CHIHIRO KANAGAWA *President and CEO*

The fiscal year from April 2000 through March 2001 was the most successful year in Shin-Etsu's history. This fiscal year we achieved record-setting results in every major business segment. We have focused simultaneously on multiple business segments, and have developed a business structure so that depressed economic conditions in any particular business will have minimal effect on the company as a whole.

Consolidated net sales of ¥807 billion (US$6,512 million) represented a 18.9% increase, while consolidated net income rose 33.7% to a record ¥65 billion (US$520 million). Shin-Etsu has now achieved eight consecutive years of profit increases, as well as record profits for six fiscal years in a row. Consolidated net income per share also increased by 31.8% from the last fiscal year.

During the fiscal year, several important projects were implemented in silicon wafers, polyvinyl chloride, silicones and optical fiber preforms, as described below. These projects will contribute to the future stability and growth of Shin-Etsu.

I continue to place high management priority on maintaining stable growth in both sales

and profits. In order to achieve this, we are placing special emphasis on the following:

1. Maintaining our healthy financial condition

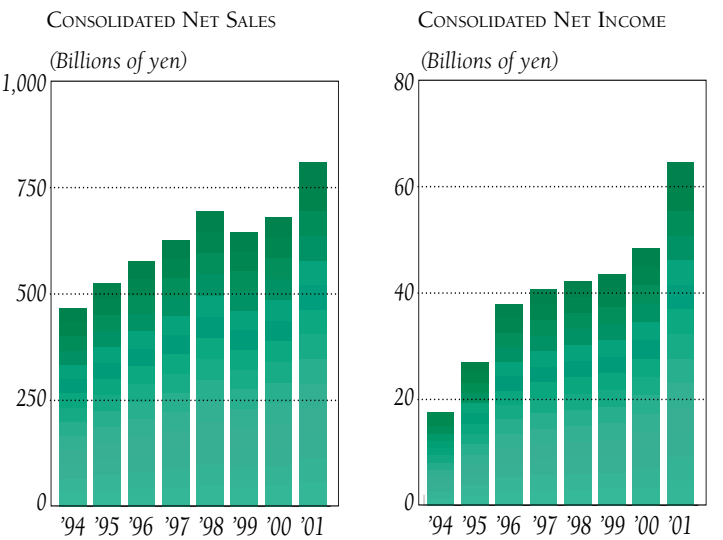
2. Specializing not only in rapid-growth product lines but also in stable though moderate-growth areas with high investment efficiency.

3. Developing new products that will have synergistic effects with our existing commercial products.

These guiding principles have proven to be the best method for rewarding our stockholders over an extended period. The results of our company over the past 5 to 10 years are solid proof of the validity of these principles.

Now for a closer look at the highlights of the fiscal year:

First, my policy to avoid becoming overly dependent on a single business is reflected in the breakdown of the operating profit by segments during the fiscal year. 42% of the operating income of Shin-Etsu was derived from the stable-growth businesses of organic and inorganic chemicals. This segment includes polyvinyl chloride, silicones, cellulose derivatives, etc., all of which have continued their stable long-term growth. On the other hand, our rapid-growth business segments produced 58% of the operating income of our company. In these rapid-growth businesses, 32% of the operating income was earned from electronics materials such as semiconductor silicon wafers, rare-earth magnets for hard-disk drives, photoresists, and epoxy-molding compounds. 26% of the operating income in this business segment was earned by functional materials and



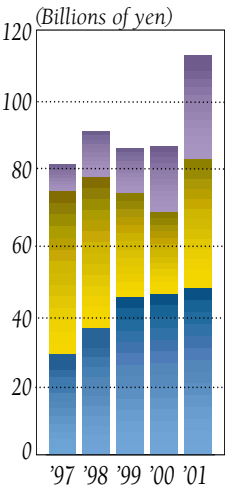
other products such as optical-fiber preforms, synthetic quartz for photomask substrates, and rare-earth magnets for general purposes.

Second, Shin-Etsu's total investments for the fiscal year were ¥97 billion ($780 million), with 38% of this targeted for organic and inorganic chemicals, 39% for electronics materials, and 23% for functional materials and others.

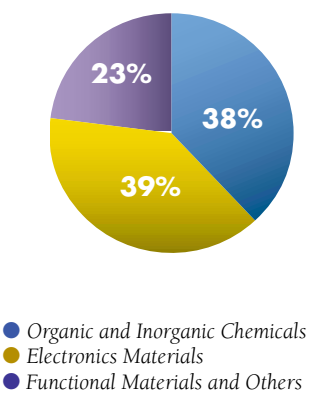
Third, 45% of our consolidated sales were generated in Japan and 55% were generated overseas. The breakdown of the overseas sales includes 21% from Japanese plants and the remaining 34% from production outside of Japan.

When we look for a potential new production location, we make our final decision only after carefully examining whether doing business in any given location will contribute to our market growth, the availability of raw materials, the manufacturing costs and the inherent risks involved in doing business in the country. In our PVC business, we have manufacturing facilities in the three key global regions—the U.S.A., Europe, and Japan. This geographic diversification is a result of our focus on cost competitiveness and large domestic demand in the U.S.A., our pursuit of a stable local demand in Europe, and our desire to spread the business risk of PVC by maintaining manufacturing facilities in these three key regions. In our semiconductor silicon business, we have production facilities in Japan, the U.S.A., Malaysia, the U.K. (Scotland), and Taiwan. This geographic diversification is also a result of our pursuit of both local demand and cost competitiveness in each area. In our electronics materials segment, we have production plants in Southeast Asia as well as Japan for magnets and the epoxy-molding compounds for electronics devices. In addition, the ongoing silicone monomer project of Shin-Etsu and General Electric in Thailand will enable our silicone business to expand and be cost-competitive in response to the growth of those local markets.

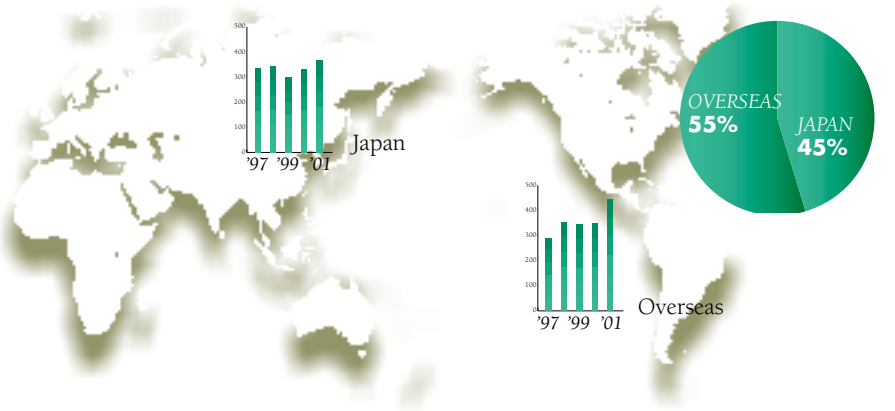
Operating Income by Segment



Investment by Segment



Overseas Sales
(Billions of yen)



In our polyvinyl chloride segment, Shintech Incorporated, a wholly owned subsidiary in the U.S.A., achieved record profits for the fiscal year. The construction of the first half of Shintech's new plant in Addis, Louisiana, was completed on December 10, 2000. As a result, our total production capacity in the U.S.A., including the existing Freeport plant in Texas, has increased from 1,450,000t/year to 1,750,000t/year. The construction of the second half of the new plant in Addis is proceeding on schedule. Upon completion of the entire Louisiana project at the end of 2001, Shin-Etsu's total worldwide PVC production capacity will reach 3,190,000t/year. In order for Shin-Etsu to solidify its position as the world's largest manufacturer of PVC, we are continuing to make every effort to operate our facilities at full capacity, not only in the U.S.A., but also in Japan and in Europe, supported by our highly responsive marketing principles.

In our silicones business, we are now proceeding with plans to construct a new silicone monomer manufacturing plant in Thailand, which will begin production in April 2003. A joint-venture company to own and operate the plant was formed with General Electric Company in February 2001. The rapid growth in demand for silicones products in Asia is expected to continue well into the future. Upon completion of the silicone monomer plant with the combined state-of-the-art technology of both companies, we will expand our silicone business with cost-competitive products from the intermediate to the final stage of production.

In the rapid-growth segments, we are now constructing a new manufacturing facility for the production of optical-fiber preforms at the Kashima Coastal Industrial Zone in Japan. We already have an existing preforms manufacturing facility with an annual production capacity of 12 million kilometers in terms of optical-fiber, at our Gunma Complex in Japan. Upon completion of the new plant in Kashima, Shin-Etsu's total capacity for preforms will be

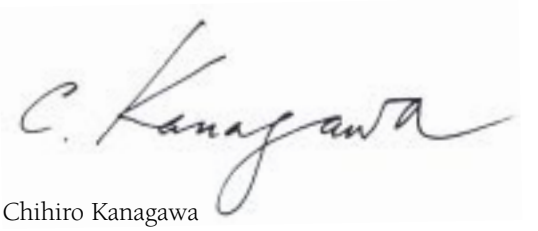
doubled. The demand for preforms is continuing to increase in line with expansion of the infrastructure for optical-fiber communications around the world.

Shin-Etsu was the first to market a 300mm diameter wafer—the next-generation semiconductor wafers. The demand for 300mm diameter wafers has risen because semiconductor device manufacturers realize significant cost savings by using the larger-diameter wafers. Shin-Etsu began commercial production of its 300mm wafers in the first quarter of 2001. This timing will allow us to establish a solid base for further growth in this next-generation wafer and will mitigate the impact of the current slowdown in the semiconductor markets on Shin-Etsu's results.

Since these capital investments can be principally funded by internally generated cash flow, we are able to implement these major investments with timing that is optimum for our businesses.

When we select an area of technology for research and development, it is very important to assess whether that area of technology can serve a large future market, create a synergistic effect with our existing businesses, and generate an original and unique technology for Shin-Etsu. Considering the rapid changes in technology, it is important for us to maximize the expertise of our research and development activities, achieve developmental results within a short period of time and rapidly convert developmental ideas into commercial reality. The new products developed through this approach, for example photoresists and SOI wafers, are steadily establishing solid business base for us. We are committed to the development of new products and markets in order to assure Shin-Etsu's long-term stable growth.

The U.S.A. economy has a major influence on the world economy. After ten-years of steady economic expansion, it began to decline in the second half of 2000. As a result, the present business environment for our company is not as good as it was last year. However, I would like to emphasize that the entire Shin-Etsu organization is making its best effort to maintain stable growth in both sales and profits despite the business cycle.



Chihiro Kanagawa

President and CEO

June 2001