

Seventh Consecutive Year of Net Income Gains, Fifth Straight Year of Record Net Profits



Chihiro Kanagawa

President and CEO

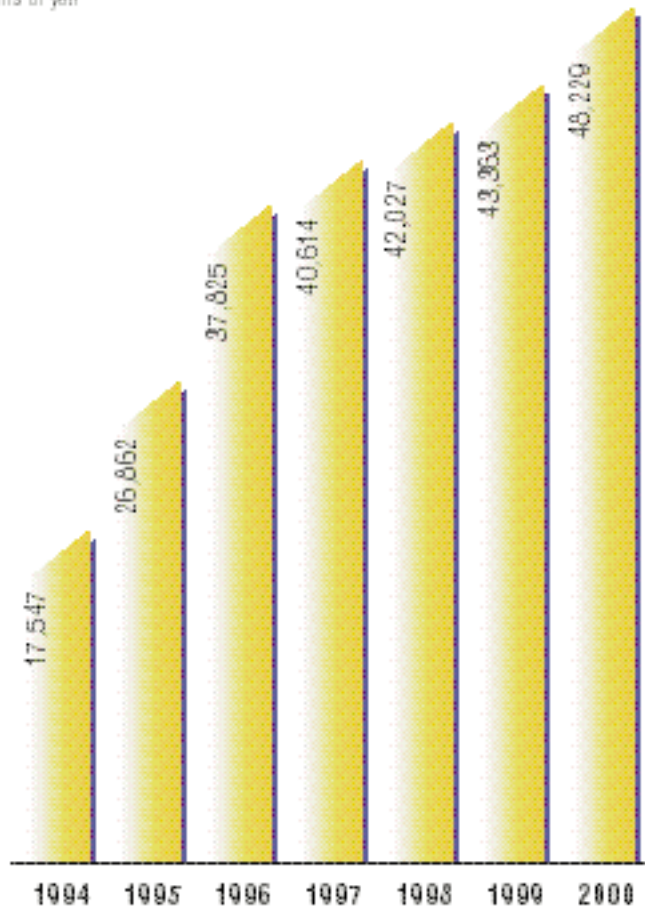
In the most recent fiscal year, April 1999 through March 2000, Shin-Etsu recorded higher annual sales and net income than the previous year. Consolidated net sales of ¥679 billion (US\$6,404 million) represented a 5.6% increase. Consolidated net income was ¥48 billion (US\$455 million), an increase of 11.2%. Net income has increased in each of the last seven fiscal years. Cash flow was quite strong at ¥106 billion (US\$997 million), a jump of 10% over that of the previous year. In order to enhance our shareowner value, I am placing high management priority on maintaining stable growth of both sales and profit. The fact that Shin-Etsu has achieved seven consecutive years of profit increases despite the fluctuations of the global economy resulted from management's policies and efforts to execute our plans and expand our business segments into various industries with a wide variety of customers instead of relying on a limited numbers of industries.

In our polyvinyl chloride (PVC) business, we have moved ahead with our current worldwide strategy by the acquisition of PVC and VCM businesses

from Shell Chemicals and Akzo-Nobel in Europe and the initiation of construction of a new greenfield PVC manufacturing facility in Louisiana, U.S.A. by Shin-tech Inc., a wholly owned subsidiary of Shin-Etsu. These investments will not only strengthen our position as the world's largest PVC manufacturer by volume, but they will also improve our global product distribution. The magnitude of these investments are sufficient to make a long-term positive contribution to Shin-Etsu's globalization strategy. In our silicones business, we continue to develop new high-value-added products and to diversify the sales base of commodity type products. In addition, we are focusing on global business opportunities for our silicones. In our semiconductor silicon business, we expect growth over the next ten years, even though the demand will sometimes be cyclical and a substantial amount of investment will be required. We continue with maximum efforts to develop new and valuable applications for synthetic quartz, rare-earth magnets, epoxy molding compounds, and cellulose derivatives.

We have a large number of products to serve the semiconductor industries. Our broad array of products provides us with a strong competitive advantage in supplying these industries. By developing new products to meet changing customers' needs, we are able to exceed the average growth of the overall industry sector. For example, we supply our worldwide customers with silicon wafers that are an

Shin-Etsu Consolidated Net Income
Millions of yen



indispensable material for semiconductor devices; photoresists that are also used for semiconductor manufacturing processes; synthetic quartz that is used in the manufacture of photomasks and lenses of semiconductor steppers and epoxy molding compound that is used for encapsulation for semiconductor devices. The silicon wafer business acquired from Hitachi, Ltd., a major Japanese company, is also contributing to our business.

During the recent fiscal year, we were able to achieve price adjustments to help improve our overall margins. We believe customers satisfaction can be maintained only by our research and development, stable supply of products, environmental safety, superior service to our customers and reinvestment in plants and facilities, all of which requires adequate funding. Shin-Etsu remains sensitive to the impact of pricing on our loyal customers.

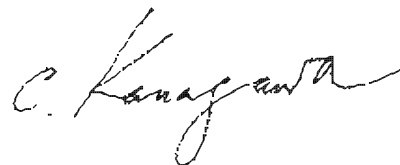
As for the development of new products, I am chairing the “Z committee” where new products for development are selected using strict criteria. The committee is composed of select staff members who research, develop and commercialize the new products. Using this approach, we have carried several new products to market. Recent examples are photoresists for excimer laser applications, pellicles for protecting photomasks, and a new fluoro-elastomer. Silicon On Insulator (SOI) wafer is also one of the new products that we expect to grow in the semiconductor industry. My current target is to significantly shorten the period from the selection of a new product to its commercialization.

As soon as we decide that a new development product will likely be commercially viable for us, we will make the necessary investments using principally internally generated funds. We categorize our investments in two major parts — those that are ongoing and generally predictable, such as the funds for building new manufacturing facilities,

expanding capacity and keeping our existing facilities safe, efficient, and technically up-to-date — and the less predictable opportunities that arise, for example, mergers and acquisitions (M&A). We carefully manage our cash flow to be able to take advantage of strategically significant M&A opportunities.

Finally, we trust our shareowners are supportive of the policies and the programs as described above. The financial markets have endorsed Shin-Etsu’s strategies and policies as they increased Shin-Etsu’s market capitalization to ¥2,616 billion (US\$24.68 billion) as of March 31, 2000. Shin-Etsu is ranked No. 1 among Japanese chemical companies and one of the five largest chemical companies in the world based on market capitalization.

In conclusion, I would like to say that the entire Shin-Etsu organization is working to meet the expectations of our shareowners by executing in a timely manner the basic strategies I have outlined.



Chihiro Kanagawa
President and CEO

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