

President's Message

Meeting Customer Needs with Sincerity Enabled the Achievement of Record Profit. Going Forward, We Will Continue Contributing to Social Development Through Improvements and Innovation in All Business Activities.



President
Yasuhiko Saitoh



A year ago, I mentioned to you that comparing the earnings for the last fiscal year (FY2016) with those in the fiscal year of April to March 2008, when we had a record profit, the recovery had been slightly over 80% and we were executing and planning on various initiatives to reach and exceed the record earnings. I am very pleased to inform you that in this fiscal year (FY2017) we not only closed the 20% gap but also renewed the record earnings.

In FY2017 we grew the sales turnover by 13.5% over the year before (FY2016) on a local currency basis and 16.5% on a Japanese yen denominated basis. Each of the business segments achieved top-line and bottom-line growth. We worked diligently to meet our customers' increasing needs throughout our operations. In the process, we also worked on pricing for our products so as to have prices more properly reflect value the products provide. The initiatives and efforts certainly contributed to yet another and strong double-digit increase in earnings segmentally and companywide. We increased the operating income by 41.2% to ¥336.8 billion, income before income taxes by 40.5% to ¥340.3 billion and net income by 51.3% to ¥266.2 billion. Since March, 2010, the cumulative growth in earnings was ¥213.3 billion on a pretax basis and ¥182.4 billion on an after tax basis, which equates a compound annual growth rate of 13.1% and 15.5%, respectively.

We succeeded in raising return on invested capital (ROIC) by 4.2 percent point to 18.2% and return on equity (ROE) by 3.4 percent point to 11.9%. We increased the annual dividend by 20 yen to 140 yen for FY2017. In this last May, we retired our treasury stocks in an amount equal to 1% of the outstanding shares.

I refer you to segmental earnings, in comparison with the FY2007.

Operating Income and Composite Rate by Segment

(Billions of yen)

Business Segment	FY2017		FY2007	
PVC/Chlor-Alkali	93.2	27.7%	33.9	11.8%
Semiconductor Silicon	92.9	27.6%	141.3	49.2%
Silicones	51.9	15.4%	37.4	13.0%
Electronics and Functional Materials	61.6	18.3%	40.7	14.2%
Specialty Chemicals	25.7	7.6%	17.4	6.1%
Processing, Trading & Specialized Services	11.4	3.4%	16.6	5.8%
Total	336.8	100.0%	287.1	100.0%

Note: Segment categories were changed in the fiscal year ended March 31, 2011. Amounts in the fiscal year ended March 31, 2008 (FY2007), were reclassified to conform to current segment categories.

We now have more balanced earnings profile than before. We are leveraging what we accomplished in this last fiscal year to raise the earnings. It is not an easy task but we are challenging ourselves to it, as we speak.

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We have been very busy running all the plants worldwide. We do so with our strong commitment to safety and quality. We have 20,000 motivated and dedicated people working day in day out to deliver our commitments. We invest in our employees through managerial interactions, various training programs and career development opportunities.

While we are vigorously and attentively serving our customers' growing needs for our products, we are being engaged in a growing list of capital projects. We forecast the amount of capital investments will be 250 billion yen in FY2018, about 40% greater than FY2017. The breakdown of the forecast by segment in comparison with last year is as follows:

Capital Investments by Segment

(Billions of yen)

Business Segment	FY2018 (Forecast)	FY2017	Increase
PVC/Chlor-Alkali	89.0	63.6	40% ↑
Semiconductor Silicon	68.0	51.5	32% ↑
Silicones	33.0	29.1	13% ↑
Electronics and Functional Materials	40.0	20.2	2.0 times ↑
Specialty Chemicals	11.0	7.0	57% ↑
Processing, Trading & Specialized Services	9.0	5.0	80% ↑
Total	250.0	176.2	42% ↑

Our technical and engineering expertise is the backbone of our operation. Coupled with our employees' commitment to safety and quality, it enables us to deliver quality products consistently in a timely manner.

Our research and development activities are on the rise. We invested ¥51.7 billion or 3.6% of the yearly sales in the FY2017. Roughly twenty-five thousand products were newly developed and/or qualified and 2,182 patents were granted. More than thirty percent of our revenue comes from patent-advantaged product sales. Our researchers are eager to devise solutions

for our customers. Our R&D efficiency measured by ratio of operating income for recent five year period to R&D expenses for five year period prior to the period is very high among peers.

Our product portfolio and developmental direction are in line with SDGs. We are mindful of SDGs. Our product offerings facilitate the achievement thereof and SDGs will help our business in turn. For instance, our silicone products are widely used in applications which help reduce greenhouse gas effects. To give you another example, we have been working on developing materials for EV batteries. Such initiatives will reduce consumption of fossil fuels, which will result in better availability and affordability of raw materials for our operations.

We commit to apply, improve and innovate what we have throughout our operation to help advance our society. Our products are building blocks for industries, societies and human life. Through our products, we continue to strive to present solutions and ideas so that we can make difference in everyone's life.

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

I sincerely thank our shareholders for your confidence and support, our customers for their business and partnership and our Shin-Etsu team for their commitment to our high standards.