

## A Message From the President



### Record Sales and Earnings

Sales and earnings rose to all-time highs for the third consecutive year in the most recent fiscal term. Net sales increased 11.0 percent to ¥693,275 million, while net income was up 3.5 percent to ¥42,027 million. Higher demand for key Shin-Etsu products stimulated growth, much of which was sparked by strength in the electronics industry during the first half of the fiscal year. All of our core product sectors benefited from higher demand. Shin-Etsu retained the top world market shares in both PVC and semiconductor silicon. We rank first in Japan in silicones as well as in synthetic quartz, which is now positioned as our fourth core product. Other major products also performed well, including rare earth magnets, epoxy molding compounds and cellulose derivatives.

### The Need to Sustain Steady Growth and Maximize Earnings

I believe that the most important goal for the company is to aim for stable growth while generating the highest possible level of earnings over the long term for our stockholders. Shin-

### Financial Highlights

Shin-Etsu Chemical Co., Ltd. and Subsidiaries  
Fiscal year ended 31st March, 1998 (1st April, 1997 to 31st March, 1998 )

|  | 31st March,       |          |                   | 31st March,                 |
|--|-------------------|----------|-------------------|-----------------------------|
|  | 1996              | 1997     | 1998              | 1998                        |
|  | (millions of yen) |          |                   | (thousands of U.S. dollars) |
| <b>For the Year:</b>                       |                   |          |                   |                             |
| Net Sales                                  | ¥575,176          | ¥624,405 | <b>¥693,275</b>   | <b>\$5,252,083</b>          |
| Operating Income                           | 73,427            | 82,024   | <b>90,860</b>     | <b>688,333</b>              |
| Net Income                                 | 37,825            | 40,614   | <b>42,027</b>     | <b>318,386</b>              |
| Capital Expenditures                       | 66,791            | 92,844   | <b>136,384</b>    | <b>1,033,212</b>            |
| Net Income per Share (in yen, dollars)     | ¥ 116.51          | ¥ 118.24 | <b>¥ 110.73</b>   | <b>\$ 0.839</b>             |
| Cash Dividends per Share (in yen, dollars) | 7.50              | 7.50     | <b>8.50</b>       | <b>0.064</b>                |
| Return on Equity (percent)                 | 12.5              | 11.7     | <b>9.6</b>        |                             |
| <b>At Year-End:</b>                        |                   |          |                   |                             |
| Total Assets                               | ¥708,637          | ¥931,159 | <b>¥1,083,780</b> | <b>\$8,210,455</b>          |
| Working Capital                            | 118,936           | 195,729  | <b>221,869</b>    | <b>1,680,826</b>            |
| Stockholders' Equity                       | 320,987           | 374,726  | <b>497,312</b>    | <b>3,767,515</b>            |

Note: The U.S. dollar amounts represent conversions of Japanese yen, for convenience only, at the rate of ¥132=\$1.

Etsu has an integrated production system that includes everything from raw materials to finished products. Our diverse product line is not overly dependent on demand from a single client industry, while our global production network serves a broad range of customers. And our top-quality products enjoy high market shares, backed by some of the world's most cost-competitive manufacturing bases. This infrastructure ensures many more years of stable growth and solid earnings. Achieving this objective demands the efficient use of our resources, everything from people to capital, as well as the confidence to make bold decisions regarding the investments that will support Shin-Etsu's growth for many years to come.

#### **Investing From a Long-Term Perspective**

Investments fuel growth. I am constantly envisioning the kind of company Shin-Etsu should be five or ten years from now. And what we must do to get there. To reach that point, we must invest aggressively to expand our business in targeted product sectors. This is why Shin-Etsu has budgeted about ¥500 billion for capital expenditures over the next five years to increase output and boost efficiency in respect of core products like polyvinyl chloride (PVC), semiconductor silicon and silicones. Another very important goal is fostering new core products, such as synthetic quartz and rare earth magnets. An appropriate share of resources will be channeled into these new core products. Typical of this drive was our establishment of Silica Products Inc. in April 1997. This company started producing synthetic quartz in March 1998 at its plant, which stands next to an existing Shin-Etsu PVC facility in Freeport, Texas. The primary applications for this material are stepper lenses and photomask substrates for integrated circuits (ICs) and liquid crystal displays (LCDs). With synthetic quartz plants in

Japan and the United States, we are firmly positioned to be a reliable supplier for our customers and to maintain our No. 1 market share.

We do not overlook or underestimate the value of niche markets in our quest for global expansion. Research and development programs include new products aimed squarely at highly focused opportunities. Our basic policy is to avoid concentrating investments in a single field, but rather to seek a balance in order to cover as many markets as reasonably possible. I am well aware of the immense value of high-potential R&D and marketing capabilities, assets that do not appear on the balance sheet. Unless we pay constant attention to these kinds of assets, our prospects for growth become severely limited.

#### **Outlook**

Financial instability in Asia was a major cause of the steady deterioration in market conditions during the second half of the past fiscal year. The Japanese economy and the Shin-Etsu Group will undoubtedly feel the effects of these events. At this challenging time, we will be concentrating on strengthening existing businesses while fostering new sources of earnings. The top priority is to sustain our steady growth and maximize earnings, as we expand our presence in Japan and markets outside of Asia. The key to achieving this goal is to tighten our focus on specialty products. This is where we can best differentiate ourselves by carving out high market shares and establishing ourselves as a truly global enterprise.



Chihiro Kanagawa  
*President & CEO*  
*June 1998*