

Management Message

We will strive to be the best in class in technology, quality and safety to continue to enhance our global business.

Chihiro Kanagawa

Chairman



As I am writing this message to you, thinking of the economies and markets around us, as you may agree, we are in a volatile world that only favors the best in class. Our company has had earnings growth year after year since the fiscal year ended March 2011. We reported the sixth consecutive year of earnings growth for the fiscal year ended March 2016. As we challenge ourselves to continue this path, I must say it will not be easy. It is this recognition that will drive us forward.

We will strive to be the best in class in all aspects of our business, including technology, manufacturing costs, quality, supply reliability, safety and sustainability. Throughout this report, we will discuss what we have been doing and intend to do in these areas.

Let's take our flagship PVC operation, Shintech, for example. PVC is one of three major thermal plastics used in various applications, the majority of which is for infrastructure building. The worldwide demand is around 40 million tons per year at the moment. As such, PVC falls into the category of a commodity.

It is true that the business is prone to changes in the global economy, but Shintech and Shin-Etsu PVC operations on the whole are the No. 1 player in the industry in terms of size and profitability. With its very large reactor polymerization technologies, major capital investments we have made since 2000 and continued rejuvenation capital expenditures, Shintech's facilities are the newest and most efficient in the world. Our dedicated employees are running them and serving customers' needs all over the world.

Shintech has just recently completed part of its planned capacity expansion. It is also moving forward with the construction of an ethylene plant to strengthen its supply chain. There are few capacity expansions being announced in the world. We are well positioned in the PVC market.

Shin-Etsu's other businesses are doing what each one of them finds necessary to be and remain the best in class to sustain viability and growth. We ask for your ongoing support as the Group continues to strengthen business globally going forward.

Greetings from the President

My name is Yasuhiko Saitoh, and I assumed the position of president on June 29, 2016.

Since my assignment to Shintech in the United States in 1983, I have worked for Chairman Kanagawa for more than 30 years. My mission is to continue and further strengthen the advances made by Chairman Kanagawa and former president Mori. I will strive for ongoing stable growth.

Profile

Yasuhiko Saitoh. Joined Shin-Etsu Chemical Co., Ltd., in 1978. Appointed as director in June 2001. In addition to positions in the Office of the President, Public Relations, Finance and Accounting, Legal Affairs and General Manager of the International Division, he served as the vice president of Shin-Etsu Handotai, director of Shin-Etsu PVC and president of Shin-Etsu Handotai America. He has concurrently served as president of Shintech since 2011.

Yasuhiko Saitoh

President

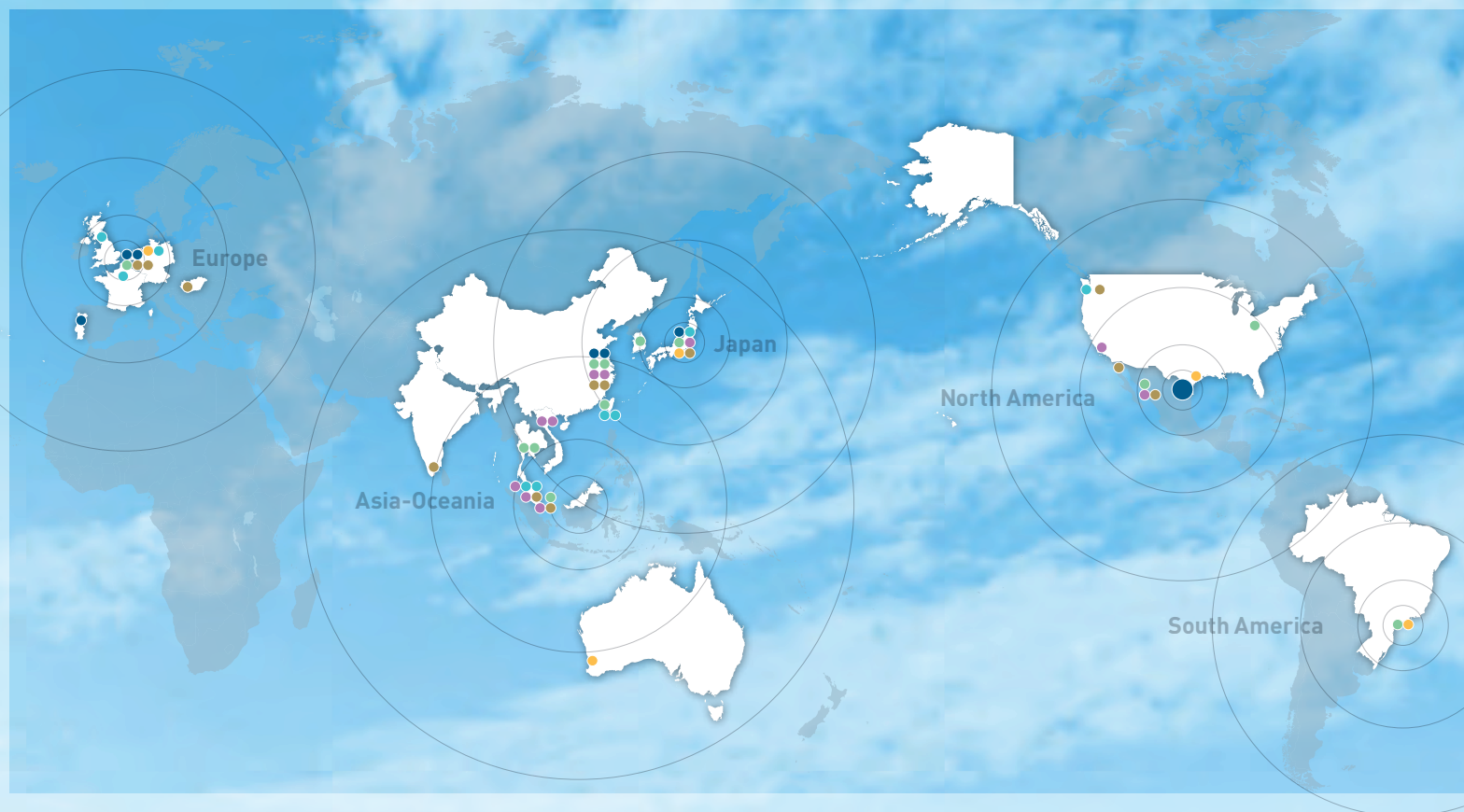


WORLDWIDE NETWORK

Developing global manufacturing and sales bases to establish optimal positioning in terms of market scale and growth.

Production and Sales Bases by Business Segment

- PVC/Chlor-Alkali Business
- Semiconductor Silicon Business
- Silicones Business
- Electronics and Functional Materials Business
- Specialty Chemicals Business
- Diversified Business



Striving to further enhance corporate value as a first step toward our 100th anniversary in 10 years.

Shunzo Mori

Director-Advisor
Former President



Conditions this Fiscal Year

In the fiscal year under review, despite ongoing economic recovery in the United States, the global economy was affected by weak economic expansion in Europe and signs of an economic slowdown in emerging countries in Asia and elsewhere. In Japan, amid improving employment conditions, personal consumption remained firm and capital investment returned as the economy drifted toward a gradual recovery.

In this environment, the Group aggressively engaged in sales activities targeting a wide range of customers throughout the world and worked diligently to advance technologies, improve quality and develop distinctive products. We also focused efforts on rapidly developing the strategic capabilities of our new overseas plant, upgrading manufacturing plants in Japan and overseas, and ensuring the stable procurement of raw materials with the aim of creating a firm business foundation.

As a result, net sales increased 1.9% compared with the previous fiscal year to ¥1,279.8 billion. Operating income advanced 12.5% to ¥208.5 billion, ordinary income rose 11.1% to ¥220.0 billion and net income improved 15.7% to ¥148.8 billion.

Business Segments

In the PVC/Chlor-Alkali Business, polyvinyl chloride (PVC) demand in North America declined 2% year on year throughout the entire industry. Shintech (U.S.) domestic sales grew and shipments were firm, driven by aggressive sales efforts targeting customers worldwide.

In the Semiconductor Silicon Business, a slowdown in demand for smartphones and other electronic devices had an impact on logic device inventory adjustments. However, demand for memory devices remained robust.

In the Silicones Business, shipments were firm in a wide range of areas, including cosmetics and automobiles in Japan. Overseas, highly functional products bound for Europe, the United States and Southeast Asia performed favorably.

In the Electronics and Functional Materials Business, rare earth magnets for eco-cars and photoresists such as ArF resist and trilayer resist material shipments were solid. Shipments of photomask blanks grew substantially. Shipments of LED packaging materials and preform for fiber optics were also robust.

In the Specialty Chemicals Business, shipments of cellulose derivatives for domestic pharmaceutical and construction material products, as well as paint products sold by SE Tylose GmbH (Germany), were firm.

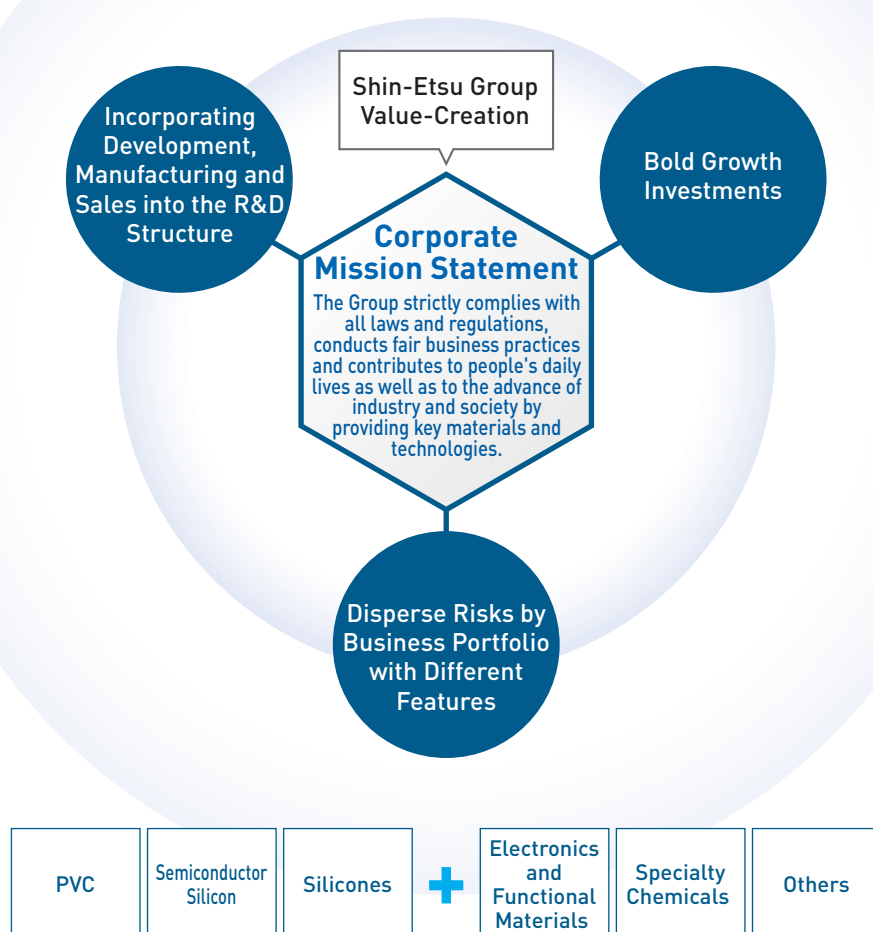
In the Diversified Business, shipments of Shin-Etsu Polymer automotive input devices and semiconductor wafer-related containers were on track. Shin-Etsu Engineering's Engineering Business also performed well.

Transitioning from Three Core Businesses to an Integrated Business Structure

The Group's core businesses comprise polyvinyl chloride resins (PVC), semiconductor silicon and silicones. PVC represents the overwhelming majority in its market. Semiconductor silicon, although its prices are easily affected by market conditions the same as PVC, boasts the world's highest earning power through the mass production of next-generation products in advance of other companies, resulting in stable growth. Silicones, used in a wide range of applications and industries, provide stable earnings due to our focus on developing high-performance products that meet diverse customer needs.

In addition to these three core businesses, during the fiscal year under review, growth in the Specialty Chemicals Business comprising cellulose derivatives, as well as the Electronics and Functional Materials Business comprising rare earth magnets and photoresists, were robust due to higher sales and profit. In particular, we expect further growth in rare earth magnets, which are used in automobile and air-conditioner motors, as they are an indispensable element in applications including eco-cars and wind turbines, which contribute to reducing the environmental burden. Furthermore, there is significant growth in demand for materials such as the photoresists and photomask blanks used in the semiconductor manufacturing process in line with the miniaturization, multi-layering and three-dimensional mounting of semiconductor chips.

In addition to the three core businesses, we will continue to strengthen the foundation for new businesses and strive to expand them further.



Management Message

Aggressive Investment Focused on the Future

The Group engages in aggressive capital investment ahead of competitors in businesses expected to grow in the next 5–10 years and when there is the potential for mass production of new products based on a policy of “full production, full sales.”

Main Capital Investment Initiatives

Silicones Business

- Expanded facilities at each stage of prototype mass production from R&D in line with expanding demand for high-performance products in Japan (Gunma and Niigata prefectures)
- Expanded production capacity at silicon monomer and polymer plants in Thailand

Electronics and Functional Materials Business

- Established a plant for photoresist-related products in Taiwan
- Constructed a fiber optical preform plant through a joint venture with a Chinese company
- Constructed a photomask blanks plant in Japan (Fukui Prefecture)

Strengthening R&D

Along with aggressive investment, we are accelerating the R&D and commercialization of innovative new products incorporating new global needs to create future core businesses.

For instance, in the 1990s, we launched the R&D of photoresists. Despite being last to enter this market, our focus on cutting-edge products and the pursuit of quality resulted in securing a large share of the market, which continues to grow at present. It takes a long time for research to bear fruit, thus we are engaged in new R&D aimed at creating new businesses from a long-term perspective.

In addition to engaging in new research, we are focused on research aimed at strengthening existing businesses. Competition is intense among products vying for top market share. The top share can only be maintained through the ongoing development of cutting-edge products. In the Silicones Business, we are enhancing R&D through the addition of facilities at the Silicone-Electronics Materials Research Center and the newly built Technical Center in the United States. In the Semiconductor Silicon Business, we are enhancing competitiveness through R&D efforts focused on wafers for cutting-edge devices. As the Group handles a number of materials used in the semiconductor manufacturing process, one of our strengths lies in quickly ascertaining and incorporating the newest customer trends into R&D.

Bold Growth Investments

Shin-Etsu Chemical is engaged in aggressive investments aimed at strengthening existing businesses and cultivating new core businesses by creating integrated manufacturing systems and studying M&A to augment production capacity and ensure the stable procurement of raw materials.

Creating integrated manufacturing systems for the stable procurement of raw materials

Enhancing production capacity

R&D and M&A to strengthen our business foundation and achieve growth



New facility (left) at the Silicone-Electronics Materials Research Center (Gunma Prefecture)

Incorporating Development, Manufacturing and Sales into the R&D Structure

Shin-Etsu Chemical's R&D structure incorporates sales, development and manufacturing. We build research facilities alongside all our plants to realize our “full production, full sales” policy.

Domain research to improve product performance and develop applications

Mission research leveraging technologies and knowledge

Value Creation Ahead of Our 100th Anniversary

This year, Shin-Etsu Chemical celebrates 90 years since its founding. This year is also the first step toward our 100th anniversary in 10 years. We will strive to further enhance corporate value through a focus on three objectives: “to further enhance the selling capabilities of our sales force,” “to further develop our leading-edge technologies and innovate new products” and “to carry out ambitious capital investments.”

Looking back, during the past 90 years the Group has made tireless and repeated efforts to fulfill its social responsibilities. As indicated in our corporate mission statement, “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 providing key materials and technologies.” This is one of the foundations supporting our sustainable growth. To earn the trust of all our stakeholders, the Group established the eight points below as the cornerstone of all activities to identify medium- to long-term key CSR issues and ensure legal compliance and fair corporate activities.

Over the next 10 years, we will keep working on these issues with our strong development, manufacturing and sales structure. By developing human resources who can play an active role overseas, we will welcome the 100th anniversary as a more advanced company with an overseas sales ratio of more than 70%.

- **Health and safety for workers**
- **Energy-saving, resource-saving and the reduction of the environmental impact**
- **Product quality improvement and product safety control**
- **Promoting CSR procurement and the diversification of supply sources**
- **Respect for human rights, the development of human resources and the promotion of diversity**
- **Respect for and protection of intellectual property**
- **Contribution to industry and social initiatives**
- **Accurate and timely information disclosure and communication with stakeholders**

Profit-Sharing

Taking a long-term perspective, the Group will focus on expanding company earnings and strengthening the makeup of the Group’s structure, as well as on sharing the results of such successful management efforts. It is our basic policy to distribute dividends so as to appropriately reward all of our shareholders. With regard to our financial reserves, we are making efforts to heighten the value of the company by reinvesting them in such core business activities as facility investment and research and development, and we will proactively utilize them to strengthen Shin-Etsu’s global competitive power and future business development.

The Shin-Etsu Group will continue to grow. We sincerely appreciate the ongoing support of all our stakeholders.