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(Translation)

(Securities Code 4063)

June 7, 2017

To: All Shareholders of Shin-Etsu Chemical Co., Ltd. (the "Company")

Notice of Convocation of the 140th  
Ordinary General Meeting of Shareholders

Dear Shareholder:

You are hereby notified that the 140th Ordinary General Meeting of Shareholders will be held as described below. Your attendance would be much appreciated.

If you are unable to attend the Meeting in person, you are entitled to exercise your voting rights in writing or via the Internet. We would appreciate it if you would take the time to review the Reference Documents for the General Meeting of Shareholders attached hereto and exercise your voting rights no later than 5:00 p.m. on Wednesday, June 28, 2017.

Description of Meeting

1. Date and Time : June 29, 2017 (Thursday) at 10:00 a.m. (the reception is to start at 9:00 a.m.)
2. Place : Company's head office at 6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo  
27th floor of Asahi-Seimei Otemachi Building, Otemachi Sun-Sky Room
3. Agenda for the Meeting:  
Matters to be reported : 1. Report on the Business Report, the Consolidated Financial Statements, and the Audit Reports of the Accounting Auditor and the Audit & Supervisory Board on the Consolidated Financial Statements for the 140th fiscal year (April 1, 2016 through March 31, 2017)  
2. Report on the Financial Statements for the 140th fiscal year (April 1, 2016 through March 31, 2017)

Matters to be resolved:

- 1st Agendum : Distribution of Retained Earnings to Shareholders
- 2nd Agendum : Amendment of Certain Provisions of the Articles of Incorporation
- 3rd Agendum : Election of Eleven (11) Directors
- 4th Agendum : Election of One (1) Audit & Supervisory Board Member
- 5th Agendum : Issuance of Stock Acquisition Rights as Stock Options to Employees

Very truly yours,

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Yasuhiko Saitoh  
Representative Director / President  
Shin-Etsu Chemical Co., Ltd.  
6-1, Ohtemachi 2-chome  
Chiyoda-ku, Tokyo

- 
- ⊙ The Notes to Consolidated Financial Statements and the Notes to Non-Consolidated Financial Statements, which are to be attached to this notice of convocation, are published via the Internet on the website of the Company (<http://www.shinetsu.co.jp/>) pursuant to laws and the articles of incorporation of the Company. Therefore, the Consolidated Financial Statements and the Financial Statements attached to this notice of convocation are part of the Consolidated Financial Statements and the Financial Statements which the Audit & Supervisory Board Members and the Accounting Auditor audited in the course of preparing the audit report.
  - ⊙ Any modification that may be required in the Reference Documents for the General Meeting of Shareholders, or in the Business Report, the Financial Statements or the Consolidated Financial Statements, will be published via the Internet on the website of the Company (<http://www.shinetsu.co.jp/>).

## **Guidance on How to Exercise Voting Rights**

### **If you are attending the Meeting of Shareholders in person**

Date: Thursday, June 29, 2017 at 10:00 a.m.

(The reception desk would be opened at 9:00 a.m.)

Please hand in the enclosed Voting Card at the reception desk. In the interest of preserving resources, please bring this “Notice of Convocation” with you on the day of the Meeting.

### **If you are not attending the Meeting of Shareholders in person**

#### **By Voting Card**

To reach us by: Wednesday, June 28, 2017 5:00 p.m.

Please indicate your approval or disapproval on the enclosed Voting Card and send it back by postal mail to reach us by the date and time shown above.

#### **Via the Internet**

To be exercised by: Wednesday, June 28, 2017 5:00 p.m.

Please access the voting rights exercise site which we specify below and indicate your approval or disapproval and send it via the internet by the date and time shown above.

Voting rights exercise site: <http://www.evotepj/>

### **If you exercise your voting rights multiple times**

1. If you exercise your voting rights both by Voting Card and via the Internet, the rights exercised via the Internet will be treated as effective.
2. If you exercise your voting rights multiple times via the Internet, the latest exercised voting rights will be treated as effective. In addition, if you exercise your voting rights multiple times from a PC, smartphone or a cell phone, the latest voting rights exercised from whichever devices will be treated as effective.

**Notice of Convocation of the 140th  
Ordinary General Meeting of Shareholders**

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## ANNEX

# BUSINESS REPORT

(April 1, 2016 through March 31, 2017)

## I. Matters Concerning the Current State of the Company's Group

### 1. Business Operations

With regard to the world economy, during the consolidated fiscal year (April 1, 2016 to March 31, 2017), although in the United States and Europe a recovery of the economy was seen, economic growth in Japan was able to record only a slight increase. In China, a gradual slowdown in its economic growth continued, and weakness in the economy was also seen in other emerging economies. In Japan, although there was a tendency toward the depreciation of the Japanese yen from the end of November 2016, on the whole during this fiscal year the Japanese manufacturing industry was affected by the increasing tendency toward the appreciation of the Japanese yen.

In these circumstances, in order to achieve continued increases in our business results, the Shin-Etsu Group endeavored (1) to deepen its relationships with its customers and further expand its global customer base; (2) to constantly carry out product development that strongly supports our customers' needs, improve product quality and achieve further differentiation in technologies; and (3) to continue our policy of strict cost management.

As a result, the net sales for the Company's group for this consolidated fiscal year, mainly due to the effects of the yen's appreciation, decreased by 3.3% (42,402 million yen) compared with the previous fiscal year to 1,237,405 million yen. Compared to the performance of the previous fiscal year, operating income increased by 14.4% (30,092 million yen) to 238,617 million yen, ordinary income increased by 10.1% (22,128 million yen) to 242,133 million yen and, profit attributable to owners of parent increased by 18.2% (27,072 million yen) to 175,912 million yen.

The business operations of each division were as follows.

#### PVC/Chlor-Alkali

With regard to the PVC business, because SHINTECH INC. in the U.S., by making good use of its expanded production capacity, realized sales growth that surpassed that of the industry both within and outside of North America, it achieved a double-digit profit increase. Shin-Etsu PVC in Europe continued steady operation, and its shipments continued to be firm. The PVC business in Japan increased its sales volume both within Japan and outside of Japan and improved its profit.

As a result of the foregoing, although this division's total sales decreased by 6.8% (30,101 million yen) from the previous fiscal year to 411,600 million yen, operating income increased by 19.0% (8,496 million yen) to 53,186 million yen.

#### Silicones

With regard to the silicones business, in Japan, shipments of product applications for cosmetics and on-board automobiles continued to do well. Globally, although general-purpose products were affected in the first half of the fiscal year by sluggish market prices, shipments of functional products for the United States, China and Southeast Asia were firm.

As a result of the foregoing, although this division's total sales decreased by 4.5% (8,473 million yen) from the previous fiscal year to 179,275 million yen, operating income increased by 2.5% (1,049 million yen) to 42,549 million yen.

#### Specialty Chemicals

With regard to cellulose derivatives, in Japan, although sales of construction materials products were slow, shipments of pharmaceutical-use products continued to do well. The business of SE Tylose in Europe continued to be steady on the whole for coating products and construction materials products. Shipments were firm in the silicon metal business of Simcoa Operations in Australia, although it was affected by a decline in market prices.

As a result of the foregoing, although this division's total sales decreased by 7.5% (8,791 million yen) from the previous fiscal year to 108,058 million yen, operating income increased by 22.2% (4,043 million yen) to 22,233 million yen.

#### Semiconductor Silicon

With regard to semiconductor silicon, together with applications for memory devices continuing to be firm, shipments of logic devices also did well, supported by demand in a wide range of fields for applications such as for smartphones.

As a result of the foregoing, this division's total sales increased by 3.8% (9,286 million yen) from the previous fiscal year to 252,612 million yen, and operating income increased by 19.4% (9,080 million yen) to 55,991 million yen.

#### Electronics & Functional Materials

With regard to the rare earth magnets business, although products for hard-disk drives were slow, products for applications in automobiles were firm, including those for hybrid cars. With regard to the photoresist products business, ArF resists and trilayer materials continued to perform steadily and photomask blanks had good shipments. Although the business of materials for LED packaging was affected by production adjustments made by some customers, optical fiber preform continued to have firm shipments.

As a result of the foregoing, this division's total sales increased by 0.6% (1,173 million yen) from the previous fiscal year to 187,938 million yen, and operating income increased by 7.3% (3,756 million yen) to 55,209 million yen.

#### Processing, Trading & Specialized Services Business

Shin-Etsu Polymer Co., Ltd.'s business of input devices for automobiles and semiconductor wafer-related containers continued to do well.

As a result of the foregoing, although this division's total sales decreased by 5.3% (5,496 million yen) from the previous fiscal year to 97,919 million yen, operating income increased by 70.2% (3,953 million yen) to 9,584 million yen.

Note: The name of this division was changed from the previous name of "Diversified Business" to "Processing, Trading & Specialized Services Business" in the consolidated fiscal year (April 1, 2016 to March 31, 2017). This change was made in order to make the contents of this division clearer. There is no change in the products and services that come under this division.

## 2. Status of Capital Investments and Procurement of Funds of the Company's Group

The Company's group invested 145,647 million yen during this consolidated fiscal year mainly in the following:

Major facilities completed during this consolidated fiscal year:

Enhancement of the integrated facilities for the manufacture of polyvinyl chloride (SHINTECH INC.)

Construction of a rare earth magnets manufacturing plant (1st phase) (Shin-Etsu Magnetic Materials Vietnam Co., Ltd.)

Construction of a photomask blanks manufacturing plant (the Company's Takefu Plant)

Construction of an optical fiber preform manufacturing plant (Shin-Etsu YOFC (Hubei) Optical Preform Co., Ltd.)

Facilities under construction as of the end of this consolidated fiscal year:

Construction of an ethylene manufacturing plant (SHINTECH INC.)

Enhancement of the facility for manufacturing silicone (Asia Silicones Monomer Limited and Shin-Etsu Silicones (Thailand) Limited)

Enhancement of the facility for manufacturing silicone (the Company's Gunma Complex and Naoetsu Plant)

Construction of a photoresist manufacturing plant (Shin-Etsu Electronics Materials Taiwan Co., Ltd.)

Construction of a rare earth magnets manufacturing plant (2nd phase) (Shin-Etsu Magnetic Materials Vietnam Co., Ltd.)

The Company's group expended mostly its own funds for investment capital during this consolidated fiscal year.

## 3. Problems Confronting the Company's Group

With regard to business prospects going forward, the world economy contains many uncertain factors and it does not allow for optimism.

Facing such a situation, the Shin-Etsu Group will carefully focus on developments in world markets and aggressively develop our sales activities which accurately capture trends in demand. At the same time, we will further accelerate the development of our global business by such means as constructing manufacturing bases at optimal locations in the world and strengthening and expanding existing facilities. In addition, we will further focus on enhancing productivity and product quality, and at the same time, we will strive to develop products that have value for customers and we will also strive to assure the stable supply of our products. For this purpose, we will continue to maintain a sound financial base and proactively utilize our financial strength to carry out appropriate investments in a timely manner.

In the PVC business, together with utilizing its expanded production capacity and at the same time continuing its construction of an ethylene plant which will manufacture one of the main raw materials for PVC, SHINTECH INC. in the U.S. is striving to further strengthen its integrated PVC manufacturing system, starting from the raw materials. By making good use of its advantageous raw materials situation in the U.S. and by continuing to carry out its sales strategies that accurately grasp global trends in demand, we will further solidify its position as the world's largest PVC manufacturer.

In the semiconductor silicon business, we will precisely meet any and all demand for devices by assuring a stable supply of high-quality products to our worldwide customers from our multiple manufacturing bases, both in Japan and outside of Japan. At the same time, we will strengthen our competitive power by assiduously taking such measures as the strengthening of our research and development of silicon wafers for advanced electronics devices and making improvements in productivity.

In the silicones business, in order to steadily capture the demand for highly functional products, which is expected to expand, we are going forward with the expansion of the production capacity of our manufacturing bases in Japan. We are also working on the expansion of our supply system for our worldwide customers through such means as carrying out a large expansion and strengthening of production capacity at our silicones plants in Thailand. Furthermore, we are further strengthening our R&D system by making active use of our Silicone-Electronics Materials Research Center, which was expanded with the completion of the construction of a new research building, as well as our Technical Center in the U.S. With these measures, research, manufacturing and sales will be united as one, and we will strive for further business expansion both in Japan and globally.

In the rare earth magnets business, to ensure stable procurement of raw materials, we are taking such measures as implementing our own in-house recycling and diversifying supply sources. Furthermore, by making full use of our new magnet manufacturing plant in Vietnam that has begun operations, we will move ahead by establishing a stable supply system for rare earth magnets with optimization of overseas production bases to meet the demand for these magnets, which is expanding both in Japan and outside of Japan, mainly for applications in automobiles.

In other businesses, in addition to our U.S. cellulose manufacturing plant for coating products and our new optical fiber preform plant in China, we will make good use of our global plants including a new photomask blanks plant that was constructed at our Takefu Plant in Japan's Fukui Prefecture and a new plant for photoresists that is currently under construction in Taiwan, and we will aim to achieve a further leap forward into the world market in these businesses.

Furthermore, in order to create businesses that will become future business pillars, we will accelerate R&D and the commercialization of new products with unique characteristics that will anticipate new global needs, and we will also strive to pioneer new businesses, including by such means as M&A.

In addition, we will faithfully carry out corporate social responsibilities, such as the ensuring of safety, conservation of the environment and full compliance with all laws and regulations, and we will continue to strive to maximize Shin-Etsu's corporate value.

#### 4. Trend of Business Results and Financial Conditions

Item	Year	137th Fiscal Year	138th Fiscal Year	139th Fiscal Year	140th Fiscal Year
Net Sales	(Million Yen)	1,165,819	1,255,543	1,279,807	1,237,405
Profit attributable to owners of parent	(Million Yen)	113,617	128,606	148,840	175,912
Net Income per Share	(Yen)	267.20	302.05	349.46	412.86
Net Assets	(Million Yen)	1,822,135	2,012,711	2,080,465	2,190,082
Total Assets	(Million Yen)	2,198,912	2,452,306	2,510,085	2,655,636

Note: In the 140th fiscal year, a decrease in net sales was mainly due to the effects of the yen's appreciation.

5. Status of Major Subsidiary Companies, etc. (as of March 31, 2017)

(1) Status of Major Subsidiary Companies

Name of Company	Amount of Capital	Holding Ratio (%)	Major Lines of Business
SHINTECH INC. (U.S.A.)	US\$18.75	100.0	Manufacture and sales of polyvinyl chloride
Shin-Etsu Handotai Co., Ltd.	¥10,000M	100.0	Manufacture and sales of semiconductor silicon
S.E.H. Malaysia Sdn. Bhd. (Malaysia)	RM181.50M	100.0 (100.0)	Processing and sales of semiconductor silicon
Shin-Etsu Handotai America, Inc. (U.S.A.)	US\$150M	100.0 (100.0)	Manufacture and sales of semiconductor silicon
Shin-Etsu PVC B.V. (Netherlands)	EUR18,200	100.0 (100.0)	Manufacture and sales of polyvinyl chloride
Shin-Etsu Polymer Co., Ltd.	¥11,635M	52.5 (0.1)	Manufacture and sales of plastic products, etc.
SE Tylose GmbH & Co. KG (Germany)	EUR500,000	100.0 (100.0)	Manufacture and sales of cellulose derivative products
Shin-Etsu Astech Co., Ltd.	¥495M	99.6 (1.8)	Sales of chemical products, etc., and construction under contract
Shin-Etsu Engineering Co., Ltd.	¥200M	100.0	Design, engineering and construction of plants, etc.
Shin-Etsu Handotai Taiwan Co., Ltd. (Taiwan)	NT\$1,500M	70.0 (70.0)	Processing and sales of semiconductor silicon
SIMCOA OPERATIONS PTY. LTD. (Australia)	A\$32,005,100	100.0 (100.0)	Manufacture and sales of silicon metal
Shin-Etsu Silicones (Thailand) Limited (Thailand)	THB5,600M	100.0	Manufacture and sales of silicone products
Asia Silicones Monomer Limited (Thailand)	THB3,393M	100.0 (100.0)	Manufacture of silicone monomer
Nagano Electronics Industrial Co., Ltd.	¥80M	90.0	Processing of semiconductor silicon

Note: For the column regarding holding ratio, the upper number indicates the entire ratio of holdings held by both the Company and the Subsidiary Companies, while the lower number indicates the ratio held by the Subsidiary Companies. The holding ratios are computed net of any treasury shares held.



## (2) Status of Major Affiliated Companies

Name of Company	Amount of Capital	Holding Ratio (%)	Major Lines of Business
Mimasu Semiconductor Industry Co., Ltd.	¥18,824M	43.9 (1.1)	Processing of semiconductor silicon and sales of precision equipment
SHIN-ETSU QUARTZ PRODUCTS COMPANY LTD.	¥1,000M	50.0	Manufacture and sales of quartz glass products

Note: For the column regarding holding ratio, the upper number indicates the entire ratio of holdings held by both the Company and the Subsidiary Companies, while the lower number indicates the ratio held by the Subsidiary Companies. The holding ratios are computed net of any treasury shares held.

## (3) Results of Consolidation

For this consolidated fiscal year, there are 94 consolidated subsidiaries etc. and 3 companies to which the equity method is applied, including the Major Subsidiary Companies and the Affiliated Companies mentioned above.

For this consolidated fiscal year, net sales amounted to 1,237,405 million yen (down by 3.3% from the previous fiscal year), and the profit attributable to owners of parent amounted to 175,912 million yen (up by 18.2% from the previous fiscal year).

6. Major Lines of Business of the Company's Group (as of March 31, 2017)

The Company's group's major lines of business are the manufacture and sales of the following products:

PVC/Chlor-Alkali	Polyvinyl Chloride, Caustic Soda, Methanol, Chloromethanes
Silicones	Silicone
Specialty Chemicals	Cellulose Derivatives, Silicon Metal, Poval, Synthetic Pheromones
Semiconductor Silicon	Semiconductor Silicon
Electronics & Functional Materials	Rare-earth Magnets, Semiconductor Encapsulating Materials, LED Packaging Materials, Photoresists, Photomask Blanks, Synthetic Quartz Products, Liquid Fluoroelastomers, Pellicles
Processing, Trading & Specialized Services Business	Processed Plastics, Export of Technologies and Plants, Export and Import of Products, Engineering

7. Major Bases of the Company's Group (as of March 31, 2017)

(1) Company

Principal Office: 6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo, Japan

Branch Offices: Osaka Branch, Nagoya Branch, and Fukuoka Branch

Plants: Naoetsu Plant (Niigata Prefecture), Takefu Plant (Fukui Prefecture), Gunma Complex [Isobe Plant and Matsuida Plant], Kashima Plant (Ibaraki Prefecture)

Research & Development Centers: Silicone-Electronics Materials Research Center (Gunma Prefecture), Advanced Functional Materials Research Center (Gunma Prefecture), PVC and Polymer Materials Research Center (Ibaraki Prefecture), Specialty Chemicals Research Center (Niigata Prefecture), New Functional Materials Research Center (Niigata Prefecture) and Magnetic Materials Research Center (Fukui Prefecture)

(2) Subsidiaries

Domestic: Shin-Etsu Handotai Co., Ltd. (Tokyo); Shin-Etsu Polymer Co., Ltd. (Tokyo); Shin-Etsu Astech Co., Ltd. (Tokyo); Shin-Etsu Engineering Co., Ltd. (Tokyo); and Nagano Electronics Industrial Co., Ltd. (Nagano Prefecture)

Overseas: SHINTECH INC. (U.S.A.); Shin-Etsu Handotai America, Inc. (U.S.A.); S.E.H. Malaysia Sdn. Bhd. (Malaysia); Shin-Etsu PVC B.V. (Netherlands); SE Tylose GmbH & Co. KG (Germany); Shin-Etsu Handotai Taiwan Co., Ltd. (Taiwan); SIMCOA OPERATIONS PTY. LTD. (Australia); Shin-Etsu Silicones (Thailand) Limited (Thailand); and Asia Silicones Monomer Limited (Thailand)

8. Status of Employees of the Company's Group and the Company (as of March 31, 2017)

(1) Status of Employees of the Company's Group

Business Dept.	Number of Employees	Increase or Decrease Compared with the End of the Previous Fiscal Year
PVC/Chlor-Alkali	1,264	+14
Silicones	2,281	+49
Specialty Chemicals	1,313	+53
Semiconductor Silicon	4,497	-26
Electronics & Functional Materials	3,663	+388
Processing, Trading & Specialized Services Business	6,188	+321
Total	19,206	+799

Note: The number of employees is the number of persons actually at work.

(2) Status of Employees of the Company

Number of Employees	Increase or Decrease Compared with the End of the Previous Fiscal Year	Average Age	Average Years of Service
2,839	+39	42.4	20.3

Note: The number of employees is the number of persons actually at work.

9. Major Lenders to the Company's Group (as of March 31, 2017)

Name of Lender	Outstanding Borrowings (Million Yen)
Nippon Life Insurance Company	3,600
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,479
The Hachijuni Bank, Ltd.	2,409
Meiji Yasuda Life Insurance Company	2,300

## II. Matters Concerning Stock in the Company (as of March 31, 2017)

### 1. Number of Shares and Shareholders

Total number of shares authorized to be issued: 1,720,000,000

Total number of issued shares: 432,106,693

Number of shareholders: 43,793

Note: The total number of issued shares includes 5,724,030 treasury shares.

### 2. Major Shareholders

Name of Shareholder	Number of Shares Held (Thousand shares)	Holding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	45,182	10.6
Japan Trustee Services Bank, Ltd. (Trust Account)	35,765	8.4
Nippon Life Insurance Company	21,933	5.1
Japan Trustee Services Bank, Ltd. (Trust Account 4)	12,229	2.9
The Hachijuni Bank, Ltd.	11,790	2.8
Meiji Yasuda Life Insurance Company	10,687	2.5
Japan Trustee Services Bank, Ltd. (Trust Account 5)	6,901	1.6
GIC PRIVATE LIMITED - C	6,180	1.4
STATE STREET BANK WEST CLIENT - TREATY 505234	5,906	1.4
Japan Trustee Services Bank, Ltd. (Trust Account 9)	5,516	1.3

Note: The Company, which owns 5,724,030 treasury shares, is excluded from consideration as a major shareholder as defined above. The holding ratios are computed net of this treasury stock.

### III. Matters Concerning Stock Acquisition Rights Issued by the Company

#### 1. State of Stock Acquisition Rights (Stock Options) (as of March 31, 2017)

##### (1) General Description of Stock Acquisition Rights

The stock acquisition rights (stock options) the Company has issued are summarized below:

Chronological Number of Issue (Date Issued)	Number of Stock Acquisition Rights	Type & Number of Shares Stock Acquisition Rights are Entitled to	Issue Price per Share (Yen)	Amount Payable per Share upon Exercise of Rights (Yen)	Exercisable Period of Rights	Eligible Grantees
11th Issue of Stock Acquisition Rights (for Distribution to Directors) (09/24/2015)	1,930	193,000 shares of Common Stock in the Company	277	7,339	September 25, 2016 through March 31, 2020	Directors of Company (excluding Outside Directors)
11th Issue of Stock Acquisition Rights (for Distribution to Employees) (09/24/2015)	1,740	174,000 shares of Common Stock in the Company	Distributed gratis	7,339	September 25, 2016 through March 31, 2020	Employees of Company

Note: The terms and conditions on which to exercise stock acquisition rights in each issue are outlined below:

- Those persons to whom the stock options are issued may exercise such stock options even after they cease to be a Director or an employee of the Company, within two (2) years from the later of such cessation of being a Director or an employee of the Company or the commencement of the exercisable period of rights (but only before the exercisable period of rights expires).
- In the event of the death of any person to whom the stock options are issued, heirs of such deceased person may exercise such stock options within two (2) years from the later of such death or the commencement of the exercisable period of rights (but only before the exercisable period of rights expires). Notwithstanding the foregoing, in the event of the death of any recipient of stock options that occurs after such recipient ceases to be a Director or an employee of the Company, heirs of such deceased person may exercise such stock options only within the period during which such deceased recipient would have been entitled to exercise such stock options in accordance with paragraph 1. above.
- Other conditions are as prescribed in the Stock Option Allotment Agreement.

##### (2) State of Stock Acquisition Rights (Stock Options) Held by Directors and Audit & Supervisory Board Members of the Company

The portion of the stock acquisition rights (stock options) described in (1) General Description of Stock Acquisition Rights above that belong to the Directors and Audit & Supervisory Board Members of the Company are broken down as below:

	Chronological Number of Issue	Number of Stock Acquisition Rights	Number of Optionees
Directors (Excluding Outside Directors)	11th Issue of Stock Acquisition Rights	2,000	13

Note: The above figures include the stock acquisition rights distributed to employees of the Company before appointment of a director.

#### 2. State of Stock Acquisition Rights (Stock Options) Distributed to Employees during the Fiscal Year under Review

No stock acquisition rights (stock options) were issued for distribution to employees during the fiscal year under review.

#### IV. Matters Concerning Directors and Audit & Supervisory Board Members of the Company

##### 1. Name and Other Information Concerning Directors and Audit & Supervisory Board Members (as of March 31, 2017)

Title	Name	Responsibilities, Important Concurrent Positions, etc.
Representative Director - Chairman	Chihiro Kanagawa	Director & Chairman, SHINTECH INC.
Representative Director - Vice Chairman	Fumio Akiya	In charge of Semiconductor Materials, Technologies and Environmental Control & Safety Representative Director & President, Shin-Etsu Handotai Co., Ltd.
Representative Director - President	Yasuhiko Saitoh	Director & President, SHINTECH INC. Director & President, Shin-Etsu Handotai America, Inc.
Senior Managing Director	Toshinobu Ishihara	In charge of New Functional Materials and Patents General Manager, Research & Development Dept.
Senior Managing Director	Susumu Ueno	General Manager, Silicone Div.
Managing Director	Koji Takasugi	In charge of International Business and Purchasing
Managing Director	Masahiko Todoroki	General Manager, Planning & Administration Dept., Semiconductor Materials Div. Managing Director, Shin-Etsu Handotai Co., Ltd.
Managing Director	Toshiya Akimoto	In charge of Public Relations and Legal Affairs General Manager, Office of the Secretariat General Manager, Office of the President
Managing Director	Fumio Arai	General Manager, Organic Chemicals Div. Director & President, Shin-Etsu PVC B.V. Director & President, SE Tylose GmbH & Co. KG
Managing Director	Yukihiro Matsui	General Manager and Magnet Dept. Manager of Electronics Materials Div.
Managing Director	Masaki Miyajima	In charge of Advanced Materials General Manager, PVC Div.
Director - Adviser	Shunzo Mori	
Director <sup>1</sup>	Frank Peter Popoff	
Director <sup>1</sup>	Tsuyoshi Miyazaki	Adviser, Mitsubishi Logistics Corporation
Director <sup>1</sup>	Toshihiko Fukui	President, the Canon Institute for Global Studies
Director <sup>1</sup>	Hiroshi Komiyama	Chairman, Mitsubishi Research Institute, Inc.
Director	Toshiyuki Kasahara	General Manager, Finance & Accounting Dept.
Director	Hidenori Onezawa	In charge of Business Auditing
Director	Kazumasa Maruyama	General Manager, New Functional Materials Dept.
Director	Kenji Ikegami	In charge of General Affairs General Manager, Personnel & Labor Relations Dept.
Director	Toshio Shiobara	In charge of Special Functional Products Deputy General Manager and Organic Electronics Materials Dept. Manager of Electronics Materials Div.
Director	Yoshimitsu Takahashi	General Manager, Business Development Dept.
Director	Kai Yasuoka	General Manager, International Div.

Title	Name	Responsibilities, Important Concurrent Positions, etc.
Full-time Audit & Supervisory Board Member	Osamu Okada	
Full-time Audit & Supervisory Board Member	Hiroaki Okamoto	
Audit & Supervisory Board Member <sup>2</sup>	Taku Fukui	Lawyer Managing Partner, Kashiwagi Sogo Law Offices Professor, Keio University Law School
Audit & Supervisory Board Member <sup>2</sup>	Yoshihito Kosaka	C.P.A./Certified Public Tax Accountant Counselor, Kisaragi Audit Corporation
Audit & Supervisory Board Member <sup>2</sup>	Kiyoshi Nagano	

Notes: 1. <sup>1</sup> indicates an Outside Director as defined in Item 15, Article 2 of the Corporations Law.

2. <sup>2</sup> indicates an Outside Audit & Supervisory Board Member as defined in Item 16, Article 2 of the Corporations Law.

3. Mr. Toshihiko Fukui, Outside Director, serves in a concurrent role at the Canon Institute for Global Studies, a general incorporated foundation; however, the Company has no special relationship with that foundation. Mr. Hiroshi Komiyama, Outside Director, serves in a concurrent role at Mitsubishi Research Institute, Inc.; however, the Company has no special relationship with that company. Mr. Taku Fukui, Outside Audit & Supervisory Board Member, serves in a concurrent role at the Kashiwagi Sogo Law Offices; however, the Company has no special relationship with that firm.

4. Concurrent service as Outside Director or Outside Audit & Supervisory Board Member for other companies by Outside Directors and Outside Audit & Supervisory Board Members and the relationship between the Company and such other companies are described in "3. Matters Concerning Outside Directors and Outside Audit & Supervisory Board Members" herein below.

5. Mr. Yoshihito Kosaka, Outside Audit & Supervisory Board Member, is licensed as a Certified Public Accountant and as a Certified Public Tax Accountant, and brings with him a considerable degree of knowledge and experience in the fields of finance and accounting.

6. Four Outside Directors and three Outside Audit & Supervisory Board Members of the Company -- Mr. Frank Peter Popoff, Mr. Tsuyoshi Miyazaki, Mr. Toshihiko Fukui and Mr. Hiroshi Komiyama as Directors, Mr. Taku Fukui, Mr. Yoshihito Kosaka and Mr. Kiyoshi Nagano as Audit & Supervisory Board Members -- have been reported to the Tokyo Stock Exchange, Inc. etc. as Independent Officers.

## 2. Amounts of Remuneration and Others Payable to Directors and Audit & Supervisory Board Members

Designation	Number of Recipients	Amount Payable	Remarks
	Persons	Million Yen	
Directors	25	1,656	Portion payable to eight Outside Directors and Outside Audit & Supervisory Board Members: 155 million yen
Audit & Supervisory Board Members	5	78	
Total	30	1,735	

Notes: 1. The above figures include those relevant to two Directors who retired from the office effective as of the conclusion of the 139th Ordinary General Meeting of Shareholders held on June 29, 2016.

2. The amount payable to the Directors and Audit & Supervisory Board Members includes the bonus reserve amount attributable to the fiscal year under review.

3. The amount of remuneration and others payable to the Directors is net of the amount of salaries (including bonuses) payable to the employee Directors in return for serving as employees.

4. In addition to the above, the amounts of remuneration and others paid or payable to Outside Directors and Outside Audit & Supervisory Board Members from subsidiaries of the Company for serving as Director or Audit & Supervisory Board Member of such subsidiaries in the fiscal year under review aggregated 44 million yen. There is no information reportable under the disclosure item regarding remuneration and others paid or payable to Outside Directors and Outside Audit & Supervisory Board Members from a parent company or its subsidiaries for serving as Director or Audit & Supervisory Board Member in the fiscal year under review.

### 3. Matters Concerning Outside Directors and Outside Audit & Supervisory Board Members

#### (1) Concurrent Service as Outside Director or Outside Audit & Supervisory Board Member for Other Companies by Outside Directors and Outside Audit & Supervisory Board Members and the Relationship between the Company and Such Other Companies

Mr. Toshihiko Fukui, Outside Director, serves concurrently as Outside Director for Kikkoman Corporation. However, there is no special relationship between the Company and the company that must be disclosed under this item.

Mr. Hiroshi Komiyama, Outside Director, serves concurrently as Outside Director for JX Holdings, Inc. However, there is no special relationship between the Company and the company that must be disclosed under this item.

Mr. Kiyoshi Nagano, Outside Audit & Supervisory Board Member, serves concurrently as Outside Director for SBI Holdings, Inc. and LEC, INC. However, there is no special relationship between the Company and either of these two companies that must be disclosed under this item.

Note: Current service of Outside Directors and Outside Audit & Supervisory Board Members as Executive Officers, Executive Directors or Other Officeholders for other corporate or other legal entities, etc. and the relationship between the Company and the relevant entities, etc. are shown in “1. Name and Other Information Concerning Directors and Audit & Supervisory Board Members” above.

#### (2) Relationship with the Company or the Company’s Particular Associated Business Interests, Such as Major Trading Partner

No Outside Directors or Outside Audit & Supervisory Board Members hold such a relationship that must be disclosed under this item.

#### (3) Main Activities via Board of Directors Meetings and Other Arrangements during the Fiscal Year under Review

In addition to the statutory Board of Directors, the Company has a second principal organ, called the Managing Directors’ Committee, for considering and deciding the execution of business processes, and each organ holds a meeting once a month (The Board of Directors meetings were held 13 times during the fiscal year under review.) as a general rule. The activities of the Company’s Outside Directors and Outside Audit & Supervisory Board Members via participation in these meetings and other arrangements are reviewed below:



a. Activities of Outside Directors

Name	Main Activities
Frank Peter Popoff	<p>The Director attended 12 out of 13 meetings of the Board of Directors held during the fiscal year (attendance rate 92%).</p> <p>For the Outside Directors or Outside Audit &amp; Supervisory Board Members, we encourage them to participate in the review and decision-making process regarding business execution by explaining to them the agenda items of the meetings of the Board of Directors, asking them about their opinions in advance, and sending them copies of the minutes fully translated into English; thus, he supervised our management sufficiently from an independent standpoint.</p> <p>Furthermore, the Company has been aggressively promoting its business development overseas through the establishment of business locations all over the world, including in the U.S., Asia, and Europe. Mr. Popoff's opinions and practical advice, from a broad perspective based on his management experience as CEO of The Dow Chemical Company, a U.S. company that has a long history as a global company, have been of significant importance for the Company to expand its business overseas and enhance its corporate value.</p> <p>He also serves as the commissioner of the Officers' Remuneration Committee, and his work so far includes repealing the Officers' Retirement Benefits Program and making other significant revisions to the officers' remuneration system, thus striving to achieve an appropriate corporate governance structure with regard to the officers' remuneration system.</p>
Tsuyoshi Miyazaki	<p>The Director attended all meetings of the Board of Directors, as well as Managing Directors' Committee meetings, held during the fiscal year under review, and shared his comments from a broad, high-level perspective capitalizing on his management experience at Mitsubishi Logistics Corporation. He also provided thorough supervision from an independent standpoint.</p>
Toshihiko Fukui	<p>The Director attended all meetings of the Board of Directors, as well as Managing Directors' Committee meetings, held during the fiscal year under review, and shared his comments from a broad, high-level perspective capitalizing on his outstanding knowledge and wealth of experience related to global finance and economy as an ex-Governor of the Bank of Japan. He also provided thorough supervision from an independent standpoint.</p>
Hiroshi Komiyama	<p>The Director attended Board of Directors meetings (attendance rate 92%), as well as Managing Directors' Committee meetings. The Director, who has served as President of the University of Tokyo, as well as in a variety of distinguished positions, shared his comments from a broad, high-level perspective capitalizing on his outstanding knowledge and wealth of experience in a wide range of disciplines, including chemical engineering, the global environment, and natural resources and energy. He also provided thorough supervision from an independent standpoint.</p>

b. Activities of Outside Audit & Supervisory Board Members

Name	Main Activities
Taku Fukui	The Audit & Supervisory Board Member attended all meetings of the Board of Directors and of the Audit & Supervisory Board, as well as Managing Directors' Committee meetings, held during the fiscal year under review. At the Audit & Supervisory Board meetings he shared his comments from a legal specialist's point of view and contributed to the establishment of a compliance structure.
Yoshihito Kosaka	The Audit & Supervisory Board Member attended all meetings of the Board of Directors and of the Audit & Supervisory Board, as well as Managing Directors' Committee meetings, held during the fiscal year under review. At the Audit & Supervisory Board meetings he shared his comments from a finance and accounting specialist's point of view and contributed to the establishment of a compliance structure.
Kiyoshi Nagano	The Audit & Supervisory Board Member attended all meetings of the Board of Directors and of the Audit & Supervisory Board, as well as Managing Directors' Committee meetings, held during the fiscal year under review. At the Audit & Supervisory Board meetings he shared his comments from an extensive viewpoint based on his management experience at the former Jasdac Securities Exchange, Inc. and contributed to the establishment of a compliance structure.

(4) General Description of Limitation of Liability Agreement

No agreement exists that must be disclosed under this item.

## **V. Status of Accounting Auditor**

### **1. Name of Accounting Auditor**

Ernst & Young ShinNihon LLC

### **2. General Description of Limitation of Liability Agreement**

No agreement exists that must be disclosed under this item.

### **3. Amount of Remuneration and Others Payable to Accounting Auditor Attributable to Fiscal Year under Review**

- a. Amount of remuneration and others payable by the Company for the audit service as specified in Paragraph 1, Article 2 of the Certified Public Accountants Law

81 million yen

- b. Total amount of monetary and other financial benefits payable by the Company and its Subsidiaries

126 million yen

Note: 1. The Audit Agreement between the Company and the Accounting Auditor does not distinguish between the amounts of remuneration and others for the Accounting Auditor's audit service specified under the Corporations Law and for the audit service specified under the Financial Instruments and Exchange Law. In fact, these amounts are practically indivisible, so the amount shown above is given as a lump sum.

2. With respect to remuneration and others payable to the Accounting Auditor, the Audit & Supervisory Board of the Company gives consent set forth in Paragraph 1, Article 399 of the Corporations Law after confirming and reviewing the audit plan of the Accounting Auditor, the performance of duties relating to accounting audit, the necessity for amending the amount of remuneration and others payable and other matters.

### **4. Details of Non-audit Services**

The Company pays the Accounting Auditor a retainer in consideration of its advice etc. on internal controls over financial reporting, which falls outside the scope of audit services specified in Paragraph 1, Article 2 of the Certified Public Accountants Law.

### **5. Retention of Audit Corporations Other Than Company's Accounting Auditor to Audit Financial Documents of Subsidiaries of the Company**

Of the Company's Significant Subsidiaries, those employing an audit corporation (that may be an equivalent auditor qualified outside Japan) other than the Company's Accounting Auditor, to receive audit services (to the extent specified in the Corporations Law and in the Financial Instruments and Exchange Law [or in equivalent legislation applicable outside Japan]) are as follows: Shin-Etsu Handotai Co., Ltd.; S.E.H. Malaysia Sdn. Bhd.; Shin-Etsu PVC B.V.; Shin-Etsu Polymer Co., Ltd.; SE Tylose GmbH & Co. KG; Shin-Etsu Astech Co., Ltd.; Shin-Etsu Engineering Co., Ltd.; Shin-Etsu Handotai Taiwan Co., Ltd.; SIMCOA OPERATIONS PTY. LTD.; Shin-Etsu Silicones (Thailand) Limited; and Asia Silicones Monomer Limited.

6. Policy for Determining the Dismissal or Non-reappointment of Accounting Auditor

The Company's policy states that, if the Accounting Auditor is found to meet the definition of one of the Items of Paragraph 1, Article 340 of the Corporations Law, subject to the consent of all Audit & Supervisory Board Members, the Audit & Supervisory Board shall dismiss the Accounting Auditor. In addition to the cases mentioned above, the Audit & Supervisory Board determines the content of the proposal to be submitted to the General Meeting of Shareholders concerning the dismissal or non-reappointment of the Accounting Auditor if the Company has a reason or need of its own to do so or if it is difficult for the Accounting Auditor to perform its duties appropriately.

7. Content of a Disposition for Suspending Operations Made to the Accounting Auditor for the Past Two Years

On December 22, 2015, the Financial Services Agency made a disposition to suspend the operations of the Accounting Auditor of the Company with regard to executing new contracts for three months (from January 1, 2016 to March 31, 2016).

## **VI. System to Ensure the Properness of Operations and the Progress thereof**

### **1. System to Ensure the Properness of Operations**

“The Group strictly complies with all laws and regulations, conducts fair business practices and contributes to people’s daily lives as well as to the advance of industry and society by creating value through providing key materials and technologies.” In accordance with the foregoing corporate tenet, the Board of Directors of the Company has resolved to carry out these principles and arrangements as described below.

#### **(1) System to Ensure That the Company’s and Its Subsidiaries’ Directors and Employees Perform Their Work Duties in Accordance with Applicable Laws and the Company’s and Its Subsidiaries’ Articles of Incorporation**

The Company and its subsidiaries (hereinafter the “Group Companies”) have a corporate philosophy of taking appropriate corporate actions, based on a desire to act in a lawful manner.

The Company will maintain regulations concerning the Group Companies’ compliance system, and the Group Companies’ Directors and employees will perform their work duties in accordance with these regulations. The Internal Audit Department and other departments that are related to the contents of the audits will perform internal audits concerning the status of the operation of the compliance system.

In order to uncover illegal activities at an early stage and correct such situations, the Company will establish a compliance consultation office and administer a compliance consulting/reporting system for Group Company executives and employees in accordance with the relevant internal regulations. Also, the Company will provide compliance training in an appropriate manner.

The Company will appoint independent Outside Directors and Outside Audit & Supervisory Board Members, who will endeavor to preserve the compliance system from an independent point of view, by attending meetings of the Board of Directors and Managing Directors’ meetings and/or by other actions.

#### **(2) System to Preserve and Administer Information Concerning the Company’s Directors’ Performance of Their Work Duties**

Based on the regulations of information management and other internal regulations, the Company will prepare and preserve written and other records concerning the Directors’ performance of their work duties. The Company will promptly provide these records in response to a request from the Directors or Audit & Supervisory Board Members.

#### **(3) Regulations Concerning Management of Risk of Damage to the Company and Its Subsidiaries, and Other Systems**

Along with maintaining regulations concerning the Group Companies’ risk management system, the Company will establish a Risk Management Committee and facilitate the committee’s work across the Group Companies, in order to discover and prevent risks that may occur in conjunction with the execution of the Group Companies’ business.

The Company will appoint Outside Directors and Outside Audit & Supervisory Board Members, who will endeavor to ensure the exchange of relevant information and appropriate risk management, by attending meetings of the Board of Directors and Managing Directors’ meetings and/or by other actions.

#### **(4) System to Ensure That the Company’s and Its Subsidiaries’ Directors Perform Their Work Duties in an Effective Manner**

The Company will establish a system to ensure that the Group Companies’ Directors and employees perform their work duties in an effective manner, in accordance with (i) decision-making rules and division of work duties based on the regulations of the Board of Directors, division of duties, the Group Companies’ management regulations, and other internal regulations and (ii) the holding of meetings of Group Companies and meetings of Presidents of Group Companies (hereinafter “Group Company Meetings”).

Also, in order to increase the effectiveness of the Directors' performance of their work duties, the Company will appoint Outside Directors, and these Outside Directors will not only observe and manage the Company's affairs from an independent viewpoint but also provide suggestions concerning all aspects of the Company's corporate management.

(5) System to Ensure the Properness of the Activities of the Corporate Group Consisting of the Company and Its Subsidiaries

The Group Companies have a corporate philosophy of taking appropriate corporate actions, based on a desire to act in a lawful manner.

The Company's Group Company Management Department, based on the Group Companies' Management Regulations and the Group Company Meetings, will require Group Companies to report to them important matters relating to the business of the subsidiaries. Also, the Company's Internal Audit Department and other departments that are related to the contents of the audits will, as necessary, work together with the Internal Audit Departments and other departments of the subsidiaries to perform internal audits of the relevant subsidiaries.

The Company will establish an Audit & Supervisory Board Member Liaison Committee and Group Audit & Supervisory Board Member Liaison Committee comprised of Full-time Audit & Supervisory Board Members and others from the Company and its main subsidiaries, and the Company's Full-time Audit & Supervisory Board Members will gather relevant information by attending Group Company Meetings and/or by other actions, together with other Audit & Supervisory Board Members (including Outside Audit & Supervisory Board Members).

(6) Matters Concerning Employees Who Are Requested by Audit & Supervisory Board Members to Assist with the Work Duties of the Audit & Supervisory Board Members

The Company will appoint audit staff from among its employees, in accordance with the methods set forth in the Company's internal regulations, to assist the Audit & Supervisory Board Members with their work duties.

(7) Matters Concerning the Independence from the Directors of the Employees Referenced in the Previous Item and Ensuring of Such Employees' Compliance with the Instructions of the Audit & Supervisory Board Members

The Company will appoint, terminate, and take other actions concerning the audit staff, in accordance with the methods set forth in the Company's internal regulations, with the consent of the Audit & Supervisory Board Members.

The audit staff will comply with the instructions and orders of the Audit & Supervisory Board Members and assist with the work of the Audit & Supervisory Board Members.

(8) System for Reporting to the Audit & Supervisory Board Members and for Ensuring that Persons Making Such Reports Are Not Treated in an Unfavorable Manner for Making Such Reports

The Company's Directors and employees and the Company's subsidiaries' Directors, Audit & Supervisory Board Members, and employees, as well as any persons who received reports from any of the above-referenced persons, shall promptly report the following matters to the Company's Audit & Supervisory Board Members, in accordance with the methods set forth in the Company's internal regulations:

- matters that will cause substantial damage to the Company or which have the potential of doing so;
- important matters concerning management or financial information;
- the status of the performance of internal audits;
- material breaches of law or the Company's Articles of Incorporation;
- the status of the administration of the compliance consulting/reporting system and the contents of reports made in connection with the system.

Also, the Group Companies shall not unfavorably evaluate (in internal personnel records) or otherwise treat in an unfavorable manner, any of the above-referenced persons who makes a report, because of the making of such report.

(9) System for the Purpose of Otherwise Ensuring That the Audits Performed by the Audit & Supervisory Board Members Will Be Performed Effectively

The Audit & Supervisory Board Members will hold periodic meetings with the Company's Accounting Auditors to exchange opinions, hold regular reporting meetings with the Company's Internal Audit Department, and take other measures to facilitate collaboration with them.

(10) Matters Concerning Procedures for Advance Payment/Reimbursement of Expenses Arising From the Work of Audit & Supervisory Board Members and Other Matters Relating to the Treatment of Expenses and Other Financial Obligations Arising from Such Work

If the Audit & Supervisory Board Members requests prepayment or reimbursement of any amounts necessarily incurred in the course of their audit work, the Company shall pay such amounts within a reasonable time and in a reasonable manner, unless it is clearly proven that such expenses were not necessarily incurred in the course of the audit work.

(11) System to Cut Ties with Anti-social Forces

The Company's group shall adopt a consistently resolute attitude towards anti-social forces and shall take all measures necessary to cut itself off from any and all associations with anti-social forces.

In accordance with this policy, our group will endeavor to develop internal systems under the leadership of the department in charge of managing these issues. Working closely with the police and other external organizations addressing these issues, our group will strongly push forward initiatives aimed at eradicating anti-social forces.

2. Overview of the Progress of the System to Ensure the Properness of Operations

The following shows an overview of the progress of the system to ensure the properness of operations for the fiscal year.

(1) Progress of Compliance

In order to perform corporate activities in compliance with laws and regulations, the Company's Group has included legal compliance in its corporate philosophy and its management objectives for each term and is working to ensure legal compliance.

Out of laws and regulations related to corporate activities to be established or revised, the Legal Department took the leadership in notifying and informing other departments of the Company of matters which are important. The Internal Audit Department made the annual audit plan in terms of the legality and reasonableness of business activities and audited each department, and reported the results thereof to the Directors and the Audit & Supervisory Board Members, etc.

With respect to compliance training, the Company held seminars reflecting the Company's ideas about compliance and the incidents of other companies in training for new employees as well as seminars on the Antimonopoly Act and the like in training for each class of managerial personnel, and also attended training seminars held by outside institutions such as government agencies, and thereby ensured compliance awareness.

(2) Progress of Preserving and Managing Information

The Company revised the Regulations of Information Management, reviewed the overall information management system, audited how each division managed information, and confirmed the preservation and management status of information including important documents. The Company also regularly provided education and training related to information security.

(3) Progress of Managing the Risk of Damage

In the Company, the Risk Management Committee (meetings were held three times in this fiscal year) took the leadership in performing cross-sectional risk management activities in accordance with the Risk Management Regulations and thereby established a risk management system in order to detect and prevent the risks associated with the execution of operations.

In addition, the Company treated the prevention of accidents and disasters, etc. as its most important issue under the management policy that placed the first priority on safety, and regularly conducted environment and safety audits at the plants of the Company and its major subsidiaries in order to enhance the management system and take measures against the risks associated with processes and operations.

(4) Progress of Efficient Execution of Duties by the Directors

The Company has the Board of Directors and the Managing Directors’ Committee as the bodies that discuss and determine the execution of operations. The Board of Directors determines the basic policy of the Company, and discusses and determines the execution of important operations specified in the Corporations Law or the Articles of Incorporation, etc. In this fiscal year, the Company held meetings of the Board of Directors thirteen times and meetings of the Managing Directors’ Committee twelve times. All the meetings were attended by the Outside Directors and the Audit & Supervisory Board Members and various matters relating to the execution of operations were discussed and determined by receiving advices from the Outside Directors.

Furthermore, the Company has developed an efficient organizational framework and various regulations that will enable the Company to speedily respond to changes in the business environment.

(5) Progress of Ensuring the Properness of Operations at the Company’s Group

The Company worked for proper and efficient management of the Company’s Group in accordance with the Group Companies’ Management Regulations and regularly held Group Company Meetings, and also received reports on important matters relating to the management of major Group Companies at the Managing Directors’ Committee.

The Internal Audit Department audited each Group Company in terms of the legality and reasonableness of business activities in cooperation with the Group Companies as needed, and reported the results thereof to the Directors and the Audit & Supervisory Board Members, etc.

(6) Progress of Ensuring the Effectiveness of Audit Performed by the Audit & Supervisory Board Members

The Audit & Supervisory Board Members attended the meetings of the Board of Directors and the Managing Directors’ Committee and other important internal meetings, and audited the execution of operations by the Directors through reviewing approval documents and other documents. In order to improve the effectiveness of audits, the Audit & Supervisory Board Members received reports and explanations about accounting audit quarterly from the Accounting Auditor and exchanged opinions, and also exchanged information and opinions as needed to facilitate collaboration. Furthermore, the Full-time Audit & Supervisory Board Member held the regular reporting meeting with the Internal Audit Department every month to receive reports on the status of activities, results of internal audit and other matters as well as giving advice and making requests as needed. In addition, the Audit & Supervisory Board Member Liaison Committee and the Group Audit & Supervisory Board Member Liaison Committee exchanged information and opinions to strengthen collaboration between the Audit & Supervisory Board Members of the Group.

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The monetary amounts and numbers of shares set out in this BUSINESS REPORT are expressed as full units with any fractions of the indicated units rounded down to the nearest full unit.



## CONSOLIDATED BALANCE SHEET

As of March 31, 2017 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

### ASSETS

#### Current Assets:

|                                             | (Millions of yen) |
|---------------------------------------------|-------------------|
| Cash and time deposits -----                | 752,675           |
| Notes and accounts receivable-trade-----    | 287,853           |
| Securities-----                             | 186,591           |
| Merchandise and finished goods -----        | 126,026           |
| Work in process-----                        | 12,234            |
| Raw materials and supplies -----            | 128,896           |
| Deferred taxes, current-----                | 35,937            |
| Other-----                                  | 33,941            |
| Less: Allowance for doubtful accounts ----- | <u>(14,549)</u>   |
| Total current assets                        | <u>1,549,607</u>  |

#### Fixed Assets:

|                                             |                         |
|---------------------------------------------|-------------------------|
| Property, Plant and Equipment:              |                         |
| Buildings and structures, net-----          | 174,923                 |
| Machinery and equipment, net -----          | 437,775                 |
| Land -----                                  | 86,953                  |
| Construction in progress-----               | 139,180                 |
| Other, net -----                            | <u>7,737</u>            |
| Total property, plant and equipment         | 846,570                 |
| Intangible Assets-----                      | 10,229                  |
| Investments and Other Assets:               |                         |
| Investments in securities -----             | 135,311                 |
| Deferred taxes, non-current-----            | 22,562                  |
| Other-----                                  | 93,194                  |
| Less: Allowance for doubtful accounts ----- | <u>(1,840)</u>          |
| Total investments and other assets          | <u>249,228</u>          |
| Total fixed assets                          | <u>1,106,028</u>        |
| <b>TOTAL ASSETS</b>                         | <u><b>2,655,636</b></u> |

## LIABILITIES

### Current Liabilities:

|                                       | (Millions of yen) |
|---------------------------------------|-------------------|
| Notes and accounts payable-trade----- | 123,823           |
| Short-term borrowings-----            | 12,788            |
| Accounts payable-other-----           | 54,671            |
| Accrued expenses-----                 | 61,611            |
| Accrued income taxes-----             | 32,711            |
| Accrued bonuses for employees-----    | 2,898             |
| Accrued bonuses for directors-----    | 612               |
| Other-----                            | <u>27,881</u>     |
| Total current liabilities             | <u>317,000</u>    |

### Long-Term Liabilities:

|                                    |                |
|------------------------------------|----------------|
| Long-term debt-----                | 1,578          |
| Deferred taxes, non-current-----   | 98,228         |
| Net defined benefit liability----- | 35,809         |
| Other-----                         | <u>12,936</u>  |
| Total long-term liabilities        | <u>148,553</u> |
| TOTAL LIABILITIES                  | <u>465,553</u> |

## NET ASSETS

### Stockholders' Equity:

|                                    |                  |
|------------------------------------|------------------|
| Common stock-----                  | 119,419          |
| Additional paid-in capital-----    | 129,626          |
| Retained earnings-----             | 1,857,857        |
| Less: Treasury stock, at cost----- | <u>(31,213)</u>  |
| Total stockholders' equity         | <u>2,075,690</u> |

### Accumulated Other Comprehensive Income:

|                                                                 |                |
|-----------------------------------------------------------------|----------------|
| Unrealized gains (losses) on available-for-sale securities----- | 22,887         |
| Deferred gains (losses) on hedges-----                          | 862            |
| Foreign currency translation adjustments-----                   | 35,154         |
| Remeasurements of defined benefit plans-----                    | <u>(1,761)</u> |
| Total accumulated other comprehensive income                    | <u>57,142</u>  |

|                                                             |        |
|-------------------------------------------------------------|--------|
| Share Subscription Rights-----                              | 152    |
| Non-Controlling Interests in Consolidated Subsidiaries----- | 57,096 |

TOTAL NET ASSETS 2,190,082

TOTAL LIABILITIES AND NET ASSETS 2,655,636

## CONSOLIDATED STATEMENT OF INCOME

For the fiscal year ended March 31, 2017 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

|                                                                   | (Millions of yen)     |
|-------------------------------------------------------------------|-----------------------|
| Net Sales -----                                                   | 1,237,405             |
| Cost of Sales -----                                               | <u>868,404</u>        |
| Gross profit -----                                                | 369,001               |
| <br>                                                              |                       |
| Selling, General and Administrative Expenses -----                | <u>130,383</u>        |
| Operating income -----                                            | 238,617               |
| <br>                                                              |                       |
| Non-Operating Income:                                             |                       |
| Interest income -----                                             | 4,714                 |
| Dividend income -----                                             | 2,602                 |
| Equity in earnings of affiliates -----                            | 2,788                 |
| Other income -----                                                | <u>2,094</u>          |
| Total non-operating income -----                                  | 12,200                |
| Non-Operating Expenses:                                           |                       |
| Interest expenses -----                                           | 529                   |
| Foreign exchange loss -----                                       | 3,697                 |
| Loss on retirement of fixed assets -----                          | 974                   |
| Other expenses -----                                              | <u>3,483</u>          |
| Total non-operating expenses -----                                | <u>8,684</u>          |
| Ordinary income -----                                             | 242,133               |
| <br>                                                              |                       |
| Income before income taxes and<br>non-controlling interests ----- | 242,133               |
| <br>                                                              |                       |
| Income Taxes:                                                     |                       |
| Current -----                                                     | 67,187                |
| Deferred -----                                                    | <u>(3,363)</u>        |
| Total income taxes -----                                          | <u>63,823</u>         |
| Profit -----                                                      | 178,309               |
| <br>                                                              |                       |
| Profit Attributable to Non-Controlling Interests -----            | <u>2,397</u>          |
| Profit Attributable to Owners of Parent -----                     | <u><u>175,912</u></u> |

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the fiscal year ended March 31, 2017 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

|                                                      | Stockholders' Equity |                            |                   |                         | (Millions of yen) |
|------------------------------------------------------|----------------------|----------------------------|-------------------|-------------------------|-------------------|
|                                                      | Common stock         | Additional paid-in capital | Retained earnings | Treasury stock, at cost | [Total]           |
| Balance as of April 1, 2016                          | 119,419              | 128,759                    | 1,731,042         | (33,407)                | 1,945,813         |
| Changes during the year                              |                      |                            |                   |                         |                   |
| Cash dividends                                       | -                    | -                          | (48,987)          | -                       | (48,987)          |
| Profit attributable to owners of parent              | -                    | -                          | 175,912           | -                       | 175,912           |
| Purchase of treasury stock                           | -                    | -                          | -                 | (19)                    | (19)              |
| Disposal of treasury stock                           | -                    | 878                        | -                 | 2,213                   | 3,092             |
| Other                                                | -                    | (11)                       | (109)             | -                       | (121)             |
| Net changes of items other than stockholders' equity | -                    | -                          | -                 | -                       | -                 |
| Total changes during the year                        | -                    | 867                        | 126,814           | 2,194                   | 129,876           |
| Balance as of March 31, 2017                         | 119,419              | 129,626                    | 1,857,857         | (31,213)                | 2,075,690         |

|                                                      | Accumulated Other Comprehensive Income                     |                                   |                                          |                                         |          | Share subscription rights | Non-controlling interests in consolidated subsidiaries | Total net assets |
|------------------------------------------------------|------------------------------------------------------------|-----------------------------------|------------------------------------------|-----------------------------------------|----------|---------------------------|--------------------------------------------------------|------------------|
|                                                      | Unrealized gains (losses) on available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustments | Remeasurements of defined benefit plans | [Total]  |                           |                                                        |                  |
| Balance as of April 1, 2016                          | 13,780                                                     | 1,611                             | 68,566                                   | (1,480)                                 | 82,478   | 237                       | 51,936                                                 | 2,080,465        |
| Changes during the year                              |                                                            |                                   |                                          |                                         |          |                           |                                                        |                  |
| Cash dividends                                       | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | (48,987)         |
| Profit attributable to owners of parent              | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | 175,912          |
| Purchase of treasury stock                           | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | (19)             |
| Disposal of treasury stock                           | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | 3,092            |
| Other                                                | -                                                          | -                                 | -                                        | -                                       | -        | -                         | -                                                      | (121)            |
| Net changes of items other than stockholders' equity | 9,106                                                      | (749)                             | (33,412)                                 | (280)                                   | (25,335) | (84)                      | 5,160                                                  | (20,259)         |
| Total changes during the year                        | 9,106                                                      | (749)                             | (33,412)                                 | (280)                                   | (25,335) | (84)                      | 5,160                                                  | 109,616          |
| Balance as of March 31, 2017                         | 22,887                                                     | 862                               | 35,154                                   | (1,761)                                 | 57,142   | 152                       | 57,096                                                 | 2,190,082        |

## NON-CONSOLIDATED BALANCE SHEET

As of March 31, 2017 (Amounts are stated in millions of yen; amounts less than 1 million are omitted)

### ASSETS

#### Current Assets:

|                                             | (Millions of yen) |
|---------------------------------------------|-------------------|
| Cash and time deposits -----                | 265,863           |
| Notes receivable -----                      | 5,435             |
| Accounts receivable-trade -----             | 187,598           |
| Securities -----                            | 114,000           |
| Merchandise and finished goods -----        | 31,769            |
| Semi-finished products -----                | 16,622            |
| Raw materials and supplies -----            | 48,690            |
| Advance payments -----                      | 336               |
| Deferred taxes, current -----               | 18,370            |
| Short-term loans -----                      | 10,129            |
| Accounts receivable-other -----             | 32,060            |
| Other -----                                 | 3,262             |
| Less: Allowance for doubtful accounts ----- | (5,900)           |
| Total current assets                        | <u>728,239</u>    |

#### Fixed Assets:

##### Property, Plant and Equipment:

|                                          |                |
|------------------------------------------|----------------|
| Buildings, net -----                     | 44,855         |
| Structures, net -----                    | 4,838          |
| Machinery and equipment, net -----       | 47,737         |
| Vehicles, net -----                      | 119            |
| Tools, furniture and fixtures, net ----- | 2,576          |
| Land -----                               | 24,186         |
| Leased assets, net -----                 | 89             |
| Construction in progress -----           | 13,985         |
| Total property, plant and equipment      | <u>138,388</u> |

Intangible Assets ----- 1,783

##### Investments and Other Assets:

|                                                                  |                |
|------------------------------------------------------------------|----------------|
| Investments in securities -----                                  | 77,962         |
| Investments in capital of subsidiaries and affiliates -----      | 143,414        |
| Investments in partnerships -----                                | 11             |
| Investments in partnerships of subsidiaries and affiliates ----- | 18,984         |
| Long-term loans -----                                            | 1,913          |
| Long-term prepaid expenses -----                                 | 85             |
| Other -----                                                      | 2,817          |
| Less: Allowance for doubtful accounts -----                      | (10)           |
| Total investments and other assets                               | <u>245,178</u> |
| Total fixed assets                                               | <u>385,350</u> |

TOTAL ASSETS 1,113,589

## LIABILITIES

### Current Liabilities:

|                                                      | (Millions of yen) |
|------------------------------------------------------|-------------------|
| Accounts payable-trade-----                          | 113,758           |
| Electronically recorded obligations - operating----- | 2,659             |
| Short-term borrowings-----                           | 10,190            |
| Lease obligations-----                               | 48                |
| Accounts payable-other-----                          | 20,744            |
| Accrued income taxes-----                            | 17,834            |
| Accrued expenses-----                                | 15,248            |
| Advances received-----                               | 81                |
| Deposits-----                                        | 99,271            |
| Accrued bonuses for directors-----                   | 503               |
| Other-----                                           | <u>1,123</u>      |
| Total current liabilities                            | <u>281,466</u>    |

### Long-Term Liabilities:

|                                       |                       |
|---------------------------------------|-----------------------|
| Long-term debt-----                   | 1,152                 |
| Lease obligations-----                | 95                    |
| Long-term accounts payable-other----- | 1,201                 |
| Deferred taxes, non-current-----      | 4,239                 |
| Accrued retirement benefits-----      | 6,822                 |
| Asset retirement obligations-----     | <u>68</u>             |
| Total long-term liabilities           | <u>13,580</u>         |
| <b>TOTAL LIABILITIES</b>              | <u><b>295,046</b></u> |

## NET ASSETS

### Stockholders' Equity:

|                                                                 |                         |
|-----------------------------------------------------------------|-------------------------|
| Common stock-----                                               | 119,419                 |
| Additional paid-in capital:                                     |                         |
| Capital reserve-----                                            | 120,771                 |
| Other capital reserve-----                                      | <u>1,253</u>            |
| Total additional paid-in capital-----                           | <u>122,025</u>          |
| Retained earnings:                                              |                         |
| Legal earned reserve-----                                       | 6,778                   |
| Other retained earnings:                                        |                         |
| Reserve for special depreciation-----                           | 150                     |
| Reserve for disaster prevention-----                            | 54                      |
| Reserve for reduction entry of fixed assets-----                | 1,989                   |
| Reserve for research-----                                       | 88                      |
| Reserve for dividend equalization-----                          | 15                      |
| Reserve for reduction entry of land-----                        | 20                      |
| General reserve-----                                            | 351,137                 |
| Retained earnings brought forward-----                          | <u>226,107</u>          |
| Total other retained earnings-----                              | <u>579,564</u>          |
| Total retained earnings                                         | <u>586,342</u>          |
| Less: Treasury stock, at cost-----                              | <u>(31,213)</u>         |
| Total stockholders' equity-----                                 | <u>796,573</u>          |
| Valuation and Translation Adjustments:                          |                         |
| Unrealized gains (losses) on available-for-sale securities----- | 21,867                  |
| Share Subscription Rights-----                                  | <u>101</u>              |
| <b>TOTAL NET ASSETS</b>                                         | <u><b>818,542</b></u>   |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                         | <u><b>1,113,589</b></u> |

## NON-CONSOLIDATED STATEMENT OF INCOME

For the fiscal year ended March 31, 2017 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

|                                              |       | (Millions of yen)    |
|----------------------------------------------|-------|----------------------|
| Net Sales                                    | ----- | 637,990              |
| Cost of Sales                                | ----- | <u>484,687</u>       |
| Gross profit                                 | ----- | 153,303              |
| Selling, General and Administrative Expenses | ----- | <u>43,067</u>        |
| Operating income                             | ----- | 110,235              |
| Non-Operating Income:                        |       |                      |
| Interest income                              | ----- | 603                  |
| Dividend income                              | ----- | 7,543                |
| Other income                                 | ----- | <u>982</u>           |
| Total non-operating income                   | ----- | 9,129                |
| Non-Operating Expenses:                      |       |                      |
| Interest expenses                            | ----- | 159                  |
| Other expenses                               | ----- | <u>3,967</u>         |
| Total non-operating expenses                 | ----- | <u>4,126</u>         |
| Ordinary income                              | ----- | 115,238              |
| Income before income taxes                   | ----- | 115,238              |
| Income Taxes:                                |       |                      |
| Current                                      | ----- | 31,520               |
| Deferred                                     | ----- | <u>790</u>           |
| Total income taxes                           | ----- | <u>32,310</u>        |
| Net Income                                   | ----- | <u><u>82,928</u></u> |

## NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the fiscal year ended March 31, 2017 (Amounts are stated in millions of yen; amounts less than 1 million are omitted.)

|                                                         | Stockholders' Equity |                                                                     |                             |                              |                            |                                |          | (Millions of yen)             |          |
|---------------------------------------------------------|----------------------|---------------------------------------------------------------------|-----------------------------|------------------------------|----------------------------|--------------------------------|----------|-------------------------------|----------|
|                                                         | Common<br>stock      | Additional paid-in capital                                          |                             |                              | Retained earnings          |                                |          | Treasury<br>stock,<br>at cost | [Total]  |
|                                                         |                      | Capital<br>reserve                                                  | Other<br>capital<br>reserve | [Total]                      | Legal<br>earned<br>reserve | *Other<br>retained<br>earnings | [Total]  |                               |          |
| Balance as of April 1, 2016                             | 119,419              | 120,771                                                             | 375                         | 121,147                      | 6,778                      | 545,623                        | 552,401  | (33,407)                      | 759,560  |
| Changes during the year                                 |                      |                                                                     |                             |                              |                            |                                |          |                               |          |
| Cash dividends                                          | -                    | -                                                                   | -                           | -                            | -                          | (48,987)                       | (48,987) | -                             | (48,987) |
| Net income                                              | -                    | -                                                                   | -                           | -                            | -                          | 82,928                         | 82,928   | -                             | 82,928   |
| Purchase of treasury stock                              | -                    | -                                                                   | -                           | -                            | -                          | -                              | -        | (19)                          | (19)     |
| Disposal of treasury stock                              | -                    | -                                                                   | 878                         | 878                          | -                          | -                              | -        | 2,213                         | 3,092    |
| Net changes of items other than<br>stockholders' equity | -                    | -                                                                   | -                           | -                            | -                          | -                              | -        | -                             | -        |
| Total changes during the year                           | -                    | -                                                                   | 878                         | 878                          | -                          | 33,940                         | 33,940   | 2,194                         | 37,013   |
| Balance as of March 31, 2017                            | 119,419              | 120,771                                                             | 1,253                       | 122,025                      | 6,778                      | 579,564                        | 586,342  | (31,213)                      | 796,573  |
|                                                         |                      |                                                                     |                             |                              |                            |                                |          |                               |          |
|                                                         |                      | Valuation and<br>translation<br>adjustments                         |                             | Share subscription<br>rights |                            | Total<br>net assets            |          |                               |          |
|                                                         |                      | Unrealized<br>gains (losses) on<br>available-for-sale<br>securities |                             |                              |                            |                                |          |                               |          |
| Balance as of April 1, 2016                             |                      | 14,899                                                              |                             | 221                          |                            | 774,680                        |          |                               |          |
| Changes during the year                                 |                      |                                                                     |                             |                              |                            |                                |          |                               |          |
| Cash dividends                                          |                      | -                                                                   |                             | -                            |                            | (48,987)                       |          |                               |          |
| Net income                                              |                      | -                                                                   |                             | -                            |                            | 82,928                         |          |                               |          |
| Purchase of treasury stock                              |                      | -                                                                   |                             | -                            |                            | (19)                           |          |                               |          |
| Disposal of treasury stock                              |                      | -                                                                   |                             | -                            |                            | 3,092                          |          |                               |          |
| Net changes of items other than<br>stockholders' equity |                      | 6,967                                                               |                             | (119)                        |                            | 6,848                          |          |                               |          |
| Total changes during the year                           |                      | 6,967                                                               |                             | (119)                        |                            | 43,861                         |          |                               |          |
| Balance as of March 31, 2017                            |                      | 21,867                                                              |                             | 101                          |                            | 818,542                        |          |                               |          |



\* Breakdown of other retained earnings

(Millions of yen)

|                                                          | Reserve for special depreciation | Reserve for disaster prevention | Reserve for reduction entry of fixed assets | Reserve for research | Reserve for dividend equalization |
|----------------------------------------------------------|----------------------------------|---------------------------------|---------------------------------------------|----------------------|-----------------------------------|
| Balance as of April 1, 2016                              | 228                              | 49                              | 2,026                                       | 88                   | 15                                |
| Changes during the year                                  |                                  |                                 |                                             |                      |                                   |
| Cash dividends                                           | -                                | -                               | -                                           | -                    | -                                 |
| Provision of reserve for special depreciation            | 33                               | -                               | -                                           | -                    | -                                 |
| Reversal of reserve for special depreciation             | (111)                            | -                               | -                                           | -                    | -                                 |
| Provision of reserve for disaster prevention             | -                                | 4                               | -                                           | -                    | -                                 |
| Provision of reserve for reduction entry of fixed assets | -                                | -                               | -                                           | -                    | -                                 |
| Reversal of reserve for reduction entry of fixed assets  | -                                | -                               | (36)                                        | -                    | -                                 |
| Provision of reserve for reduction entry of land         | -                                | -                               | -                                           | -                    | -                                 |
| Net income                                               | -                                | -                               | -                                           | -                    | -                                 |
| Total changes during the year                            | (78)                             | 4                               | (36)                                        | -                    | -                                 |
| Balance as of March 31, 2017                             | 150                              | 54                              | 1,989                                       | 88                   | 15                                |

|                                                          | Reserve for reduction entry of land | General reserve | Retained earnings brought forward | Total other retained earnings |
|----------------------------------------------------------|-------------------------------------|-----------------|-----------------------------------|-------------------------------|
| Balance as of April 1, 2016                              | 20                                  | 351,137         | 192,056                           | 545,623                       |
| Changes during the year                                  |                                     |                 |                                   |                               |
| Cash dividends                                           | -                                   | -               | (48,987)                          | (48,987)                      |
| Provision of reserve for special depreciation            | -                                   | -               | (33)                              | -                             |
| Reversal of reserve for special depreciation             | -                                   | -               | 111                               | -                             |
| Provision of reserve for disaster prevention             | -                                   | -               | (4)                               | -                             |
| Provision of reserve for reduction entry of fixed assets | -                                   | -               | -                                 | -                             |
| Reversal of reserve for reduction entry of fixed assets  | -                                   | -               | 36                                | -                             |
| Provision of reserve for reduction entry of land         | -                                   | -               | -                                 | -                             |
| Net income                                               | -                                   | -               | 82,928                            | 82,928                        |
| Total changes during the year                            | -                                   | -               | 34,051                            | 33,940                        |
| Balance as of March 31, 2017                             | 20                                  | 351,137         | 226,107                           | 579,564                       |

**Audit Report of Accounting Auditor on the Consolidated Financial Statements**  
(English Translation)

**Independent Auditor's Report**

May 12, 2017

The Board of Directors  
Shin-Etsu Chemical Co., Ltd.

Ernst & Young ShinNihon LLC  
Noritada Aizawa, CPA  
Designated and Engagement Partner

Ryogo Ichikawa, CPA  
Designated and Engagement Partner

Yasuyuki Kitamura, CPA  
Designated and Engagement Partner

Pursuant to Article 444, Section 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of Shin-Etsu Chemical Co., Ltd. (the "Company") applicable to the 140th fiscal year from April 1, 2016 through March 31, 2017.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Shin-Etsu Group, which consisted of the Company and consolidated subsidiaries, applicable to the 140th fiscal year ended March 31, 2017 in conformity with accounting principles generally accepted in Japan.

*Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

**Audit Report of Accounting Auditor on the Financial Statements (Non-Consolidated)**  
(English Translation)

**Independent Auditor's Report**

May 12, 2017

The Board of Directors  
Shin-Etsu Chemical Co., Ltd.

Ernst & Young ShinNihon LLC  
Noritada Aizawa , CPA  
Designated and Engagement Partner

Ryogo Ichikawa, CPA  
Designated and Engagement Partner

Yasuyuki Kitamura, CPA  
Designated and Engagement Partner

Pursuant to Article 436, Section 2, Paragraph 1 of the Companies Act, we have audited the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets, the notes to the financial statements and the related supplementary schedules of Shin-Etsu Chemical Co., Ltd. (the "Company") applicable to the 140th fiscal year from April 1, 2016 through March 31, 2017.

*Management's Responsibility for the Financial Statements and the Related Supplementary Schedules*

Management is responsible for the preparation and fair presentation of these financial statements and the related supplementary schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements and the related supplementary schedules that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements and the related supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the related supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the related supplementary schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the related supplementary schedules, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements and the related supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of Shin-Etsu Chemical Co., Ltd. applicable to the 140th fiscal year ended March 31, 2017 in conformity with accounting principles generally accepted in Japan.

*Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

## Audit Report of Audit & Supervisory Board

### Audit Report

The Audit & Supervisory Board has prepared this Audit Report on the execution of duties by the Directors during the 140th fiscal year from April 1, 2016 to March 31, 2017, based upon, and after having considered, the audit reports prepared by the individual Audit & Supervisory Board Members. The Report follows:

#### 1. Audit Methods and Procedures Used by Audit & Supervisory Board Members and by the Audit & Supervisory Board

(1) The Audit & Supervisory Board established its audit policy, plan and so forth, and received reports from the individual Audit & Supervisory Board Members on their progress in conducting audits, as well as their findings. The Board also received reports from the Directors and others and from the Accounting Auditor concerning their progress in executing duties, and requested explanations as needed.

(2) In accordance with the standards established by the Audit & Supervisory Board for auditing by the Audit & Supervisory Board Members, pursuant to the audit policy and assigned duties and others, the individual Audit & Supervisory Board Members promoted communication with the Directors, the internal audit function, and other employees and others, in order to enhance information collection and the overall audit environment, and conducted audits by the following methods.

① They also attended the Board of Directors' meetings and other important meetings, and received reports from the Directors and employees and others on their progress in executing duties and requested explanations from them as needed. They perused important documented decisions, approvals and others, and conducted on-site investigations to determine the operation of business practices and the status of assets at the Head Office and other principal places of business. With regard to the subsidiaries, the Audit & Supervisory Board Members promoted communication and information sharing with the Directors, Audit & Supervisory Board Members and others of the subsidiaries, and received business reports from subsidiaries as needed.

② They audited the substance of the Board of Directors' resolutions regarding the development of the systems to ensure the Directors to execute their duties in conformity with laws and regulations and the Articles of Incorporation, and other systems specified in Paragraphs 1 and 3, Article 100 of the Corporations Law Enforcement Regulations necessary for ensuring the properness of operations undertaken by the company group composed of the stock company and its subsidiaries, as well as the systems (internal control systems) being developed in accordance with such resolutions. The Audit & Supervisory Board Members received periodic reports from the Directors and employees and others on their progress in establishing and operating such systems and requested explanations from them as needed.

③ The Audit & Supervisory Board monitored the Accounting Auditor to determine whether it maintained its independence and conducted appropriate audits, and received reports from the Accounting Auditor on its progress in executing duties and asked for explanations as needed. The Board was also advised by the Accounting Auditor of its appropriate development of systems enumerated in the Items of Article 131 of the Corporate Calculation Regulations as constituting a "system to ensure the proper execution of duties," and asked for explanations as needed.

Based on the methods above, the Audit & Supervisory Board examined the Business Report and its Annexed Schedules, Financial Documents (Balance Sheet, Income Statement, Statement of Changes in Shareholders' Equity and Other Net Assets, and Non-consolidated Notes thereto) along with their Annexed Schedules, as well as the Consolidated Financial Documents (Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Changes in Shareholders' Equity and Other Net Assets, and Consolidated Notes thereto), all covering the fiscal year under review.

## 2. Results of Audits

### (1) Results of Auditing Business Report and Others

- ① The Audit & Supervisory Board certifies that the Business Report and its Annexed Schedules fairly present the state of affairs of the Company in conformity with laws and regulations and the Articles of Incorporation.
- ② The Board finds no irregular acts that occurred or significant facts that violated laws and regulations or the Articles of Incorporation, in connection with the execution of duties by the Directors.
- ③ The Board certifies the adequacy of the Board of Directors' resolutions relevant to internal control systems. Also, the Board finds no items that require particular notice in connection with the substance of the Business Report or the execution of duties by the Directors relevant to such internal control systems.

### (2) Results of Auditing Financial Documents and their Annexed Schedules

The Audit & Supervisory Board certifies the appropriateness of audit procedures used by the Accounting Auditor, Ernst & Young ShinNihon LLC, and of the results of its audit.

### (3) Results of Auditing Consolidated Financial Documents

The Audit & Supervisory Board certifies the appropriateness of audit procedures used by the Accounting Auditor, Ernst & Young ShinNihon LLC, and of the results of its audit.

May 15, 2017

The Audit & Supervisory Board, Shin-Etsu Chemical Co., Ltd.

|                                                                             |                  |        |
|-----------------------------------------------------------------------------|------------------|--------|
| Full-time Audit & Supervisory Board Member                                  | Osamu Okada      | (Seal) |
| Full-time Audit & Supervisory Board Member                                  | Hiroaki Okamoto  | (Seal) |
| Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) | Taku Fukui       | (Seal) |
| Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) | Yoshihito Kosaka | (Seal) |
| Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) | Kiyoshi Nagano   | (Seal) |

## Reference Documents for Exercising Voting Rights

### Agenda and Reference Materials

#### 1st Agendum: Distribution of Retained Earnings to Shareholders

Taking a long-term perspective, the Company will focus on expanding company earnings and strengthening the make-up of the Group's structure as well as on sharing the results of such successful management efforts. It is the Company's basic policy to distribute dividends so as to appropriately reward all of our shareholders.

The Company proposes a year-end cash dividend distribution for the 140th fiscal year as summarized below:

1. Type of Assets Proposed for Distribution  
Monetary
2. Asset Allotment Details and Total Amount  
The Company proposes a monetary allotment of ¥60 per share of Common Stock in the Company; ¥25,582,959,780 in total.
3. Effective Date of Distribution of Retained Earnings  
June 30, 2017

The Company has paid an interim cash dividend of ¥60 per share for the current fiscal year; thus, dividend payment for the full year will be ¥120 per share, ¥10 up from the ¥110 for the previous term.

#### 2nd Agendum: Amendment of Certain Provisions of the Articles of Incorporation

1. Purpose of amendment of the Articles of Incorporation:
  - (1) For the purpose of facilitating the recruitment of appropriate persons as Directors (excluding Executive Directors, etc.) and Audit & Supervisory Board Members and allowing them to fully perform their expected roles, Article 27 (Limitation of Liability of Directors) and Article 35 (Limitation of Liability of Audit & Supervisory Board Members) of the Articles of Incorporation are newly established as articles enabling Limitation of Liability Agreements to be concluded between the Company, and its Directors (excluding Executive Directors, etc.) and Audit & Supervisory Board Members.  
The addition of Article 27 (Limitation of Liability of Directors) has been approved by all members of the Audit & Supervisory Board.
  - (2) Because of the addition of the above newly-established articles, the articles thereafter will be renumbered accordingly.

2. Details of amendment of the Articles of Incorporation

The amendment details are as follows:

(The proposed amended language is underlined.)

| Current                                                                                                                                                                                    | Proposed Amendment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>CHAPTER IV. DIRECTORS AND THE BOARD OF DIRECTORS</p> <p>(Newly added article)</p>                                                                                                       | <p>CHAPTER IV. DIRECTORS AND THE BOARD OF DIRECTORS</p> <p><u>(Limitation of Liability of Directors)</u></p> <p><u>Article 27. The Company may, in accordance with the provisions of Paragraph 1 of Article 427 of the Corporations Law, conclude agreements with Directors (excluding Executive Directors, etc.) limiting their liability for damages, as described in Paragraph 1 of Article 423 of the Corporations Law; provided that the limitation of liability for damages in the agreements shall be based on the amount prescribed by relevant laws and regulations.</u></p>                                                                                                                         |
| <p>CHAPTER V. AUDIT &amp; SUPERVISORY BOARD MEMBERS AND AUDIT &amp; SUPERVISORY BOARD</p> <p>Articles <u>27</u>. to <u>33</u>. (Text of Articles omitted)</p> <p>(Newly added article)</p> | <p>CHAPTER V. AUDIT &amp; SUPERVISORY BOARD MEMBERS AND AUDIT &amp; SUPERVISORY BOARD</p> <p>Articles <u>28</u>. to <u>34</u>. (No amendment of the text)</p> <p><u>(Limitation of Liability of Audit &amp; Supervisory Board Members)</u></p> <p><u>Article 35. The Company may, in accordance with the provisions of Paragraph 1 of Article 427 of the Corporations Law, conclude agreements with Audit &amp; Supervisory Board Members limiting their liability for damages, as described in Paragraph 1 of Article 423 of the Corporations Law; provided that the limitation of liability for damages in the agreements shall be based on the amount prescribed by relevant laws and regulations.</u></p> |
| <p>Articles <u>34</u>. to <u>37</u>. (Text of Articles omitted)</p>                                                                                                                        | <p>Articles <u>36</u>. to <u>39</u>. (No amendment of the text)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

3rd Agendum: Election of Eleven (11) Directors

Upon the conclusion of this Ordinary General Meeting of Shareholders, the terms of office of twelve (12) Directors, namely, Messrs. Yasuhiko Saitoh, Toshinobu Ishihara, Susumu Ueno, Koji Takasugi, Yukihiko Matsui, Masaki Miyajima, Frank Peter Popoff, Tsuyoshi Miyazaki, Toshihiko Fukui, Toshiyuki Kasahara, Hidenori Onezawa and Kazumasa Maruyama will expire.

Accordingly, the Board of Directors proposes that eleven (11) persons be elected as Directors.

The candidates for election to the position of Director are as follows:

|                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
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| <p>No. 1</p> <p><b>Yasuhiko Saitoh</b><br/>(December 5, 1955)</p> <p>Number of Company Shares Held<br/>18,300 shares</p> <p><u>Reappointment Candidate</u></p>    | <p><b>►Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1978    Joined the Company<br/> Dec., 1999    Director of Shin-Etsu PVC B.V. (to date)<br/> June, 2001    Director of the Company<br/> June, 2002    Managing Director<br/> June, 2005    Senior Managing Director<br/> July, 2007    Representative Director and Senior Managing Director<br/> June, 2010    Representative Director and Executive Vice President<br/> June, 2016    Representative Director and President (to date)</p> <p><b>-Important Positions in Other Entities-</b><br/> Director and President of SHINTECH INC.<br/> Director and President of Shin-Etsu Handotai America, Inc.</p> <p>►There is no special interest between the candidate and the Company.</p> <p><b>►Reasons for Electing the Candidate for Director</b><br/> Mr. Yasuhiko Saitoh has been contributing to the development of the international business of the Group, including our PVC operations in the U.S., for many years, and since taking office as the President in June 2016, he has used his global management experience and done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p> |
| <p>No. 2</p> <p><b>Toshinobu Ishihara</b><br/>(September 8, 1947)</p> <p>Number of Company Shares Held<br/>6,900 shares</p> <p><u>Reappointment Candidate</u></p> | <p><b>►Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1970    Joined the Company<br/> June, 2001    General Manager of New Functional Materials Research Center Director<br/> June, 2010    Managing Director<br/>                   In charge of New Functional Materials (to date)<br/>                   General Manager of Research and Development Dept. (to date)<br/> June, 2013    Senior Managing Director (to date)<br/> June, 2015    In charge of Patents (to date)</p> <p>►There is no special interest between the candidate and the Company.</p> <p><b>►Reasons for Electing the Candidate for Director</b><br/> Mr. Toshinobu Ishihara has extensive knowledge on research and development (R&amp;D), and has done his utmost to increase the Company's value such as driving the process of the commercialization from R&amp;D stage for new functional materials, such as photoresist products, and endeavoring to expand their operations. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                                                                                                                                              |



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| <p>No. 3</p> <p style="text-align: center;"><b>Susumu Ueno</b><br/>(May 24, 1943)</p> <p>Number of Company Shares Held<br/>13,406 shares</p> <p style="text-align: center;">Reappointment Candidate</p>         | <p>▶ <b>Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1968    Joined the Company<br/> June, 2005    General Manager of Gunma Complex<br/> June, 2013    Director<br/>                   General Manager of Silicone Div. (to date)<br/> June, 2015    Managing Director<br/> June, 2016    Senior Managing Director (to date)</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p>▶ <b>Reasons for Electing the Candidate for Director</b></p> <p>Mr. Susumu Ueno has extensive knowledge on the field of production and has endeavored to expand the silicone operation which produces diverse products for many years, and has done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                                                                                                                                                                                       |
| <p>No. 4</p> <p style="text-align: center;"><b>Yukihiro Matsui</b><br/>(October 2, 1948)</p> <p>Number of Company Shares Held<br/>4,400 shares</p> <p style="text-align: center;">Reappointment Candidate</p>   | <p>▶ <b>Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1973    Joined the Company<br/> Apr., 2004    General Manager of Magnet Dept., Electronics Materials Div. (to date)<br/> June, 2009    Director<br/> June, 2010    General Manager of Electronics Materials Div. (to date)<br/> June, 2013    Managing Director (to date)</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p>▶ <b>Reasons for Electing the Candidate for Director</b></p> <p>Mr. Yukihiro Matsui has endeavored to expand the magnet operation for many years and has done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                                                                                                                                                                                                                                                                           |
| <p>No. 5</p> <p style="text-align: center;"><b>Masaki Miyajima</b><br/>(February 8, 1947)</p> <p>Number of Company Shares Held<br/>22,000 shares</p> <p style="text-align: center;">Reappointment Candidate</p> | <p>▶ <b>Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>July, 1971    Joined the Company<br/> May, 1997    General Manager of Opto-Electronics Materials Dept., Advanced Materials Div.<br/> June, 2001    Director<br/> Nov., 2002    General Manager of PVC Div. (to date)<br/> June, 2016    Managing Director (to date)<br/>                   In charge of Advanced Materials (to date)</p> <p>▶ The candidate is a Representative Director and the President of KASHIMA VINYL CHLORIDE MONOMER COMPANY LIMITED and Kashima Chlorine &amp; Alkali Co., Ltd. The Company is purchasing materials from, and otherwise conducting business with, the said two companies.</p> <p>▶ <b>Reasons for Electing the Candidate for Director</b></p> <p>Mr. Masaki Miyajima has done his utmost to increase the Company's value such as endeavoring to strengthen the PVC operation in Japan and being in charge of the advanced materials operation. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p> |

No. 6

## Frank Peter Popoff

(October 27, 1935)

Number of Company Shares Held  
91,600 shares

Reappointment Candidate

Outside Director

Independent Officer

### ► Career Summary, Positions, Responsibilities, and Important Positions in Other Entities

Dec., 1987 CEO of The Dow Chemical Company  
Dec., 1992 Director and Chairman of the above  
Jan., 2001 Director of SHINTECH INC. (to date)  
June, 2001 Director of the Company (to date)

► There is no special interest between the candidate and the Company.

### ► Reasons, etc. for Electing the Candidate for Outside Director

Mr. Frank Peter Popoff is a candidate for Outside Director as defined in Item 7, Paragraph 3, Article 2 of the Corporations Law Enforcement Regulations. He first became an Outside Director of the Company in June 2001, and will have held this position for sixteen (16) years at the conclusion of this Ordinary General Meeting of Shareholders. During this period, he has performed a satisfactory job of providing supervision from an independent standpoint.

Furthermore, the Company has been aggressively promoting its business development overseas through the establishment of business locations all over the world, including in the U.S., Asia, and Europe. Mr. Popoff's opinions and practical advice, from a broad perspective based on his management experience as CEO of The Dow Chemical Company, a U.S. company that has a long history as a global company, have been of significant importance for the Company to expand its business overseas and enhance its corporate value.

He also serves as the commissioner of the Officers' Remuneration Committee. His work so far includes repealing the Officers' Retirement Benefit Program and making other significant revisions to the officers' remuneration system, thus striving to achieve an appropriate corporate governance structure with regard to the officers' remuneration system. In view of this, his nomination reflects the confidence that the Company places in him to continue to provide the same quality of advice and supervision, and also to consistently contribute to the development of an appropriate corporate governance structure for the Company.

► Mr. Frank Peter Popoff has been serving as a Non-executive Director of our subsidiary SHINTECH INC. since January 2001.

► The Company has reported Mr. Frank Peter Popoff as an Independent Officer as provided in the applicable regulations of the Tokyo Stock Exchange, Inc., etc. If Mr. Popoff will be reappointed as Director, he is planned to continue acting as an Independent Officer.

No. 7

**Tsuyoshi Miyazaki**

(December 16, 1931)

Number of Company Shares Held  
0 shares

Reappointment Candidate

Outside Director

Independent Officer

**► Career Summary, Positions, Responsibilities, and Important Positions in Other Entities**

Mar., 1990 Representative Director and President of Mitsubishi Logistics Corporation  
June, 1998 Representative Director and Chairman of the above  
June, 2003 Adviser of the above (to date)  
Aug., 2004 Audit & Supervisory Board Member of Shin-Etsu Handotai Co., Ltd.  
June, 2007 Director of the Company (to date)

► There is no special interest between the candidate and the Company.

**► Reasons, etc. for Electing the Candidate for Outside Director**

Mr. Tsuyoshi Miyazaki is a candidate for Outside Director as defined in Item 7, Paragraph 3, Article 2 of the Corporations Law Enforcement Regulations. He first became an Outside Director of the Company in June 2007, and will have held this position for ten (10) years at the conclusion of this Ordinary General Meeting of Shareholders. During this period, he has performed a satisfactory job of providing useful advice from a high-level perspective by capitalizing on his management experience at Mitsubishi Logistics Corporation and supervision from an independent standpoint. In view of this, his nomination reflects the confidence that the Company places in him to continue to provide the same quality of advice and supervision.

► Mr. Tsuyoshi Miyazaki served as an Audit & Supervisory Board Member of our subsidiary Shin-Etsu Handotai Co., Ltd. from August 2004 to June 2007.

► The Company has reported Mr. Tsuyoshi Miyazaki as an Independent Officer as provided in the applicable regulations of the Tokyo Stock Exchange, Inc., etc. If Mr. Miyazaki will be reappointed as Director, he is planned to continue acting as an Independent Officer.

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| <p>No. 8</p> <p style="text-align: center;"><b>Toshihiko Fukui</b><br/>(September 7, 1935)</p> <p>Number of Company Shares Held<br/>0 shares</p> <p style="text-align: center;"> <span style="border: 1px solid black; padding: 2px;">Reappointment Candidate</span><br/> <span style="border: 1px solid black; padding: 2px; margin-left: 40px;">Outside Director</span><br/> <span style="border: 1px solid black; padding: 2px; margin-left: 40px;">Independent Officer</span> </p> | <p>▶ <b>Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1958    Joined the Bank of Japan<br/> Dec., 1994    Deputy Governor of the above<br/> Mar., 2003    Governor of the above<br/> June, 2009    Director of the Company (to date)</p> <p><b>-Important Positions in Other Entities-</b></p> <p>President of the Canon Institute for Global Studies<br/> Outside Director of Kikkoman Corporation</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p>▶ <b>Reasons, etc. for Electing the Candidate for Outside Director</b></p> <p>Mr. Toshihiko Fukui is a candidate for Outside Director as defined in Item 7, Paragraph 3, Article 2 of the Corporations Law Enforcement Regulations. He first became an Outside Director of the Company in June 2009, and will have held this position for eight (8) years at the conclusion of this Ordinary General Meeting of Shareholders. During this period, he has performed a satisfactory job of providing both supervision from an independent standpoint and useful advice from a high-level perspective by capitalizing on his outstanding knowledge and wealth of experience related to global finance and global economy as a former Governor of the Bank of Japan. In view of this, his nomination reflects the confidence that the Company places in him to continue to provide the same quality of advice and supervision.</p> <p>▶ The Company has reported Mr. Toshihiko Fukui as an Independent Officer as provided in the applicable regulations of the Tokyo Stock Exchange, Inc., etc. If Mr. Fukui will be reappointed as Director, he is planned to continue acting as an Independent Officer.</p> |
| <p>No. 9</p> <p style="text-align: center;"><b>Toshiyuki Kasahara</b><br/>(May 7, 1951)</p> <p>Number of Company Shares Held<br/>6,700 shares</p> <p style="text-align: center;"><span style="border: 1px solid black; padding: 2px;">Reappointment Candidate</span></p>                                                                                                                                                                                                               | <p>▶ <b>Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Mar., 1970    Joined the Company<br/> Dec., 2001    General Manager of Finance &amp; Accounting Dept. (to date)<br/> June, 2005    Director (to date)</p> <p>▶ There is no special interest between the candidate and the Company.</p> <p>▶ <b>Reasons for Electing the Candidate for Director</b></p> <p>Mr. Toshiyuki Kasahara has extensive knowledge on financial accounting and has done his utmost to increase the Company's value such as endeavoring to strengthen the sound financial foundation of the Group. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

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| <p>No. 10</p> <p><b>Hidenori Onezawa</b><br/>(February 27, 1952)</p> <p>Number of Company Shares Held<br/>5,000 shares</p> <p style="text-align: center;">Reappointment Candidate</p> | <p>► <b>Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1977    Joined the Company<br/> June, 2001    Director of Shin-Etsu Handotai Co., Ltd.<br/> Aug., 2004    Managing Director of the above<br/> June, 2005    Director of the Company (to date)<br/> June, 2015    In charge of Business Auditing (to date)</p> <p>► There is no special interest between the candidate and the Company.</p> <p>► <b>Reasons for Electing the Candidate for Director</b></p> <p>Mr. Hidenori Onezawa has been in charge of business auditing and has endeavored to operate an appropriate compliance system, and has done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p> |
| <p>No. 11</p> <p><b>Kazumasa Maruyama</b><br/>(December 2, 1949)</p> <p>Number of Company Shares Held<br/>3,800 shares</p> <p style="text-align: center;">Reappointment Candidate</p> | <p>► <b>Career Summary, Positions, Responsibilities, and Important Positions in Other Entities</b></p> <p>Apr., 1975    Joined the Company<br/> June, 2010    General Manager of New Functional Materials Dept. (to date)<br/> June, 2013    Director (to date)</p> <p>► There is no special interest between the candidate and the Company.</p> <p>► <b>Reasons for Electing the Candidate for Director</b></p> <p>Mr. Kazumasa Maruyama has endeavored to expand the new functional materials operation for many years and has done his utmost to increase the Company's value. Considering these reasons, he has been chosen as a candidate for the position of Director with expectations that he will continue contributing to the Company's management.</p>                                                                                                                                   |

Note: If Mr. Frank Peter Popoff, Mr. Tsuyoshi Miyazaki and Mr. Toshihiko Fukui will be reappointed as Directors, the Company will enter into an agreement with each of those three persons, pursuant to Paragraph 1, Article 427 of the Corporations Law, to limit the amount of the liability for damages stipulated in Paragraph 1, Article 423 of the said law to the amount set forth in the applicable law under the condition that "2nd Agendum: Amendment of Certain Provisions of the Articles of Incorporation" will be approved in the original form.

**4th Agendum: Election of One (1) Audit & Supervisory Board Member**

Upon the conclusion of this Ordinary General Meeting of Shareholders, the term of office of one (1) Audit & Supervisory Board Member, namely, Mr. Taku Fukui, will expire. Accordingly, the Board of Directors proposes that one (1) person be elected as Audit & Supervisory Board Member.

The candidate for the above is as follows:

In addition, this agendum has obtained the consent of the Audit & Supervisory Board.

|                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
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| <p><b>Taku Fukui</b><br/>(August 24, 1961)</p> <p>Number of Company Shares Held<br/>0 shares</p> <p style="text-align: center;"><u>Reappointment Candidate</u><br/><u>Outside Audit &amp; Supervisory Board Member</u><br/><u>Independent Officer</u></p> | <p><b>► Career Summary, Positions, and Important Positions in Other Entities</b></p> <p>Apr., 1987 Registered as a lawyer (with Daini Tokyo Bar Association)<br/>Entered Kashiwagi Sogo Law Offices</p> <p>Apr., 2004 Professor at the Keio Law School (to date)<br/>(except for the period from April 1, 2012 to March 31, 2013)</p> <p>June, 2005 Audit &amp; Supervisory Board Member of the Company (to date)</p> <p>Jan., 2009 Managing Partner of the above Law Offices (to date)</p> <p><b>-Important Positions in Other Entities-</b></p> <p>Managing Partner of Kashiwagi Sogo Law Offices</p> <p>Note: The candidate is planned to assume the position of Outside Director of YAMAHA CORPORATION on June 22, 2017.</p> <p>► There is no special interest between the candidate and the Company.</p> <p><b>► Reasons, etc. for Electing the Candidate for Outside Audit &amp; Supervisory Board Member</b></p> <p>Mr. Taku Fukui is a candidate for Outside Audit &amp; Supervisory Board Member as defined in Item 8, Paragraph 3, Article 2 of the Corporations Law Enforcement Regulations. He first became an Outside Audit &amp; Supervisory Board Member of the Company in June 2005, and will have held this position for twelve (12) years at the conclusion of this Ordinary General Meeting of Shareholders. During this period, he has performed a satisfactory job in auditing from a professional perspective as a lawyer. Considering these reasons, he has been chosen as a candidate with the decision that he will continue providing an appropriate performance as an Outside Audit &amp; Supervisory Board Member and contributing to ensure the compliance system for the Company. He has taught Corporate Law and Business Transactions, Antitrust, and Competition Law as a professor at Keio University Law School. Furthermore, he has extensive experience and knowledge on the field of corporate compliance such as holding a position as the member of the compliance review and recommendation committees (as a third-party member) for several listed companies.</p> <p>► The Company has reported Mr. Taku Fukui as an Independent Officer as provided in the applicable regulations of the Tokyo Stock Exchange, Inc., etc. If Mr. Fukui will be reappointed as Audit &amp; Supervisory Board Member, he is planned to continue acting as an Independent Officer.</p> |
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Note: If Mr. Taku Fukui will be reappointed as an Audit & Supervisory Board Member, the Company will enter into an agreement with him, pursuant to Paragraph 1, Article 427 of the Corporations Law, to limit the amount of the liability for damages stipulated in Paragraph 1, Article 423 of the said law to the amount set forth in the applicable law under the condition that “2nd Agendum: Amendment of Certain Provisions of the Articles of Incorporation” will be approved in the original form.

5th Agendum: Issuance of Stock Acquisition Rights as Stock Options to Employees

In accordance with the provisions of Articles 236, 238 and 239 of the Corporations Law, the Company proposes to issue stock acquisition rights as stock options to executive-level employees, and to entrust the authorization of such issue, and the determination of the conditions for invitation to the stock acquisition, to the Board of Directors.

1. Reason for issuing stock acquisition rights with particularly advantageous terms and conditions:

For the purpose of enhancing the willingness and the morale to perform their duties and to improve the Company's business performance, stock acquisition rights may be issued to executive-level employees without the requirement for cash payment, in accordance with the outlines described below.

2. Substance and maximum quantity of the stock acquisition rights, etc. conditions for invitation of which may be determined based on authorization

- (1) Type and quantity of shares subject to the stock acquisition rights:

The type of share subject to the stock acquisition rights shall be the common shares of the Company, and the quantity of shares subject to the stock acquisition rights (hereinafter called the "Number of Granted Shares") shall be one hundred (100) shares per one (1) stock acquisition right.

After the day when the stock acquisition rights are allocated (hereinafter called the "Allocation Day"), if the Company makes a share split (including gratis distribution, and the same is hereinafter applicable to the descriptions of share split) or a share consolidation of common shares of the Company, the Number of Granted Shares shall be adjusted according to the formula described below. Such adjustment, however, shall be made to the Number of Granted Shares for the stock acquisition rights that are not yet exercised at that point of time, and if, as a result of the adjustment, there arises any share less than one (1) share, such fraction shall be omitted.

Number of Granted Shares after adjustment = Number of Granted Shares before adjustment × Ratio of share split or share consolidation

In addition to the above, if any cause arises to force the Company to adjust the Number of Granted Shares, the Company shall make the adjustments considered necessary.

- (2) Upper limit of the number of stock acquisition rights

The number of stock acquisition rights shall be limited to 4,500 rights.

(Up to 450,000 common shares of the Company shall be issued at the exercise of stock acquisition rights. If the Number of Granted Shares is adjusted as prescribed in (1) above, however, the Company shall adjust the upper limit by multiplying the adjusted Number of Granted Shares by the upper limit of the number of stock acquisition rights.)

- (3) Payment for the stock acquisition rights

No payment of cash is needed for issuance of the stock acquisition rights.

- (4) Calculation of the value of assets to be contributed at exercise of each stock acquisition right

The value of assets to be contributed at the exercise of each stock acquisition right shall be (x) the amount of investment per share issued at the exercise of a stock acquisition right calculated in the following (hereinafter called the "Exercise Price") multiplied by (y) the Number of Granted Shares.

The Exercise Price shall be 1.025 times as high as the closing price of the common shares of the Company at the Tokyo Stock Exchange averaged on a daily basis (excluding days with no transactions closed) during the month prior to the month including the day of resolution by the Board of Directors to decide conditions for invitation of the stock acquisition rights, or the closing price of the common shares of the Company at the Tokyo Stock Exchange on the day prior to the day of resolution by the Board of Directors to decide conditions for invitation of the stock acquisition rights (if there is no closing price on such date, the closing price of the closest preceding day), whichever is higher, and fractions less than one (1) yen shall be rounded up.

After an Allocation Day, when the Company issues new common shares or disposes of treasury shares at a price lower than the market price (excluding the sale of treasury stock in accordance with the provisions of Article 194 (Request by the Holder of Fractional Shares for Sale of the Fractional Shares) of the Corporations Law, the conversion of any certificate that shall or may be converted to common shares of the Company, and the exercise of a stock acquisition right (including a right attached to a corporate bond with a stock acquisition right)), the Company shall adjust the Exercise Price according to the formula described below, and if, as a result thereof, there arises any fraction less than one (1) yen, such fraction shall be rounded up.

Exercise Price after adjustment = Exercise Price before adjustment

$$\times \frac{\text{Number of issued shares} + \frac{\text{Number of shares newly issued} \times \text{Payment amount per share}}{\text{Market price}}}{\text{Number of issued shares} + \text{Number of shares newly issued}}$$

(In the formula above, “Number of issued shares” is the gross total number of shares issued by the Company minus the number of treasury shares held by the Company, and at the disposal of treasury shares, “Number of shares newly issued” shall be replaced with “Number of treasury shares to be disposed of.”)

If a share split or a share consolidation is effected after an Allocation Day, the Exercise Price shall be adjusted according to the formula described below, and any fractions less than one (1) yen resulting from such adjustment shall be rounded up.

$$\text{Exercise Price after adjustment} = \text{Exercise Price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In addition to the above, if any cause arises to force the Company to adjust the Exercise Price, the Company shall make adjustments considered necessary.

(5) Period during which a stock acquisition right may be exercised

From the day following the day that is one year after the Allocation Day, to March 31, 2022.

(6) Matters related to capital stock and capital reserve to be increased by issuance of shares at exercise of the stock acquisition rights

- (i) The amount of capital stock increased by issuance of shares at exercise of the stock acquisition rights shall be half (1/2) of the limit of an increase in capital stock and the like to be calculated in accordance with Paragraph 1, Article 17 of the Corporate Accounting Rules, and a resulting fraction less than one (1) yen shall be rounded up.
- (ii) The amount of capital reserve increased by issuance of shares at the exercise of the stock acquisition rights shall be the limit of an increase in capital stock and the like in (i) minus the amount of capital stock increased prescribed in (i).



(7) Restriction on acquisition of a stock acquisition right through transfer

Acquisition of a stock acquisition right through transfer requires approval by a resolution of the Board of Directors of the Company.

(8) Conditions for acquisition of the stock acquisition rights

- (i) If an agendum to approve a merger agreement that will make the Company a disappearing company is approved at a General Meeting of Shareholders of the Company, or if an agendum to approve a corporate split agreement or a corporate split plan that will make the Company a split company, or if an agendum for a share exchange agreement or a share transfer plan that will make the Company become a wholly-owned subsidiary of another company is approved at a General Meeting of Shareholders of the Company (in either case, if no resolution at a General Meeting of Shareholders is needed, resolved by the Board of Directors of the Company), the Company may acquire back the stock acquisition rights without compensation on the day specified by the Board of Directors of the Company.
- (ii) If those persons to whom the stock acquisition rights are issued or the heirs of such persons no longer satisfy the conditions to exercise the stock acquisition rights prescribed in the “Stock Acquisition Right Agreement” concluded between the Company and employees concerned based on the resolution at a General Meeting of Shareholders and at a meeting of the Board of Directors, the Company may acquire back the stock acquisition rights concerned without compensation on the day specified by the Board of Directors of the Company.

(9) Handling of the stock acquisition rights under the Reorganization Action

When the Company effects a merger (only when the Company disappears), an absorption corporate split, a foundation corporate split, a share exchange or a share transfer (hereinafter collectively called a “Reorganization Action”), under the following conditions, stock acquisition rights of a joint stock corporation listed in any of Sub-Items a - e in Item 8, Paragraph 1, Article 236 of the Corporations Law (hereinafter called the “Reorganized Corporation”) shall be delivered to holders of stock acquisition rights (hereinafter called “Remaining Stock Acquisition Rights”) remaining unexercised as of the point of time when the Reorganization Action comes into effect. In this case, the Remaining Stock Acquisition Rights shall expire, and the Reorganized Corporation shall issue new stock acquisition rights. This issuance, however, shall be limited to the case where the issuance of the stock acquisition rights of the Reorganized Corporation under the following conditions is prescribed in the absorption merger agreement, the foundation merger agreement, the absorption corporate split agreement, the plan of the foundation corporate split, the share exchange agreement, or the plan of the share transfer:

- (i) Number of the stock acquisition rights to be issued by the Reorganized Corporation  
The same number of stock acquisition rights shall be issued as the number of the Remaining Stock Acquisition Rights.
- (ii) Type of share of the Reorganized Corporation subject to the stock acquisition rights  
Common shares of the Reorganized Corporation.
- (iii) Number of shares of the Reorganized Corporation subject to the stock acquisition rights  
This number shall be decided in the same manner as (1) above taking into consideration the conditions for the Reorganization Action.

- (iv) Value of assets to be contributed at exercise of each stock acquisition right  
The value of assets to be contributed at exercise of each stock acquisition right shall be the amount of contribution calculated through adjustments, taking into consideration the conditions for the Reorganization Action, multiplied by the number of shares subject to the stock acquisition right as decided in (iii) above.
- (v) Period during which a stock acquisition right may be exercised  
This period shall commence on the starting day of the period for exercising the stock acquisition right specified in (5) above, or the day when the Reorganization Action comes into effect, whichever is later, and end on the day of expiration of the period during which a stock acquisition right may be exercised as specified in (5) above.
- (vi) Matters related to capital stock and capital reserve to be increased by issuance of shares at the exercise of the stock acquisition rights  
They shall be decided in the same manner as (6) above.
- (vii) Restriction on acquisition of a stock acquisition right through transfer  
Acquisition of a stock acquisition right through transfer requires approval by the Reorganized Corporation.
- (viii) Conditions for acquisition of the stock acquisition rights  
They shall be decided in the same manner as (8) above.
- (10) Omission of fractions resulting from the exercise of stock acquisition rights  
Fractions less than one (1) share shall be omitted from the shares issued to holders of stock acquisition rights at the exercise of the rights.
- (11) Authorization to decide the conditions for invitation of the stock acquisition rights, and the like  
Conditions for invitation of the stock acquisition rights, and related details, other than the aforementioned, shall be decided by resolutions at meetings of the Board of Directors to be held separately.