	45,233	43,780	41,689	376,942
Income after income taxes	75,270	69,312	67,112	627,250
Minority Interests in Earnings of Consolidated Subsidiaries	(2,254)	(793)	(2,607)	(18,783)
Net Income	¥ 73,016	¥ 68,519	¥ 64,505	\$ 608,467
		Yen		U.S. Dollars (Note 3)
Per Share (Note 2 (14)):				
Net income—primary	¥173.13	¥162.93	¥153.58	\$1.443
Net income—fully diluted	169.36	159.38	150.24	1.411
Cash dividends	14.00	12.00	12.00	0.117
Weighted-Average Number of Shares (Thousands)	420,524	420,539	420,023	420,524

The accompanying notes are an integral part of the statements.

Consolidated Balance Sheets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

As of March 31, 2003 and 2002

Assets	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Current Assets:			
Cash and time deposits (Note 16)	¥ 235,647	¥ 233,865	\$ 1,963,725
Securities (Note 5)	115,324	107,473	961,033
Notes and accounts receivable:			
Trade	189,395	182,870	1,578,292
Unconsolidated subsidiaries and affiliates	11,645	12,749	97,042
Others	5,922	7,143	49,350
Less: Allowance for doubtful accounts (Note 2 (5))	(5,183)	(4,204)	(43,192)
	201,779	198,558	1,681,492
Inventories (Note 4)	119,360	119,619	994,667
Deferred taxes, current (Note 15)	21,261	22,219	177,175
Others	13,995	10,463	116,625
Total current assets	707,366	692,197	5,894,717
Property, Plant and Equipment: (Note 2 (8))			
Buildings and structures	293,258	292,350	2,443,817
Machinery and equipment	825,299	799,087	6,877,491
Less: Accumulated depreciation	(752,207)	(704,982)	(6,268,392)
	366,350	386,455	3,052,916
Land	33,286	34,203	277,383
Construction in progress .	41,837	35,188	348,642
Total property, plant and equipment	441,473	455,846	3,678,941
Intangible Fixed Assets	4,292	3,509	35,767
Investments and Other Assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 7)	33,123	29,581	276,025
Investments in securities (Note 5)	101,036	82,357	841,967
Long-term loans	954	1,211	7,950
Deferred taxes, non-current (Note 15)	13,056	14,158	108,800
Others	9,603	9,606	80,024
Less: Allowance for doubtful accounts (Note 2 (5))	(28)	(33)	(233)
Total investments and other assets	157,744	136,880	1,314,533
Total assets	¥ 1,310,875	¥ 1,288,432	\$ 10,923,958

The accompanying notes are an integral part of the statements.

Liabilities and Stockholders' Equity	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Current Liabilities:			
Short-term borrowings (Note 8)	¥ 63,174	¥ 63,522	\$ 526,450
Current portion of long-term debt (Note 8)	15,338	50,030	127,817
Notes and accounts payable:			
Trade	97,364	84,591	811,367
Unconsolidated subsidiaries and affiliates	13,522	12,885	112,683
Others	35,255	29,232	293,791
	146,141	126,708	1,217,841
Accrued income taxes	12,548	13,887	104,567
Accrued expenses	57,374	63,659	478,117
Advances received	832	2,372	6,933
Others	2,697	8,342	22,475
Total current liabilities	298,104	328,520	2,484,200
Long-Term Liabilities:			
Long-term debt (Note 8)	88,851	63,905	740,425
Accrued retirement benefits (Note 9)	6,239	15,215	51,992
Deferred taxes, non-current (Note 15)	24,703	23,498	205,858
Lease obligations	19,150	20,128	159,583
Others	1,348	1,227	11,233
Contingent Liabilities (Note 10)			
Total long-term liabilities	140,291	123,973	1,169,091
Minority Interests in Consolidated Subsidiaries			
	25,518	23,871	212,650
Stockholders' Equity:			
Common stock:	110,272	110,260	918,933
Authorized: 1,670,000,000 shares			
Issued: 422,567,911 shares and 422,555,397 shares as of			
March 31, 2003 and 2002, respectively			
Additional paid-in capital	119,041	119,029	992,008
Retained earnings (Note 11)	626,142	556,466	5,217,851
Unrealized gain (loss) on available-for-sale securities (Note 2 (7))	(1,482)	6,138	(12,350)
Foreign currency translation adjustment (Note 2 (4))	2,626	28,531	21,883
	856,599	820,424	7,138,325
Less: Treasury stock, at cost (Note 11)	(9,637)	(8,356)	(80,308)
Total stockholders' equity	846,962	812,068	7,058,017
Total liabilities and stockholders' equity	¥ 1,310,875	¥ 1,288,432	\$ 10,923,958

Consolidated Statements of Stockholders' Equity

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2003, 2002, and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2003	2002	2001	2003
Common stock				
Balance at beginning of year	¥ 110,260	¥ 110,247	¥ 107,664	\$ 918,833
Conversion of convertible debentures	12	13	312	100
Exercise of warrant attached to debentures	—	—	2,271	—
Balance at end of year	110,272	110,260	110,247	918,933
Additional Paid-in Capital				
Balance at beginning of year	119,029	119,016	115,857	991,908
Conversion of convertible debentures	12	13	312	100
Exercise of warrant attached to debentures	—	—	2,847	—
Balance at end of year	119,041	119,029	119,016	992,008
Retained Earnings				
Balance at beginning of year	556,466	493,170	433,460	4,637,217
Net income	73,016	68,519	64,505	608,467
Effect of increase in consolidated subsidiaries	2,561	—	—	21,342
Cash dividends (Note 11)	(5,467)	(5,046)	(4,613)	(45,558)
Directors' and statutory auditors' bonuses	(177)	(177)	(182)	(1,475)
Loss on disposal of treasury stocks	(257)	—	—	(2,142)
Balance at end of year	626,142	556,466	493,170	5,217,851
Unrealized Gain (Loss) on Available-for-Sale Securities				
Balance at beginning of year	6,138	9,742	—	51,150
Balance at end of year	(1,482)	6,138	9,742	(12,350)
Foreign Currency Translation Adjustment				
Balance at beginning of year	28,531	(9,530)	—	237,758
Balance at end of year	2,626	28,531	(9,530)	21,883
Treasury Stock at Cost				
Balance at beginning of year	(8,356)	(7,649)	(5,720)	(69,633)
Acquisition	(2,255)	(3,023)	(2,970)	(18,792)
Exercise of stock options	974	1,515	787	8,117
Resale	—	801	254	—
Balance at end of year	(9,637)	(8,356)	(7,649)	(80,308)

Number of Shares of Common Stock Issued

	Thousands of shares		
	2003	2002	2001
Balance at beginning of year	422,555	422,542	419,848
Conversion of convertible debentures	12	13	326
Exercise of warrant attached to debentures	—	—	2,368
Balance at end of year	422,567	422,555	422,542

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the years ended March 31, 2003, 2002, and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2003	2002	2001	2003
Cash Flows from Operating Activities:				
Income before income taxes	¥ 120,503	¥ 113,092	¥ 108,801	\$ 1,004,192
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	66,566	70,878	71,348	554,717
Increase (decrease) in accrued retirement benefits	(8,970)	(12,701)	26,915	(74,750)
Loss on write-down of investment securities	10,494	501	5,265	87,450
Interest and dividend income	(4,130)	(6,344)	(9,230)	(34,417)
Interest expenses	4,956	6,125	7,841	41,300
Exchange loss (gain)	1,905	(3,598)	(6,331)	15,875
Equity in earnings of affiliates	(1,727)	(664)	(1,925)	(14,392)
Transfer of securities to retirement benefit trust	3,215	10,930	7,255	26,792
Gains on transfer of securities to retirement benefit trust	(2,364)	(5,107)	(5,235)	(19,700)
Gains from cancellation of retirement benefit trust	(12,096)	—	—	(100,800)
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	(7,732)	35,428	(30,665)	(64,433)
(Increase) decrease in inventories	(1,886)	2,690	(15,538)	(15,717)
Increase (decrease) in notes and accounts payable	16,033	(30,697)	25,652	133,608
Other, net	(18,733)	1,120	(3,594)	(156,108)
Subtotal	166,034	181,653	180,559	1,383,617
Proceeds from interest and dividends	4,389	6,354	9,328	36,575
Payment of interest	(4,499)	(6,418)	(9,004)	(37,492)
Payment of income taxes	(35,725)	(62,952)	(38,681)	(297,708)
Net cash provided by operating activities	130,199	118,637	142,202	1,084,992
Cash Flows from Investing Activities:				
Net (increase) decrease in marketable securities	64,957	(50,725)	(561)	541,308
Purchases of property, plant and equipment	(62,272)	(81,875)	(87,641)	(518,933)
Proceeds from sales of property, plant and equipment	4,358	1,240	8,741	36,317
Purchases of intangible fixed asset	(2,300)	(1,160)	(641)	(19,167)
Purchases of investment securities	(78,922)	(23,952)	(26,997)	(657,683)
Proceeds from sales and redemption of investment securities	25,860	26,143	23,339	215,500
Payments of loans	(207)	(62)	(2,710)	(1,725)
Proceeds from collection of loans	328	4,280	356	2,733
Other, net	(5,700)	(1,298)	(1,056)	(47,500)
Net cash used for investing activities	(53,898)	(127,409)	(87,170)	(449,150)
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt	(3,480)	(4,726)	(4,428)	(29,000)
Proceeds from long-term debt	33,428	11,284	10,945	278,566
Repayment of long-term debt	(23,899)	(21,782)	(21,957)	(199,158)
Proceeds from issuance of debentures	11,014	—	—	91,783
Payment of debentures on redemption	(28,195)	(3,427)	(52,351)	(234,958)
Proceeds from issuance of shares	118	—	4,539	983
Cash dividends paid	(5,467)	(5,046)	(4,614)	(45,558)
Other, net	(2,322)	(1,288)	(2,498)	(19,350)
Net cash used for financing activities	(18,803)	(24,985)	(70,364)	(156,692)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(6,970)	11,071	14,465	(58,083)
Net Increase (Decrease) in Cash and Cash Equivalents	50,528	(22,686)	(867)	421,067
Cash and Cash Equivalents at Beginning of Year	249,847	272,769	271,635	2,082,058
Net Increase (Decrease) in Cash and Cash Equivalents by Change of Consolidation Scope	1,995	(236)	2,001	16,625
Cash and Cash Equivalents at End of Year (Note 16)	¥ 302,370	¥ 249,847	¥ 272,769	\$ 2,519,750

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, 2003, 2002, and 2001

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 87 majority-owned subsidiaries as of March 31, 2003 (93 as of March 31, 2002 and 96 as of March 31, 2001). The consolidated financial statements include the accounts of the Company and 62 (58 for 2002 and 60 for 2001) majority-owned subsidiaries (the Companies), of which principal firms are listed on page 40 with their respective fiscal year-ends.

The remaining 25 (35 for 2002 and 36 for 2001) 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 25 (35 for 2002 and 36 for 2001) unconsolidated subsidiaries (majority-owned) and 15 (17 for 2002 and 16 for 2001) 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 translation adjustment” in the accompanying balance sheets as of March 31, 2003 and 2002.

(5) Allowance for doubtful accounts

The Company and consolidated subsidiaries provide an 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 the 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 stockholders' 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.

Effective from this year, the Company has changed its accounting policy with respect to depreciation for polyvinyl chloride equipment in “Machinery and equipment” from the declining-balance method to the straight-line method. This change was made for the purpose of improving the matching of revenue and costs by leveling out depreciation expenses over the useful lives of the equipment. The use of the existing assets is expected to stay stable in the future and large-scale investments in polyvinyl chloride equipment in Japan are not planned for a long period since the domestic polyvinyl chloride business is considered to be industrially mature.

As a result of this change, depreciation expense decreased by ¥379 million and operating income and income before income taxes increased by ¥350 million as compared with amounts which would have been reported if the previous method had been applied consistently.

(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 installment 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 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 the straight-line method from the time when the difference was generated (see Note 9).

(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.

From this fiscal year, the Company and its subsidiaries adopted the new Japanese accounting standard "Accounting Standard for Earnings per Share" and "Implementation Guidance for application of Accounting Standard for Earnings per Share", which are effective for periods beginning on or after April 1, 2002. However, the effect of adopting the new standard was not material.

(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 11).

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 2002 and 2001 financial statements to conform to the presentation for 2003.

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 ¥120 to US\$1, the approximate effective rate of exchange on March 31, 2003. 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 ¥120 to US\$1 or at any other rate.

4. Inventories

Inventories as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Merchandise	¥ 8,805	¥ 11,268	\$ 73,375
Finished products	47,678	43,550	397,317
Semifinished products	17,599	17,075	146,658
Raw materials	31,183	32,893	259,858
Supplies	11,969	11,744	99,742
Others	2,126	3,089	17,717
Total	¥119,360	¥119,619	\$994,667

5. Securities

Securities as of March 31, 2003 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	¥ 8,021	¥ 8,041	¥ 20
Securities with fair value that do not exceed book value	6,104	6,098	(6)
Total	¥14,125	¥14,139	¥ 14

Description	Thousands of U.S. Dollars		
	Book value	Market value	Difference
Securities with fair value that exceed book value	\$ 66,841	\$ 67,008	\$ 167
Securities with fair value that do not exceed book value	50,867	50,817	(50)
Total	\$117,708	\$117,825	\$ 117

(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	¥5,687	¥8,888	¥3,201
Others	10	10	0
Subtotal	¥5,697	¥8,898	¥3,201
Securities with fair value that do not exceed book value			
Stocks	¥23,833	¥18,820	¥(5,013)
Others	1,833	1,238	(595)
Subtotal	¥25,666	¥20,058	¥(5,608)
Total	¥31,363	¥28,956	¥(2,407)

Description	Thousands of U.S. Dollars		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities with fair value that exceed book value			
Stocks	\$ 47,392	\$ 74,067	\$ 26,675
Others	83	83	0
Subtotal	\$ 47,475	\$ 74,150	\$ 26,675
Securities with fair value that do not exceed book value			
Stocks	\$198,608	\$156,833	\$(41,775)
Others	15,275	10,317	(4,958)
Subtotal	\$213,883	\$167,150	\$(46,733)
Total	\$261,358	\$241,300	\$(20,058)

(3) Available-for-sale securities sold during the fiscal year ended March 31, 2003

Available-for-sale securities sold during the fiscal year ended March 31, 2003 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	¥95,111	\$792,592
Investments in non-consolidated subsidiaries and affiliates	32,354	269,617
Available-for-sale securities	78,168	651,400

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

Description	Millions of Yen	Thousands of U.S. Dollars
	Within one year	¥114,461
Over one year within five years	67,845	565,375
Over five years within ten years	261	2,175

6. Derivative transactions

Derivative financial instruments were as follows:

As of March 31, 2003

Currency relatives

Description	Millions of Yen		
	Contract amounts	Market value	Unrealized gain (loss)
Foreign exchange contracts			
Sales Contracts:			
US\$	¥14,931	¥14,948	¥ (17)
EUR	1,684	1,715	(31)
Buy Contracts:			
US\$	1,934	1,943	9
Others	315	325	10
Foreign currency swaps			
Received Japanese Yen, pay Thai Baht	2,416	(163)	(163)
Received Japanese Yen, pay U.S. Dollars	500	(40)	(40)
Total	¥ —	¥ —	¥(232)

Description	Thousands of U.S. Dollars		
	Contract amounts	Market value	Unrealized gain (loss)
Foreign exchange contracts			
Sales Contracts:			
US\$	\$124,425	\$124,567	\$ (142)
EUR	14,033	14,292	(258)
Buy Contracts:			
US\$	16,117	16,192	75
Others	2,625	2,708	83
Foreign currency swaps			
Received Japanese Yen, pay Thai Baht	20,133	(1,358)	(1,358)
Received Japanese Yen, pay U.S. Dollars	4,167	(333)	(333)
Total	\$ —	\$ —	\$(1,933)

Notes: 1. Market rate represents the forward foreign exchange rate prevailing as of March 31, 2003.
2. The market value is provided by financial institutes with which we made the contracts of currency swaps.
3. Any derivative transactions to which hedge accounting is applied are excluded from the above table.

Interest relatives

Description	Millions of Yen		
	Contract amounts	Market value	Unrealized gain (loss)
Interest swap contracts:			
Receive floating, pay fixed	¥18,214	¥(371)	¥(371)
Receive fixed, pay floating	17,500	262	262
Total	¥35,714	¥(109)	¥(109)

Description	Thousands of U.S. Dollars		
	Contract amounts	Market value	Unrealized gain (loss)
Interest swap contracts:			
Receive floating, pay fixed	\$151,784	\$(3,091)	\$(3,091)
Receive fixed, pay floating	145,833	2,183	2,183
Total	\$297,617	\$ (908)	\$ (908)

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, 2002

Currency relatives

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

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

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.

7. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Held Directly by the Company:			
Affiliates:			
Five affiliates accounted for by the equity method (See Note 2 (2))*	¥20,213	¥14,805	\$168,442
Kashima Denkai Co., Ltd.	805	805	6,708
Unitika Chemical Co., Ltd.	—	1,338	—
Others	228	228	1,900
	21,246	17,176	177,050
Unconsolidated subsidiaries:			
Shin-Etsu Silicones (Thailand) Ltd. ⁽¹⁾	—	1,589	—
Shin-Etsu Electronics Malaysia Sdn. Bhd.	1,400	1,400	11,667
Shin-Etsu Film Co., Ltd. ⁽¹⁾	—	199	—
Shin-Etsu Magnetics Philippines, Inc.	184	184	1,533
Zhejiang Shin-Etsu High-Tech Chemical Co., Ltd. ⁽²⁾	332	—	2,767
Others	116	140	967
	2,032	3,512	16,934
Held Indirectly through Subsidiaries:			
Unconsolidated subsidiaries and affiliates:			
Three affiliates accounted for by the equity method (See Note 2 (2))*	¥ 9,073	¥ 5,842	\$ 75,608
Others	346	2,170	2,883
	¥ 9,419	¥ 8,012	\$ 78,491
Advances:	426	881	3,550
	¥33,123	¥29,581	\$276,025

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

⁽¹⁾ Newly consolidated with effect from the year ended March 31, 2003.

⁽²⁾ Newly established in the year ended March 31, 2003.

8. Short-term borrowings and long-term debt

Short-term borrowings outstanding as of March 31, 2003 and 2002 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, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Loans with Banks and Other			
Financial Institutions:			
Secured	¥ 14,773	¥ 8,251	\$ 123,108
Unsecured	44,329	42,373	369,408
Unsecured Debentures:			
6.875% debentures issued by a consolidated subsidiary, due August 2002	—	15,996	—
3.1% debentures issued by a consolidated subsidiary, due July 2005	4,796	—	39,967
2.7% debentures issued by a consolidated subsidiary, due August 2004	8,000	8,000	66,667
2.5% debentures issued by a consolidated subsidiary, due August 2003	5,000	5,000	41,667
2.2% debentures issued by a consolidated subsidiary, due August 2002	—	5,000	—
2.6% debentures issued by a consolidated subsidiary, due December 2007	3,000	3,000	25,000
2.5% debentures issued by a consolidated subsidiary, due February 2003	—	3,000	—
2.1% debentures issued by a consolidated subsidiary, due March 2003	—	2,000	—
2.1% debentures issued by a consolidated subsidiary, due March 2003	—	3,000	—
0.7% debentures issued by a consolidated subsidiary, due June 2007	6,000	—	50,000
Unsecured Convertible Debentures:			
0.4% convertible debentures, due September 2005	18,291	18,315	152,425
	104,189	113,935	868,242
Less Portion Due within One Year	(15,338)	(50,030)	(127,817)
	¥ 88,851	¥ 63,905	\$ 740,425

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, 2003			
Balance at of March 31, 2003 in Denominated Currencies	Current Conversion Price per Share	Fixed Exchange Rates for Conversion	Additional Shares Issuable upon Full Conversion (Thousands)
¥18,291 million	¥1,917	—	9,541

As of March 31, 2003, 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	¥50,261	\$418,842

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

	Millions of Yen	Thousands of U.S. Dollars
Years ending March 31,		
2004	¥ 15,338	\$127,817
2005	19,615	163,458
2006	28,452	237,100
2007	4,323	36,025
2008	31,852	265,433
2009 and thereafter	4,609	38,409
	¥104,189	\$868,242

9. Retirement and pension plans

The Company and its domestic consolidated subsidiaries had tax-qualified pension plans and lump-sum severance payment plans (“Shin-Etsu Pension Plan” and “Additional Payment Plan for Career Option”, etc.) as their defined benefit pension plans. In March 2003, the Company and some domestic consolidated subsidiaries terminated a part of the tax-qualified pension plans, and transferred the relevant plans to defined contribution pension plans (DC pension plans) and new lump-sum severance payment plans for active participants, and closing type tax-qualified pension plans for retired participants. “Shin-Etsu Pension Plan” was terminated.

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

As a result of changing these plans, the Company terminated “Retirement Benefit Trust” for tax-qualified pension plans. Additionally, the Company created the new “Retirement Benefit Trust” for new lump-sum severance payment plans and “Additional Payment Plan for Career Option”, and contributed certain marketable equity securities to the new trust during the current fiscal year. Accordingly “Gain on transfer of securities to retirement benefit trust” of ¥2,364 million was recognized in the consolidated statements of income. During the prior fiscal year, the Shin-Etsu Group temporarily adopted additional severance payments plan for early retirement, which was excluded from the benefit obligation based on actuarial calculation according to “Accounting for retirement benefits”.

The reserves for retirement benefits as of March 31, 2003 and 2002 are analyzed as follows:

Benefit Obligations

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
(a) Benefit obligations	¥(21,446)	¥(63,487)	\$(178,717)
(b) Pension assets	14,951	45,924	124,592
(c) Unfunded benefit obligations [(a)+(b)]	(6,495)	(17,563)	(54,125)
(d) Unrecognized actuarial differences	2,771	3,489	23,091
(e) Unrecognized prior service cost (negative) (Note 2)	(1,489)	(1,141)	(12,408)
(f) Amount shown on balance sheet [(c)+(d)+(e)]	(5,213)	(15,215)	(43,432)
(g) Prepaid pension expenses	1,026	—	8,550
(h) Accrued retirement benefits [(f)-(g)]	¥(6,239)	¥(15,215)	\$(51,992)

Notes: 1. Special additional payment for early retirement of ¥7,997 millions, is included in “Accrued expenses”, and not included in “Accrued retirement benefits” on the balance sheet as of March 31, 2002.

2. The Company and certain consolidated subsidiaries changed from tax-qualified pension plans to defined contribution pension plans, so that prior service cost (negative) is generated.

3. The impact resulting from transfer from tax-qualified pension plans to defined contribution pension plans was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Decrease in benefit obligation	¥ 38,097	\$ 317,475
Estimated amounts of pension assets to be transferred	(31,118)	(259,316)
Unrecognized actuarial differences	(5,639)	(46,992)
Unrecognized prior service cost	(434)	(3,617)
Decrease in Accrued retirement benefits	906	7,550

4. Some subsidiaries adopt a simplified method for calculation of benefit obligations.

Retirement Benefit Costs

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
(a) Service costs (Note 2)	¥2,756	¥ 3,318	\$ 22,967
(b) Interest costs	1,867	1,987	15,558
(c) Expected return on plan assets	(1,288)	(1,075)	(10,733)
(d) Recognized actuarial loss	2,224	1,000	18,533
(e) Amortization of prior service cost	(186)	(106)	(1,550)
(f) Temporary additional payment for early retirement	—	7,997	—
(g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)]	¥5,373	¥ 13,121	\$ 44,775
(h) Gain on transfer to DC pension plans	(906)	—	(7,550)
(i) Total [(g)+(h)]	¥4,467	¥ 13,121	\$ 37,225

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 Assumptions for Calculating Benefit Obligations

(a) Period allocation method for estimates retirement benefit	Benefit/years of service approach
(b) Discount rate	Principally 2.5% (3.0% in FY2002)
(c) Expected rate of return on plan assets	Principally 2.5% (3.0% in FY2002)
(d) Amortization of prior service cost	Principally 10 years
(e) Amortization of actuarial differences	Principally 5 years

10. Contingent liabilities

As of March 31, 2003, 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 ¥703 million (\$5,858 thousand).

In addition, as of March 31, 2003, the Companies had contingent liabilities arising from notes discounted by banks in the amounts of ¥355 million (\$2,958 thousand).

11. Retained earnings

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, 2003, 2002 and 2001 in the amounts of ¥2,943 million (\$24,525 thousand) (¥7.0 per share), ¥2,522 million and ¥2,523 million, respectively, which were actually paid to stockholders on November 18, 2002, December 10, 2001, and December 8, 2000, respectively. In the accompanying consolidated statements of stockholders' equity, these dividend payments are reflected in the years ended March 31, 2003, 2002 and 2001, respectively.

There were 2,159,785 shares of treasury stock as at March 31, 2003.

12. Research and development costs

Research and development costs incurred and charged to income for the years ended March 31, 2003, 2002 and 2001 were ¥27,280 million (\$227,333 thousand), ¥28,207 million and ¥25,939 million, respectively.

13. Lease transactions

Lease rental expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2003 and 2002 amounted to ¥489 million (\$4,075 thousand) and ¥895 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2003, 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 ¥489 million (\$4,075 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
	2003	2002	2003
Acquisition cost	¥2,675	¥4,624	\$22,291
Accumulated depreciation	1,810	2,533	15,083
Net book value	¥ 865	¥2,091	\$ 7,208

The amount of outstanding future lease payments due in respect of finance lease contracts at March 31, 2003 and 2002, which included the portion of interest thereon, was summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Future Lease Payments:			
Within one year	¥373	¥ 690	\$3,108
Over one year	492	1,401	4,100
	¥865	¥2,091	\$7,208

The amount of outstanding future lease payments due in respect of operating lease contracts at March 31, 2003 and 2002 was summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Future Lease Payments:			
Within one year	¥3,598	¥1,934	\$29,983
Over one year	4,925	3,728	41,042
	¥8,523	¥5,662	\$71,025

14. Related party transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2003, 2002 and 2001 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Sales	¥21,763	¥31,131	¥10,082	\$181,358
Purchases	67,440	68,365	56,794	562,000

15. Income taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended March 31, 2003, 2002 and 2001 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	2003	2002	2001
Corporate income tax	30.0%	30.0%	30.0%
Enterprise tax	9.7	9.7	9.7
Resident income taxes	6.0	6.0	6.0
	45.7%	45.7%	45.7%

Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid (unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid)	2003	2002	2001
	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, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred Tax Assets			
Unsettled accounts receivable and payable	¥ 8,215	¥ 7,448	\$ 68,458
Depreciation	6,800	7,356	56,667
Unrealized profit	3,822	3,628	31,850
Tax loss carry-forwards	3,548	5,351	29,567
Accrued bonus allowance	2,884	2,734	24,033
Maintenance cost	2,617	1,945	21,808
Special provision for accrued retirement benefits	2,414	9,574	20,117
Unrealized loss on available-for-sale securities	1,025	—	8,542
Accrued enterprise taxes	833	1,148	6,941
Others	13,053	16,220	108,775
Valuation allowance	(4,456)	(5,787)	(37,133)
Total	¥ 40,755	¥ 49,617	\$ 339,625

Deferred Tax Liabilities

Depreciation	¥ 28,132	¥ 29,807	\$ 234,433
Reserve for special depreciation	748	953	6,234
Unrealized gain on available-for-sale securities	—	4,330	—
Others	2,289	1,648	19,075
Total	¥ 31,169	¥ 36,738	\$ 259,742
Net Deferred Tax Assets	¥ 9,586	¥ 12,879	\$ 79,883

Net Deferred Tax Assets are included in the following accounts.

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Current assets: Deferred tax assets	¥ 21,261	¥ 22,219	\$ 177,175
Non-current assets: Deferred tax assets	13,056	14,158	108,800
Current liabilities: Current liabilities- others	(28)	—	(234)
Non-current liabilities: Deferred tax liabilities	(24,703)	(23,498)	(205,858)

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

	2003	2002
Statutory tax rate	41.7%	41.7%
Rate difference from foreign subsidiaries	(3.6)	(2.8)
Dividend income and other not taxable	(1.0)	(0.8)
Entertainment and other non-deductible expenses	0.3	0.3
Change in statutory tax rate	0.3	—
Other, net	(0.2)	0.3
Effective tax rate	37.5	38.7

Statutory effective tax rate used for the calculation of Non-current deferred tax assets and liabilities is mainly 40.4% (prior fiscal year was 41.7%). Due to the change in the tax rate, amounts of deferred tax assets (net of deferred tax liabilities) decreased by ¥353 million and deferred income taxes increased by ¥320 million.

16. 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, 2003, 2002 and 2001 are presented below:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Cash and time deposits	¥ 235,647	¥ 233,865	¥ 221,222	\$ 1,963,725
Marketable securities	115,324	107,473	99,782	961,033
Time deposits for which maturities are approximately over three months	(6,581)	(1,217)	(1,672)	(54,842)
Marketable securities (maturities approximately over three months)	(42,020)	(90,274)	(46,563)	(350,166)
Cash and cash equivalents	¥ 302,370	¥ 249,847	¥ 272,769	\$ 2,519,750

17. 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, Methanol, Chloromethanes, Cellulose derivatives, Caustic soda, 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, 2003, 2002 and 2001 and for the years then ended, classified by business segments, have been presented as follows:

	Millions of Yen				
	2003				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ³	Consolidated Total
Sales:					
Sales to outside customers	¥421,021	¥243,428	¥133,074	¥ —	¥ 797,523
Intersegment sales	10,083	4,665	56,196	(70,944)	—
Total	431,104	248,093	189,270	(70,944)	797,523
Operating costs and expenses					
Operating income	¥ 62,409	¥ 35,248	¥ 24,252	¥ 241	¥ 122,150
Assets	¥485,602	¥411,090	¥158,598	¥255,585	¥1,310,875
Depreciation	22,032	33,297	11,535	(298)	66,566
Capital expenditures ¹	28,000	35,101	2,616	(147)	65,570

	Millions of Yen				
	2002				
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ³	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	¥465,894	¥432,828	¥172,439	¥ 217,271	¥1,288,432
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 ³	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	¥430,164	¥432,768	¥188,000	¥ 214,867	¥1,265,799
Depreciation	23,503	35,286	12,243	(265)	70,767
Capital expenditures ²	50,304	37,985	21,838	(303)	109,824

Thousands of U.S. Dollars					
2003					
Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	Elimination or Common Assets ³	Consolidated Total	
Sales:					
Sales to outside customers	\$3,508,508	\$2,028,567	\$1,108,950	\$ —	\$ 6,646,025
Intersegment sales	84,025	38,874	468,300	(591,199)	—
Total	3,592,533	2,067,441	1,577,250	(591,199)	6,646,025
Operating costs and expenses	3,072,458	1,773,708	1,375,150	(593,208)	5,628,108
Operating income	\$ 520,075	\$ 293,733	\$ 202,100	\$ 2,009	\$ 1,017,917
Assets	\$4,046,683	\$3,425,750	\$1,321,650	\$2,129,875	\$10,923,958
Depreciation	183,600	277,475	96,125	(2,483)	554,717
Capital expenditures ¹	233,334	292,508	21,800	(1,225)	546,417

Notes: 1. Capital expenditure of our affiliate, Asia Silicones Monomer Limited, which is under the Organic and Inorganic Chemicals segment, was ¥9,651 million, which corresponds to our share of ownership of the affiliate. If this amount is included, capital expenditure for this fiscal year would be ¥75,221 million.

2. ¥13,054 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. If this amount is included, total capital expenditure would have amounted to ¥96,770 for 2001.

3. The amounts of the common assets included in the column "Elimination or Common Assets" for the years ended March 31, 2003, 2002 and 2001 were ¥313,150 million (\$2,609,583 thousand), ¥268,465 million and ¥271,303 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, 2003, 2002 and 2001 and for the years then ended are presented below:

Millions of Yen						
2003						
Japan	North America	Asia	Other Areas	Elimination or Common Assets ²	Consolidated Total	
Sales:						
Sales to outside customers	¥456,528	¥190,263	¥ 79,322	¥71,410	¥ —	¥ 797,523
Intersegment sales	119,808	16,713	35,554	3,415	(175,490)	—
Total	576,336	206,976	114,876	74,825	(175,490)	797,523
Operating costs and expenses	489,214	183,615	107,867	69,161	(174,484)	675,373
Operating income	¥ 87,122	¥ 23,361	¥ 7,009	¥ 5,664	¥ (1,006)	¥ 122,150
Assets	¥625,820	¥319,569	¥109,483	¥75,589	¥180,414	¥1,310,875

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

Thousands of U.S. Dollars						
2003						
Japan	North America	Asia	Other Areas	Elimination or Common Assets ²	Consolidated Total	
Sales:						
Sales to outside customers	\$3,804,400	\$1,585,525	\$661,017	\$595,083	\$ —	\$ 6,646,025
Intersegment sales	998,400	139,275	296,283	28,459	(1,462,417)	—
Total	4,802,800	1,724,800	957,300	623,542	(1,462,417)	6,646,025
Operating costs and expenses	4,076,783	1,530,125	898,892	576,342	(1,454,034)	5,628,108
Operating income	\$ 726,017	\$ 194,675	\$ 58,408	\$ 47,200	\$ (8,383)	\$ 1,017,917
Assets	\$5,215,167	\$2,663,075	\$912,358	\$629,908	\$1,503,450	\$10,923,958

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, 2003, 2002 and 2001 were ¥313,150 million (\$2,609,583 thousand), ¥268,465 million and ¥271,303 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, 2003, 2002 and 2001 are summarized as follows:

	Millions of Yen			
	2003			
	North America	Asia	Other Areas	Total
Overseas sales	¥181,015	¥217,666	¥98,019	¥496,700
Consolidated sales	—	—	—	797,523
Percentage of overseas sales over consolidated sales	22.7%	27.3%	12.3%	62.3%

	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%

	Thousands of U.S. Dollars			
	2003			
	North America	Asia	Other Areas	Total
Overseas sales	\$1,508,458	\$1,813,883	\$816,826	\$4,139,167
Consolidated sales	—	—	—	6,646,025
Percentage of overseas sales over consolidated sales	22.7%	27.3%	12.3%	62.3%

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.

18. Subsequent events

(1) Appropriation of retained earnings

Subsequent to March 31, 2003, the Company's Board of Directors, with the subsequent approval of stockholders on June 27, 2003 declared a cash dividend of ¥2,943 million (\$24,525 thousand) equal to ¥7.00 (\$0.058) per share, applicable to earnings of the year ended March 31, 2003 and payable to stockholders on the stockholders' register on March 31, 2003.

(2) Acquisition of treasury stock

At stockholders meeting held in June 2003, approval was given for the acquisition of treasury stock. The amendment to the Articles of Incorporation provides for the acquisition of no more than 27,000 thousand shares of the Company's common stock at a cost that shall not exceed ¥100,000 million (US\$833 million).

The stock repurchase program will enable the Company to execute a flexible financial policy.

Consolidated Subsidiaries

As of March 31, 2003

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End	Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shintech Inc. ⁽¹⁾	100.0	December 31	Shin-Etsu Opto Electronic Co., Ltd. ⁽¹⁾	80.0	December 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31	Shin-Etsu Polymer (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	December 31
Shin-Etsu Handotai America, Inc. ⁽¹⁾	100.0	December 31	Shin-Etsu Polymer Europe B.V. ⁽¹⁾	100.0	December 31
Shin-Etsu Polymer Co., Ltd.	53.7	March 31	Shin-Etsu International Europe B.V. ⁽¹⁾	100.0	December 31
Shin-Etsu Astech Co., Ltd.	89.4	March 31	Nihon Resin Co., Ltd.	100.0	December 31
S.E.H. Malaysia Sdn. Bhd. ⁽¹⁾⁽²⁾	100.0	December 31	Naoetsu Precision Co., Ltd.	100.0	February 28
Naoetsu Electronics Co., Ltd.	90.0	February 28	Skyward Information System Co., Ltd.	100.0	March 31
Shin-Etsu Handotai Europe, Ltd. ⁽¹⁾	100.0	December 31	Shinano Electric Refining Co., Ltd.	70.4	March 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31	Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu PVC B.V. ⁽¹⁾	100.0	December 31	Shin-Etsu Technology Service Co., Ltd.	76.9	February 28
S-E, Inc. ⁽¹⁾	100.0	December 31	Urawa Polymer Co., Ltd.	100.0	March 31
Silicon Metal Company of Australia Ltd. ⁽¹⁾	100.0	December 31	Shin-yo Home Service Company	100.0	March 31
Shin-Etsu Electronics Materials			Niigata Polymer Company Limited	100.0	March 31
Singapore Pte. Ltd. ⁽¹⁾	100.0	December 31	Shin-Etsu Polymer America, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Handotai Taiwan Co., Ltd. ⁽¹⁾	70.0	December 31	Naoetsu Sangyo Limited	100.0	March 31
Polymer East Japan Co., Ltd.	100.0	March 31	Sanshin Electronics Co., Ltd.	100.0	March 31
Silica Products, Inc. ⁽¹⁾	100.0	December 31	San-Ace Co., Ltd.	100.0	March 31
Shin-Etsu Singapore Pte. Ltd. ⁽¹⁾	100.0	December 31	Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Silicone Korea Co., Ltd. ⁽¹⁾	100.0	December 31	Shinkoh Mold Co., Ltd.	100.0	March 31
Shinano Polymer Co., Ltd.	100.0	March 31	Shin-Etsu Magnet Co., Ltd.	100.0	March 31
Shin-Etsu Silicones Thailand Ltd. ⁽¹⁾	100.0	December 31	Shin-Etsu Polymer Mexico S.A. de C.V. ⁽¹⁾	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd. ⁽¹⁾	100.0	December 31	PT. Shin-Etsu Polymer Indonesia ⁽¹⁾	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 28	Shin-Etsu Polymer Shanghai Co., Ltd. ⁽¹⁾	100.0	December 31
Shin-Etsu MicroSi, Inc. ⁽¹⁾	100.0	December 31	Human Create Co., Ltd.	100.0	March 31
Polymer Chemicals Co., Ltd.	100.0	March 31	Suzhou Shin-Etsu Polymer Co., Ltd. ⁽¹⁾	71.4	December 31
Shin-Etsu Silicone Taiwan Co., Ltd. ⁽¹⁾	93.3	December 31	S.E.H. (Shah Alam) Sdn. Bhd. ⁽¹⁾	100.0	December 31
Shin-Etsu Silicones of America, Inc. ⁽¹⁾	100.0	December 31	Simcoa Operations Pty. Ltd. ⁽¹⁾	100.0	December 31
Shin-Etsu Silicones Europe B.V. ⁽¹⁾	100.0	December 31	Shincor Silicones, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Sealant Co., Ltd.	100.0	March 31	K-Bin, Inc. ⁽¹⁾	100.0	December 31
Shin-Etsu Unit Co., Ltd.	100.0	March 31			

4 other consolidated subsidiaries

⁽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 subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin-Etsu Chemical Co., Ltd. and its subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (See Note 1).

As described in Note 2 (8), effective for the year ended March 31, 2003, Shin-Etsu Chemical Co., Ltd. has changed its accounting policy for depreciation of polyvinyl chloride equipment in machinery and equipment.

The amounts expressed in U.S. dollars, which are 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

ChuoAoyama Audit Corporation
Tokyo, Japan
June 27, 2003