ANNUAL REPORT 2000

MEMC

TECHNOLOGY IS BUILT ON US

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2000 ANNUAL REPORT

Financial Highlights...

(Dollars in thousands, except share data)

Year ended December 31,	*2000*	*1999*	*1998*
Net sales	$871,637	$693,594	$758,916
Net loss	(43,390)	(151,481)	(316,332)
Diluted loss per share	(0.62)	(2.43)	(7.80)
Research and development expenses	72,155	85,019	81,591
Capital expenditures	57,812	49,256	194,610
Working capital	86,782	86,306	40,494
Stockholders' equity	366,419	432,791	399,040
Book value per share	5.26	6.22	9.85
Total debt to total captalization	71%	65%	67%
Employment	7,000	6,000	6,300

MEMC is a leading supplier of silicon wafers. Silicon wafers are the fundamental building blocks for semiconductors which make possible the Internet and electronic commerce, telecommunications, computers, consumer electronics, industrial automation and control systems, analytical and defense systems — and literally tens of thousands of new applications each year. **MEMC silicon wafers are the foundation for technology of the new millenium.**

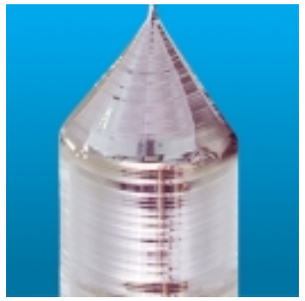
MEMC

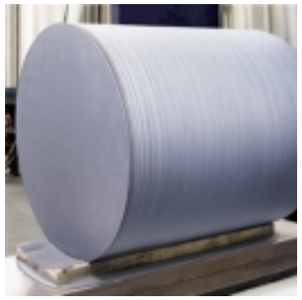
TECHNOLOGY IS BUILT ON US

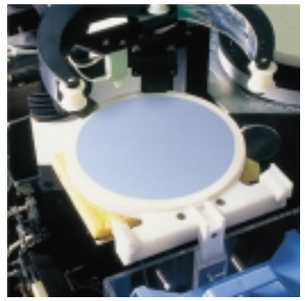
MEMC • POSITIONED TO **LEAD THE INDUSTRY**

How silicon wafers are made:
From single crystal growth to wafer polishing and epitaxial deposition, MEMC has been a global leader in manufacturing silicon wafers for more than 40 years.

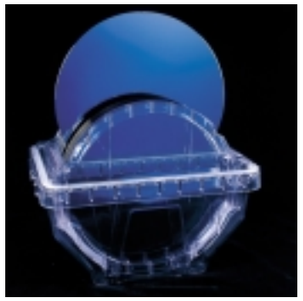

Electronic grade granular polysilicon


Ingot growth


Wafer slicing


Wafer polishing


Epitaxial deposition


Wafers packed for shipment

Product Offerings:
MEMC now offers a broader portfolio of products than ever before.

Granular Polysilicon: Our patented granular polysilicon offers distinct cost and productivity advantages. It is a key raw material in the manufacture of 200 millimeter and 300 millimeter wafers.

MDZ®: Magic Denuded Zone,® based on patented technology developed by MEMC, offers a near surface defect-free region and robust and reproducible internal gettering where impurities are drawn away from the surface of the wafer.

Advanta: Our Advanta product offers higher performance than a standard polished wafer at a highly competitive price.

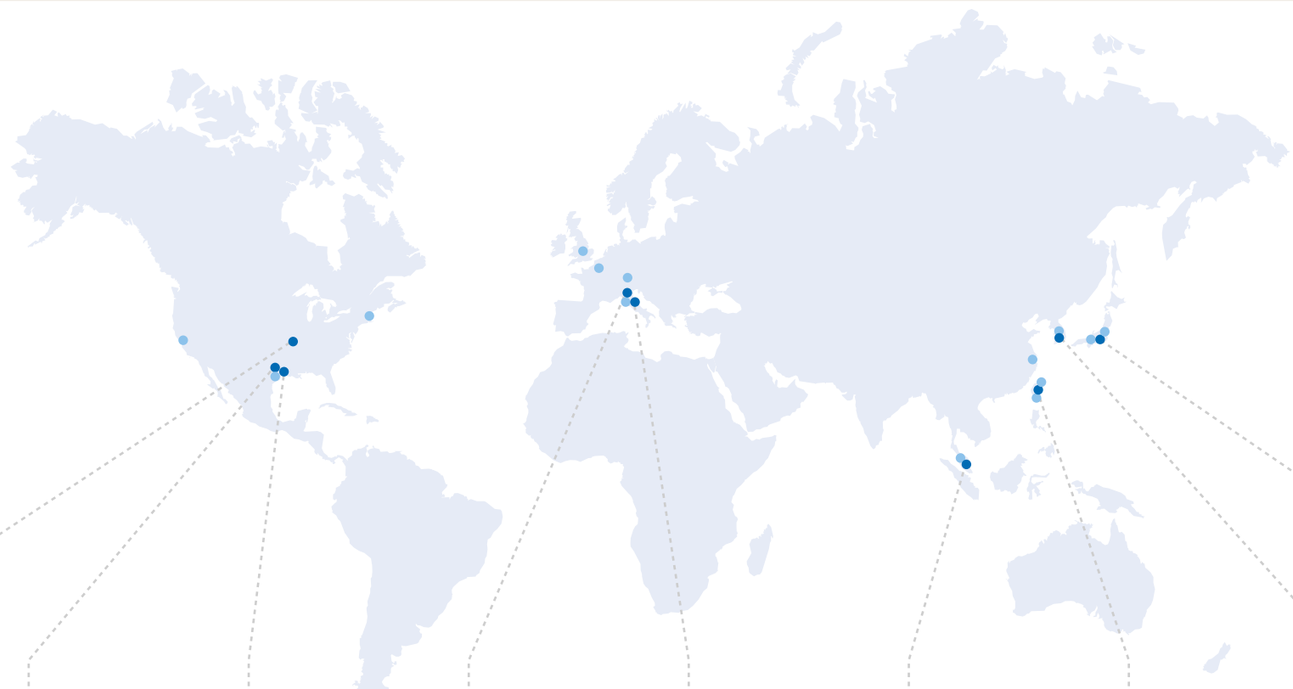
EPI II: This epi wafer uses a thin layer of epitaxial silicon to eliminate surface defects on a wafer. This product offers performance advantages over other types of wafers.

300 millimeter: MEMC produced its first 300 millimeter wafer in 1991. We operate a 300 millimeter facility in Utsunomiya, Japan, which is the largest dedicated 300 millimeter production and development facility in the world today.

Global Presence:
MEMC operates manufacturing facilites, directly or through joint ventures, in every major semiconductor region throughout the world, including Europe, Malaysia, Japan, South Korea, Taiwan and the United States.

Manufacturing Facilities

- St. Peters, Missouri
- Sherman, Texas
- Pasadena, Texas
- Merano, Italy
- Novara, Italy
- Kuala Lumpur, Malaysia
- Hsinchu, Taiwan
- Chonan, South Korea
- Utsunomiya, Japan



Sales Offices

- San Jose, California
- Plano, Texas
- Boston, Massachusetts
- Milton Keynes, United Kingdom
- Paris, France
- Munich, Germany
- Novara, Italy
- Kuala Lumpur, Malaysia
- Shanghai, China
- Taipei, Taiwan
- Hsinchu, Taiwan
- Seoul, Korea
- Tokyo, Japan
- Osaka, Japan


St. Peters, Missouri


Sherman, Texas


Pasadena, Texas


Merano, Italy


Novara, Italy


Kuala Lumpur, Malaysia


Hsinchu, Taiwan


Chonan, South Korea

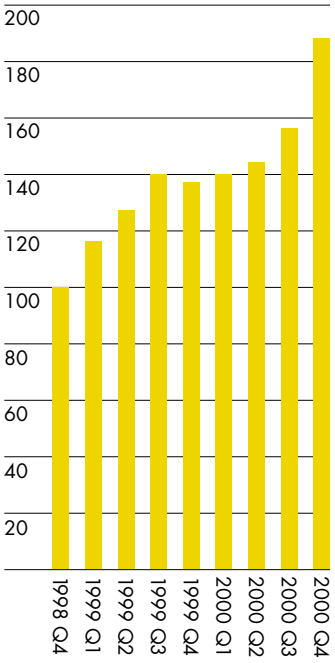

Utsunomiya, Japan

to our **stockholders**

Results for 2000 reflect our acquisition of an additional 40 percent of MEMC Korea Company (MKC), consolidated in the fourth quarter.

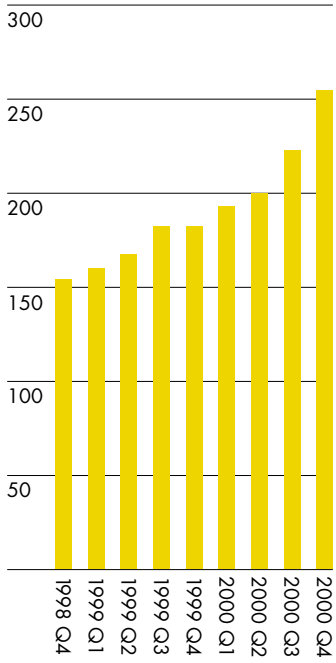
Increasing Volumes

(Indexed to 4Q98 =100)



Increasing Sales

(Dollars in millions)



Three factors worked together to strongly improve MEMC financial performance in 2000: increased market demand, a stabilized pricing environment and MEMC's improved cost structure.

Increased market demand and the accompanying pricing improvement lifted the wafer industry and MEMC from recession. Adding the effect of MEMC's continued cost reductions meant that:

- MEMC realized positive net income in the fourth quarter of 2000, the first quarter with positive net income since 1997 when the industry recession started.
- MEMC free cash flow totaled $31 million in the 2000 fourth quarter, its highest level since we became a public company in 1995.
- MEMC operating cash flow totaled $52 million for the year.

We achieved these positive results with much lower selling prices as compared to prior years; prices in 2000 were almost 30% below their peak reached in 1996.

Positive trends in 2000

Charts that accompany this letter tell the story. By design, the charts begin in the trough of the industry recession – the fourth quarter of 1998. They illustrate consistent improvement in MEMC's product demand, net sales, cost performance and profitability. Note that one of the most significant improvements was achieved in a measurement that MEMC people control – our cost performance.

Including the consolidation of MEMC Korea Company (MKC) in the 2000 fourth quarter, product volumes in 2000 increased 21 percent versus a nine percent increase in 1999 and a 14 percent decrease in 1998.

Average selling prices increased modestly in 2000, resulting from both pure price increases and improvements in product mix as compared to significant declines in pricing in 1999 and 1998. While selling prices have shown modest improvements over the last year, they are not yet at a level that would enable significant capacity expansion.

Revenues increased to $872 million, 26 percent over 1999 and 15 percent over 1998, including the effect of consolidating MKC. Gross margins improved in 2000 to 15 percent of sales versus 1999's negative one percent and 1998's negative four percent.

Building a base of stability

MEMC took actions in 2000 to expand competitive strengths and create a base of stability within our volatile industry. Following are highlights that are further developed in later pages of this Report.

- We built alliances with strategic customers that resulted in significant win-win benefits including increased sales and sharing of technology road maps. Partnering with our customers is part of our strategy to create long-term stability in our cyclical industry.
- We worked closely with selected customers to test and qualify products launched last year. Collaborative efforts paid off in increased sales of value-added products and customer requests to our competitors that they license MEMC technologies for advanced silicon wafers.
- We achieved higher customer rankings for quality and reduced customer advisories.
- We redesigned our organizations in Europe and the United States to provide a central contact for faster, more personal customer service and order management. This customer service concept will be expanded to the Asia Pacific and Japan regions in 2001.
- We refocused sales and marketing, allowing account managers to concentrate their time on customer relationships and strategic issues.
- We acquired an additional 40 percent interest in MKC, increasing our ownership to 80 percent, with our customer Samsung remaining a 20 percent partner. MKC is an excellent asset – highly efficient and strategically located in the high-growth Asia Pacific market.
- We realized further cost reductions without sacrificing future growth opportunities. Training in new manufacturing approaches and emphasis on cost control will continue in 2001. Indeed, continuous training and continuous cost reduction have become routine for MEMC.
- We launched a corporate identity program to strengthen the MEMC global brand and reflect the importance of silicon wafers to the Information Age. Technology is, literally, built on us. As the world's first merchant manufacturer of silicon wafers, MEMC has played a leadership role in the industry for more than 40 years.

Left: Klaus von Hörde, President and Chief Executive Officer
Right: James M. Stolze, Executive Vice President and Chief Financial Officer

Senior Management Team
Back Row: John De Luca, Julius Glaser, Jim Weathers, Jon Jansky, Tom Stiffler
Front Row: Sam Duggan and Helene Hennelly

How MEMC has repositioned itself

Looking back beyond last year, MEMC has effectively repositioned itself in at least two important ways.

First, we have repositioned our product mix from smaller to larger diameters and from lower to higher value-added products. For example, since 1996 we have more than doubled our capacity for 200 millimeter wafers – today's workhorse for semiconductor manufacturers – while substantially reducing capacity for 150 millimeter wafers, which are experiencing declining demand. Also, we have 300 millimeter facilities in place and producing – in both the United States and Japan. Both have room for expansion. In short, we have no need in the short term to build plants for increased 300 millimeter demand.

Second, MEMC has repositioned itself in an even broader sense. From 1997 through much of 1999, MEMC withstood the most severe downturn in our industry's history. As we said in the 1997 Report, we decided to "use negative market conditions as a learning platform for positive, systemic change."

The critical result for today and the future is that MEMC people have, literally, reinvented the way we work and even think about our jobs. We have significantly improved our processes for developing new products and evaluating customer relationships. One of our most significant improvements has been the management of capital investment and manufacturing productivity.

For example, in 2000, a number of MEMC facilities produced at levels far above their previous capacities – not sporadically but consistently, month after month. What's more, facilities continue to set production records – without significant capital investment.

This is possible because MEMC people have learned – from their own example – that new ways of thinking and behaving can yield new levels of performance and results. We believe that this is the most powerful lesson any organization can learn.

When people understand they can achieve unprecedented results, they can accomplish anything they choose to accomplish. MEMC people have proven the truth of this principle over and over since 1997. One recalls the expression, the hotter the fire, the stronger the steel.

MEMC strategies for the future

This brings us to MEMC's current position. MEMC has accomplished much more than merely withstanding the industry's most severe recession. Following a disciplined strategy, we have emerged from the 1997-1999 downturn a stronger organization than ever before – tougher, smarter and quicker – and we have critical strengths necessary for future success.

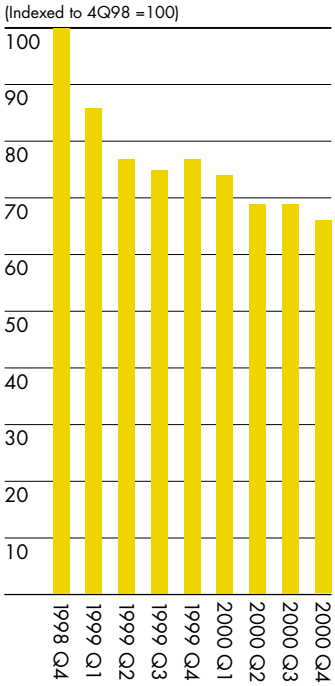
- **We have the right products** – and the right processes in place to continue to develop premium products the market will buy. Our R&D group is working today with world-class semiconductor companies on next-generation technologies.
- **We have the right customers** – not merely buyers but, increasingly, strategically selected partners for the future. And we have an objective, systematic process in place to continue to enhance our customer base.
- **We have the right capacity** – and the proven ability to maximize existing capacity. We have existing 300 millimeter capacity with space available for expansion. In fact, MEMC has the largest dedicated 300 millimeter production and development facility in the industry.
- **We have the right culture and focus** to keep driving costs lower. MEMC people have demonstrated this over and over in recent years.

As this Report goes to press, clear signs of weakness in demand have emerged. Managing our company through these demand cycles will certainly present challenges to us. However, last year we said that, "MEMC stands ready to take full advantage of strengthening markets." That is even truer today. We have implemented strategies that have made us a much stronger company. We will build on these winning strategies in 2001.

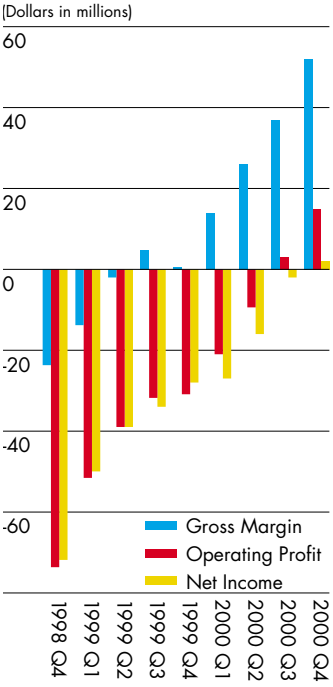
Klaus von Hörde
President and
Chief Executive Officer

James M. Stolze
Executive Vice President and
Chief Financial Officer

Decreasing Cost Per Square Inch Equivalent



Improving Profitability



building the right products

Our R&D group is working with world-class semiconductor companies on next-generation technologies.

For many companies, new product development is an ivory tower exercise. Not for MEMC.

MEMC product development begins with customers. That's how we help ensure that we develop the right products.

MEMC applications engineers work directly with customers at their fabrication plants to learn first-hand what leading semiconductor companies need. Customer needs become the problems that our technical people work to solve in silicon.

We increased the number of applications engineers even in the depths of the industry recession, because we knew it was the right approach. Our investment has begun to pay off.

Last year's introduction of three new products and a new product feature have earned consistently high marks in customers' tests, and customers have recognized that MEMC offers a broader portfolio of products than ever before.

Leading semiconductor companies have noticed. For example, by working closely with one major semiconductor manufacturer, MEMC's 200 millimeter Epi II wafers have now become the standard for their next generation of products.

Another customer has told its wafer suppliers to license our MDZ® (Magic Denuded Zone®) technology because it plans to use only MDZ® wafers in all new products. The patented MDZ® feature was introduced last year and can be applied to any polished or epitaxial wafer to produce higher manufacturing yields for customers. The MDZ® feature also allows customers to increase throughput by eliminating a step in the fabrication process.

For MEMC, increased sales of new products and increased customer interest in our technology prove that our customer-driven product development strategy is correct.

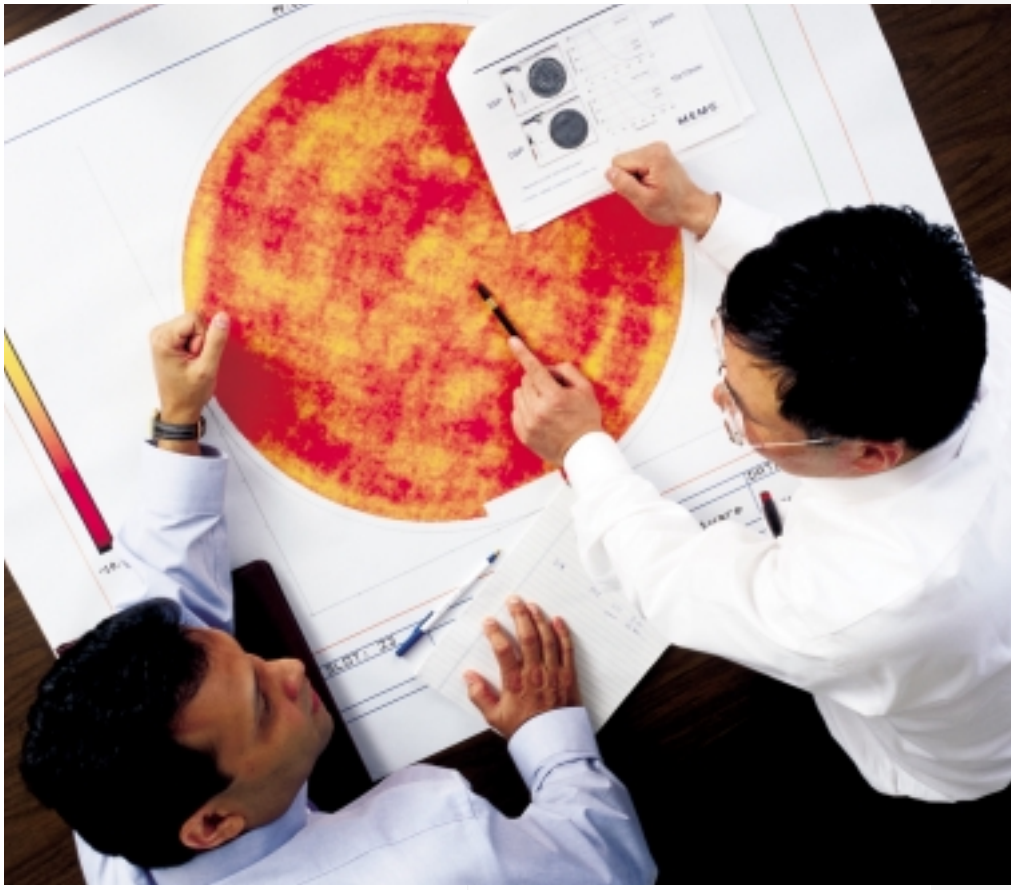
Meaningful customer partnering begins with identification of strategic customers. Two years ago, MEMC developed a model to objectively identify and track customers whose product needs, market leadership and growth align most closely with our goals and capabilities. Once identified, MEMC can make decisions on how to outflank competitors to make MEMC more attractive to the targeted company.

In short, this mindset allows MEMC to make disciplined, systematic decisions on ways to deploy MEMC global resources most effectively. This approach to customer partnering is another way MEMC is creating a base for long-term stability in our otherwise volatile industry. By identifying customers that are market leaders, we help insulate MEMC from the worst market downdrafts.

This discipline has driven product development decisions that have resulted in increasing sales of premium products.

This thought process also led to last year's refocusing of sales and marketing to create customer service centers that will centralize order information handling. This will mean faster service for customers. It also will mean that account managers can concentrate on projects that lead to closer business relationships.

customer partnering



How has the MEMC model for strategic customer partnering worked? Here is an example. Five years ago, a major semiconductor company had four silicon wafer suppliers. Of the four, MEMC ranked last. Since we applied our strategic customer model and refocused organization, MEMC has climbed out of last place to first place in 2000. Not incidentally, MEMC's share of premium wafers for the company doubled in the period.

We have identified strategic customers whose product needs, market leadership and growth align most closely with our goals and capabilities. Working together, we develop silicon wafer products and processes that maximize our customers' production yields.

maximize capacity

At our plant in South Korea, we have implemented new processes in crystal ingot growth that significantly increase our throughput and maximize the use of our crystal pulling equipment.

Companies like to say they "think out of the box." MEMC goes a step beyond that. MEMC actually "produces out of the box."

The result is that MEMC has been able to wring more out of a capital dollar than ever before. In 2000, we became more sophisticated and successful at maximizing existing capacity.

For example, looking at the MEMC manufacturing system as a whole, our 200 millimeter capacity has increased over 60 percent since 1996, 28 percent if you exclude a new 200 millimeter facility we brought on-line in this time frame.

How much has this significantly higher capacity cost in new capital investment?

Very little. In fact, 2000 capital investment represents only 30 percent of 1998's capital investment.

How is this possible?

One answer is an analytical approach called Overall Equipment Effectiveness (OEE) that MEMC began to use last year. OEE studies individual pieces of equipment to identify reasons why their throughput is not optimized.

For example, MEMC Southwest engineers knew that their final cleaning operation had created a production bottleneck that had to be resolved. An OEE analysis resulted in a change that eliminated the bottleneck by increasing the equipment's output more than 25 percent. The capital cost? Insignificant.

OEE analysis has been particularly valuable in a year when MEMC has had to ramp up production. As volumes continue to increase in the future, OEE analysis will help us identify precisely what new equipment we need without increasing a plant's entire equipment set. Targeted investment will help optimize new capital spending and maximize existing capacity.

MEMC continued to drive down costs last year – even as we ramped up production to meet demand.

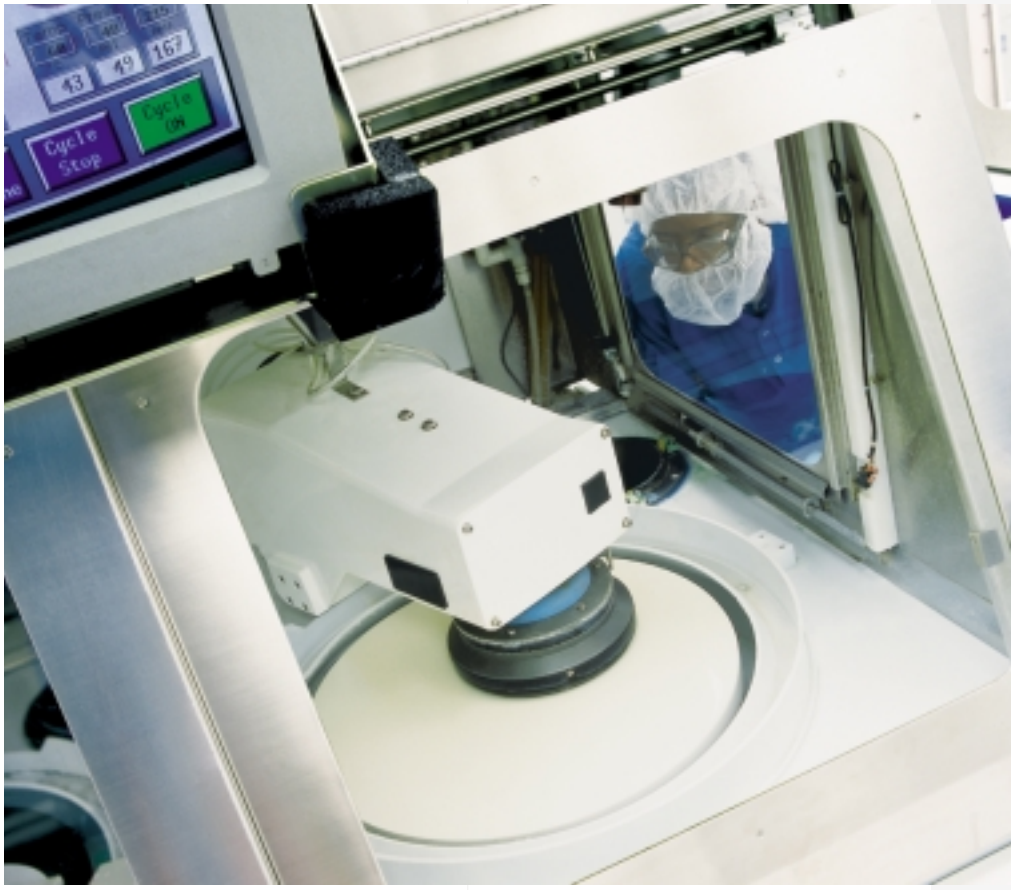
One result was that 2000 was MEMC's best year for free cash flow since we went public in 1995.

How has MEMC achieved such significant results in cost reductions year after year?

There is no single answer, because we have used a variety of approaches. One example highlights the human dimension. Called Performance Management, this technique identifies key behaviors that drive results and then increases the frequency of those behaviors. Using Performance Management, one plant significantly increased the number of crystals with no grinding defects. At the same plant, a team cut the number of wafers with haze defects from 200 a month to zero. Taken together, these little miracles, performed routinely at MEMC in recent years, have had enormous financial impact.

In 2001, cost reduction results will receive new impetus from global implementation of the Plant Focus program that reduces the number of diameters and the kinds of products produced by each plant. This concentration eliminates complexity and many costs, from equipment set-ups to inventories.

cost control



The common thread of MEMC approaches to cost reduction is that all involve new ways of doing things. Since 1997, the effect of continuous learning and change has been to redefine the way MEMC people work and even think about their jobs.

In the process, we have created a very flexible learning organization – and a culture focused on cost reduction as a way of life.

By installing powered hubs on polishing equipment, we can produce flatter wafers, thereby increasing yields. This process was developed in our Novara, Italy, facility and is being shared with all our plants throughout the world.

building for the future

Our facility in Utsunomiya, Japan is the largest dedicated 300 millimeter production and development facility in the world today.

The end result of our performance since 1997 is that MEMC is more strongly positioned today than at any time in recent history.

We are building a base of stability in our volatile industry, a base from which we have greater ability than ever before to control our destiny in important respects. Here are examples of capabilities we wish to protect and expand.

- A strategic sales and marketing approach, based on mutual interests and identification of customers with product lines that are the leaders in their sectors
- Continued emphasis on next generation 300 millimeter wafers, capitalizing on our existing facilities in Japan and the United States
- Pricing flexibility, based on MEMC value-added technology and a high level of service adapted to each customer's specific needs
- Rational investment in new capital as economics and market conditions warrant

Of course, the ultimate caveat for investors in any business is execution. MEMC has demonstrated performance under extreme pressure since 1997. But, obviously, we cannot relax our discipline or lose focus. We must demonstrate to stockholders that we will continue to relentlessly follow our proven strategies. We will continue to pursue these strategies that have served us well.

- Building the right products
- Strategic customer partnering
- Maximizing existing capacity
- Creating global cost leadership
- Building stability for the future

five year selected financial highlights

(Dollars in thousands, except share data) Year ended December 31,	*2000*	1999	1998	1997	1996
Statement of Operations Data:					
Net sales	$ 871,637	$ 693,594	$ 758,916	$ 986,673	$1,119,500
Gross margin	128,975	(10,335)	(31,829)	124,759	250,185
Marketing and administration	69,182	63,613	73,515	70,715	79,680
Research and development	72,155	85,019	81,591	64,457	44,313
Restructuring costs	—	(5,747)	146,324[1]	—	—
Operating profit (loss)	(12,362)	(153,220)	(333,259)	(10,413)	126,192
Equity in income (loss) of joint ventures	14,664	(9,659)	(43,496)	5,480	26,716
Net earnings (loss)	(43,390)	(151,481)	(316,332)	(4,513)	103,388
Basic earnings (loss) per share	(0.62)	(2.43)	(7.80)	(0.11)	2.50
Diluted earnings (loss) per share	(0.62)	(2.43)	(7.80)	(0.11)	2.49
Shares used in basic earnings (loss) per share computation	69,596,861	62,224,869	40,580,869	41,345,193	41,308,806
Shares used in diluted earnings (loss) per share computation	69,596,861	62,224,869	40,580,869	41,345,193	41,534,412
Balance Sheet Data:					
Working capital	86,782	86,306	40,494	38,449	42,805
Total assets	1,890,566	1,724,581	1,773,714	1,794,424	1,519,472
Long-term debt (including current portion)	1,041,202	886,096	873,680	519,995	304,589
Stockholders' equity	366,419	432,791	399,040	715,754	748,583
Other Data:					
Capital expenditures	57,812	49,256	194,610	372,416	590,049
Equity infusions in joint ventures	—	12,052	25,533	10,638	14,698
Employment	7,000	6,000	6,300	8,000	7,100

(1) During 1998, the Company recorded restructuring costs totaling $146.3 million to close its Spartanburg, South Carolina facility, to forego construction of a 200 millimeter wafer facility at its joint venture in Malaysia, to withdraw from its joint venture in a small diameter wafer operation in China and to implement a voluntary severance program.

management's discussion and analysis of financial condition and results of operations

Company Overview

We are a leading worldwide producer of silicon wafers for the semiconductor industry. We operate manufacturing facilities, directly or through joint ventures, in every major semiconductor manufacturing region throughout the world, including Europe, Malaysia, Japan, South Korea, Taiwan and the United States. Our customers include virtually all major semiconductor device manufacturers including the world's largest foundries as well as the major memory, microprocessor and ASIC manufacturers.

We provide silicon wafers in sizes ranging from 100 millimeters (4 inch) to 300 millimeters (12 inch) and in three general categories: prime polished, epitaxial and test/monitor. Our silicon wafers are sold in each of the major semiconductor-producing regions throughout the world including Asia Pacific, Europe, Japan and the United States.

Effective September 29, 2000, we acquired an additional 40% interest in MEMC Korea Company (MKC), formerly known as POSCO Hüls Company, Ltd., increasing our total ownership to 80%. As a result, as of September 30, 2000, MKC's balance sheet was consolidated with MEMC. Also, as a consequence of this transaction, MKC's operating results were consolidated with MEMC's operating results beginning in the fourth quarter of 2000.

Results of Operations

Net Sales

Dollars in millions	2000	1999	1998
Net Sales	$872	$694	$759
Percentage Change	26%	(9%)	(23%)

Our net sales increased by 26% to $872 million in 2000 from $694 million in 1999. This increase resulted from a 21% increase in product volumes, as well as modest price increases and improvements in product mix. Demand for silicon wafers increased in 2000 as the semiconductor industry continued to expand. Approximately 30% of our product volume increase in 2000 was a result of the consolidation of MKC's 2000 fourth quarter results with MEMC.

In 1999, our net sales decreased by 9% to $694 million from $759 million in 1998. This decrease was caused by significantly lower prices for silicon wafers, partially offset by a 9% increase in product volumes. Industry average selling prices declined, from $1.51 in 1998 to $1.31 in 1999, due to excess capacity in the silicon wafer industry and continued pricing pressure from customers. Product volume in 1999 increased, principally due to the on-going recovery in the semiconductor market.

Premium products such as large diameter and epitaxial wafers represented 58% of our product volume for 2000, compared to 52% for 1999 and 47% for 1998. Both 200 millimeter and epitaxial product volumes grew during 2000. The increase in this ratio is primarily a result of our customers utilizing 200 millimeter wafers rather than smaller diameter wafers to realize the lowest cost per device. In 2000, while total product volumes increased 21%, 200 millimeter product volumes grew by 41%. The consolidation of MKC accounted for 37% of this increased 200 millimeter product volume in 2000. In 1999, while product volume increased in total by 9%, 200 millimeter product volume grew by 29%.

We operate in all the major semiconductor-producing regions of the world, with over half of our 2000 net sales to customers located outside North America. The charts at right depict our revenues by geographic area.

Gross Margin

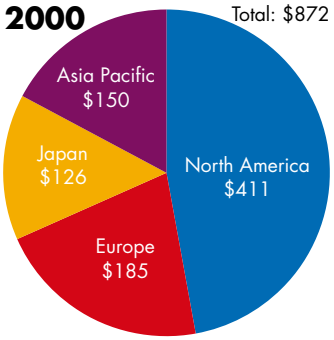
Dollars in millions	2000	1999	1998
Cost of Goods Sold	$743	$704	$791
Gross Margin	129	(10)	(32)
Gross Margin Percent	15%	(1%)	(4%)

Our gross margin increased to $129 million in 2000 compared to negative $10 million in 1999. This significant improvement resulted from increased product volumes and continued benefits realized from our cost reduction and manufacturing improvement programs, as well as modest increases in average selling prices. While our product volumes increased 21% in 2000 compared to 1999, our cost of sales increased only 6% compared to 1999.

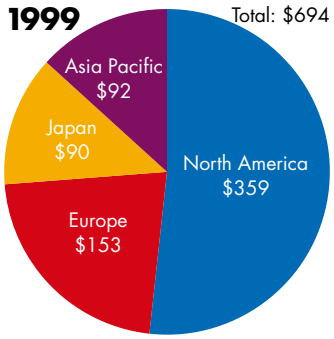
In 1999, our gross margin improved to a negative 1% from a negative 4%, despite a 13% decline in industry average selling prices. This improvement in gross margin was primarily attributable to reduced cost of goods sold, which declined 11% in 1999 compared to 1998, despite a 9% increase in product volumes. More than $100 million in costs were taken out of the business in 1999, as a

Revenues by Geographic Area

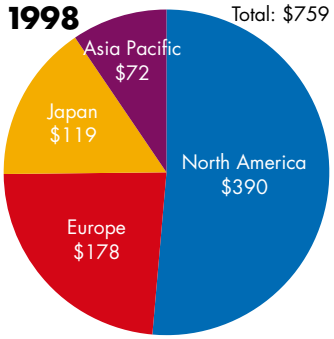
(Dollars in Millions)



Percent of Change: 00/99	
North America	14%
Europe	21%
Japan	40%
Asia Pacific	63%
Total	26%

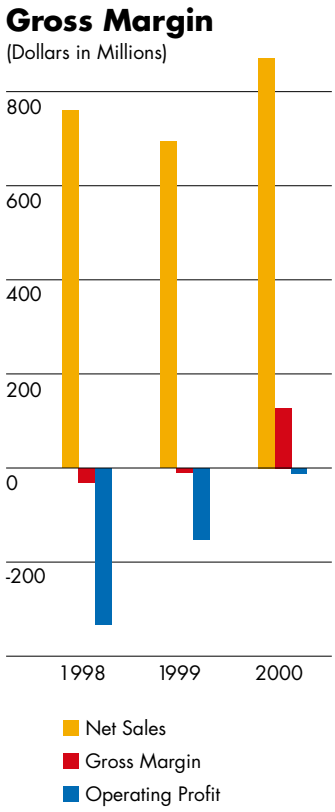


Percent of Change: 99/98	
North America	(8)%
Europe	(14)%
Japan	(24)%
Asia Pacific	28 %
Total	(9)%



Percent of Change: 98/97	
North America	(22)%
Europe	(10)%
Japan	(23)%
Asia Pacific	(47)%
Total	(23)%

management's discussion and analysis of financial condition and results of operations



result of various cost-cutting initiatives set into motion in 1998, including the closure of the Spartanburg, South Carolina, plant, implementing "best practices" worldwide, initiating a Plant Focus program that limits the number of wafer diameters manufactured at each site, and working with our suppliers to create opportunities for cost reductions and lower prices.

Marketing and Administration

Dollars in millions	2000	1999	1998
Marketing and Administration	$69	$64	$74
As a Percentage of Sales	8%	9%	10%

As we continue to control our costs, marketing and administration expenses remained relatively flat in 2000, despite the 26% increase in net sales and the consolidation of MKC's fourth quarter results. As a percent of sales, marketing and administration expenses decreased in 2000, from 9% to 8%.

In 1999, marketing and administration expenses decreased 13% and represented 9% of net sales. The decrease was a result of our efforts to reduce costs.

Research and Development

Dollars in millions	2000	1999	1998
Research and Development	$72	$85	$82
As a Percentage of Sales	8%	12%	11%

Research and development expenses declined by 15% in 2000 to 8% of net sales. The decreased expenses were attributable to continued focus and spending control, coupled with increased revenue from the sale of 300 millimeter wafers, which offset the related technology expenses.

In 1999, our research and development costs rose 4% and represented 12% of our net sales. The increase in research and development costs resulted from continued 300 millimeter wafer development and from depreciation associated with our 300 millimeter facilities in St. Peters, Missouri, and in Utsunomiya, Japan.

Restructuring Costs

Dollars in millions	2000	1999	1998
Restructuring Costs	$ —	($6)	$146

In 1999, we recorded an adjustment to decrease our restructuring reserve by $6 million to reflect a change in an accounting estimate relating primarily to our withdrawal from the Chinese joint venture. The amount required to exit the venture was less than we had originally estimated.

Nonoperating (Income) Expense and Income Taxes

Dollars in millions	2000	1999	1998
Interest Expense	$79	$66	$46
Debt Outstanding at December 31	1,071	892	910
Interest Income	(5)	(2)	(2)
Royalty Income	(10)	(6)	(5)
Other, Net	1	1	1
Income Taxes	(21)	(66)	(89)
Effective Income Tax Rate	27%	31%	24%

Our interest expense increased to $79 million in 2000 as a result of an increase in our debt and higher interest rates on debt that repriced in 2000. As of December 31, 2000, our debt outstanding totaled $1,071 million, compared to $892 million at the end of 1999. Substantially all of this increase in debt outstanding relates to the acquisition and consolidation of MKC.

In 1999, our interest expense increased to $66 million, primarily as a result of increased interest rates. The interest rates on our loan agreements with E.ON AG, our principal lender, increased as a result of a debt re-negotiation during September 1998. In addition, some of our debt instruments were repriced in 1999 as they became due and were refinanced. To a lesser extent, the increase in interest expense was also due to an increased average debt level and a reduction in capitalized interest in 1999.

In 2000, we realized an income tax benefit at the rate of 27%, as compared to 31% in 1999 and 24% in 1998. The change in the rate of benefit recognized was a result of changes in the composition of worldwide taxable income and in the valuation allowance on certain deferred tax assets.

Equity in Income (Loss) of Joint Ventures

Dollars in millions	2000	1999	1998
Equity in Income (Loss) of Joint Ventures:			
MKC	$4	($5)	($18)
Taisil	11	(5)	(25)

Equity in income of joint ventures increased to $15 million in 2000, compared to a loss of $10 million in 1999. As previously stated, MKC's operating results were consolidated with MEMC beginning in the fourth quarter of 2000. For the first three quarters of 2000, MKC contributed income of $4 million to our equity in income of joint ventures, compared to a loss of $5 million for the twelve months in 1999. The improved results were primarily attributable to a significant increase in product volumes. Taisil Electronic Materials Corporation (Taisil), our 45%-owned unconsolidated joint venture in Taiwan, contributed income of $11 million in 2000, compared to a loss of $5 million in 1999. Taisil's improved results were attributable to a 20% increase in product volumes and, to a lesser extent, a moderate increase in average selling prices. During 2000, Taisil also reduced its deferred tax valuation allowance related to certain net operating loss carryforwards, of which our share was $3 million. MKC's and Taisil's product volumes increased in 2000 as the semiconductor industry continued to expand.

In 1999, MKC contributed losses of $5 million compared to losses of $18 million in 1998. Net sales for MKC increased significantly in 1999 due to a 60% increase in product volume, which was partially offset by lower prices. In 1999, Taisil contributed losses of $5 million compared to losses of $25 million for 1998. Net sales for Taisil increased significantly in 1999 due to an 81% increase in product volume, which was partially offset by lower prices. During 1999, Taisil also reduced its deferred tax valuation allowance related to certain net operating loss carryforwards, of which our share was $2 million. The higher product volumes at both MKC and Taisil in 1999 were primarily attributable to an increase in demand in the Korean and Taiwanese semiconductor and silicon wafer markets.

Liquidity and Capital Resources

Dollars in millions	2000	1999	1998
Net Cash Provided by (Used in):			
Operating Activities	$52	($103)	($34)
Investing Activities	(44)	(47)	(223)
Financing Activities	70	164	242

At December 31, 2000, we had $95 million of cash and cash equivalents compared to $29 million at December 31, 1999. Of this increased cash, $72 million relates to the financial consolidation of MKC. Under Korean law, there are restrictions on MKC's ability to pay dividends and make loans, thereby limiting our access to MKC's cash.

Our principal sources and uses of cash during 2000 were as follows:

Sources

- Generated $52 million of cash from operations
- Borrowed $69 million under debt agreements

Uses

- Invested $58 million in capital expenditures

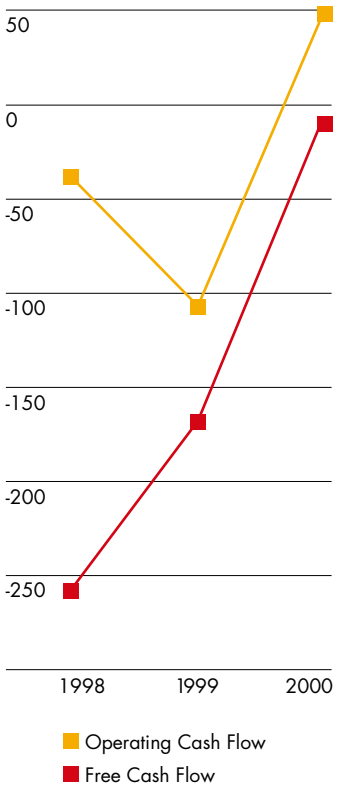
Our cash flows provided by operating activities improved $155 million to $52 million in 2000, primarily due to our improved operating results.

Our accounts receivable increased $34 million at December 31, 2000, as compared to the end of 1999. The increase was primarily attributable to a 39% increase in fourth quarter net sales between the two years. Our days' sales outstanding were 52 days at December 31, 2000, compared to 56 days at the end of 1999 based on annualized fourth quarter sales for the respective years.

Our inventories increased $33 million from the prior year to $132 million at December 31, 2000. The increase is primarily a result of the consolidation of MKC in 2000, as well as a greater number of managed inventory agreements with our key customers that resulted in higher consigned inventories. Related inventory reserves for obsolescence, lower of cost or market issues, or other impairments, remained flat in 2000 as compared to 1999. Our year-end inventories as a percentage of annualized fourth quarter net sales remained steady at 13% at December 31, 2000 as compared to 1999.

Our net deferred tax assets increased $38 million to $235 million at December 31, 2000. Considering our projections of future taxable income and after consideration of the valuation allowance, we believe that it is more likely than not that we will generate sufficient taxable income to realize the benefits of our net deferred tax assets existing at December 31, 2000. In order to realize the net deferred tax assets existing at December 31, 2000, we will need to generate future taxable income of approximately $643 million. There can be no assurance, however, that

Cash Flow
(Dollars in Millions)



we will generate sufficient taxable income to realize the full benefit of the existing net deferred tax assets. Our net operating loss carryforwards are as follows:

Dollars in millions	
Expire in 2001	$ 7
Expire in 2003	25
Expire in 2004	3
Expire in 2012	14
Expire in 2018	322
Expire in 2019	254
Expire in 2020	99
Total	$724

On June 16, 2000, VEBA AG, which through its affiliates is our majority shareholder and principal lender, merged with VIAG AG. The VEBA/VIAG Group, now known as E.ON AG, has stated that its core businesses will be energy and specialty chemicals. E.ON AG's stated intent is to systematically and optimally divest certain non-core businesses, including MEMC. We intend to work closely with E.ON AG to effect an orderly divestiture process that preserves and optimizes the value of MEMC. A decrease in ownership interest of E.ON AG and its affiliates (E.ON) may result in annual limitations for federal income tax purposes of our ability to use our U.S. tax loss carryforwards under Internal Revenue Code Section 382.

Our net cash used in investing activities improved $3 million in 2000 compared to 1999. This improvement was primarily due to lower equity infusions in joint ventures, partially offset by higher spending on capital projects. Our capital expenditures in 2000 were primarily related to the implementation of SAP integrated business software, enhanced 200 millimeter capacity and capability and maintenance capital. At December 31, 2000, we had $19 million of committed capital expenditures related to various manufacturing and technology projects. We intend to tightly control capital expenditures in 2001.

We did not make any equity infusions into our joint ventures in 2000, compared to a $12 million infusion into Taisil in 1999. Although to date Taisil has an accumulated deficit, we do not consider our investment in Taisil to be impaired as of December 31, 2000, based on Taisil's positive net income and free cash flow in 2000.

Our cash flows provided by financing activities decreased to $70 million in 2000 compared to $164 million in 1999. In 2000, our financing was primarily through the

issuance of debt. In 1999, our primary source of financing was the issuance of stock.

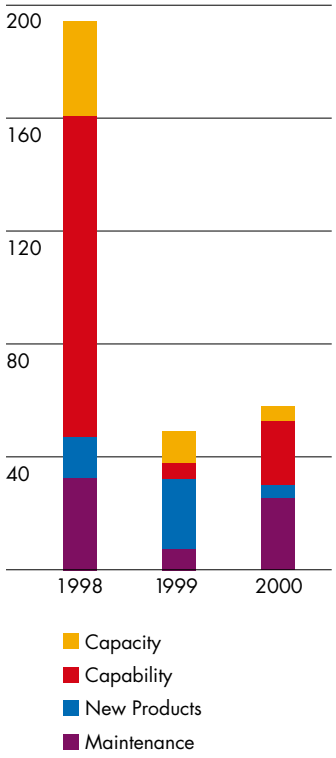
At December 31, 2000, we maintained $1,081 million of committed long-term loan agreements, of which $1,041 million was outstanding. We also maintained $88 million of short-term lines of credit, of which $30 million was outstanding at December 31, 2000. In addition, as of December 31, 2000, we provided $44 million of debt guarantees to Taisil, of which $32 million was outstanding. Our weighted average cost of borrowing was 8.5% at December 31, 2000 compared to 7.8% at December 31, 1999. Our total debt outstanding increased to $1,071 million at December 31, 2000 from $892 million at December 31, 1999. Our total debt to total capital ratio at December 31, 2000, was 71%, compared to 65% at December 31, 1999.

As of December 31, 2000, E.ON agreed to extend all of our outstanding loans with E.ON maturing prior to January 1, 2002 to their respective maturity date anniversaries in 2002 (but only in the event we have used our best efforts to obtain replacement financing on equivalent terms and conditions). All outstanding debt with E.ON maturing prior to January 1, 2002 which is extended at maturity will be repriced based upon then-current interest rates applicable to an average industrial borrower at a specified credit rating.

The silicon wafer industry is highly capital intensive. Our capital needs depend on numerous factors, including our profitability and our investment in capital expenditures and research and development. We believe that the liquidity provided by existing cash balances and credit facilities, together with cash generated from operations, will be sufficient to satisfy commitments for capital expenditures and operating cash requirements through 2001. If, however, our future financial performance fails to meet our current expectations, then we may require additional financing in order to satisfy planned capital expenditures and operating cash requirements for 2001. There can be no assurance that such financing will be available on acceptable terms.

Historically, we have funded our operations primarily through loans from E.ON, internally generated funds and issuances of common stock. To a lesser extent, we have raised funds by borrowing money from commercial banks. We are not required to make any principal payments on our existing credit facilities with E.ON until 2002. Under these credit facilities we cannot pledge any of our assets to secure additional financing without the consent of E.ON. Under our Euro 80 million (approximately $74 million) loan from E.ON used to fund the acquisition of the additional 40% interest in MKC, we are required to pay 100% of any net proceeds received from the issuance of equity or debt, to E.ON as a mandatory principal repayment of this loan. We are also required to pay 75% of any cash received from MKC, through dividends, reduc-

Capital Expenditures
(Dollars in Millions)



tions or repurchases of equity, share redemptions or loans, to E.ON as a mandatory principal repayment of this loan. Finally, under our remaining loan agreements with E.ON, we are now obligated to use 75% of any proceeds from the issuance of debt and 50% of our annual free cash flow, which is net of capital expenditures, to pay down the principal of these loans. We are currently engaged in discussions with potential financing sources regarding additional capital.

Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires the recognition of all derivatives as assets or liabilities within the balance sheet, and requires both the derivatives and the underlying exposure to be recorded at fair value. Any gain or loss resulting from changes in fair market value will be recorded as part of the results of operations, or as a component of comprehensive income or loss, depending upon the intended use of the derivative. We will adopt this Statement in the first quarter of 2001. We do not believe that the implementation of this Statement will have a material effect on our financial condition or results of operations.

Risk Factors

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This annual report contains such forward-looking statements that set out anticipated results based on management's plans and assumptions. We have tried, wherever possible, to identify such statements by using words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes," and words and terms of similar substance in connection with any discussion of future operating or financial performance.

Forward-looking statements in this report include those concerning:

- the expansion of our customer service concept to the Asia Pacific and Japan regions in 2001;
- continuation of training in new manufacturing approaches and emphasis on cost control in 2001;
- our possession of critical strengths necessary for future success, including products, customers, capacity, culture and focus;

- possible weakness in future demand;
- our intention to build on winning strategies in 2001;
- future use of MEMC's new products by our customers;
- use of customer partnering to create long-term stability and to help insulate MEMC from the worst of the market downdrafts;
- future benefits from customer service centers;
- future benefits from Overall Equipment Effectiveness (OEE) analytical approach and targeted investment;
- the lack of need in the short term to build plants for increased 300 millimeter demand;
- increased product volumes in the future;
- cost reduction benefits from global implementation of the Plant Focus program in 2001;
- our intention to protect and expand certain capabilities, including a strategic sales and marketing approach, continued emphasis on next generation 300 millimeter wafers, pricing flexibility, and rational investment in new capital;
- our ability to generate future taxable income as it relates to the realization of the net deferred tax asset;
- our intention to work closely with E.ON to effect an orderly divestiture process that preserves and optimizes the value of MEMC;
- possible limitations on our ability to use our U.S. tax loss carryforwards under Internal Revenue Code section 382;
- our intent to tightly control capital expenditures in 2001;
- our liquidity through 2001;
- the impact of the implementation of SFAS No. 133;
- the impact of an adverse change in interest and currency exchange rates;
- the adequacy and timing of the utilization of our restructuring reserve; and
- the expectation that we will not pay dividends in the foreseeable future.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks and uncertainties, and actual results could vary materially from those anticipated, estimated or projected. Risks and uncertainties pertaining to MEMC include, but are not limited to:

- market demand for silicon wafers;
- utilization of manufacturing capacity;
- our ability to reduce manufacturing costs;
- inventory levels of our customers;
- demand for semiconductors generally;
- changes in the pricing environment;
- general economic conditions;

- actions by competitors, customers, and suppliers;
- the accuracy of our assumptions regarding the dismantling and sale of the Spartanburg facility;
- technological changes;
- changes in product specifications and manufacturing processes;
- changes in financial market conditions;
- changes in interest and currency exchange rates;
- changes in the plans and intentions of third parties, including E.ON; and
- other risks described in our filings with the Securities and Exchange Commission, including "Risk Factors" in our Form 10-K for the year ended December 31, 2000.

These forward-looking statements represent our estimates and assumptions only as of the date of this report. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

Market Risk

The overall objective of our financial risk management program is to seek a reduction in the potential negative earnings effects from changes in foreign exchange and interest rates arising in our business activities. We manage these financial exposures through operational means and by using various financial instruments. These practices may change as economic conditions change.

To mitigate financial market risks of foreign currency exchange rates, we utilize currency forward contracts. We do not use derivative financial instruments for speculative or trading purposes. All of the potential changes noted below are based on sensitivity analyses performed on our financial positions at December 31, 2000, and December 31, 1999. Actual results may differ materially.

We generally hedge transactional currency risks with currency forward contracts. Gains and losses on these foreign currency exposures are generally offset by corresponding losses and gains on the related hedging instruments, resulting in negligible net exposure to MEMC.

Although our debt obligations are primarily of a fixed-rate nature, fluctuations in interest rates could significantly affect interest expense as obligations are refinanced or extended at maturity and repriced based upon then-current interest rates. An adverse change (defined as a 100 basis point change) in interest rates on our total debt out-

standing would result in a decline in income before taxes of approximately $11 million and $9 million as of the end of 2000 and 1999, respectively.

A substantial majority of our revenue and capital spending is transacted in U.S. Dollars. However, we do enter into these transactions in other currencies, primarily the Japanese Yen, the Italian Lira, the Euro and certain other Asian and European currencies. To protect against reductions in value and volatility of future cash flows caused by changes in foreign exchange rates, we have established transaction-based hedging programs. Our hedging programs reduce, but do not always eliminate, the impact of foreign currency exchange rate movements. An adverse change (defined as 20 percent in certain Asian currencies and 10 percent in all other currencies) in exchange rates would result in a decline in income before taxes of less than $2 million as of the end of 2000 and 1999, and a decline in other comprehensive income of less than $22 million as of the end of 2000 and $20 million as of the end of 1999. This calculation assumes that each exchange rate would change in the same direction relative to the U.S. Dollar. In addition to the direct effects of changes in exchange rates, such changes typically affect the volume of sales or the foreign currency sales price as competitors' products become more or less attractive. Our sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency selling prices.

consolidated **statements of operations**

(Dollars in thousands, except share data)

Year ended December 31,	*2000*	*1999*	*1998*
Net sales	$871,637	$ 693,594	$ 758,916
Cost of goods sold	742,662	703,929	790,745
Gross margin	128,975	(10,335)	(31,829)
Operating expenses:			
Marketing and administration	69,182	63,613	73,515
Research and development	72,155	85,019	81,591
Restructuring costs	—	(5,747)	146,324
Operating loss	(12,362)	(153,220)	(333,259)
Nonoperating (income) expense:			
Interest expense	78,801	66,054	45,832
Interest income	(4,838)	(1,986)	(2,291)
Royalty income	(9,815)	(6,112)	(4,628)
Other, net	1,317	1,472	1,043
Total nonoperating expense	65,465	59,428	39,956
Loss before income taxes, equity in income (loss) of joint ventures and minority interests	(77,827)	(212,648)	(373,215)
Income taxes	(21,013)	(65,921)	(89,394)
Loss before equity in income (loss) of joint ventures and minority interests	(56,814)	(146,727)	(283,821)
Equity in income (loss) of joint ventures	14,664	(9,659)	(43,496)
Minority interests	(1,240)	4,905	10,985
Net loss	$ (43,390)	$(151,481)	$(316,332)
Basic loss per share	$ (0.62)	$ (2.43)	$ (7.80)
Diluted loss per share	$ (0.62)	$ (2.43)	$ (7.80)
Weighted average shares used in computing basic and diluted loss per share	69,596,861	62,224,869	40,580,869

See accompanying notes to consolidated financial statements.

consolidated **balance sheets**

(Dollars in thousands, except share data)

December 31,	*2000*	*1999*
Assets		
Current assets:		
Cash and cash equivalents	$ 94,759	$ 28,571
Accounts receivable, less allowance for doubtful accounts of $3,089 and $2,409 in 2000 and 1999, respectively	145,970	111,559
Income taxes receivable	—	9,237
Inventories	131,859	98,419
Deferred tax assets, net	13,450	12,905
Prepaid and other current assets	24,369	15,229
Total current assets	410,407	275,920
Property, plant and equipment, net	1,097,602	1,090,358
Investments in joint ventures	51,647	97,254
Excess of cost over net assets acquired, net of accumulated amortization of $7,291 and $6,466 in 2000 and 1999, respectively	45,733	47,058
Deferred tax assets, net	221,100	183,902
Other assets	64,077	30,089
Total assets	$1,890,566	$1,724,581
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 127,782	$ 22,163
Accounts payable	88,552	85,704
Accrued liabilities	44,372	29,795
Customer deposits	14,307	16,556
Provision for restructuring costs	9,007	12,839
Income taxes payable	13,735	—
Accrued wages and salaries	25,870	22,557
Total current liabilities	323,625	189,614
Long-term debt, less current portion	942,972	869,759
Pension and similar liabilities	91,786	95,731
Customer deposits	42,456	48,456
Other liabilities	48,895	44,893
Total liabilities	1,449,734	1,248,453
Minority interests	74,413	43,337
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 50,000,000 shares authorized, none issued or outstanding in 2000 or 1999	—	—
Common stock, $.01 par value, 200,000,000 shares authorized, 70,542,105 and 70,463,505 issued in 2000 and 1999, respectively	705	705
Additional paid-in capital	771,675	770,476
Accumulated deficit	(342,707)	(299,317)
Accumulated other comprehensive loss	(46,234)	(22,053)
Treasury stock, at cost: 929,205 shares in 2000 and 1999	(17,020)	(17,020)
Total stockholders' equity	366,419	432,791
Total liabilities and stockholders' equity	$1,890,566	$1,724,581

See accompanying notes to consolidated financial statements.

consolidated **statements of cash flows**

(Dollars in thousands)

Year ended December 31,	*2000*	*1999*	*1998*
Cash flows from operating activities:			
Net loss	$(43,390)	$(151,481)	$(316,332)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	173,085	159,081	155,874
Minority interests	1,240	(4,905)	(10,985)
Equity in (income) loss of joint ventures	(14,664)	9,659	43,496
Restructuring costs	—	(5,747)	104,704
(Gain) loss on sale of property, plant and equipment	(2,789)	981	6,916
Deferred compensation earned	—	(601)	299
Changes in assets and liabilities:			
Accounts receivable	(31,460)	(13,268)	61,836
Income taxes	20,410	516	4,655
Inventories	(13,141)	12,164	28,461
Prepaid and other current assets	(10,246)	8,636	(1,203)
Deferred taxes	(38,601)	(67,692)	(98,074)
Accounts payable	(1,128)	(20,349)	(38,833)
Accrued liabilities	4,198	(16,502)	(7,792)
Customer deposits	(8,249)	(11,660)	(348)
Accrued wages and salaries	3,460	4,621	(4,209)
Other, net	13,315	(6,645)	37,680
Net cash provided by (used in) operating activities	52,040	(103,192)	(33,855)
Cash flows from investing activities:			
Capital expenditures	(57,812)	(49,256)	(194,610)
Proceeds from sale of property, plant and equipment	3,060	4,753	5,730
Equity infusions in joint ventures	—	(12,052)	(25,533)
Purchase of business, net of cash acquired	10,660	—	—
Notes receivable from affiliates	—	9,664	(8,642)
Net cash used in investing activities	(44,092)	(46,891)	(223,055)
Cash flows from financing activities:			
Net short-term borrowings	5,916	(26,463)	(8,843)
Proceeds from issuance of long-term debt	100,119	276,692	515,313
Principal payments on long-term debt	(37,437)	(283,620)	(248,936)
Repurchase of common stock	—	—	(15,692)
Proceeds from issuance of common stock	958	197,271	—
Other	—	—	(129)
Net cash provided by financing activities	69,556	163,880	241,713
Effect of exchange rate changes on cash and cash equivalents	(11,316)	(1,394)	1,312
Net increase (decrease) in cash and cash equivalents	66,188	12,403	(13,885)
Cash and cash equivalents at beginning of year	28,571	16,168	30,053
Cash and cash equivalents at end of year	$ 94,759	$ 28,571	$ 16,168
Supplemental disclosures of cash flow information:			
Interest payments, net of amount capitalized	$ 76,026	$ 64,076	$ 48,179
Income taxes paid	$ 3,201	$ 4,816	$ 9,794

See accompanying notes to consolidated financial statements.

consolidated **statements of stockholders' equity**

(Dollars in thousands, except share data)

	Common Stock							
	Number of Shares Issued	*Par Value*	*Additional Paid-in Capital*	*Retained Earnings (Accumulated Deficit)*	*Accumulated Other Comprehensive Loss*	*Unearned Restricted Stock Awards*	*Treasury Stock*	*Total*
Balance at December 31, 1997	41,440,369	$414	$574,317	$168,496	$(25,721)	$(424)	$(1,328)	$715,754
Comprehensive loss:								
Net loss	—	—	—	(316,332)	—	—	—	(316,332)
Net translation adjustment	—	—	—	—	17,682	—	—	17,682
Minimum pension liability (net of $1,625 tax)	—	—	—	—	(2,542)	—	—	(2,542)
Comprehensive loss								(301,192)
Stock plans, net	(3,948)	—	(129)	—	—	—	—	(129)
Deferred compensation earned	—	—	—	—	—	299	—	299
Repurchase of common stock	—	—	—	—	—	—	(15,692)	(15,692)
Balance at December 31, 1998	41,436,421	414	574,188	(147,836)	(10,581)	(125)	(17,020)	399,040
Comprehensive loss:								
Net loss	—	—	—	(151,481)	—	—	—	(151,481)
Net translation adjustment	—	—	—	—	(12,456)	—	—	(12,456)
Minimum pension liability (net of $629 tax)	—	—	—	—	984	—	—	984
Comprehensive loss								(162,953)
Stock plans, net	(492)	—	354	—	—	—	—	354
Deferred compensation earned	—	—	(726)	—	—	125	—	(601)
Issuance of common stock	29,027,576	291	196,660	—	—	—	—	196,951
Balance at December 31, 1999	70,463,505	705	770,476	(299,317)	(22,053)	—	(17,020)	432,791
Comprehensive loss:								
Net loss	—	—	—	(43,390)	—	—	—	(43,390)
Net translation adjustment	—	—	—	—	(24,640)	—	—	(24,640)
Minimum pension liability (net of $293 tax)	—	—	—	—	459	—	—	459
Comprehensive loss								(67,571)
Stock plans, net	78,600	—	1,199	—	—	—	—	1,199
Balance at December 31, 2000	70,542,105	$705	$771,675	$(342,707)	$(46,234)	$ —	$(17,020)	$366,419

See accompanying notes to consolidated financial statements.

notes to consolidated financial statements

(Dollars in thousands, except share data)

1 • Nature of Operations

MEMC Electronic Materials, Inc. and subsidiaries (the Company) is a leading worldwide producer of silicon wafers for the semiconductor industry. The Company has production facilities directly or through joint ventures in Italy, Japan, Malaysia, South Korea, Taiwan and the United States. The Company's customers are located throughout the world.

2 • Summary of Significant Accounting Policies

(a) Basis of Presentation
The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Principles of Consolidation
The consolidated financial statements include the accounts of MEMC Electronic Materials, Inc. and its wholly and majority-owned subsidiaries. Investments of less than 50% in joint venture companies are accounted for using the equity method. All significant intercompany transactions have been eliminated.

(c) Cash Equivalents
Cash equivalents consist of cash in banks, principally overnight investments and short-term time deposits, with original maturities of three months or less. Cash equivalents at December 31, 2000 include $4,000 of cash restricted by terms of two annually renewable letter of credit agreements.

(d) Inventories
Inventories are stated at the lower of cost or market. Raw materials and supplies inventories are valued using the first-in, first-out method. Goods in process are valued at actual costs. Finished goods are valued based upon standard costs which approximate average costs.

(e) Property, Plant and Equipment
Property, plant and equipment are stated at cost. Depreciation is computed principally using the straight-line method over estimated service lives as follows:

	Years
Land improvements	6-15
Buildings and building improvements	10-30
Machinery and equipment	3-12

The Company capitalizes interest costs as part of the cost of constructing facilities and equipment and developing internal use software. Interest costs of $1,017, $1,099 and $5,521 were capitalized in 2000, 1999 and 1998, respectively.

(f) Excess of Cost Over Net Assets Acquired
Excess of cost over net assets acquired (goodwill) is amortized on a straight-line basis over the periods estimated to be benefited, not exceeding 40 years. Excess of cost over net assets acquired is reviewed for impairment whenever events and changes in business circumstances indicate the carrying value of the goodwill and related acquired assets that gave rise to the goodwill may not be recoverable. Impairment losses are recognized if expected future cash flows of the related assets are less than their carrying values. There is no indication of impairment of excess of cost over net assets acquired at December 31, 2000 or 1999.

(g) Computer Software Developed or Obtained for Internal Use
Costs related to the development or purchase of internal-use software are capitalized and amortized over the estimated useful life of the software. Costs related to the preliminary project stage and the post-implementation/operations stage of an internal-use computer software development project are expensed as incurred.

(h) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of
Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There is no indication of impairment of property, plant and equipment at December 31, 2000 or 1999.

(i) Impairment of Investments in Joint Ventures
Impairment of investments in joint ventures is measured by comparing the carrying amount of the asset to future net cash flows expected to be generated by the asset. In addition, the level of commitment of the joint ventures' shareholders, the silicon wafer markets serviced by the joint ventures, and the level of customer qualifications at the joint ventures are also considered in assessing the impairment of the Company's investments in joint ventures. There is no indication of impairment of these investments at December 31, 2000 or 1999.

(j) Revenue Recognition
Revenues are recognized when products are shipped.

(k) Derivative Financial Instruments
The Company enters into forward exchange contracts to manage foreign currency exchange risk relating to current trade receivables with its foreign subsidiaries and current trade receivables with its customers denominated in foreign currencies (primarily Japanese Yen, Italian Lira, and Euro). The purpose of the Company's foreign currency hedging activities is to protect the Company from the risk that the eventual dollar net cash flows resulting from foreign currency transactions will be adversely affected by changes in exchange rates. The Company does not hold or issue financial instruments for trading purposes.

The Company's forward exchange contracts are accounted for as hedges and, accordingly, gains and losses on those contracts are deferred and recognized at the time of settlement of the related receivables. Deferred gains and losses are included on a net basis in the consolidated balance sheets as either other assets or other liabilities. Upon termination, gains and losses are included in the consolidated statements of operations as other income or expense. If a forward exchange contract is designated as a hedge but is no longer effective, it is marked to market and included in other income or expense in the consolidated statements of operations. A payment or receipt arising from the termination of a forward exchange contract that is effective as a hedge is included in other income or expense in the consolidated statements of operations.

(l) Translation of Foreign Currencies
Assets and liabilities of foreign subsidiaries whose functional currency is other than the U.S. Dollar are translated to U.S. Dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using average rates during the period. Adjustments resulting from the translation process are included as a component of accumulated other comprehensive loss.

(m) Income Taxes
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. A valuation allowance has been established for deferred tax assets that the Company believes may not be realized.

The Company provides for U.S. income taxes on earnings of the Company's consolidated non-U.S. subsidiaries that are planned to be remitted. No such provision is made for the remaining unremitted earnings, as the retention of such earnings is considered essential for continuing operations, or the additional taxes are considered to be minimal based upon available foreign tax credits.

notes to consolidated financial statements

(Dollars in thousands, except share data)

(n) Stock-Based Compensation
The Company measures its compensation cost of equity instruments issued under employee compensation plans under the provisions of Accounting Principles Board Opinion No. 25 (Opinion 25) and related Interpretations. Compensation expense related to restricted stock awards is recognized over the applicable vesting periods, and the unamortized portion of deferred compensation is reflected as a separate component of stockholders' equity. The Company only issues equity instruments to employees and non-employee directors.

(o) Comprehensive Loss Reclassification Adjustment
The Company's decision to forego construction of a new 200 millimeter facility at its joint venture in Malaysia and to withdraw from its small diameter joint venture in China resulted in a reclassification adjustment to comprehensive loss in 1998 of approximately $9,500.

(p) Contingencies
Contingent liabilities are disclosed when management believes they are material to the Company's financial position. There are no such known contingent liabilities at December 31, 2000 or 1999.

3 • Fair Value of Financial Instruments

The carrying amount of the Company's cash, accounts receivable, income taxes receivable/payable, short-term borrowings, accounts payable and accrued liabilities approximates fair value due to the short maturity of these instruments. Consequently, such instruments are not included in the table below which provides information regarding the estimated fair values of other financial instruments, both on and off balance sheet, as follows:

December 31,	*2000*		*1999*	
DOLLARS IN THOUSANDS	*Carrying Amount*	*Estimated Fair Value*	*Carrying Amount*	*Estimated Fair Value*
Long-term debt	$1,041,202	$953,796	$886,096	$866,507
	Notional Amount	*Estimated Fair Value*	*Notional Amount*	*Estimated Fair Value*
Off balance sheet financial instruments:				
Currency forward contracts	$ 83,371	$ 3,524	$ 24,519	$ (847)

The fair value of each long-term debt facility is based upon the amount of future cash flows associated with each instrument discounted at the Company's current borrowing rate for similar debt instruments of comparable terms.

The Company has entered into foreign currency contracts with E.ON AG and its affiliates (E.ON), the Company's majority stockholder and primary lender, to manage foreign currency exchange risk relating to current trade sales with its foreign subsidiaries and current trade sales with its customers denominated in foreign currencies (primarily Japanese Yen, Italian Lira, and Euro), and relating to foreign currency denominated intercompany loans. The Company believes its hedging arrangements with E.ON allow for transactions on a basis that is comparable to terms available from unrelated third-party financial intermediaries.

The fair value of the currency forward contracts is measured by the amount that would have been paid to liquidate and repurchase all open contracts. Deferred losses for intercompany loans totaled $3,567 and $2,116 at December 31, 2000 and 1999, respectively.

4 • Concentration of Credit Risk

The Company sells products to customers in the semiconductor industry which are located in various geographic regions including the United States, Europe, Japan and Asia Pacific. The primary customers in this industry are well capitalized and the concentration of credit risk is considered minimal due to the Company's customer base. Sales to the Company's largest customer were 17.8%,17.8% and 20.3% of net sales in 2000, 1999 and 1998, respectively. No other customer constituted 10% or more of net sales in 2000, 1999, or 1998.

notes to consolidated financial statements *(Dollars in thousands, except share data)*

5 • Restructuring Costs

During the second quarter of 1998, the Company decided to close its small diameter wafer facility in Spartanburg, South Carolina and to withdraw from its 60%-owned joint venture in a small diameter wafer operation in China. These actions were taken because (1) a number of semiconductor manufacturers had been running their larger diameter manufacturing lines in preference to their smaller diameter lines in order to gain production efficiencies; (2) a number of semiconductor manufacturers recently had undertaken restructuring initiatives focused on permanently eliminating small diameter lines; and (3) management believed that small diameter wafer capacity would exceed demand even after the semiconductor industry began to recover. The Company also decided to forego construction of a new 200 millimeter wafer facility at its 75%-owned joint venture in Malaysia. This decision was based upon current and anticipated excess capacity for 200 millimeter wafers and the significant price erosion that the Company had experienced for these wafers.

In 1998, the Company recorded a charge to operations of $121,670 (of which $81,325 was non-cash) related to the above actions. In 1999, the Company recorded an adjustment to reduce the restructuring reserve by $5,747 as a result of a change in an accounting estimate relating primarily to the Company's withdrawal from the Chinese joint venture, as the amount ultimately required to exit the venture was less than the original estimate.

At December 31, 2000 and 1999, the Company made certain reclassifications to the components of its restructuring reserve. The reclassifications were principally attributable to anticipated costs related to the closure of the Spartanburg, South Carolina facility. In total, the Company believes the remaining restructuring reserve is adequate for the estimated costs remaining to exit this facility.

Restructuring activity since the provision for restructuring was recorded is as follows:

Dollars in thousands	*Balance at December 31, 1999*	*Amount Utilized*	*Reclassification*	*Balance at December 31, 2000*
Asset impairment/write-off:				
Spartanburg property, plant and equipment	$ —	$ —	$ —	$ —
Malaysian joint venture assets	530	33	—	497
Chinese joint venture assets	360	175	—	185
Other infrastructure	—	—	—	—
Total	890	208	—	682
Dismantling and related costs:				
Dismantling costs	7,260	2,194	—	5,066
Costs incurred by equipment supplier	—	—	—	—
Environmental costs	400	576	176	—
Operating leases	1,000	656	—	344
Other	2,864	6	(176)	2,682
Total	11,524	3,432	—	8,092
Personnel costs	425	192	—	233
Total restructuring costs	$12,839	$3,832	$ —	$9,007

notes to consolidated financial statements

(Dollars in thousands, except share data)

DOLLARS IN THOUSANDS	*Balance at December 31, 1998*	*Adjustment*	*Amount Utilized*	*Reclassification*	*Balance at December 31, 1999*
Asset impairment/write-off:					
Spartanburg property, plant and equipment	$ —	$ —	$ —	$ —	$ —
Malaysian joint venture assets	2,805	—	2,275	—	530
Chinese joint venture assets	4,158	(5,747)	(1,949)	—	360
Other infrastructure	—	—	—	—	—
Total	6,963	(5,747)	326	—	890
Dismantling and related costs:					
Dismantling costs	10,306	—	7,175	4,129	7,260
Costs incurred by equipment supplier	—	—	—	—	—
Environmental costs	3,489	—	2,380	(709)	400
Operating leases	3,000	—	416	(1,584)	1,000
Other	3,000	—	136	—	2,864
Total	19,795	—	10,107	1,836	11,524
Personnel costs	10,541	—	8,280	(1,836)	425
Total restructuring costs	$37,299	$(5,747)	$18,713	$ —	$12,839

DOLLARS IN THOUSANDS	*Initial Provision*	*Amount Utilized*	*Balance at December 31, 1998*
Asset impairment/write-off:			
Spartanburg property, plant and equipment	$ 36,300	$36,300	$ —
Malaysian joint venture assets	28,000	25,195	2,805
Chinese joint venture assets	13,800	9,642	4,158
Other infrastructure	3,225	3,225	—
Total	81,325	74,362	6,963
Dismantling and related costs:			
Dismantling costs	11,345	1,039	10,306
Costs incurred by equipment supplier	5,000	5,000	—
Environmental costs	3,500	11	3,489
Operating leases	3,000	—	3,000
Other	3,000	—	3,000
Total	25,845	6,050	19,795
Personnel costs	14,500	3,959	10,541
Total restructuring costs	$121,670	$84,371	$37,299

In addition to the restructuring activities discussed above, in 1998 the Company recorded a $24,654 charge for a voluntary severance program for approximately 600 hourly and salaried U.S. employees. Substantially all of this amount was paid to participants as of December 31, 1998.

notes to consolidated financial statements *(Dollars in thousands, except share data)*

Substantially all of the dismantling and related costs and the personnel costs included in the $9,007 restructuring reserve at December 31, 2000 is related to the Spartanburg facility. Timing for utilization of the reserve is primarily dependent on the timing of the sale of the Spartanburg facility.

6 • Inventories

Inventories consist of the following:

December 31,	*2000*	*1999*
DOLLARS IN THOUSANDS		
Raw materials and supplies	$ 52,643	$49,537
Goods in process	35,562	23,493
Finished goods	43,654	25,389
	$131,859	$98,419

7 • Property, Plant and Equipment

Property, plant and equipment consist of the following:

December 31,	*2000*	*1999*
DOLLARS IN THOUSANDS		
Land and land improvements	$ 35,057	$ 14,529
Buildings and building improvements	577,481	507,340
Machinery and equipment	1,487,848	1,151,196
	2,100,386	1,673,065
Less accumulated depreciation	1,085,315	703,252
	1,015,071	969,813
Construction in progress	82,531	120,545
	$1,097,602	$1,090,358

8 • Investments in Joint Ventures

The Company has a 45% interest in Taisil Electronic Materials Corporation (Taisil), a company formed to manufacture and sell silicon wafers in Taiwan. Prior to September 29, 2000, the Company had a 40% interest in POSCO Hüls Co., Ltd. (PHC), a company formed to manufacture and sell silicon wafers in South Korea. Effective September 29, 2000, the Company purchased an additional 40% interest in PHC, now renamed MEMC Korea Company (MKC), increasing the Company's ownership to 80% and causing the financial consolidation of MKC with the Company effective as of that date. Accordingly, the operating results of MKC included in the information below are for the first nine months of the year only, and the balance sheet information below does not include MKC as of December 31, 2000.

During 2000, 1999 and 1998, the Company earned $9,815, $6,112, and $4,628, respectively, from these unconsolidated joint ventures under royalty agreements. Sales by these unconsolidated joint ventures of intermediate and finished product to the Company totaled $39,300, $37,927 and $34,479 in 2000, 1999 and 1998, respectively.

The Company provides Taisil with debt guarantees totaling $43,541. At December 31, 2000, Taisil had $32,084 in standby letters of credit and borrowings outstanding against these guarantees.

notes to consolidated financial statements

(Dollars in thousands, except share data)

A summary of the results of operations for 2000, 1999 and 1998, and financial position as of December 31, 2000 and 1999 of the Company's unconsolidated joint ventures follows:

December 31,	*2000*	*1999*	*1998*
DOLLARS IN THOUSANDS			
Total joint ventures:			
Net sales	$268,403	$252,402	$ 179,643
Gross margin	69,459	20,273	(33,668)
Net earnings (loss)	33,539	(22,724)	(101,596)
The Company's share —			
Net earnings (loss)	$ 14,664	$ (9,659)	$ (43,496)
Current assets	$ 62,140	$167,843	
Noncurrent assets	169,383	423,390	
Total assets	231,523	591,233	
Current liabilities	74,851	162,470	
Noncurrent liabilities	38,739	194,356	
Total liabilities	113,590	356,826	
Interests of others	66,286	137,153	
The Company's investments	$ 51,647	$ 97,254	

The Company's unconsolidated joint ventures have net sales denominated in or based on the U.S. Dollar and manufacturing expenses primarily denominated in the U.S. Dollar, New Taiwanese Dollar and Korean Won. Taisil has significant debt denominated in the U.S. Dollar and New Taiwanese Dollar. MKC and Taisil use the U.S. Dollar as their functional currency for U.S. GAAP purposes and do not hedge net Korean Won or New Taiwanese Dollar exposures.

9 • Short-Term Borrowing Agreements and Lines of Credit

The Company has unsecured borrowings from banks of approximately $29,552 at December 31, 2000, under approximately $88,380 of short-term loan agreements which bear interest at various rates ranging from 6.0% to 8.5% and are renewable annually. The interest rate on the borrowings is negotiated at the time of the borrowings.

The Company's weighted average interest rate on short-term borrowings was 7.1% and 0.7% at December 31, 2000 and 1999, respectively.

Interest expense related to short-term borrowings with an affiliate was $4,195 in 1998.

notes to consolidated financial statements *(Dollars in thousands, except share data)*

10 • Long-Term Debt

Long-term debt consists of the following:

December 31,	*2000*	*1999*
DOLLARS IN THOUSANDS		
Owed to affiliates:		
Notes with interest payable semiannually at rates ranging from 3.5% to 11.0%, due in 2001	$ — (1)	$329,310
Notes with interest payable semiannually at rates ranging from 3.5% to 11.6%, due in 2002	539,246	109,770
Notes with interest payable semiannually at rates ranging from 8.7% to 8.8%, due in 2003	90,000	90,000
Notes with interest payable semiannually at rates ranging from 8.8% to 9.7%, due in 2004	125,000	125,000
Notes with interest payable semiannually at 9.6%, due in 2005	75,000	75,000
Total owed to affiliates	829,246	729,080
Owed to nonaffiliates:		
Notes with interest payable semiannually at rates ranging from 1.6% to 2.2%, due in 2001	31,912	19,540
Notes with interest payable semiannually at rates ranging from 1.6% to 1.7%, due in 2002	18,827	48,850
Notes with interest payable semiannually at rates ranging from 7.3% to 10.3%, due in 2001 to 2003	29,088	—
Notes with interest payable quarterly at rates ranging from 7.0% to 10.6%, due in 2001 to 2005	37,370	—
Notes with interest payable semiannually at rates ranging from 1.2% to 8.9%, due in 2001 through 2017	94,759	88,626
Total owed to nonaffiliates	211,956	157,016
Total long-term debt	1,041,202	886,096
Less current portion	98,230	16,337
	$ 942,972	$869,759

(1) Effective December 31, 2000, E.ON agreed to extend these notes until 2002.

The Company has long-term committed loan agreements of approximately $1,081,000 at December 31, 2000, of which approximately $1,041,000 is outstanding. Commitment fees of 1/4 of 1% are paid on the unused portion of committed loan agreements. The $40,000 of available long-term loan agreements at December 31, 2000 is with affiliates. Under the terms of certain of these long-term loan agreements owed to affiliates, the Company cannot pledge any of its assets to secure additional financing. Under the Company's Euro 80 million (approximately $74,000) long-term loan from an affiliate used to fund the Company's acquisition of the additional 40% interest in MKC, the Company is required to pay 100% of any net proceeds received from the issuance of equity or debt to such affiliate as a mandatory principal repayment of this loan. This long-term loan also requires the Company to pay 75% of any cash received from MKC, through dividends, reductions or repurchases of equity, share redemptions or loans, to such affiliate as a mandatory principal repayment of this loan. Finally, under the remaining long-term loan agreements with affiliates, the Company is obligated to use 75% of any proceeds from the issuance of debt and 50% of the Company's annual free cash flow, which is net of capital expenditures, to pay down principal of these loans.

Interest expense related to long-term notes payable to affiliates was $72,929, $63,260, and $43,567 in 2000, 1999 and 1998, respectively.

notes to consolidated financial statements

(Dollars in thousands, except share data)

The aggregate amounts of long-term debt maturing subsequent to December 31, 2000 are as follows:

Dollars in thousands	
2001	$ 98,230
2002	584,151
2003	102,485
2004	131,994
2005	81,261
Thereafter	43,081
	$1,041,202

In October 1996, the Company entered into a financing arrangement with the City of O'Fallon, Missouri related to the expansion of the Company's St. Peters facility. In total, approximately $252,000 of industrial revenue bonds were issued to the Company by the City of O'Fallon, of which at December 31, 2000 and 1999, $170,000 and $191,000 was outstanding, respectively.

The bonds were exchanged by the City of O'Fallon for the assets related to the expansion, which were then leased by the Company for a period of 10 years for machinery and equipment and 15 years for building and building improvements. The Company has the option to purchase the machinery and equipment at the end of five years and the building and building improvements at the end of 10 years. The industrial revenue bonds bear interest at a rate of 6% per annum and mature concurrent with the annual payments due under the terms of the lease.

The Company has classified the leased assets as property, plant and equipment and has established a capital lease obligation equal to the outstanding principal balance of the industrial revenue bonds. Lease payments may be made by tendering an equivalent portion of the industrial revenue bonds. As the capital lease payments to the City of O'Fallon may be satisfied by tendering industrial revenue bonds (which is the Company's intention), the capital lease obligation, industrial revenue bonds and related interest expense and interest income, respectively, have been offset for presentation purposes in the consolidated financial statements.

11 • Stockholders' Equity

Preferred Stock

The Company has 50,000,000 authorized shares of $.01 par value preferred stock. The Board of Directors is authorized, without further action by the stockholders, to issue any or all of the preferred stock.

Common Stock

Holders of the $.01 par value common stock are entitled to one vote for each share held on all matters submitted to a vote of the stockholders. Subject to the rights of any holders of preferred stock, holders of common stock are entitled to receive ratably such dividends as may be declared by the Board of Directors. In the event of liquidation, dissolution or winding up of the Company, holders of the common stock are entitled to share ratably in the distribution of all assets remaining after payment of liabilities, subject to the rights of any holders of preferred stock.

The Company does not anticipate paying dividends in the foreseeable future. The declaration and payment of future dividends by the Company, if any, will be at the sole discretion of the Board of Directors.

1999 Private Placement

On March 22, 1999, the Company sold 15,399,130 shares of common stock in a private placement to VEBA Zweite Verwaltungsgesellschaft mbH, a subsidiary of E.ON, for $6.89 per share. The net proceeds of approximately $106,000 were used to repay debt of approximately $100,000 from E.ON under revolving credit agreements with the balance used for general corporate purposes.

notes to consolidated financial statements *(Dollars in thousands, except share data)*

1999 Rights Offering

On April 16, 1999, the Company sold 13,628,446 shares of common stock for $6.89 per share in connection with a rights offering. The net proceeds of approximately $91,000 were used to repay debt of approximately $90,000 from E.ON under revolving credit agreements and the balance was used for general corporate purposes. E.ON now owns 71.8% of the outstanding shares of common stock following the private placement and rights offering.

Stock-Based Compensation

The Company has an Equity Incentive Plan (the Plan) that provides for the award of incentive and non-qualified stock options, restricted stock and performance shares. Total shares authorized for grant under the Plan are 7,197,045. Non-qualified stock options to employees are typically granted on January 1 and vest at a rate of 25% annually over four years. Non-qualified stock options to non-employee directors are also typically granted on January 1 but vest at a rate of 33 1/3% annually over three years. The exercise price of each option equals the market price of the Company's common stock on the date of the grant, and each option's maximum term is 10 years. In 1999, restricted shares totaling 21,692 expired. Total compensation cost recognized for these awards in 1999 and 1998 was $(601) and $170, respectively.

The Company applies Opinion 25 and related Interpretations in accounting for the Plan. Accordingly, no compensation cost has been recognized for non-qualified stock options granted under the Plan. Had compensation cost been determined for the Company's non-qualified stock options based on the fair value at the grant dates consistent with the alternative method set forth under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," the Company would have reported the following amounts indicated below:

Year ended December 31,	*2000*	*1999*	*1998*
DOLLARS IN THOUSANDS, EXCEPT SHARE DATA			
Net loss:			
As reported	$(43,390)	$(151,481)	$(316,332)
Pro forma	(44,863)	(154,149)	(319,627)
Basic loss per common share:			
As reported	$ (.62)	$ (2.43)	$ (7.80)
Pro forma	(.64)	(2.48)	(7.88)
Diluted loss per common share:			
As reported	$ (.62)	$ (2.43)	$ (7.80)
Pro forma	(.64)	(2.48)	(7.88)

The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000, 1999 and1998, respectively: risk-free interest rate of 6.7%, 4.8% and 5.7%; expected life of six years for all periods; expected volatility of 77.1%, 57.6% and 51.4%; expected dividends of zero percent for all periods.

notes to consolidated financial statements

(Dollars in thousands, except share data)

A summary of the Company's Plan activity with respect to stock options is presented below:

	Shares	*Weighted-Average Option Price*	*Weighted-Average Fair Value of Options Granted*
Year ended December 31, 2000:			
Outstanding at beginning of year	2,325,744	$16.61	
Granted	668,000	12.46	$8.68
Exercised	(78,600)	12.18	
Canceled	(217,360)	22.30	
Outstanding at end of year	2,697,784	$15.25	
Options exercisable at year end	1,596,343	$17.56	
Year ended December 31, 1999:			
Outstanding at beginning of year	1,773,174	$20.11	
Granted	687,700	8.68	$5.10
Exercised	(21,200)	15.12	
Canceled	(113,930)	23.53	
Outstanding at end of year	2,325,744	$16.61	
Options exercisable at year end	1,396,428	$19.75	
Year ended December 31, 1998:			
Outstanding at beginning of year	1,024,292	$24.92	
Granted	887,300	15.06	$8.40
Exercised	—	—	
Canceled	(138,418)	23.31	
Outstanding at end of year	1,773,174	$20.11	
Options exercisable at year end	894,065	$22.99	

notes to consolidated financial statements

(Dollars in thousands, except share data)

A summary of information about non-qualified stock options outstanding at December 31, 2000 is presented below:

	Options Outstanding		
Range of Exercise Prices	*Number Outstanding at December 31, 2000*	*Weighted-Average Remaining Contractual Life*	*Weighted-Average Exercise Price*
$24.00	342,484	4.5 years	$24.00
$32.63 – 49.50	115,100	5.1 years	33.08
$22.50 – 29.00	151,050	5.9 years	22.58
$3.13 – 15.25	797,600	7.0 years	15.06
$6.00 – 19.06	637,350	8.0 years	8.70
$7.44 – 20.12	654,200	9.1 years	12.47
	2,697,784	7.3 years	$15.25

	Exercisable Options Outstanding	
Range of Exercise Prices	*Number Exercisable at December 31, 2000*	*Weighted-Average Exercise Price*
$24.00	342,484	$24.00
$32.63 – 49.50	115,100	33.08
$22.50 – 29.00	141,800	22.57
$3.13 – 15.25	601,934	15.11
$6.00 – 19.06	317,625	8.68
$7.44 – 20.12	77,400	12.26
	1,596,343	$17.56

12 • Loss Per Share

For all periods presented, the numerator of the calculation for basic and diluted loss per share was net loss. The denominator for this calculation was the same for both basic and diluted loss per share for all periods, as options outstanding for all periods were antidilutive.

In January 2001, the Company granted options to purchase 539,900 shares of common stock at $9.69 to $10.94 per share. These options will expire in January 2011.

notes to consolidated financial statements *(Dollars in thousands, except share data)*

13 • Income Taxes

Loss before income taxes, equity in income (loss) of joint ventures and minority interests are as follows:

Year ended December 31,	*2000*	*1999*	*1998*
DOLLARS IN THOUSANDS			
U.S.	$(126,651)	$(213,138)	$(349,573)
Foreign	48,824	490	(23,642)
	$ (77,827)	$(212,648)	$(373,215)

Income tax (benefit) expense consists of the following:

	Current	*Deferred*	*Total*
DOLLARS IN THOUSANDS			
Year ended December 31, 2000:			
U.S. federal	$ 1,228	$ (32,447)	$ (31,219)
State and local	786	(2,819)	(2,033)
Foreign	16,705	(4,466)	12,239
	$ 18,719	$ (39,732)	$ (21,013)
Year ended December 31, 1999:			
U.S. federal	$ 570	$ (70,156)	$ (69,586)
State and local	914	895	1,809
Foreign	2,152	(296)	1,856
	$ 3,636	$ (69,557)	$ (65,921)
Year ended December 31, 1998:			
U.S. federal	$ 1,524	$(103,435)	$(101,911)
State and local	2,207	(4,534)	(2,327)
Foreign	4,790	10,054	14,844
	$ 8,521	$ (97,915)	$ (89,394)

Income tax (benefit) expense differed from the amounts computed by applying the U.S. federal income tax rate of 35% in 2000, 1999 and 1998 to loss before income taxes, equity in income (loss) of joint ventures and minority interests as a result of the following:

Year ended December 31,	*2000*	*1999*	*1998*
DOLLARS IN THOUSANDS			
Income tax at federal statutory rate	$ (27,240)	$ (74,427)	$(130,625)
Increase (reduction) in income taxes resulting from:			
Change in the balance of the valuation allowance for deferred tax assets allocated to income tax expense	(13,642)	(1,622)	19,386
Foreign tax differences	20,787	5,976	15,310
State income taxes, net of federal benefit	(1,321)	1,176	(1,513)
Investment incentives	(714)	(660)	(600)
Malaysian joint venture charges	—	—	5,552
Other, net	1,117	3,636	3,096
	$ (21,013)	$ (65,921)	$ (89,394)

notes to consolidated financial statements *(Dollars in thousands, except share data)*

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

December 31,	*2000*	*1999*
DOLLARS IN THOUSANDS		
Deferred tax assets:		
Inventory, principally due to additional costs inventoried for tax purposes and/or financial reserves recorded to state inventories at net realizable values	$ 7,421	$ 6,718
Accruals for expenses currently not deductible for tax purposes	41,609	38,945
Pension, medical and other employee benefits, principally due to accrual for financial reporting purposes	37,332	36,728
Net operating loss carryforwards	285,768	252,450
Investment tax credit carryforwards	1,456	1,456
Alternative minimum tax credit carryforwards	3,760	3,760
Other	1,325	1,557
Total gross deferred tax assets	378,671	341,614
Less valuation allowance	(37,104)	(49,168)
Net deferred tax assets	341,567	292,446
Deferred tax liabilities:		
Property, plant and equipment, principally due to differences in depreciation and capitalized interest	(88,160)	(89,129)
Other	(18,857)	(6,510)
Total deferred tax liabilities	(107,017)	(95,639)
Net deferred tax assets	$234,550	$196,807

Net deferred tax assets were classified in the consolidated balance sheets as follows:

December 31,	*2000*	*1999*
DOLLARS IN THOUSANDS		
Current deferred tax assets, net	$ 13,450	$ 12,905
Noncurrent deferred tax assets, net	221,100	183,902
	$234,550	$196,807

The Company's net deferred tax assets increased $37,700 to $234,500 at December 31, 2000. Management believes it is more likely than not that with its projections of future taxable income and after consideration of the valuation allowance, the Company will generate sufficient taxable income to realize the benefits of the net deferred tax assets existing at December 31, 2000. In order to realize the net deferred tax assets existing at December 31, 2000, the Company will need to generate future taxable income of approximately $643,000.

The Company's net operating loss (NOL) carryforwards total $724,000, of which $7,000 will expire in 2001; $25,000 will expire in 2003; $3,000 will expire in 2004; $14,000 will expire in 2012; $322,000 will expire in 2018; $254,000 will expire in 2019 and $99,000 will expire in 2020. There can be no assurance, however, that the Company will generate sufficient taxable income to realize the full benefit of the existing net deferred tax assets. The Company also has alternative minimum tax credit carryforwards available of $3,760. Utilization of $7,220 of loss carryforwards is subject to limitation under Internal Revenue Code Section 382. Pursuant to this Internal Revenue Code Section, the amount of loss carryforwards that may be utilized is limited to approximately $2,000 per year.

14 • Pension Plans and Other Retirement Benefits

The Company has a noncontributory defined benefit plan covering most U.S. employees. Benefits for this plan are based on years of service and qualifying compensation during the final years of employment. The Company complies with federal funding requirements.

The Company also has a nonqualified plan under the Employee Retirement Income Security Act of 1974, which provides benefits not otherwise payable under the above plan due to Internal Revenue Code restrictions. Eligibility for participation in this plan requires coverage under the above plan and other specific circumstances.

In addition, the Company sponsors a health care plan that provides postretirement medical benefits to full-time U.S. employees who meet minimum age and service requirements. The plan is contributory, with retiree contributions adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance. The Company's policy is to fund the cost of medical benefits in amounts determined at the discretion of management.

Net periodic pension cost consists of the following:

	Pension Plans			*Health Care Plan*		
Year ended December 31,	*2000*	*1999*	*1998*	*2000*	*1999*	*1998*
DOLLARS IN THOUSANDS						
Service cost	$6,240	$ 7,807	$ 8,134	$1,383	$1,435	$ 1,791
Interest cost	8,977	8,769	9,128	3,693	3,333	2,995
Expected return on plan assets	(7,436)	(6,523)	(7,219)	—	—	—
Amortization of service costs	579	393	501	(707)	(707)	(1,010)
Net actuarial loss/(gain)	110	770	818	(163)	54	47
Curtailment (gain) recognized	—	428	4,381	—	—	(148)
Cost of special termination benefits	—	—	—	—	—	1,023
Net periodic benefit cost	$8,470	$11,644	$15,743	$4,206	$4,115	$ 4,698

notes to consolidated financial statements

(Dollars in thousands, except share data)

The following summarizes the change in benefit obligation, change in plan assets and funded status of the Company's plans:

	Pension Plans		*Health Care Plan*	
	2000	*1999*	*2000*	*1999*
DOLLARS IN THOUSANDS				
Change in benefit obligation:				
Benefit obligation, beginning	$127,809	$137,475	$ 47,122	$ 52,573
Service cost	6,252	7,820	1,383	1,435
Interest cost	8,977	8,769	3,693	3,333
Amendments	1,520	559	—	—
Actuarial (gain)/loss	(10,130)	(15,451)	(17)	(8,182)
Benefits paid	(12,645)	(11,791)	(2,169)	(2,037)
Curtailments	—	428	—	—
Benefit obligation, ending	121,783	127,809	50,012	47,122
Change in plan assets:				
Fair value of plan assets, beginning	94,485	85,112	—	—
Actual return on plan assets	10,267	11,682	—	—
Employer contributions	11,967	9,482	2,169	2,037
Benefits paid	(12,645)	(11,791)	(2,169)	(2,037)
Fair value of plan assets, ending	104,074	94,485	—	—
Funded status	(17,709)	(33,324)	(50,012)	(47,122)
Unrecognized prior service cost	5,857	4,891	(7,080)	(7,787)
Unrecognized net actuarial (gain)/loss	(13,878)	(783)	(5,281)	(5,386)
Fourth quarter contribution	1,874	110	—	—
Accrued benefit cost at December 31	$ (23,856)	$ (29,106)	$(62,373)	$(60,295)
Amounts recognized in statement of financial position:				
Accrued benefit liability	$ (28,021)	$ (32,354)	$(62,373)	$(60,295)
Fourth quarter contribution	1,874	110	—	—
Intangible asset	489	584	—	—
Accumulated other comprehensive income	1,802	2,554	—	—
Accrued pension expense	$ (23,856)	$ (29,106)	$(62,373)	$(60,295)

Pension plan assets consist principally of insurance contracts, marketable securities including common stocks, bonds and interest-bearing deposits.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $6,602, $5,371 and $638, respectively, as of December 31, 2000, and $8,184, $6,478 and $601, respectively, as of December 31, 1999.

The Company recognized the curtailments and the special termination benefits related to the closure of the Spartanburg facility and the voluntary severance program offered to employees during 1998.

notes to consolidated financial statements

(Dollars in thousands, except share data)

The following is a table of the actuarial assumptions:

	Pension Plans		*Health Care Plan*	
	2000	*1999*	*2000*	*1999*
Weighted-average assumptions:				
Discount rate	7.75%	7.75%	7.75%	7.75%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%

For measurement purposes, a 6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease to 5.5% thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend would have the following effects:

Dollars in thousands	*One-Percentage-Point Increase*	*One-Percentage-Point Decrease*
Effect on total service and interest cost components	$ 49	$ (48)
Effect on postretirement benefit obligation	$180	$(177)

The Company has pension plans for its foreign subsidiaries. The aggregate pension expense and liability are not material to the consolidated financial statements.

15 • Retirement Savings Plan

The Company sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code covering all U.S. salaried and hourly employees. Company contributions included in results of operations totaled $3,633, $3,618 and $4,012 for 2000, 1999 and 1998, respectively.

16 • Commitments and Contingencies

The Company leases buildings, equipment and automobiles under operating leases. Rental expense under these leases was $17,607, $24,062 and $28,733 in 2000, 1999 and 1998, respectively. Minimum aggregate future rental obligations under leases having remaining terms of one year or more at December 31, 2000 are as follows:

Dollars in thousands	
2001	$ 8,082
2002	4,262
2003	1,443
2004	203
Thereafter	—
	$13,990

notes to consolidated financial statements

(Dollars in thousands, except share data)

17 • Geographic Segments

The Company is engaged in one reportable segment—the design, manufacture and sale of silicon wafers for the semiconductor industry.

Geographic financial information is as follows:

	United States	*Japan*	*Korea*	*Italy*	*Other Foreign Countries*	*Total*
DOLLARS IN THOUSANDS						
Net sales to customers:						
2000	$411,222	$125,903	$ 80,701	$ 30,828	$222,983	$ 871,637
1999	359,020	89,281	36,153	21,815	187,325	693,594
1998	389,721	119,138	16,865	30,855	202,337	758,916
Long-lived assets:						
2000	$789,221	$184,198	$184,584	$ 91,235	$ 9,821	$1,259,059
1999	824,977	229,349	56,060	101,739	52,634	1,264,759
1998	901,940	221,701	60,608	131,436	54,241	1,369,926

Net sales are attributed to countries based on location of customer. Investments in joint ventures are presented based on the countries in which they are located.

18 • Unaudited Quarterly Financial information

2000	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
DOLLARS IN THOUSANDS, EXCEPT SHARE DATA				
Net sales	$ 193,089	$ 200,516	$ 222,800	$ 255,232
Gross margin	14,004	25,888	37,189	51,894
Loss before equity in income (loss) of joint ventures and minority interests	(26,867)	(17,373)	(9,103)	(3,471)
Equity in income (loss) of joint ventures	(1,073)	1,789	6,747	7,201
Minority interests	601	74	75	(1,990)
Net income (loss)	(27,339)	(15,510)	(2,281)	1,740
Basic earnings (loss) per share	(.39)	(.22)	(.03)	.02
Diluted earnings (loss) per share	(.39)	(.22)	(.03)	.02
Market price:				
High	24.1875	19.9375	19.5000	14.1250
Low	10.5000	13.0625	12.7500	6.2500
1999				
DOLLARS IN THOUSANDS, EXCEPT SHARE DATA				
Net sales	$159,800	$168,043	$182,781	$182,970
Gross margin	(13,816)	(1,966)	4,922	525
Loss before equity in income (loss) of joint ventures and minority interests	(46,852)	(36,228)	(32,464)	(31,183)
Equity in income (loss) of joint ventures	(4,589)	(3,891)	(2,642)	1,463
Minority interests	1,187	807	1,389	1,522
Net loss	(50,254)	(39,312)	(33,717)	(28,198)
Basic loss per share	(1.19)	(.58)	(.48)	(.41)
Diluted loss per share	(1.19)	(.58)	(.48)	(.41)
Market price:				
High	11.1250	12.7500	21.5000	15.3750
Low	5.5000	5.7500	10.7500	10.0000

report of **management**

The management of MEMC Electronic Materials, Inc. and its subsidiaries is responsible for the preparation, integrity and objectivity of the accompanying consolidated financial statements and related information. The statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America and, in the judgment of management, present fairly the Company's financial position, results of operations and cash flows. These statements necessarily include amounts that are based on management's best estimates and judgments and give due consideration to materiality. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the financial statements.

The Company's financial statements have been audited by KPMG LLP (KPMG), independent auditors who, in accordance with auditing standards generally accepted in the United States of America, express an opinion on the fairness of the financial statement presentation.

The Company maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Company policy requires employees to maintain the highest level of ethical standards in the conduct of the Company's business. As part of the audit of the Company's financial statements, KPMG has considered the system of internal controls, tested the system to the extent required by auditing standards generally accepted in the United States of America and provided management with internal control recommendations. Management believes that the system of internal controls is effective, and that an appropriate balance between the costs and benefits of such a system has been achieved.

The Board of Directors pursues its responsibility for the Company's financial statements through its audit committee, which consists entirely of independent Board members. The audit committee meets periodically with management and the independent auditors to review the scope of the audit, the results of the audit and the quality of financial reporting.

Klaus von Hörde
President and
Chief Executive Officer

James M. Stolze
Executive Vice President
and Chief Financial Officer

independent **auditors' report**

The Board of Directors
MEMC Electronic Materials, Inc.:

We have audited the accompanying consolidated balance sheets of MEMC Electronic Materials, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. 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 generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 financial position of MEMC Electronic Materials, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

St. Louis, Missouri
January 26, 2001

board of **directors**

Prof. Dr. Wilhelm Simson
Chairman of the Board;
Chairman of the Board of Management
and Co-CEO
E.ON AG (1, 2)

Klaus von Hörde
President and
Chief Executive Officer (2, 4)

Dr. Hans Michael Gaul
Member of the Board of Management
E.ON AG (1, 2)

Helmut Mamsch
Former Member of the Board of Management
VEBA AG (1, 2)

Willem D. Maris
Former President and
Chief Executive Officer
ASM Lithography Holdings (2, 3)

Dr. Alfred Oberholz
Member of the Board of Management
Degussa – Hüls AG (1, 2)

Paul T. O'Brien
Executive Vice President
Degussa – Hüls Corporation (1, 4)

Ambassador Michael B. Smith
Chairman
Cantabs, Inc. (1, 3, 4)

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(1) Compensation
(2) Planning and Capital Expenditures
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James M. Stolze
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Corporate Projects

Jonathon P. Jansky
Corporate Vice President
Operations

Thomas P. Stiffler
Corporate Vice President
Human Resources

James G. Weathers
Corporate Vice President
Customer Service and Product Management

stockholders' information

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(636) 474-5000

Transfer Agent and Registrar
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2 North LaSalle Street
P. O. Box A3504
Chicago, Illinois 60690-3504
(312) 360-5433
www.computershare.com

Annual Meeting
All stockholders are invited to attend the annual meeting of MEMC Electronic Materials, Inc. at 10:00 a.m. local time on May 7, 2001, at The Ritz-Carlton St. Louis, 100 Carondelet Plaza, Clayton, Missouri 63105. Holders of common stock of record at the close of business on March 12, 2001, are entitled to vote at the meeting. A notice of the meeting, proxy statement and proxy were sent to stockholders with this Annual Report.

Stockholder Inquiries
Inquiries regarding address corrections, lost certificates, changes of registration, stock certificate holdings and other stockholder account matters should be directed to MEMC's transfer agent, Computershare Investor Services, L.L.C., at the address or phone number above.

Common Stock Listing
MEMC's common stock is traded on the New York Stock Exchange under the symbol "WFR". On December 29, 2000, the last business day of the year, the Company had 532 stockholders of record.

Form 10-K
Stockholders may obtain a copy of MEMC's Annual Report on Form 10-K and related financial statement schedules for the year ended December 31, 2000, filed with the Securities and Exchange Commission, by writing MEMC's Investor Relations Department or by calling (636) 474-5505.

Financial Information
MEMC maintains a home page on the Internet at www.memc.com where the Company publishes information, including earnings releases, other news releases, significant corporate disclosures and the names of securities analysts who issue research on the Company.

Independent Auditors
KPMG LLP
10 South Broadway, Suite 900
St. Louis, Missouri 63102

Investor Relations
Stockholders, securities analysts, investment professionals and prospective investors should direct their inquiries to:

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Tel: (636) 474-5443
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Manufacturing Facilities
Chonan, South Korea
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MEMC

TECHNOLOGY IS BUILT ON US

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