

## Press Release of Consolidated Financial Data

For the year ended March 31, 2001

May 16, 2001

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

The seat of headquarters: Tokyo  
Listing Code No.4063  
Listing Stock Exchanges: Tokyo, Osaka and Nagoya  
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### Consolidated Operating Performance for the Current Fiscal Year

(From April 1, 2000 to March 31, 2001)

(Amounts are stated in millions of Yen by discarding fractional amounts less than ¥ 1 million.)

#### (1) Results of Consolidated operations

	Current fiscal year <u>(2000/4-2001/3)</u>	Last fiscal year <u>(1999/4-2000/3)</u>
Net sales;		
Amounts in millions of yen	¥807,484	¥678,858
Ratio of increase (decrease) Over the preceding year	18.9%	5.6%
Operating income;		
Amounts in millions of yen	¥112,677	¥87,465
Ratio of increase (decrease) over the preceding year	28.8%	1.3%
Ordinary income;		
Amounts in millions of yen	¥115,797	¥84,423
Ratio of increase (decrease) over the preceding year	37.2%	8.9%
Net income;		
Amounts in millions of yen	¥64,505	¥48,229
Ratio of increase (decrease) over the preceding year	33.7%	11.2%
Net income per share (in yen)	¥153.58	¥116.56
Diluted net income per share (in yen)	¥150.24	¥113.46
Ratio of net income over total stockholders' equity	9.4%	7.9%
Ratio of ordinary income over total assets employed	9.5%	7.6%
Ratio of ordinary income over net sales	14.3%	12.4%

(Notes)

	Current fiscal year (2000/4-2001/3)	Last fiscal year (1999/4-2000/3)
1. Equity in earnings of Affiliates (in millions of Yen)	¥1,924	¥1,324
2. Average number of shares in the fiscal year (consolidated basis)	420,023,307	413,780,881
3. Changes in accounting policies applied : None		

**(2) Consolidated Financial position**

	March 31, 2001	March 31, 2000
Total assets (in millions of Yen)	¥1,265,799	¥1,168,729
Total stockholders' equity (in millions of Yen)	¥714,996	¥651,261
Ratio of stockholders' equity over total assets employed	56.5%	55.7%
Stockholders' equity per share (in yen)	¥1,699.74	¥1,557.48

**(3) Consolidated Statements of Cash Flows**

	Current fiscal year (2000/4-2001/3)	Last fiscal year (1999/4-2000/3)
Cash flows from operating activities	¥142,201	¥95,875
Cash flows from investing activities	(87,169)	(76,438)
Cash flows from financing activities	(70,364)	12,141
Cash and Cash Equivalents, at the end of year	272,768	271,634

**(4) Application of consolidation and equity method**

Number of consolidated subsidiaries	60
Number of non-consolidated subsidiaries applied to equity method	0
Number of affiliates applied to equity method	7

**(5) Changes in scope of consolidation or application of the equity method**

Consolidation	Increase	2	Decrease	3
Equity method	Increase	0	Decrease	0

## 1. Corporate Overview

The Shin-Etsu Group is composed of Shin-Etsu Chemical Co., Ltd. (the “Company”), 96 subsidiaries, and 16 affiliates (as of March 31, 2001). Business is divided into three segments: Organic and Inorganic Chemicals, which concentrates the manufacture and sale of polyvinyl chloride (PVC) and silicones; Electronics Materials, which concentrates on the manufacture and sale of semiconductor silicon; and Functional Materials and Others, which manufactures and sells synthetic quartz and other materials as well as providing various other services, such as construction and repair. The Company and its affiliates share responsibility for sales, manufacturing, and other operations, and cooperate with each other to develop business activities.

The Group’s business activities, the role and functions of the Company, major subsidiaries and affiliates are described below.

Organic and inorganic chemicals business segment	Polyvinyl chloride, Silicone, Vinyl acetate monomer, Polyvinyl alcohol, Methanol, Chloromethanes, Cellulose derivatives, Caustic soda, Fertilizers, and Silicon metal	Manufacture and sale	Shin-Etsu Chemical Co., Ltd., Shintech, Inc., Shin-Etsu Polymer Co., Ltd., Shin-Etsu Vinyl Acetate Co., Ltd., Nissin Chemical Industry Co., Ltd., Shin-Etsu Silicones of America, Inc., Shin-Etsu PVC B.V., Shin-Etsu VCM B.V., Kashima Vinyl Chloride Monomer Co., Ltd.
		Sale	Shin-Etsu Astech Co., Ltd. 50 other subsidiaries
Electronics materials business segment	Semiconductor silicon, Organic materials for the electronics Industry, Rare earth magnets for the electronics Industry, and Photoresist	Manufacture and sale	Shin-Etsu Chemical Co., Ltd., Shin-Etsu Handotai Co., Ltd., Shin-Etsu Handotai America, Inc.
		Processing and sale	S.E.H. Malaysia Sdn.Bhd., Shin-Etsu Handotai Europe, Ltd.
		Processing	Naoetsu Electronics Co., Ltd., Shin-Etsu(Malaysia) Sdn. Bhd. 22 other subsidiaries
Functional materials and others business segment	Synthetic quartz products, Oxide single crystals, Rare earth and rare earth magnets, Export of technology and plants, Export and import of goods, Construction and plant engineering, and Information processing		Shin-Etsu Chemical Co., Ltd., Shin-Etsu Astech Co., Ltd., Shin-Etsu Engineering Co., Ltd., Silica Products, Inc., Shin-Etsu Quartz Products Co., Ltd. 29 other subsidiaries



## **2. Management Policies**

The basic management policy of Shin-Etsu Chemical Co., Ltd. is to place utmost priority on giving Shin-Etsu's shareholders maximum value by steadily increasing net sales and net income among Shin-Etsu Group companies, thereby enhancing the worth of these companies. To achieve this goal, Shin-Etsu strives to secure and further develop its leading world market positions in both stable-growth product areas and promising new product areas with strong potential for growth. Shin-Etsu achieves these objectives by developing the world's highest level of technology in its business fields, as well as by providing superior product quality and the most competitive production costs in the world. In addition, Shin-Etsu endeavors to establish a business system that can effectively cope with changes in the Japanese and worldwide economic situations and changing world market conditions.

In the PVC (polyvinyl chloride) business, the company is proceeding with the construction in Louisiana of a second United States PVC production base. The company completed construction of the first half of the new plant and smoothly started its commercial operation last December. Shin-Etsu will pursue the further growth of its PVC business when the second half of the new plant is completed by the end of this year. Shin-Etsu is solidifying its position as the world's largest manufacturer of PVC and is making every effort to strengthen its PVC business by means of its tripolar production-base strategy utilizing its operations in the Netherlands, the U.S. and Japan. Because the rapid growth in demand for silicone products in Asia is expected to continue well into the future, Shin-Etsu is now proceeding with plans to construct a new silicone monomer manufacturing plant in Thailand. In February 2001, General Electric (GE) and Shin-Etsu formed a joint-venture, which will own and operate the plant. The joint venture's plant, when construction is completed, will incorporate cutting-edge technologies of both Shin-Etsu and GE. Commercial production is scheduled to begin in April 2003. In the semiconductor silicon business, Shin-Etsu was the first in the industry to market next-generation 300mm-diameter silicon wafers. Semiconductor device manufacturers want to quickly introduce 300mm wafers into their production lines. Shin-Etsu is aiming to establish a new solid competitive base for its wafer business by supplying 300mm wafers to device manufacturers. Shin-Etsu is now constructing a new manufacturing facility for the production of optical-fiber preform at the Kashima Coastal Industrial Zone in Japan. The company expects to meet expanding demand for preform by doubling its production capacity. Shin-Etsu plans to strengthen and further develop the Shin-Etsu Group's existing businesses, as well as promote promising new business areas such as the optical communications parts business, by actively implementing sales strategies and aggressively making timely investments that will ensure the Group's ability to respond quickly to changing market trends.

With regard to new product development, utilizing Shin-Etsu's own technologies and depth of market information, the company selects key R&D themes in product areas related to its existing businesses and continues to aggressively invest in R&D. Considering the rapid changes in technology, Shin-Etsu attaches much importance to rapidly converting developmental ideas into commercial reality as well as speeding up R&D activity. KrF photoresists represent one of the recent products developed as a result of this kind of commitment. Although Shin-Etsu was a latecomer in entering the business, the company's products received high evaluations from customers, and the company was able to become a top maker in this field. Shin-Etsu is making all-out efforts to nurture new follow-up products such as SOI wafers and a new fluoroelastomer product so as to build new business pillars to add to the company's existing main pillars.

Shin-Etsu pursues the goal of environmental conservation in all phases of its business activities. Most of the major manufacturing facilities in Shin-Etsu Group companies, including all of Shin-Etsu Chemical's and Shin-Etsu Handotai's manufacturing facilities, have obtained ISO 14001 certification. At the same time, Shin-Etsu always puts priority on "safety first" in product manufacturing as well as making intensive effort to insure safety in its products. Shin-Etsu endeavors to keep a good relationship with the people in the local communities in which the company operates, and strives to make useful contributions to society.

Emphasizing the long-term perspective, Shin-Etsu Chemical is committed to giving its shareholders continued stable dividends, while increasing sales and profits and strengthening the company's business structure. The company will use its financial reserves for such needs as facility and R&D investment, strengthening the company's global competitive power and developing promising new businesses. Shin-Etsu Chemical is making strenuous effort to enhance the company's value.

### 3. Results of Operations

#### (1) Operating Environment

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

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

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

As a result, consolidated net sales for the fiscal year increased 18.9% ( ¥128,626 million) compared to the previous fiscal year to become ¥807,484 million. Operating income increased 28.8% ( ¥25,212 million) to ¥112,677 million and ordinary income increased 37.2% ( ¥31,374 million) to ¥115,797 million. Net income increased 33.7% ( ¥16,276 million) to ¥64,505 million.

#### (2) Cash flow statement

	<u>Millions of Yen</u>		<u>Increase</u>
	<u>March 31,2001</u>	<u>March 31, 2000</u>	<u>(Decrease)</u>
Cash and cash equivalents at beginning of year	¥271,634	¥249,180	¥22,454
Cash flows from operating activities	142,201	95,875	46,326
Cash flows from investing activities	(87,169)	(76,348)	(10,821)
Cash flows from financing activities	(70,364)	12,141	(82,505)
Effect of exchange rate changes and other	<u>16,466</u>	<u>(9,215)</u>	<u>25,681</u>
Net increase in cash and cash equivalents	1,134	22,453	(21,319)
Cash and cash equivalents at end of year	272,768	271,634	1,134

Net cash flows provided by operating activity was ¥142,201 million, an increase of ¥46,326 million over that of the previous fiscal year. This rise was mainly due to an increase of income before income taxes, as well as an increase in depreciation and an accrual of retirement benefit costs, both of which are non cash expenses.

Net cash used for investing activities increased over that of previous fiscal year, mainly because of increasing investment for facilities. Major capital expenditures during this fiscal year were allocated for construction of a new U.S. PVC plant in Louisiana and investments in the semiconductor silicon business, especially for 300mm wafer production facilities.

Net cash used for financing activities was ¥70,364 million, including outflows for the redemption of debenture with warrants in the amount of US\$ 500 million. The balance of borrowings, debentures and convertible debentures saw a decrease of ¥62,835 million over that of the previous fiscal year.

As a result, the balance of cash and cash equivalents at the end of fiscal year was ¥272,768 million, an increase of ¥1,134 million over that of the previous fiscal year.

#### (3) Segment Information

##### Organic and inorganic chemicals

The PVC market in U.S. had been very strong until May 2000. However, it entered into an adjustment phase in June 2000 and softened thereafter. Shintech, Inc. achieved excellent results in the first half of this fiscal year, from

January 2000 to June 2000. Shintech maintained its operation in full in the second half of this fiscal year because it was able to quickly detect signs of market change and started export shipments as a result of its highly responsive marketing. Consequently, Shintech achieved record-high profits this fiscal year. The construction of the first half of a new Shintech PVC plant in Louisiana, Shintech's second PVC plant, was completed last December. It successfully started its operation and has been maintaining full operation with an annual production capacity of 300,000 tons. In addition, in the Netherlands, two newly acquired Shin-Etsu Group companies began business operations from January 2000. They achieved business results that exceeded their original sales and profits targets. In Japan, Shin-Etsu implemented an upward price adjustment to offset increasing raw material prices at the second half of this fiscal year. However, the severe situation of the PVC business in Japan continued.

In Japan, sales of silicones were steady in diversified markets, such as for chemical applications, although demand for electrical appliance became weaker in the second half of this fiscal year. Overseas demand in electronics and other product application areas was steady.

In addition, cellulose derivatives and other products made a contribution to this business segment's sales.

As a result, the net sales of this business segment increased 19.5% (¥66,958 million) compared to the previous fiscal year to ¥410,370 million. Operating income increased 4.1% (¥1,853 million) to ¥47,015 million.

### **Electronics materials**

As a result of the strong semiconductor-device market in Japan and internationally, silicon wafer sales were very brisk until the fourth quarter of 2000. However, shipments of silicon wafers, especially small-diameter wafers, saw a downward trend set in during the first quarter of 2001. In addition, mass production lines for next-generation 300mm-diameter silicon wafers - for which demand is rapidly increasing - started commercial operation in February 2001.

The increase in sales of rare earth magnets for the electronics industry was very weak because of production adjustments by hard disk drive manufacturers. Sales of organic materials for the electronics industry increased. Sales of photoresists jumped dramatically.

As a result, the net sales of this business segment increased 17.5% (¥38,615 million) compared to the previous fiscal year to ¥258,746 million. Operating income increased 55.8% (¥13,016 million) to ¥36,360 million.

### **Functional materials and Others**

Sales of optical-fiber preform surged in line with an expansion in the infrastructure for optical-fiber communication around the world. In addition, sales of synthetic quartz substrates for photomasks and LCDs increased.

Sales of oxide single crystals increased as SAW filters for mobile phone applications soared. Sales of rare earth magnets increased for diverse applications.

As a result, the net sales of this business segment increased 20.0% (¥23,053 million) compared to the previous fiscal year to ¥138,367 million. Operating income increased 57.2% (¥10,677 million) to ¥29,328 million.

## **(4) Distribution of Profits**

With regard to the end-of-term dividend for the period under review, the company plans to declare a dividend of ¥6 per share, the same as declared for the interim dividend. As a result, the company expects the annual dividend to increase ¥2 compared to the previous fiscal year to ¥12 per share. Additionally, the company plans to declare a shareholder dividend of ¥12 per share for the next fiscal period.

#### 4. Consolidated Financial Statements

##### 4-1 Comparative Consolidated Balance Sheets

	<u>Millions of Yen</u>		
ASSETS	March 31, 2001	March 31, 2000	Increase (Decrease)
Current Assets:			
Cash on hand and in banks	¥221,222	¥209,057	¥12,165
Notes and accounts receivable-trade	221,276	182,433	38,843
Securities	99,781	85,066	14,715
Inventories	118,279	97,455	20,824
Deferred tax assets	24,004	17,120	6,884
Other current assets	24,935	21,737	3,198
Less: Allowance for doubtful accounts	(4,222)	(2,268)	(1,954)
Total current assets	<u>705,278</u>	<u>610,603</u>	<u>94,675</u>
Fixed Assets:			
Tangible fixed assets			
Buildings and structures	155,674	141,887	13,787
Machinery and vehicles	194,804	160,377	34,427
Land	33,375	29,484	3,891
Construction in progress	25,139	33,222	(8,083)
Others	13,249	13,299	(50)
	<u>422,243</u>	<u>378,272</u>	<u>43,971</u>
Intangible fixed assets	3,416	5,751	(2,335)
Investments and others			
Investments in securities	108,891	112,267	(3,376)
Deferred tax assets	15,962	9,028	6,934
Others	10,049	20,507	(10,458)
Less: Allowance for doubtful accounts	(41)	(72)	31
	<u>134,861</u>	<u>141,730</u>	<u>(6,869)</u>
Total fixed assets	<u>560,521</u>	<u>525,754</u>	<u>34,767</u>
Deferred Assets:			
Discounts on debenture issue	-	581	(581)
Total deferred assets	<u>-</u>	<u>581</u>	<u>(581)</u>
Adjustment on Foreign currency Statement translation	-	31,789	(31,789)
TOTAL ASSETS	<u>¥1,265,799</u>	<u>¥1,168,729</u>	<u>¥97,070</u>

Millions of Yen

## LIABILITIES

	March 31, 2001	March 31, 2000	Increase (Decrease)
Current Liabilities:			
Notes and accounts payable-trade	¥111,900	¥90,531	¥21,369
Short-term borrowings	82,422	87,727	(5,305)
Debentures of redemption within one year	3,235	51,662	(48,427)
Accounts payable-others	39,050	30,229	8,821
Accrued income taxes	40,592	18,084	22,508
Accrued expenses	51,439	39,277	12,162
Other current liabilities	25,770	19,588	6,182
Total current liabilities	354,412	337,100	17,312
Long-term Liabilities:			
Debentures	42,910	44,884	(1,974)
Convertible debentures	18,340	18,965	(625)
Long-term borrowings	44,090	50,594	(6,504)
Deferred tax liabilities	19,243	15,718	3,525
Accrued retirement benefits	27,967	7,221	20,746
Excess of investment cost over equity in net assets of consolidated subsidiaries	-	238	(238)
Other long-term liabilities	19,558	19,444	114
Total long-term liabilities	172,109	157,067	15,042
TOTAL LIABILITIES	526,522	494,167	32,355
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	24,280	23,299	981
STOCKHOLDERS' EQUITY			
Capital stock	110,247	107,663	2,584
Legal capital reserve	119,016	115,856	3,160
Consolidated retained earnings	493,169	433,460	59,709
Unrealized gain on available-for-sale securities	9,741	-	9,741
Adjustment on foreign currency statement translation	(9,530)	-	(9,530)
Treasury stock	(7,648)	(5,719)	(1,929)
TOTAL STOCKHOLDERS' EQUITY	714,996	651,261	63,735
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	¥1,265,799	¥1,168,729	¥97,070
(Notes)			
1. Accumulated depreciation of tangible fixed assets (in millions of Yen)	¥641,685	¥578,227	
2. Liabilities for guarantee (in millions of Yen)	¥1,575	¥2,854	
3. Number of shares of treasury stock (in shares)	1,892,088	1,698,395	

## 4-2 Comparative Consolidated Income Statements

	<u>Millions of Yen</u>		
	<u>For the year ended</u>		
Operating Income and Expenses:	<u>March 31, 2001</u>	<u>March 31, 2000</u>	<u>Increase (Decrease)</u>
Net sales	¥807,484	¥678,858	¥128,626
Cost of sales	<u>603,560</u>	<u>507,193</u>	<u>96,367</u>
Gross profit	203,924	171,665	32,259
Selling, general and administrative expenses	<u>91,247</u>	<u>84,200</u>	<u>7,047</u>
Operating income	112,677	87,465	25,212
Non-operating Income:			
Interest and dividend income	9,229	9,578	(349)
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	273	238	35
Equity in earnings of affiliates	1,924	1,324	600
Other income	<u>10,133</u>	<u>6,891</u>	<u>3,242</u>
	21,560	18,032	3,528
Non-operating Expenses:			
Interest expenses	7,841	8,982	(1,141)
Other expenses	<u>10,598</u>	<u>12,091</u>	<u>(1,493)</u>
	18,439	21,074	(2,635)
Ordinary income	115,797	84,423	31,374
Special Gains:			
Gains on sales of investments in securities	8,410	-	8,410
Gains on sales of property, plant and equipment	8,080	1,413	6,667
Gain on transfer of securities to retirement benefits trust	5,234	-	5,234
Reversal of prior year's accrued maintenance expenses	4,039	-	4,039
	<u>25,765</u>	<u>1,413</u>	<u>24,352</u>
Special Losses:			
Special provision for retirement benefits costs	27,497	-	27,497
Loss on write-down of investment securities	5,264	2,932	2,332
	<u>32,762</u>	<u>2,932</u>	<u>29,830</u>
Income before income taxes	108,800	82,904	25,896
Income taxes Current	61,030	33,243	27,787
Income taxes Deferred	(19,341)	(366)	(18,975)
Minority interest in earnings of consolidated subsidiaries	2,606	1,798	808
Net income	<u>¥64,505</u>	<u>¥48,229</u>	<u>¥16,276</u>

#### 4-3 Comparative Consolidated Statements of Retained Earnings

	<u>Millions of Yen</u>		Increase (Decrease)
	<u>For the year ended</u>		
	<u>March 31, 2001</u>	<u>March 31, 2000</u>	
Balance at the beginning of year	¥433,460	¥365,252	¥68,208
Prior year's adjustment by application of deferred taxes accounting	-	23,636	(23,636)
Increase due to additional consolidation Of subsidiaries	-	428	(428)
Total increase	-	428	(428)
Cash dividends	4,613	3,910	703
Directors' and statutory Auditors' bonuses	182	177	5
Total decrease	4,795	4,087	708
Net income	64,505	48,229	16,276
Balance at the end of year	¥493,169	¥433,460	¥59,709

#### 4-4 Comparative Consolidated statements of cash flows

	Millions of Yen		Increase (Decrease)
	For the year ended		
	March 31,2001	March 31,2000	
1.Cash flows from operating activities:			
Income before income taxes	¥108,800	¥82,904	¥25,896
Depreciation and Amortization	70,767	61,384	9,383
Amortization of bond discounts	581	1,743	(1,162)
Increase in accrued retirement benefits	26,915	2,033	24,882
Loss on write-down of investment securities	5,264	2,932	2,332
Interest and dividend income	(9,229)	(9,578)	349
Interest expenses	7,841	8,982	(1,141)
Exchange loss (gain)	(6,331)	5,478	(11,809)
Equity in earnings of affiliates	(1,924)	(1,324)	(600)
Transfer of securities to retirement benefits trust	7,254	-	7,254
Gains on transfer of securities to retirement benefits trust	(5,234)	-	(5,234)
Increase in notes and accounts receivable	(30,664)	(36,846)	6,182
Increase in inventories	(15,537)	(5,009)	(10,528)
Increase in notes and accounts payable	25,651	12,518	13,133
Other, net	(3,595)	(6,621)	3,026
Subtotal	180,558	118,598	61,960
Proceeds from interest and dividend	9,327	9,578	(251)
Payment of interest	(9,004)	(8,837)	(167)
Payment of income taxes	(38,680)	(23,462)	(15,218)
Net cash provided by operating activities	142,201	95,875	46,326
2.Cash flows from investing activities			
Increase in marketable securities	(560)	(8,697)	8,137
Purchase of property, plant and equipment	(87,641)	(54,665)	(32,976)
Proceeds from sales of property, plant and equipment	8,741	1,462	7,279
Purchase of intangible fixed asset	(641)	(4,244)	3,603
Purchase of investment securities	(26,997)	(4,921)	(22,076)
Proceeds from sales and redeeming of investment securities	23,338	3,976	19,362
Payments of loans	(2,710)	(13,709)	10,999
Proceeds from collection of loan	356	2,456	(2,100)
Other, net	(1,055)	1,995	(3,050)
Net cash used for inventing activities	(87,169)	(76,348)	(10,821)
3.Cash flows from financing activities			
Net increase (decrease) in short term debt	(4,427)	78	(4,505)
Proceeds from long term debt	10,944	17,871	(6,927)
Repayment of long term debt	(21,957)	(12,639)	(9,318)
Payment of debentures on redemption	(52,350)	(3,558)	(48,792)
Proceeds from issue of shares	4,539	16,645	(12,106)
Dividends paid	(4,613)	(3,910)	(703)
Other, net	(2,499)	(2,344)	(155)
Net cash provided by / (used for) financing activities	(70,364)	12,141	(82,505)
4.Effect of exchange rate changes on cash and cash equivalents	14,465	(10,434)	24,899
5.Net increase (decrease) in cash and cash equivalents	(867)	21,235	(22,102)
6.Cash and cash equivalents at beginning of year	271,634	249,180	22,454
7.Net increase in cash and cash equivalents by change of consolidation scope	2,001	1,218	783
8.Cash and cash equivalents at end of year	272,768	271,634	1,134

#### 4-5 Basis of Presenting Consolidated Financial Statement

##### 1. Scope of Consolidation

Consolidated Subsidiaries	60	Shintech, Inc.(Overseas subsidiary) Shin-Etsu Handotai Co., Ltd. Shin-Etsu Handotai America, Inc.(Overseas subsidiary) Shin-Etsu Polymer Co., Ltd. Shin-Etsu Astech Co., Ltd. S.E.H. Malaysia Sdn. Bhd.(Overseas subsidiary) Naoetsu Electronics Co., Ltd. Shin-Etsu Handotai Europe, Ltd. (Overseas subsidiary) Shin-Etsu Engineering Co., Ltd. Shin-Etsu Vinyl Acetate Co., Ltd. Nissin Chemical Industry Co., Ltd. 49 other subsidiaries
Unconsolidated Subsidiaries	36	

##### 2. Application of Equity Method

The Company had 36 unconsolidated subsidiaries and 16 affiliates. The equity method is applied to the investments in seven major affiliates - Shin-Etsu Quartz Products Co., Ltd., Kashima Vinyl Chloride Monomer Co., Ltd., Nagano Electronics Industrial Co., Ltd. and 4 other affiliates.

##### 3. Fiscal Year of Consolidated Subsidiaries

32 subsidiaries use fiscal year ending on December 31, and 4 subsidiaries use that ending on February 28, respectively. For consolidation of the accounts of these 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.

##### 4. Significant Accounting Policies

###### (1) Valuation policy and method of significant assets

###### <1> Valuation of securities

Bonds held to maturity	••••••••	Amortized cost method
Available-for-sale securities		
Marketable securities	••••••••	Market price method based on the fair market value as of the date of balance sheet. (Any balances resulting from valuation of securities shall directly be entered into capital accounts, while any costs of sales of marketable securities shall principally be calculated based on a moving average cost method)
Non-marketable securities	••••••••	Mainly moving average cost method

###### <2> Inventory valuation

•••••••• Mainly average cost method

###### <3> Derivatives

•••••••• Market value method

###### (2) Depreciation method of significant depreciable assets

Tangible fixed assets                      •••••••• Mainly declining-balance method

###### (3) Calculation method of significant allowances

<1> 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.

<2> 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 current fiscal year. The transition obligation of ¥27,497 million resulting from the adoption of new accounting standards for retirement benefits is charged to income and reported as a Special Loss in the income statement. The actuarial difference is amortized over five-year period, which is within the average employees' service year, using straight-line method from the time when the difference was generated.

(4) Accounting method of significant lease transactions

Accounting method in connection with the contracts of finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees is mainly according to that of ordinary lease transactions.

5. Excess of investment cost over equity in net assets of consolidated subsidiaries is amortized over five years on a straight-line basis.

6. Consolidated Statements of Retained Earnings is based on the distribution of profits defined in this fiscal year.

7. Nature of Fund on Consolidated Cash Flow Statement

Fund (cash and cash equivalents) on the consolidated statements of cash flows consists of cash on hand, deposit that can be withdrawn without limitation and liquid investment which are easily convertible into cash, and are matured within approximately three months since acquisition date, and has insignificant risk exposure in terms of fluctuation on value of the investments.

#### **4-6. Additional Information**

1. Accounting for retirement benefits

Effective April 1, 2000, "Accounting for retirement benefits" was adopted.

The Company contributed certain marketable equity securities to retirement benefits trust and recognized a gain of ¥5,234 million as "Gain on transfer of securities to retirement benefits trust" in the consolidated income statement. The adoption of new accounting standards for retirement benefits resulted in the increase in "Pension and Severance Costs" by ¥27,356 million and "Ordinary income" by ¥95 million. On the other hand, "Income before income taxes" was decreased by ¥22,167 million.

2. Accounting for financial instruments

Effective April 1, 2000, "Accounting for financial instruments" was adopted. However the effect of this adoption is immaterial.

As a result of evaluating marketable securities on the fair market value, "Unrealized gain on available-for-sale" of ¥9,741 million was recorded. Due to the evaluation, "Deferred Tax Assets" was decreased by ¥7,013 million and "Minority interests" was increased by ¥70 million.

3. Accounting for transaction in foreign currencies

Effective April 1, 2000, "Accounting for transaction in foreign currencies" was adopted. The effect of adoption is immaterial.

In accordance with new accounting standards, "Adjustment on Foreign currency statement translation", which had been recorded as accounts under the "Assets" in the prior fiscal years were recorded as accounts under the "STOCKHOLDERS' EQUITY" or included in the "MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES" account effective from this fiscal year.

## 5. Segment Information

### 5-1. Business Segment Information

		Millions of Yen					
		For the year ended March 31, 2001					
		Industrial Segment					
		Organic and inorganic Chemicals	Electronics materials	Functional materials and others	Total	Elimination or Common assets	Consolidated total
Sales	Outside						
	Customers	410,370	258,746	138,367	807,484	-	807,484
	Inter Segment	11,502	2,298	67,142	80,943	(80,943)	-
	Total	421,873	261,044	205,510	888,428	(80,943)	807,484
	Operating costs and expenses	374,858	224,684	176,181	775,724	(80,916)	694,807
	Operating income	47,015	36,360	29,328	112,704	( 26)	112,677
	Assets	430,164	432,768	188,000	1,050,932	214,866	1,265,799
	Depreciation	23,503	35,286	12,242	71,032	( 264)	70,767
	Capital expenditure (Footnote)	50,303	37,985	21,838	110,127	( 303)	109,823

(Footnote) ¥13,053 million paid in January 2000 for acquisition of PVC business in Europe are included in the capital expenditure ("Organic and inorganic chemicals") of this fiscal year. This is substantially the capital expenditure of last fiscal year. Total capital expenditure excluding this payment would be amounted to ¥96,770 million in this fiscal year.

		Millions of Yen					
		For the year ended March 31, 2000					
		Industrial Segment					
		Organic and inorganic Chemicals	Electronics Materials	Functional materials and others	Total	Elimination or Common assets	Consolidated total
Sales	Outside						
	Customers	343,412	220,131	115,314	678,858	-	678,858
	Inter Segment	13,373	1,565	56,715	71,653	(71,653)	-
	Total	356,785	221,696	172,029	750,511	(71,653)	678,858
	Operating costs and expenses	311,622	198,352	153,378	663,353	(71,960)	591,393
	Operating income	45,162	23,344	18,651	87,158	306	87,465
	Assets	366,882	386,320	151,530	904,733	263,995	1,168,729
	Depreciation	20,994	29,792	10,888	61,675	( 291)	61,384
	Capital expenditure (Footnote)	26,397	25,025	7,841	59,264	( 154)	59,109

- (Footnote) 1. ¥7,839 million of investments to equipment that Silica Products Inc. made in last fiscal year is not included in the capital expenditure (“Functional materials and others”) noted above due to initial consolidation of the company from this fiscal year.
2. ¥13,053 million paid in January 2000 for acquisition of PVC business in Europe is recognized as transaction in the next fiscal year. It is not included in the capital expenditure (“Organic and inorganic chemicals”) in this fiscal year.
3. Had the investments of 1 and 2 above been included, total capital expenditure would be Amounted to ¥80,003 million in this fiscal year.

(Notes) 1. The following three lines of business are divided from point of view of kinds of products and markets.

Organic and inorganic chemicals business segment	Polyvinyl chloride, Silicone, Vinyl acetate monomer, Polyvinyl alcohol, Methanol, Chloromethanes, Cellulose derivatives, Caustic soda, Fertilizers, and Silicon metal
Electronics materials business segment	Semiconductor silicon, Organic materials for the electronics industry, Rare earth magnets for the electronics industry, and Photoresist
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, and Information processing

2. The amounts of the common assets included in the column “Elimination or common assets” for the year ended 31st March, 2000 and 2001 were ¥294,942 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.

## 5-2. Geographic Segment information

Millions of Yen							
For the year ended March 31, 2001							
Geographic area							
	Japan	North America	Asia	Other Area	Total	Elimination or Common assets	Consolidated total
Sales Outside							
Customers	495,560	171,452	71,620	68,852	807,484	-	807,484
Inter Segment	98,587	17,113	32,544	4,418	152,664	(152,664)	-
Total	594,147	188,565	104,164	73,271	960,149	(152,664)	807,484
Operation costs and expenses	514,550	168,236	95,815	68,559	847,161	(152,353)	694,807
Operating income	79,597	20,328	8,349	4,711	112,987	( 310)	112,677
Assets	667,046	261,712	92,635	76,131	1,097,526	168,272	1,265,799

Millions of Yen							
For the year ended March 31, 2000							
Geographic area							
	Japan	North America	Asia	Other Area	Total	Elimination or common assets	Consolidated total
Sales Outside Customers	457,602	136,601	56,997	27,656	678,858	-	678,858
Inter Segment	80,763	16,153	30,125	4,610	131,652	(131,652)	-
Total	538,365	152,755	87,123	32,267	810,511	(131,652)	678,858
Operation costs and expenses	472,942	137,861	80,367	31,644	722,816	(131,422)	591,393
Operating income	65,423	14,893	6,755	622	87,695	( 229)	87,465
Assets	606,877	230,230	77,874	65,102	980,085	188,643	1,168,729

(Notes) 1. Main countries or areas other than Japan

North America : U.S.A

Asia : Malaysia, Singapore, Korea, Taiwan

Other area : U.K., the Netherlands, Australia

2. The amounts of the common assets included in the column "Elimination or common assets" for the year ended 31st March, 2000 and 2001 were ¥294,942 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.

### 5-3. Overseas sales information

Millions of Yen				
For the year ended March 31, 2001				
	North America	Asia	Other area	Total
Overseas sales	183,059	167,721	90,864	441,646
Consolidated sales				807,484
Percentage of overseas sales over consolidated sales	22.7%	20.8%	11.2%	54.7%
Millions of Yen				
For the year ended March 31, 2000				
	North America	Asia	Other area	Total
Overseas sales	153,788	146,091	47,912	347,791
Consolidated sales				678,858
Percentage of overseas sales over consolidated sales	22.6%	21.5%	7.1%	51.2%

(Notes) 1. Main countries or areas

North America : U.S.A, Canada

Asia : Korea, Taiwan, China

Other area : Europe, Middle South America, Oceania

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

## 6. Lease Transactions

1. In connection with the contracts of finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees.

- (1) The amount corresponding to acquisition cost, accumulated depreciation and net book value

	<u>Millions of Yen</u>	
	<u>March 31, 2001</u>	<u>March 31, 2000</u>
The amount corresponding to Acquisition cost	3,161	1,847
The amount corresponding to Accumulated depreciation	2,020	1,119
The amount corresponding to net book value	1,141	727

- (2) The amount corresponding to future lease payments

	<u>Millions of Yen</u>	
	<u>March 31, 2001</u>	<u>March 31, 2000</u>
Within one year	556	313
Over one year	584	414
Total	1,141	727

- (3) Lease expenses corresponding to depreciation expenses

	<u>Millions of Yen</u>	
	<u>March 31, 2001</u>	<u>March 31, 2000</u>
Lease expenses corresponding to depreciation expenses	628	392

- (4) The computation of the amount corresponding to depreciation expenses

The amount corresponding to depreciation expenses is computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value. The figures shown in the Note above include the portion of interests thereon.

2. Operating lease transaction

The amount corresponding to future lease payments

	<u>Millions of Yen</u>	
	<u>March 31, 2001</u>	<u>March 31, 2000</u>
Within one year	865	1,228
Over one year	2,039	2,191
Total	2,904	3,419

## 7. Securities

As of March 31, 2001

(1) Market value of bonds held to maturity

	Millions of Yen		
	Book value	Market value	Unrealized gain(loss)
Securities whose market value exceed book value			
Government bond, Local government bond and others	0	0	0
Debentures	-	-	-
Others	2,019	2,037	17
Sub Total	2,019	2,037	18
Securities whose market value does not exceed book value			
Government bond, Local government bond and others	-	-	-
Debentures	-	-	-
Others	20	19	( 0)
Sub Total	20	19	( 0)
Total	2,039	2,057	17

(2) Available-to-sale securities whose fair values are defined

	Millions of Yen		
	Acquisition Cost	Book value	Unrealized gain(loss)
Securities whose book value exceed acquisition cost			
Stocks	17,785	35,666	17,881
Bonds			
Government bond, Local government bond and others	-	-	-
Debentures	4	4	0
Others	2,239	2,284	44
Sub Total	20,028	37,955	17,926
Securities whose book value does not exceed acquisition cost			
Stocks	21,854	17,077	(4,776)
Bonds			
Government bond, Local government bond and others	-	-	-
Debentures	-	-	-
Others	480	467	( 12)
Sub Total	22,334	17,545	(4,789)
Total	42,363	55,500	13,137

(3) "Available-for-sale Securities" sold during the fiscal year ended March 31, 2001

	<u>Millions of Yen</u>
Amount sold	¥10,033
Net gains	¥8,410

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

	Millions of Yen	
	Book value	
1. Bonds held to maturity		
Discount bond		18,878
Non-listed domestic bonds		5,007
Non-listed overseas bonds		41,475
2. Investments in non-consolidated subsidiaries and affiliates		24,384
3. Available-for-sale securities		
Non-listed shares		5,959
Non-listed overseas bonds		55,407
Others		19

## (5) Repayment schedule of Available-for-sale securities with maturity and Bonds held to maturity

	Millions of Yen		
	Within one year	Over one year within five years	Over five years within ten years
Bonds			
Government bond, Local government bond and others	0	4	3
Debentures	-	4	-
Other bonds	96,183	23,048	-
Total	96,183	23,057	3

As of March 31, 2000

	Millions of Yen		
	Book value	Market value	Unrealized gain(loss)
Current assets			
Shares	236	505	269
Bonds	300	224	(75)
Others	0	0	0
Subtotal	536	730	193
Fixed assets			
Shares	34,192	70,290	36,098
Bonds	284	284	0
Others	1,438	1,424	(14)
Subtotal	35,914	71,999	36,084
Total	36,451	72,729	36,277

(Notes) 1. Basis of determining the Market Value

Listed marketable securities.....	Mainly, the last market quotations on the Tokyo Stock Exchange
Marketable securities over the counter dealings .....	Mainly, the last market quotations announced by Japan Securities Dealers Association
Securities with quotations (except securities above) .....	Standard quotations of over-the-counter dealing of bonds reported by the Japan Securities Dealers Association
Beneficiary certificates of Investment trust .....	Standard basic price

Price of the market value or price equivalent to the market value of the unlisted bonds is computed by reference to the yield of bonds based on the nominal price announced by the Japan Securities Dealers Association and by reference to the remaining period to their maturity of those bonds.

2. Book Value of securities which are not disclosed.

	<u>Millions of Yen</u>
	<u>March 31,2000</u>
Current Assets	
Non-listed domestic bonds	¥19,304
Non-listed overseas bonds	1,454
Commercial papers	63,770
Fixed Assets	
Non-listed shares	30,711
Non-listed domestic bonds	2,024
Non-listed overseas bonds	43,604
Others	11

## 8. Derivative transactions

As of March 31, 2001

Currency relatives	Amount translated At contract rate <u>[over one year]</u>	<u>Millions of Yen</u>	
		<u>Market value</u>	<u>Unrealized gain or (loss)</u>
Foreign exchange contracts			
Sales Contracts:			
US\$	¥ 21,230	¥ 21,801	¥ ( 571)
	[ - ]		
Other	419	426	( 7)
	[ - ]		
Buy's Contracts:			
US\$	3,955	4,167	211
	[ - ]		
<hr/> Total	<hr/> -	<hr/> -	<hr/> ( 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	Amount translated at contract rate <u>[over one year]</u>	<u>Millions of Yen</u>	
		<u>Market value</u>	<u>Unrealized gain or (loss)</u>
Interest swap contracts:			
Fixed receipt	¥10,000	¥ 467	¥ 467
Variable payable	[10,000]		
Fixed payable	10,000	(534)	(534)
Variable receipt	[10,000]		
<hr/> Total	<hr/> 20,000	<hr/> (67)	<hr/> (67)
	[20,000]		

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

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

As of March 31, 2000

Currency relatives	Amount translated at contract rate [over one year]	<u>Millions of Yen</u>	
		<u>Market value</u>	<u>Unrealized gain or (loss)</u>
Foreign exchange contracts			
Sales Contracts:			
US\$	¥ 351	¥ 356	¥ ( 5)
	[ - ]		
DGL	6	6	0
	[ - ]		
Buy's Contracts:			
US\$	2,195	2,103	( 91)
	[ - ]		
<hr/> Total	<hr/> -	<hr/> -	<hr/> ( 97)

(Notes) 1. Market rate represents the forward foreign exchange rate prevailing as of March 31, 2000.

2. Any assets or liabilities denominated in foreign currencies, which are covered with the forward foreign exchange contracts to fix Japanese yen amount, and recorded in Japanese yen in the balance sheet, are excluded from the above.

Interest relatives	Amount translated at contract rate [over one year]	<u>Millions of Yen</u>	
		<u>Market value</u>	<u>Unrealized gain or (loss)</u>
Interest swap contracts:			
Fixed receipt	¥29,500	¥(1,028)	¥(1,028)
Variable payable	[29,000]		
Fixed payable	15,000	504	504
Variable receipt	[15,000]		
<hr/> Total	<hr/> 44,500	<hr/> (524)	<hr/> (524)
	[44,000]		

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

## 9. Retirement Benefit

### 1. Overview of Retirement Benefit Plan

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.

Certain overseas consolidated subsidiaries also have defined benefit pension plans.

Additionally, the Company set up "Retirement Benefits Trust" in current fiscal year.

### 2. Benefit Obligation (As of March 31, 2001)

	Millions of Yen
(a) Benefit Obligation	(68,998)
(b) Pension Assets	37,951
(c) Shortfall of Benefit Obligation [(a)+(b)]	(31,047)
(d) Undisposed of Net Transition Assets	-
(e) Unrecognized actuarial differences	3,080
(f) Unrecognized past service obligations	-
(g) Amount shown on Balance Sheet [(c)+(d)+(e)+(f)]	(27,967)
(h) Prepaid pension expenses	-
(i) Accrual Retirement Benefits [(g)-(h)]	(27,967)

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

	Millions of Yen
(a) Service costs	3,213
(b) Interest costs	1,946
(c) Expected return	(894)
(d) Amortization of transition obligation	27,497
(e) Recognized actuarial loss	777
(f) Amortization of prior service cost	-
(g) Retirement Benefit Costs [(a)+(b)+(c)+(d)+(e)+(f)]	32,541

### 4. Basic Assumptions for Calculating Benefit Obligation

(a) Period allocation method for estimated retirement benefits	fix period standard
(b) Discount rate	principally 3%
(c) Expected return on plan assets	principally 3%
(d) Period of amortizing actuarial differences	5years (expensed from current fiscal year based on straight-line method)
(e) Period of amortizing transition obligation	Expensed the total in current fiscal year incurred