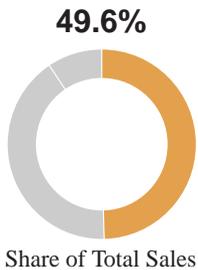


## Sustained Growth by Concentrating Investments in Core Businesses



maintains dominant positions in several key products.

In PVC the company is number-one worldwide, while in silicones it is first in Japan and among the leaders globally.

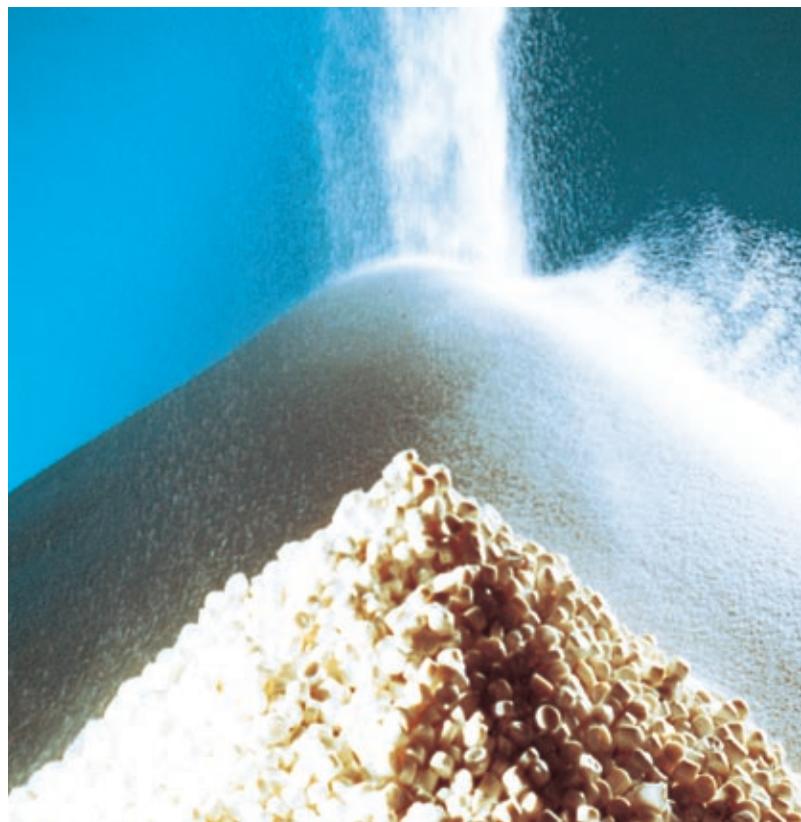
Ongoing investments are aimed at further reinforcing the company's stature in these huge markets.

### Dominant Market Positions Attest to Technical Leadership

Sales from chemicals are derived from synthetic resins, such as polyvinyl chloride (PVC) and silicones, including their processing and formation; and inorganic and organic chemicals, such as caustic soda, chloromethanes and cellulose derivatives. Activities include the results of the parent company, Shintech, Inc., Shin-Etsu Polymer Co., Ltd. and 31 other consolidated subsidiaries.

In fiscal 1997, chemicals business sales increased 2.2 percent to ¥310,030 million. PVC accounts for the largest share of these sales. In the U.S., the world's largest PVC market, conditions were strong in the first half of the fiscal year, then turned downward in the second half. However, prices rebounded sharply in January 1997, bringing the global market for this product back into balance by the end of the fiscal year. In Japan, activity in public-works projects and residential construction supported growth in shipments of PVC, although prices were raised to reflect an increase in the cost of naphtha and other raw materials due to the yen's depreciation. In silicones, another important source of

**Demand for PVC is rising steadily for applications ranging from household products to building and civil engineering materials.**



sales, performance was supported by strong demand from makers of building materials and automobiles within Japan. Rising demand elsewhere in Asia also led to higher exports. Cellulose derivatives, an organic chemical product, similarly generated higher sales, with orders up substantially for use in building materials and as an additive in pharmaceuticals.

### **Building on Strengths in PVC**

With PVC production facilities in the U.S., Portugal and Japan, Shin-Etsu has the ability to supply customers efficiently in all major markets. In the U.S. in particular, Shin-Etsu has a dominant position. With annual sales of about 6 million tons, the U.S. market is approximately three times larger than the Japanese market. Furthermore, demand in the U.S. is forecast to grow annually at 10 percent, chiefly for residential building materials. Shin-Etsu is therefore targeting the U.S. as a primary source of future growth. Shintech, a Shin-Etsu subsidiary, operates the world's largest single PVC resin plant in Freeport, Texas. To meet anticipated future demand, the construction of a second plant is currently being planned.

### **Silicones—A Stable Source of Earnings**

Shin-Etsu accounts for about half of all silicone output in Japan. In terms of sales, Shin-Etsu is well ahead of its competitors. The material offers many desirable properties. Among them are resistance to heat and climatic changes, as well as good electrical characteristics. Furthermore, silicone can be produced in oil, rubber and several other forms. Thus there is demand for it in many industries, including electrical machinery, electronics, automobiles, building materials and cosmetics. In all, silicone is found in more than 4,000 products. This diversity makes it very resistant to a downturn in any one industry, and a stable source of sales and earnings.

Subsidiaries Shin-Etsu Silicones of America, Inc. and Shincor Silicones, Inc., both located in Akron, Ohio, serve the U.S. market, while Shin-Etsu Silicones Europe B.V. in the Netherlands serves the European



**Shintech, Inc., a Shin-Etsu subsidiary based in Freeport, Texas, operates the largest single PVC production facility in the world.**

**There are more than 4,000 types of silicone products.**



market. Manufacturers of electronic components and automobile parts represent a large share of sales. In Asia, where demand is rising rapidly, Shin-Etsu has two production and sales bases for rubber and emulsion products in Korea and Taiwan. There is also a sales subsidiary in Singapore and a sales office in Hong Kong. This geographical diversity gives Shin-Etsu a solid base for expanding its silicone operations worldwide.

### **Growing Sales in Cellulose Derivatives**

Shin-Etsu has a large share of the domestic market for cellulose derivatives, with strong demand from makers of building materials supporting growth. Seizing this opportunity, Shin-Etsu developed a new grade for use in forming outer walls of homes and buildings. The material offers better performance and allows work to proceed more quickly at construction sites. Sales of cellulose derivatives for pharmaceutical excipients rose substantially in Japan and overseas.

### **Investments Raise Output of Rubber Contacts**

Rubber contacts are the largest product sector at Shin-Etsu Polymer and its subsidiaries. With orders rising worldwide, the companies are raising output capacity. Made of conductive silicone rubber, rubber contacts serve as switching elements in computer keyboards, mobile phones and many other products. Home appliances and automobile parts are two other important applications. The world's largest supplier of these contacts, the Shin-Etsu Polymer Group has production and sales bases in Japan, Malaysia, the U.S., the Netherlands and China. In Malaysia, construction of a fourth plant was completed in December 1996. In July 1996, Shin-Etsu Polymer México, S.A. de C.V. was established and soon broke ground for a factory. When completed, this facility will further expand supply capabilities to customers in North America.



**Cellulose derivatives are in increasing demand from makers of building materials. Pharmaceuticals represent another important market; these derivatives make excellent coatings and granules for tablets.**

**The world's largest supplier of rubber contacts, the Shin-Etsu Polymer Group is expanding output worldwide.**

