Shin-Etsu Chemical Co., Ltd. Consolidated Financial Results for the Fiscal Year Ended on March 31, 2018: Summary of the Business Results Explanatory Meeting	
Date	April 27, 2018 (Friday) 16:00 – 17:00
Venue	Asahi Seimei Building 27th Floor
Participants	・Chihiro Kanagawa, Representative Director - Chairman ・Yasuhiko Saitoh, Representative Director - President ・Toshinobu Ishihara, Senior Managing Director, In charge or New Functional Materials and R&D ・Susumu Ueno, Senior Managing Director, General Manager, Silicone Div. ・Masahiko Todoroki, Senior Managing Director, In charge of Semiconductor Materials ・Toshiya Akimoto, Managing Director, In charge of Public Relations ・Toshiyuki Kasahara, Director, General Manger, Finance & Accounting Dept. ・Yukihito Adachi, General Manager, PR Dept.
Material	Financial Summary for the year ended March 31, 2018

This is a brief summary of the contents of the remarks made at the explanatory meeting held to announce the Shin-Etsu Group's FY 2018 Consolidated Business Results

Key Points Made by Chairman Chihiro Kanagawa in His Words of Greeting

・The Shin-Etsu Group achieved its highest profit ever and recorded its eighth consecutive year of increased profit in FY 2018.

・What led the strong increase in the Group's profit was our PVC business, which Shintech in the U.S. plays the key; our semiconductor silicon business; and our silicones business. Other business segments also achieved double-digit profit increases.

・The annual cash dividend for FY 2018 is planned to be ¥140, a ¥20 increase from that of the previous fiscal year.

・At the same time, while making good use of our sound financial position, we are aiming to expand our business by moving ahead with making aggressive investments.

President Yasuhiko Saitoh Highlights Salient Aspects of the FY 2018 Business Results

・FY 2018's net income attributable to owners of parent includes about ¥30,000 million (benefit) as a result of the revaluation of deferred tax liabilities following the enactment of tax reform legislation in the United States.

・The main factors that led to profit increases in each business segment were: the price "spread" improvements in the PVC/Chlor-Alkali Business; the increase in product prices in the Semiconductor Silicon Business; and the volume growth in other businesses.

・At the Board of Directors meeting held on April 27, 2018, it was resolved to cancel, on May 2, 2018, 4,500,000 shares of our treasury stock.

・ROIC (return on invested capital) increased by 4 percentage points to 18%, and ROE (return on equity) increased by 3 percentage points to 12%.

・Capital expenditure in FY 2018 amounted to ¥176.2 billion (originally scheduled for ¥180.0 billion), and for FY 2019 it is scheduled to increase to be ¥250.0 billion. The main factor accounting for this increase is new expansion projects in each business.

・The announcement of the forecast for FY 2019's consolidated operating performance and cash dividends will be made when the disclosure becomes possible (which is expected to be in the same time frame as in the past).

Detailed Explanation of the Contents of the FY 2018 Business Results

Toshiyuki Kasahara, Director, General Manager of the Finance & Accounting Dept.

・The amount of Depreciation and Amortization for FY 2018 was ¥112.0 billion. For FY 2019, the amount is planned to be ¥135.0 billion.

・The foreign exchange conversion rates for the translation of overseas Group companies' business results into Japanese yen for FY 2019 is set at US$1.00 = ¥105 and 1€ = ¥130 with regard to our FY2019 plans for investments as well as depreciation and amortization.

・The impact of foreign exchange sensitivity on operating income in the case of U.S. Dollars was ¥2,400 million in Yen fluctuation of 1Yen/$, and in Euros was ¥300 million in Yen fluctuation of 1 Yen/€.

・Breakdown of Capital Expenditures in FY 2018 by Business Segments:

PVC Chlor-Alkali Business (¥63.6 billion), mainly for the construction of Shintech's ethylene plant in the U.S.

Silicones Business (¥29.1 billion) of which nearly half was for overseas investments.

Specialty Chemicals Business (¥7.0 billion), Semiconductor Silicon Business (¥51.5 billion), Electronics & Functional Materials Business (¥20.2 billion) and Processing, Trading & Specialized Services Business (¥5.0 billion).

・Breakdown of Depreciation and Amortization for FY 2018 by Business Segments:

PVC/Chlor-Alkali Business (¥32.9 billion), Silicones Business (¥12.2 billion), Semiconductor Silicon Business (¥32.4 billion – an increase of about ¥12.0 billion, compared to that of the previous fiscal year, which was due to an increase in this fiscal year's capital expenditures), Specialty Chemicals Business (¥10.1 billion), Electronics & Functional Materials Business (¥20.1 billion – an increase of ¥3.0 billion, compared to that of the previous fiscal year, which was due to an increase over the previous fiscal term's capital expenditures), and Processing, Trading & Specialized Services Business (¥4.3 billion).

・Comparison of Consolidated Statements of Income:

Selling, general and administrative expenses were ¥141.6 billion, an increase of ¥11.3 billion compared to that of the previous fiscal year, which was mainly due to the increase in transportation costs following an increase in sales volume.

Total income taxes were ¥70.2 billion. There was a reduction in taxes as a result of the tax revaluation due to the new U.S. tax reform legislation, and on the surface the effective tax rate for pre-tax income was 20.6%. When this temporary factor is excluded, the effective tax rate rises to 29.4%.

After the 2019 fiscal year ends in March, provided that the new U.S. tax reform legislation continues in effect without changes, the effective tax rate is expected to be at the level of 26%, based on the profit structure of the Fiscal Year Ended on March 2018.

・Comparison of Consolidated Balance Sheets:

Compared to the end of the previous fiscal year, the effect of foreign exchange fluctuations when translating the consolidated income statements of overseas Group companies was that the U.S. Dollar moved in the direction of yen

appreciation and the Euro moved in the direction of a weakening of the yen. Accordingly, plus and minus factors are combined in these data results.

Notes and accounts receivable-trade (¥332.8 billion) saw an increase of ¥42.7 billion due to the increase in sales.

Total property, plant and equipment amounted to ¥899.7 billion, an increase of ¥57.1 billion because the construction-in-progress account increased by about ¥34.0 billion. Shintech's ethylene plant construction cost was the main contributing factor.

Current Liabilities others was ¥179.8 billion, an increase of ¥31.6 billion compared to the previous fiscal year, which was mainly due to an increases in accounts payable and notes for construction work.

Q-and-A Session

PVC/Chlor-Alkali Business

Q	What factors account for the great increase in profit in 4Q in the PVC/Chlor-Alkali Business?
A	During 2017, in every quarter, the price "spread" improved. With regard to demand in each region, although there was strength and weakness depending on the time period, in general the spread increased.
Q	What are your thoughts about the plan for the PVC facility expansion in the U.S.?
A	We are expecting the construction permits to be issued shortly. With regard to the size and construction period for the capacity expansion, we will make an announcement on another occasion. Taking into account the demand for and supply of caustic soda, expansion of electrolysis is also under consideration.
Q	How is the progress going of the ethylene plant construction in the U.S.?
A	Construction is progressing steadily, and at present, completion is scheduled for the end of 2018.
Q	What is the situation regarding PVC and caustic soda demand and supply for the year in 2018?

A	Currently, sales are going well. At Shintech, during the January – March 2018 quarter, operations were temporarily affected by a cold wave, and production volume somewhat declined. However, with the implementation of a price increase, sales during the January – March 2018 quarter exceeded that of the January – March 2017 quarter. Product sales for May 2018 are also completed, and we expect sales to be fine during the first half of the fiscal year. As far as what we are hearing from customers, the outlook for the rest of the year seems to be fine. Caustic soda sales continue to be firm.

Semiconductor Silicon Business

Q	What is the picture with regard to the amount of capital expenditure to be made for the Semiconductor Silicon Business?
A	The amount of capital expenditure for the Semiconductor Silicon Business in FY 2018 was ¥51.5 billion. In addition to our annual basic investment plans, we plan to work hard to implement the four following crucial points: (1) Responding to the demand for high-quality wafers, mainly for 300mm wafers (2) Making preparations for the timely step-by-step expansion of 300mm facilities (including the renovation of buildings, renewal of equipment, comprehensive utility maintenance, etc.) (3) Responding to the need to pursue the de-bottlenecking of production capacity the improvement in yield (4) Developing 200mm wafers for applications in the coming innovative high-speed communication devices and energy-saving devices that are expected to increase in the future. In FY 2019, we expect about a 30% increase in capital expenditure over that of the previous fiscal year.
Q	What is the demand and supply situation with regard to silicon wafers?
A	・(300mm): Memory continued to do well. With regard to logic devices, due to some adjustment, partly for the smartphone-related business, among device makers there were both strong areas and weak ones. However, users' wafer inventories are low, and there is no big change in the situation. As for

	the business as a whole, we expect demand and supply to be tightening. ・(200mm):The business has been continuing to do well for more than two years since the October-December 2015 quarter bottom. IoT, electric automobiles and industrial robots, etc. are driving demand. We expect all wafer makers will continue full operations. ・(150mm or below) In the 2017 calendar year, for those wafers of diameters 150mm or below, the rate of volume growth surpassed 10%, and among all wafer diameters, it had the largest increase in volume. We believe this was due to such factors as devices that cannot be made using 200mm wafers were covered by wafers of 150mm or below and also the manufacturing operations of makers who handle discrete chips increased.
Q	What are your views about the mid- and long-term future of silicon wafers?
A	There are some views that the semiconductor business has entered into a super-cycle. About ten years ago, the demand for wafers was centered mainly around PCs; however, since about 5-6 years ago, sales of smartphones have increased greatly and currently smartphones are the main devices powering sales. Most recently, however, the demand structure is changing. The structure is now becoming one that is not swayed by specific sets, such as IoT, systems utilizing AI, automobiles with highly advanced functions, and the development of robotics to meet needs created by labor shortages. We need to watch closely the future trends in these new industries as they are affected by trends in the macro economy and various countries' policies and by the occurrence of initial demand. In addition, going forward, various new innovative systems using memories are beginning to be created. Furthermore, construction of data centers where gigantic amounts of memory are used is currently vigorously being carried out. Memory is broadly classified into DRAM and NAND; however, it is necessary to closely watch the trend in the miniaturization process for DRAM as well as the development of 3D NAND and issues about yield.
Q	What is the situation with regard to the price of wafers?

A	As regards our company, if based on the price prior to the price correction to more normal levels in the 2016 October – December quarter, in the 2017 October – December quarter there was about an average 20% increase in the semiconductor silicon wafer business as a whole. The increase was greatest in 300mm wafers where price negotiations had begun from early in 2017, and then price negotiations had begun for 200mm wafers beginning from the early spring. With regard to 150mm wafers, we began negotiations from the early fall. As regards the quarter from October-December 2018, because of future negotiations as well as movements in foreign exchange we cannot predict these matters with absolute confidence, but we do expect to see a 30-40% increase, compared to the October–December 2016 quarter. As regards the rate of a price increase, contracts in 2018 are varied depending on particular companies and clients, and although we cannot state it with complete confidence, we believe that on the whole the rate of price increases in FY 2018 will be in a slightly gradual upward trajectory, compared to the situation in FY 2017. The price for 2020 is not yet clearly predictable. However, in the case of making investment in greenfields, the rate of price increases will be greater.
Q	What is the situation with regard to long-term contracts from 2018 to 2020?
A	The ratio of 300mm contracts is more than 90% in 2018-2019. The ratio of contracts in 2020 is at this point in time estimated to be over 60%.
Q	Are there plans for production capacity expansion in the wafer industry?
A	Wafer-related production equipment has a long delivery time, and even if we order now, the contribution to production will likely be from the latter half of 2020. The impact from our existing successive expansions will be reflected in the market from the early fall of this year. .
Q	What is the production capacity of 300mm wafers in the semiconductor silicon wafer industry?

A	We believe that each company is working on making improvements in productivity, and as a result, we believe that production capacity will increase gradually.
Q	What is Shin-Etsu’s thinking with regard to market share?
A	We believe that market share is not the goal, but it is the result.
Q	What can you tell us about the demand trend of wafers for logic devices?
A	We understand that one of the factors behind the current logic device adjustment is the question of the pattern of demand for smartphones. We are hearing that logic devices for mining of crypto-currencies are currently doing well; however, we are not sure about the future of this new business field. Nevertheless, with regard to blockchain technologies, there are expectations for many other new, useful applications.

Electronics & Functional Materials Business

Q	What factors explain the firm 4Q business results in the Electronics & Functional Materials Business?
A	Underpinning these results was the fact that semiconductor materials were stable and sales of rare earth magnets increased, mainly for onboard automobile applications.

Entire Company

Q	What was the thinking behind the decision to cancel Shin-Etsu’s owned treasury shares?
A	We had thought to allot the owned shares that we hold according to the contents of M&A. However, considering the level of our presently owned cash, the necessity to maintain these shares became less compelling, and accordingly we decided on their cancellation.
Q	What is the company’s policy regarding future returns to stockholders?
A	We recognize that carrying out share buybacks is an option; however, at this point in time, we do not plan to pursue this path. Our basic idea is that by

	means of offering a stable dividend, we would like to continue our efforts to return cash payments to stockholders.