

In fiscal 2004, the year ended March 31, 2004, we achieved consolidated net sales of ¥832.8 billion, an increase of 4.4% from the previous fiscal year. Operating income grew by 2.8% to ¥125.6 billion. Net income climbed 2.5% to ¥74.8 billion, marking the 11th consecutive year of increase and a new record-high for the ninth year in a row. Consolidated net income per share rose ¥4.12 to ¥177.25.



Management Policy

The Shin-Etsu Group strives to maintain continuous growth over the long term. Our wide-ranging business activities, based on a policy of strict regulatory compliance and fairness, are designed to benefit local communities and society as a whole. In keeping with this basic underlying precept, we are working to achieve stable revenue and earnings growth, and to maximize corporate value. By these means, we will continue making every effort to fulfill our shareholders' expectations.

Amid a constantly changing business environment and intensifying international competition, the achievement of sustained growth is a real challenge. To sustain growth potential now and in the future, the Shin-Etsu Group is focusing on two basic areas: cultivating businesses with future growth potential from a long-term standpoint, and achieving consistently favorable results in our daily business activities.

With respect to businesses with future growth potential, we are working to develop promising new opportunities focusing on a two to five year time frame. At the same time, we are implementing other meaningful measures, including the creation of a production structure that is alert to future changes in the operating environment.

In order to attain steady results in our daily business activities, we are focusing our efforts on attaining world-class technologies, quality and cost competitiveness, while building stable business relationships with customers around the world. At the same time, we are enhancing our ability to respond to the overall economic environment and short-term changes in market conditions. Through these initiatives, we are primarily concentrating on the expansion of revenues and earnings.

By bolstering our growth potential through these measures, we are endeavoring to avoid a "hardening" of our organizational ways, thereby enhancing flexibility in management in order to swiftly address changes in the operating environment.



Cellulose derivatives business based in Wiesbaden, Germany acquired from Clariant Group and SE Tylose GmbH & Co. KG established

Fiscal 2004 Highlights

In the fiscal year under review, China was an engine of growth for the global economy. However, concerns emerged regarding inflation in materials prices due to the rise in energy prices and other factors. The Japanese economy continued to present a challenging operating environment despite such positive signs as the growth in the digital home-electronics sector.

Amid these operating conditions, the Shin-Etsu Group posted its ninth consecutive year of record-high consolidated net income. Our subsidiary Shintech Inc., the largest PVC manufacturer in the United States, recorded a growth in earnings. The Group's semiconductor silicon wafer businesses, which include specialized wafers, also made a major contribution, thanks to their aggressive development aimed at meeting market needs.

The Shin-Etsu Group also reinforced existing core businesses. A major highlight was our acquisition of the cellulose derivatives business of Clariant Group. As a result, we now have cellulose derivatives operations in Japan and Europe that are in a position to address the needs of industries across a broader geographical base.

In the semiconductor silicon wafer business, as part of an ongoing process, we expanded the production capacity of the Shirakawa plant in Japan during the fiscal year under review. By December 2004, we plan to further increase its capacity to 300,000 pieces per month. While carefully analyzing demand trends, we intend to continue actively expanding the semiconductor silicon wafer business, including the production of specialized wafers.

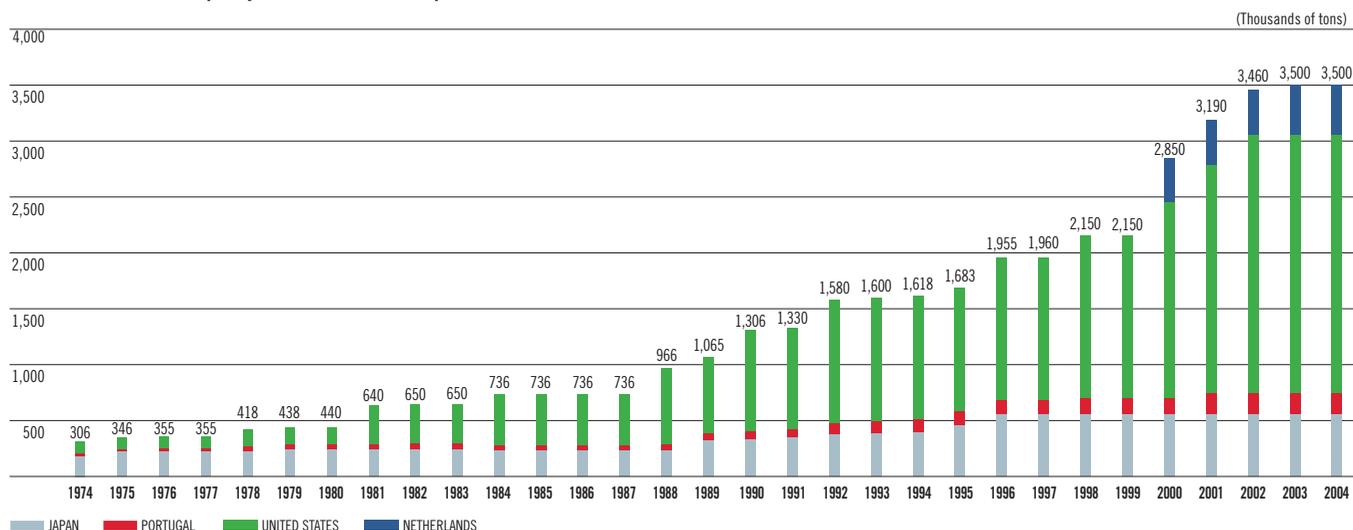


Shin-Etsu Handotai Co., Ltd. Shirakawa plant

Research and Development

Through its ambitious R&D program, the Shin-Etsu Group is focusing on the reinforcement of our existing and peripheral businesses as well as the development of new businesses. Our R&D efforts require a clear view of future technical possibilities and market opportunities. To this end, we have

Total PVC Production Capacity of the Shin-Etsu Group



established the New-Z Committee to exhaustively study the issues and choose the best R&D programs. We are constantly reassessing our R&D methods to find the optimal method to achieve commercialization.

Given the accelerating pace of technological innovation, we are redoubling our efforts in R&D activities, especially in growing markets, in order to quickly develop new products and applications.

Financial Strategies

The Shin-Etsu Group is building a solid earnings structure that generates funds for reinvestment in growth fields. In addition, we are pursuing mergers and acquisitions as well as developing other methods to create a framework that ensures a swift response to the ever-changing business environment.

Key investments made in fiscal 2004 included the acquisition of the aforementioned cellulose derivatives production facility in Europe. The Company also significantly increased its production capacity for 300mm semiconductor silicon wafers.

Our dividend policy is based on a long-term perspective and emphasizes the continued distribution of stable dividends, the expansion of business revenues and reinforcement of the corporate structure. We have steadily increased cash dividends through this policy. For fiscal 2004, for example, we have declared total cash dividends of ¥16.00 per share, an increase of ¥2.00 from the previous fiscal year, and more than double the dividend of ¥7.50 per share distributed in fiscal 1997.

Environmental Protection

Our fundamental policy is to minimize the impact of our business activities on the natural environment. In implementing this policy, we have obtained ISO 14001 certification for environmental management systems at all facilities of the parent company and the principal factories of our other Group companies.



Shintech will mark its 30th anniversary in October 2004

In the production stage, the Shin-Etsu Group concentrates on the manufacture of products that are safe for customers, that effectively use resources that conserve energy and do not emit harmful substances.

As a good citizen, we are strengthening efforts to benefit society by participating in local community programs aimed at protecting the environment. We are committed to continuing the development of technologies that increase product safety and decrease environmental impact.

Corporate Governance

To enhance corporate governance, we have added experienced outside directors to the Board of Directors. In fiscal 2003, we set up the Risk Management Committee to further strengthen risk-management capabilities.

Growing Together

At the Shin-Etsu Group, we are committed to growing together with our customers and suppliers. Accordingly, we constantly strive to achieve short-term targets, cultivate new businesses from a long-term perspective and build a highly efficient production structure.

In conclusion, we would like to express our sincere appreciation for the continued support of our shareholders, customers and suppliers.

A handwritten signature in black ink, appearing to read "C. Kanagawa". The signature is fluid and cursive.

Chihiro Kanagawa
President and CEO