

A Record Performance in a Deflationary Environment

Stagnation in Japan and the global electronics marketplace caused consolidated net sales to decline 7.3 percent to ¥642,796 million in the past fiscal year. Net income, however, rose 3.2 percent to ¥43,363 million, giving Shin-Etsu its fourth consecutive year of record earnings.

Our U.S. subsidiary Shintech Inc., the world's largest producer of PVC, turned in a solid performance. Rare earth magnets at the parent company did well as demand expanded from hard-disk drives and other electronic devices to medical equipment and other product sectors. Silicones and cellulose derivatives were other sources of strength. Overall, solid results in these and several other products outweighed weakness in silicon wafers, allowing us to achieve higher earnings.

A Well-Balanced Business Portfolio

The Shin-Etsu Group has five core businesses: PVC, silicones, silicon wafers, synthetic quartz and rare earth magnets. PVC and silicones are products that serve steady markets with stable growth. The other three businesses are in high potential markets where growth rates are typically much higher.

My business philosophy is to maintain the proper balance among these products. If this balanced business structure is sufficiently solid, we will be able to sustain consistent growth in sales and earnings by meeting demand from a broad range of industries, rather than relying on just one or two fields.

Investment Decisions That Stress Cash Flow

I place the greatest importance on stable growth in sales and earnings. Therefore, while preserving a sound financial position and highly efficient management system that can generate consistently high earnings and cash flow, we will make investments that entail risks, in some cases, for the purpose of supporting future growth. In each case, it is vital that we accurately evaluate the potential growth and profits that a proposed investment may generate. And Shin-Etsu's top global market shares in several product categories puts us in an advantageous position to conduct these evaluations.

In the last fiscal year, our consolidated capital expenditures were limited by management decision to ¥74 billion because of an uncertain operating environment. By contrast, these expenditures amounted to ¥136 billion in the fiscal year that ended in March 1998.

In the current period, which ends in March 2000, we estimate that capital expenditures will total approximately ¥100 billion, a figure that is basically equivalent to our current operating cash flow.

Looking Ahead to a New Millennium

As the 20th century draws to a close, we see few positive signs on the global economic horizon. In Japan, prospects for an economic rebound are poor. In Europe and North America, there are concerns about slowing economic growth. This situation is prompting major realignments of industries on a global scale. At Shin-Etsu, we must continue to foster and enlarge our core businesses that hold large market shares worldwide. And we need to make all of our activities more global. To do this, we must continue to invest in R&D and explore opportunities for mergers and acquisitions.

Our fundamental obligation is to respond with agility and speed to changes in our markets, both economic and social. Consequently, it is essential that our organization and employees discard bureaucratic attitudes and make the entire Shin-Etsu Group function more efficiently. This is one of the points that I will be emphasizing most in the coming year.



A handwritten signature in black ink that reads "C. Kanagawa". The signature is fluid and cursive, with a long horizontal stroke at the end.

Chihiro Kanagawa
President & CEO

June 1999