



## To Our Shareholders

In fiscal 2003, the year ended March 31, 2003, we achieved net sales of ¥797.5 billion, an increase of 2.9% compared with the previous fiscal year. Operating income amounted to ¥122.2 billion, a year-on-year increase of 6.5%, while net income rose 6.6% to ¥73.0 billion, marking the 10th consecutive year of profit growth and record high profits for the 8th year in a row. Reflecting this solid performance for the fiscal year, our consolidated net income per share climbed ¥10.20 to ¥173.13.

### Management Policy

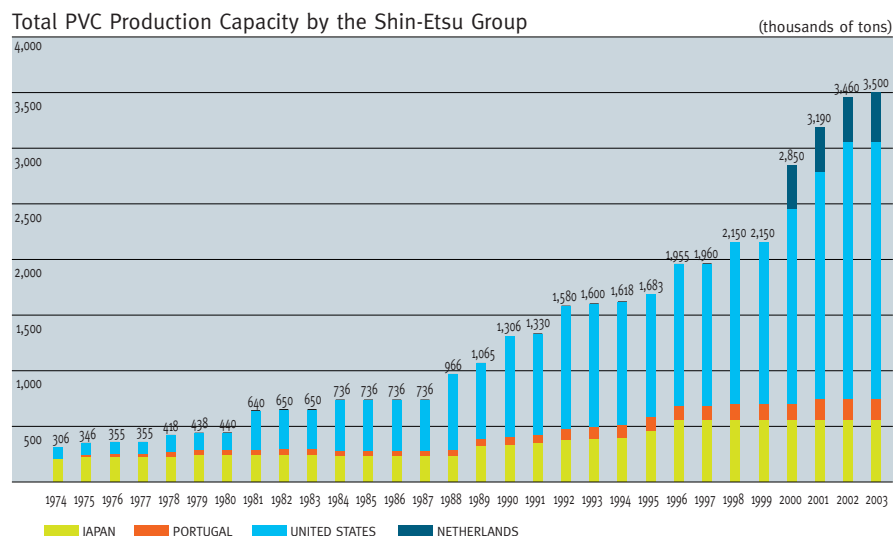
The fundamental policy of the Shin-Etsu Group is to enhance corporate value through stable growth as well as to contribute to society as a whole through open and fair business activities in the regional communities in which we operate and thorough strict compliance with all statutory requirements. We also work to ensure that Shin-Etsu is committed to the establishment of a business structure capable of addressing changes in economic conditions and markets. We are committed to achieving a leading position in global markets through competitive technology, quality and a stable relationship with all of our customers.

In order to minimize the risks associated with dependency on any single product line or market, Shin-Etsu manufactures a diverse range of products, including PVC, silicones and cellulose derivatives as well as semiconductor silicon wafers, synthetic quartz, etc.

In fiscal 2003, semiconductor silicon wafers, including specialized wafers, and the U.S. PVC business, contributed to Shin-Etsu's growth in a difficult and challenging economy. Our results were also enhanced by the demand for silicones and cellulose derivatives. The

silicones manufactured by the Shin-Etsu Group currently add value to more than 4,000 different products in many areas, including electronics and electrical equipment, transportation equipment, construction, cosmetics and foods. Of the many silicone products that Shin-Etsu manufactures, products brought to market within the past five years have consistently comprised about 20% of total silicone sales. Cellulose derivatives, water-soluble polymers, also contribute to the Group's sales and earnings.

Shin-Etsu is committed to the research and development of new products. We set up the "New-Z Committee" to propel our research and development in new business areas and to select new R&D themes by a thorough examination of the market and technology as well as by consultations with leading specialists. These efforts have led to cutting-edge discoveries in the fields of photoresists, specialized silicon wafers and fluoroelastomers, that comprise the platform for our business activities. We recognize the need for accelerating our R&D activities to rapidly achieve results in the development of new products and applications. We are also making efforts to shorten the total time from product development to commercialization.



Our fundamental philosophy in the area of environment conservation is to minimize adverse impacts in every aspect of our business activities. In implementing this philosophy, Shin-Etsu has acquired ISO 14001 certification for its environmental management systems at all facilities of Shin-Etsu Chemical Co., Ltd. and the principal factories of Group companies such as Shin-Etsu Polymer Co., Ltd. and Shin-Etsu Handotai Co., Ltd.

In the manufacture of our products, we emphasize product safety, the efficient use of resources, especially through energy conservation, and the prevention of environmental pollution. All Shin-Etsu employees, as good citizens, strive to contribute to the betterment of society by actively participating in local community efforts to preserve and protect the environment. Shin-Etsu is dedicated to the development of new technologies that increase product safety and reduce environmental impact.

In the area of corporate governance and management efficiency, we introduced experienced outside directors to the Board. We also established a Risk Management Committee in fiscal 2002 to address the variety of risks confronting the Company.

## The Challenges Ahead

We always keep the spirit of challenge for the years ahead utmost in our mind, setting new targets and constantly urging ourselves to succeed in undertakings that are generally believed to be impossible. In this way, we dedicate ourselves to work continuously to forge new challenges for the future.

We appreciate the continued support of our shareholders, customers and suppliers.

**Chihiro Kanagawa**  
President and CEO