

Message from the Chairman



In fiscal 2015, the Shin-Etsu Group was faced with an uncertain economic environment. We were steadfast in addressing the various issues that impacted us, and achieved a 13% increase in net income—the Shin-Etsu Group's fifth consecutive year of earnings growth. In reporting these results to our stockholders, we would like to express our deepest appreciation for their continued support and understanding.

Strengthening Existing Businesses

My management target for the Shin-Etsu Group is to increase corporate value through stable growth.

In order to achieve such stable growth amid constantly changing economic conditions, we are further strengthening our existing core businesses on which we base our earnings. At the same time, we are working to develop promising new core businesses.

The current top three core businesses of the Shin-Etsu Group are polyvinyl chloride (PVC), semiconductor silicon, and silicones. The next two substantial contributors to earnings are the electronics and functional materials business and the specialty chemical business.

Looking back on the past five years, Shintech Inc., our wholly owned Group company in the U.S. that manufactures and sells PVC, has performed extremely well. Shintech attained record profits in fiscal 2014 and contributed substantially to the Group's performance. In fiscal 2015, it posted the largest profits among all the Shin-Etsu Group companies. In contrast, our semiconductor silicon business has continued to face with a difficult business environment during the same period. Nevertheless, despite having very little room to maneuver, the business has regularly earned the biggest profit in the industry. It has done so through persistent sales efforts and constant rationalization measures. These examples show that the Shin-Etsu Group's diverse business portfolio is the key to its stable growth. It covers a range of different markets, customers, and product characteristics. When one of our businesses experiences difficulties, the impact is offset by our other businesses, so the Shin-Etsu Group as a whole continues growing.

To expand an existing business, first, it is important to boost the operating rates of production facilities to the limit based on our sales and marketing force. Then, when it becomes likely that demand is going to exceed production capacity, rapidly deciding on and initiating capital investments to expand capacity is essential to expanding the business. Shintech is a good example of these measures in action—it has repeatedly implemented this cycle and continued to grow.

Shintech began operations in 1974 with annual production capacity of 100,000 tons of PVC. Over the following 40 years, it has completed 12 major capital investments and is currently expanding production facilities for the 13th time. When this ongoing plant expansion is finished, Shintech will have an annual PVC production capacity of 2.95 million tons, approximately 30 times its original capacity. Shintech has achieved tremendous growth along with expanding its sales channels worldwide. It is constantly selling out the capacities and steadily increasing profits from all of the capital investments.

In April 2015, along with the ongoing investment to increase PVC production capacity, Shintech made a decision to invest in the construction of a U.S. plant to produce ethylene, one of the key raw materials for its PVC production. This large-scale capital investment will total \$1.4 billion.

The Shin-Etsu Group is also strengthening other existing businesses. It is endeavoring to develop its global operations for the silicones and electronics & functional materials businesses. Going forward, the Shin-Etsu Group is committed to further strengthening and growing its existing businesses.

Fostering New Core Business

To achieve stable growth, it is also necessary to foster new core businesses for the future. The Shin-Etsu Group pursues R&D programs to achieve that objective. Research activities are focused on "domain research," which involves expanding existing businesses, and "mission research" for generating new businesses.

Domain research concentrates on improving the functionality of products and developing new applications. Silicones are a good example of success. With marketing, research, and production operations working together in unison, the silicones business has consistently developed new products that meet customer needs. As a result, the silicones business has grown and captured a large share of the domestic market.

In mission research, we are working on developing

products and technologies for next generation needs. We apply our technologies and knowledge by conducting original research.

Photoresists are representative of products generated by mission research. Also, our liquid fluoroelastomer, with its extremely superior features, and our state-of-the-art photomask blanks were also developed through mission research. We will continue it with a focus on development to match the Shin-Etsu Group's products and technologies with society's needs.

Sound Finance Underpins Growth

I believe that business growth and sound finance are like two sides of the same coin. Without a sound approach to finance, it is impossible to make the large-scale capital investments that drive growth.

For example, Shintech has made large-scale capital investments, and applied the generated profits to its next round of investments. To survive amid the extremely severe competition in the global PVC industry, it is imperative to make investments the instant that market conditions change. Therefore, Shintech's investments for growth and the strong financial position that enables those investments function together to assure stable growth. The same is true for our semiconductor silicon business. To achieve growth amid the rapid changes in market conditions in this business, it is essential to immediately recognize movement in demand and make the large-scale investments required.

If there are good business acquisition opportunities, we will pursue them to facilitate our growth and broaden our earning bases.

As a matter of fact, we worked on such opportunities recently although they did not materialize.

Global affairs continue to be unpredictable. The 2007 global financial crisis, the 2008 surge in oil prices, and rapid fluctuations in foreign exchange rates remain fresh in our minds. We can also add serious geopolitical risks throughout the world. In the face of these circumstances, to ensure the viability of operations well into the future, a company must develop the capacity to overcome crises.

To do that, a company has to have a solid financial structure. Looking at the past examples of Shintech and our semiconductor silicon business, we made timely future-oriented capital investments. When economic conditions are poor or financial markets are depressed, the company still must make investments for future growth and deliver the expected results if necessary.

To continue to grow in extremely competitive markets, it is essential to make investments speedily when opportunities present themselves. This is the principle that I learned from my experience in developing global business operations and managing companies overseas. To further enhance our global competitiveness and expand businesses, we will

continue to aggressively invest capital in our businesses.

At the same time, I place great importance on stably returning to stockholders the results of management efforts in the form of a dividend. For example, even following the global financial crisis in 2008, we did not reduce dividends. In fact, we increased dividends in the following fiscal year. Going forward, while concentrating on our main objective of increasing corporate value, the Shin-Etsu Group will continue to provide solid returns to its stockholders.

Sound Business Management

Conducting fair business practices in thorough compliance with laws is of utmost importance. We have been concentrating our efforts on strengthening corporate governance from an early stage in our operations. The most important element in corporate governance is for managers and employees alike to behave with self-discipline and be confident and unwavering in doing the right thing.

I also believe it is important to have management input from outside the Shin-Etsu Group—people who can contribute to management from an independent standpoint and from the perspective of stockholders. During the 1980s, former CEO of The Dow Chemical Company Ben Branch was a member of Shintech's Board of Directors. Similarly, Shin-Etsu Chemical invited Frank Peter Popoff, former Chairman of The Dow Chemical Company, to the Board as an outside director in 2001. Since then, we have steadily added outside directors and currently have five prominent outside directors participating in the management of the Shin-Etsu Group. The frank opinions of leaders of several sectors of society on our management policies and actions have assisted us in effectively managing the Shin-Etsu Group.

The ideas and principles I have expressed in this message have guided me in managing the Shin-Etsu Group. As we move forward, I expect there will be more situations where we find ourselves facing adverse headwinds. However, undaunted, even in a severe management environment, going forward, the Shin-Etsu Group will continue to endeavor to overcome the issues we may face and work to increase its corporate value.

As we strive to meet the challenges of the future, we would like to ask for your continued support and understanding.



Chihiro Kanagawa
Chairman