

Chairman's Message

We Aim to Become Global No. 1 in All Our Businesses and Overcome Changes to Realize Sustainable Growth.

We understand the business environment is changing daily in an unpredictable world economy. In these circumstances, we keep moving forward and aim at higher targets. We closely monitor world market trends and address every issue flexibly.

We have posted earnings growth by making every effort to focus on potential business opportunities. As a result, in the fiscal year ended March 2017, all six business segments recorded profit increases and we attained the seventh consecutive year of operating income, ordinary income and net income growth.

As our basic policy is to properly return the fruit of our business results to the shareholders, we decided on a cash dividend of ¥120 per share for the fiscal year ended March 2017, which is a ¥10 increase from the previous year.

The Shin-Etsu Group's core businesses are polyvinyl chloride (PVC), semiconductor silicon and silicones. In addition, we focus on synthetic quartz, rare-earth magnets and cellulose derivatives, as well as newly developed products such as photoresists and photomask blanks. With this well-balanced business portfolio, we strive to develop technologies and make aggressive investments to differentiate our technologies, production costs, quality, stable supply and other aspects of our business activities. I will introduce our business overview and market competitiveness in this report.

While we make every effort to maximize corporate value, we believe profit growth is the most important management index. It is not easy to keep the business growing under volatile market conditions. However, we have succeeded by adhering to such basic policies as quick decision making, aggressive investments and the dispersion of risks. Pursuing the best quality products with the most competitive prices, we are strengthening our business structure to overcome the competition in the global market.



Shintech Inc., one of our subsidiaries in the United States, has implemented such principles. In 1974, Shintech got into the PVC manufacturing business late, but it has become the global No. 1 PVC maker. It carried out the aforementioned principles and continued the "full production and full sales" operation. Shintech constantly and greatly contributed to the Group's consolidated financial results generating high profits that account for one-third of the Group's consolidated ordinary income.

What brought Shintech success was a lean organization run by well-trained people and updated technology-oriented plant modification and enhancement. Mr. Ben Branch, a former President and CEO of Dow Chemical who assumed the position of Director with Shintech in 1980, praised Shintech as "restructured" from the very beginning. In 2015, Shintech completed the expansion of its integrated production processes for PVC from electrolysis to vinyl chloride monomer and PVC in Louisiana, which increased its annual PVC production capacity to 2.95 million tons, strengthening Shintech's position in the market. That is almost 30 times larger than its original production capacity in 1974. Shintech not only creates new job opportunities in the United States but also contributes to local communities in various ways to stably grow together with U.S. society.

In 2026, Shin-Etsu Chemical will celebrate its 100th anniversary. To welcome that milestone, we will strive to grow and strengthen our existing businesses and to develop new businesses to contribute to further growth.

We ask for your continuing support and understanding of our businesses.



C. Kanagawa
Chairman



President's Message

We Achieved Growth in Sales and Profit in All Segments in a Year When We Strengthened Our Foundation for Further Growth.



In the fiscal year ended March 2017 (FY2016), we grew sales by 4.4% over the previous fiscal year on a local currency basis, while we saw a 3.3% decline on a Japanese yen denominated basis. We produced and sold more volume throughout our operations, which certainly contributed to yet another double-digit increase in earnings. We increased operating income by 14.4% to ¥238.6 billion, income before income taxes and non-controlling interests by 10.1% to ¥242.1 billion and net income by 18.6% to ¥178.3 billion. Since FY2009, the cumulative growth in earnings was ¥115.1 billion on a pretax basis and ¥94.5 billion on a net income basis, which equates to a compound annual growth rate of 9.7% and 11.4%, respectively. We succeeded in raising ROIC by 2.6 percentage points to 14.0% and ROE by 1.0 percentage point to 8.5%. We are pleased to note that every business segment achieved earnings growth, which has strengthened our foundation for further growth. Comparing the earnings with those in FY2007, when we had record earnings, we recovered 80% of that level. We are executing and planning various initiatives and controlling what we can to reach and exceed the record earnings. I refer you to the segmental earnings again compared with FY2007.

(Billions of yen)

| Business Segment | FY2016 | FY2007-Historic High |
|---|--------|----------------------|
| PVC/Chlor-Alkali Business | 53.1 | 33.9 |
| Semiconductor Silicon Business | 55.9 | 141.3 |
| Silicones Business | 42.5 | 37.4 |
| Electronics and Functional Materials Business | 55.2 | 40.7 |
| Specialty Chemicals Business | 22.2 | 17.4 |
| Processing, Trading & Specialized Services Business | 9.5 | 16.6 |
| Total | 238.6 | 287.1 |

*Segment categories were changed in the fiscal year ended March 31, 2011. Amounts in the fiscal year ended March 31, 2008, were reclassified to conform to current segment categories.

As you can see, we now have a far more balanced earnings profile than before and will propel earnings further.

We have been busy running all our plants worldwide. We do so with a strong commitment to safety and quality. Our group has 19,000 motivated and dedicated people working day in and day out to deliver on our commitments. We invest in our employees through various training programs and career development opportunities.

Aggressive Growth Investments

Our capital initiatives continue:

1 Major Capital Investments Completed in FY2016

PVC/Chlor-Alkali Business

In the United States (Louisiana), we invested \$500 million to increase the production capacity of PVC and PVC raw materials plants completed in Dec 2016.

Annual production capacity was expanded by 300,000 tons of PVC, 300,000 tons of vinyl chloride monomer and 200,000 tons of caustic soda. After the expansion, Shintech's combined annual production capacity at the Louisiana and Texas plants was 2.95 million tons.

Electronics and Functional Materials Business

In China (Hubei Province), we invested ¥12.5 billion to construct a new optical fiber preform plant completed in December 2016.

To capture expanding demand for optical fiber in China, our preforms manufacturing business entered into a joint venture with YOFC, China's largest optical fiber and fiber-optic cable company.

In Japan (Fukui Prefecture), we invested ¥7.0 billion to construct a new photomask blanks plant completed in the autumn of 2016.

This investment increased annual production capacity by approximately 20%. In addition to meeting rising demand for photomask blanks due to increased semiconductor device production and advances in miniaturization, the establishment of multiple production bases contributes to stable supplies.

2 Major Capital Investments Underway



Shintech Plaquemine plant (Louisiana, U.S.A.)

PVC/Chlor-Alkali Business

In the United States (Louisiana), we are investing \$1.4 billion for the construction of a manufacturing plant for ethylene, one of the major raw materials of PVC. The plant is scheduled for completion in mid-2018.

The annual production capacity will be 500,000 tons. This investment will strengthen the stable procurement of major raw materials and further strengthen the integrated production system starting from raw materials.

Silicones Business

In Thailand (Rayong Province), we are investing ¥20.0 billion to enhance silicone plant production capacity, scheduled for completion by 2018.

We are increasing silicone monomer production capacity by 50% in Thailand, from 70,000 tons to 105,000 tons annually. At the same time, we are increasing silicone polymer production capacity by 40% in Thailand, from 54,000 tons to 74,000 tons annually.

Aggressive Growth Investments

2 Major Capital Investments Underway (Continued)



Shin-Etsu Magnetic Materials Vietnam (Haiphong City)

Silicones Business

In Japan, (Gunma and Niigata Prefectures), we are investing ¥20.0 billion to enhance the production capacity of high-performance silicone products, scheduled for completion by March 2018.

Expanding facilities at all levels, from R&D and prototyping to mass production, to meet rising global demand for high-performance silicone products.

Electronics and Functional Materials Business

In Taiwan, we are investing ¥13.0 billion to construct a new photoresist-related products plant, scheduled for completion in the autumn of 2018.

In addition to meeting rising demand for photoresists due to increased semiconductor device production and advances in miniaturization, the establishment of multiple production bases will contribute to stable supplies.

In Vietnam (Haiphong), we are investing ¥5.0 billion to expand a rare earth magnet plant, scheduled for completion in mid-2018.

The second phase of construction at this plant constructed in 2015 will double annual production capacity from 1,100 tons to 2,200 tons, expanding integrated production from raw material refining to molding and sintering.

3 Major Investment Decisions Made in FY2016



Photomask blanks plant (Fukui Prefecture, Japan)

Silicones Business

In Japan (Niigata Prefecture), we will invest ¥2.3 billion to construct a new functional silane plant, scheduled for completion in March 2018.

We will construct a plant for the production of small quantities of functional silanes in response to increased demand for resin-modifying silanes and silane coupling agents.

Processing, Trading & Specialized Services Business

At the Shin-Etsu Polymer Itoigawa plant (Niigata Prefecture), we will invest ¥3.4 billion to expand production capacity for wafer cases, scheduled for completion in the autumn of 2018.

This investment will ensure a more stable supply system in preparation for increased demand for wafer cases.

Our Technical and Engineering Expertise as Backbone of Our Operation

To further raise the competitiveness in the global market, the "G Committee," chaired by Vice Chairman Akiya, has been carrying out various initiatives to improve operation safety and product quality, enhance productivity and reduce production costs.

Let me share our engineering *modus operandi*:

- To maintain the status quo is to rest on our laurels over the legacy of the past.
- Engineers engage in improving problematic issues by accurately understanding phenomena, following rules and principles and learning from past examples in addition to using the latest information technologies.
- It is important to engage in improvements knowing the risks involved in changing processes and exploring the merits and demerits of change.
- Enhance your skills as an engineer through the repetition of these actions to become professional engineers.
- There is no end to rationalization.

The activity goes beyond improving productivity and we work on energy and natural resources conservation and waste elimination as well. Through such engagement, we will continue to lessen the environmental impact.

Strong Research and Development Initiatives

Our research-and-development activities are on the rise. We invested ¥49.0 billion, or 4.0% of yearly sales, and 2,022 patents were granted in the fiscal year ended March 2017. Our researchers are eager to devise solutions for customers and industries.

For this great company to continue to do what it has been able to do for our customers, our shareholders and the communities we are in, the company will have to grow. We are working on various initiatives to broaden our business portfolio and expand our footprint. We will remain focused on our customers and their needs to be relevant to them, committed to governance to be relevant to our shareholders and responsible to be relevant to our communities.

I sincerely thank our shareholders for your confidence, our customers for their partnership and our Shin-Etsu team for their dedication to our operations.



President