

## Message from the President

# Advancing Our Performance

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I would like to begin by expressing my sincere appreciation to our stockholders for their support and understanding.

Shunzo Mori  
President

With regard to global activity, the economy continued to recover slowly in the U.S. Economic growth slowed in emerging countries of Asia and other regions. The European economy remained generally flat due to the impact of financial problems. In Japan, the economy staged a recovery due to rebounds in exports with the weaker yen, supported by increased consumer spending. Falling unemployment also contributed to this upturn.

At the Shin-Etsu Group, there were extensive sales activities targeting a broad spectrum of customers worldwide. Also, we concentrated on upgrading our technologies and the quality of our existing products in addition to developing new ones. Other priorities included the expansion of production capacity, the geographic disperse of manufacturing bases and the securement of stable supplies of raw materials. All of these activities were aimed at building an even stronger foundation for our business operations.

These measures resulted in growth in sales and earnings. Compared with the previous fiscal year, net sales for fiscal 2014 increased 13.7% to ¥1,165,819

million. Operating income increased 10.7% to ¥173,809 million from the previous fiscal year. Ordinary income also increased 6.1% to ¥180,605 million over the previous fiscal year. Our equity ratio remained high at 81%.

Business segment performance was as follows:

In the PVC/Chlor-Alkali business, shipments by our U.S. subsidiary, Shintech, were consistently high due to increased sales to customers in the United States and elsewhere around the world. Capacity utilization at our integrated production facilities, which start with raw materials, was high as well. As a result, this segment achieved record-high net income for the second consecutive year, making a significant contribution to the growth of consolidated earnings.

In the Silicones business, there were strong sales in Japan for value-added silicone products used in the automobiles and cosmetics fields. Outside Japan, functional products sold in Europe and the U.S. and general-purpose products sold in China all performed well.

Performance in the Semiconductor Silicon business was strong overall despite the effects of a seasonal decline in the production of some finished products. The PC sector was sluggish but there was solid demand for semiconductor devices used in portable products such as smartphones and tablets as well as in automotive electronics. Segment income increased along with measures to maintain a stable supply of medium and high-grade wafers for customers while continuing to develop advanced products and raise productivity.

In the Electronics & Functional Materials business, sales of rare earth magnets for hybrid and other automobiles were strong. The performance in this segment also benefited from brisk sales of photoresist products and photomask blanks in tandem with progress in semiconductor device miniaturization.

The gradual recovery of the global economy is expected to continue, but there are concerns about the effects of financial problems in Europe and the outlook for countries with emerging economies is uncertain. Furthermore, despite expectations for a continuation of Japan's economic recovery, the outlook is unclear because of factors such as the increase in taxes and the possibility of an economic downturn overseas.

The Shin-Etsu Group will continue to conduct aggressive sales activities that reflect current conditions in the global markets and accurately target markets where demand is growing. Building manufacturing plants in the best locations and expanding current production facilities are two more ongoing measures. By taking these actions, we plan to enlarge our global operations even faster. There will also be more initiatives to improve

productivity and product quality. Developing products that have special characteristics and maintaining a stable supply of raw materials are two more objectives. We plan to use all of these measures to build a solid foundation of business operations for the entire Group.

For our business activities, our central management objective is to operate with fairness, in strict compliance with laws and regulations, while always placing safety first. We have a rigorous system of internal controls, and in addition, outside directors and outside audit & supervisory board members oversee management from an independent standpoint. We are determined to use measures like these to further heighten the soundness and transparency of the Shin-Etsu Group's management.

The Shin-Etsu Group will make every effort to meet the expectations of stockholders through growth in corporate value by developing new materials and technologies to contribute to progress in our lives, industry and society.

Sincerely yours,



Shunzo Mori  
President

# Review of Operations

## PVC/Chlor-Alkali Business



### Polyvinyl chloride (PVC)

#### Business Profile

PVC is a general-purpose resin that is easy to process, environmentally friendly, easy to recycle and highly durable, and has other valuable properties. This material is used to make products that are vital to people's lives, including infrastructure such as water and sewage pipes and also housing, construction materials and household products.

The Shin-Etsu Group started PVC operations outside Japan in 1960, and now we have manufacturing bases in the U.S. and Europe as well as Japan. Today, we are the world's largest PVC manufacturer with an annual production capacity of 3.83 million tons. Demand for PVC is increasing worldwide. In emerging countries, demand is growing for use in infrastructure projects. In developed countries, rising interest in energy conservation is supporting the growing use of PVC window frames. In this manner, PVC demand is expanding globally.



Polyvinyl Chloride

#### Major Product and Applications

- PVC
  - PVC pipes
  - Infrastructure
  - Films and sheets
  - Electrical wire covering

# Silicones Business



## Silicones

### Business Profile

Silicone is a highly functional material that has many kinds of characteristics and various physical forms, such as an oil, resin or rubber. Moreover, it is possible to add new functions to silicone's inherent properties as well as create combinations with the properties of other materials to achieve new degrees of functionality.

The Shin-Etsu Group constantly develops new products and technologies with know-how accumulated over 60 years. Currently, we supply more than 5,000 types of silicone products. Markets are diverse, including home appliances, automobiles, cosmetics, health care and housing. This diversity provides a sound base for consistent earnings.



Silicone oil

### Major Product and Applications

- Silicones
  - Electric and electronics products
  - Cosmetics and toiletries
  - Automobiles
  - Construction and civil engineering

# Review of Operations

## Specialty Chemicals Business



### Cellulose derivatives

#### Business Profile

Cellulose derivatives are made from wood pulp and are a nature-friendly material used in a broad spectrum of applications. They are used in pharmaceutical coatings and binders for tablets and granules, which require an extremely high level of safety. They are also used in automotive parts, and construction and civil engineering materials. The Shin-Etsu Group is Japan's largest supplier of cellulose derivatives.

Synthetic pheromones are a revolutionary product for controlling harmful insects in a manner that is environmentally responsible. This segment also includes the manufacture of silicon metal, the primary raw material for semiconductor silicon, silicone and synthetic quartz, all of which are major products of the Shin-Etsu Group.



Cellulose derivatives powder

#### Major Product and Applications

- Cellulose derivatives
  - Pharmaceuticals
  - Construction and civil engineering
  - Industrial applications

# Semiconductor Silicon Business



## Semiconductor silicon

### Business Profile

Silicon wafers are essential for the production of semiconductor devices, which are used in products such as PCs, mobile phones, digital home appliances and automotive electronics. High integration and advanced performance of these devices have made the miniaturization of electronic products possible, and led to the development of innovative products like tablet PCs and smartphones.

The Shin-Etsu Group is the world's foremost supplier of semiconductor silicon with multiple production sites in Japan, Malaysia, Taiwan, the U.S. and the U.K. We have supported the evolution of semiconductor devices for decades through the supply of large diameter wafers and ultra-flat wafers. We produce 300mm wafers, the most widely used size today, at four locations in Japan and the U.S., and maintain a stable supply of high-quality wafers for our customers worldwide.



Single crystal silicon ingot and wafers

### Major Product and Applications

- Silicon wafers
  - Information and communication equipment (including PCs and mobile phones)
  - Home appliances (including digital cameras and televisions)

# Review of Operations

## Electronics & Functional Materials Business



### Rare earth magnets

#### Business Profile

This business provides many types of products to a wide range of industries. Rare earth magnets are used in the motors of automobiles, home appliances and hard disk drives for PCs. For synthetic quartz products, major applications include preforms for optical fiber and large photomask substrates for LCD panels. Also, we supply LED packaging materials that meet the numerous requirements of high brightness LEDs. Sales of LEDs are expected to grow, driven by their energy efficiency. In addition, we have merchandised photoresists for excimer lasers as a photosensitive material used for etching semiconductor circuitry, and our photoresists hold the top share in global markets. Also, we have developed photomask blanks and pellicles, which are essential for the semiconductor lithography process, and the liquid fluoroelastomer SHIN-ETSU SIFEL®.



Rare earth magnets

#### Major Products and Applications

- Rare earth magnets  
Motors (automobiles, home appliances, factory automation, hard disk drives)
- Photoresists  
Semiconductor device production processes

# Diversified Business

## Business Profile

Shin-Etsu Polymer Co. Ltd., manufactures semiconductor-related containers, input devices for electronic products, construction materials, and other processed plastic products. Shin-Etsu Engineering Co., Ltd. plays a key role in expanding and automating capital investment projects of the Shin-Etsu Group, and making other improvements. Shin-Etsu Engineering also receives a large volume of orders from companies outside the Group.



Switch device for power window

### Major Applications

- Shin-Etsu Polymer:
  - Electric and Electronic Equipment
  - Automotive
  - Semiconductor-related Containers
  - Medical and Chemical Packaging Materials
  - Construction Materials

## Progress of Overseas Capital Investments

