

Chemistry at Work

ANNUAL REPORT 2016

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.

The Shin-Etsu Group Aims to Become a Company that Grows with Society through Management Dedicated to Placing the Highest Priority on Safety and Fairness.

To strictly comply with laws and regulations and to conduct fair business practices are the foundation of management.

As a company trusted by society, the Group engages in a variety of corporate activities that always place a priority on safety and the environment.

We are also making efforts to contribute to environmental conservation by providing key materials and technologies.

The Group will build upon products, sales capabilities, manufacturing technologies and development capabilities accumulated up to now and continue taking on a wide range of global challenges to contribute to the development of society.

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2016 Annual Report Editorial Policy

In this fiscal year's report, we clarify the Group's corporate value and the foundation supporting it, present the status and results of several major investments aimed at achieving growth, outline the effective R&D structure that led to the success of those investments and focus on mechanisms for firmly responding to the demands of society and the current age. This report compiles easily understandable explanations of major points mainly focused on a management report by the Chairman, President, Vice Chairman and Senior Managing Director, the leaders of the Company's growth.

Precautionary Statement Regarding Earnings Forecasts and Prospects

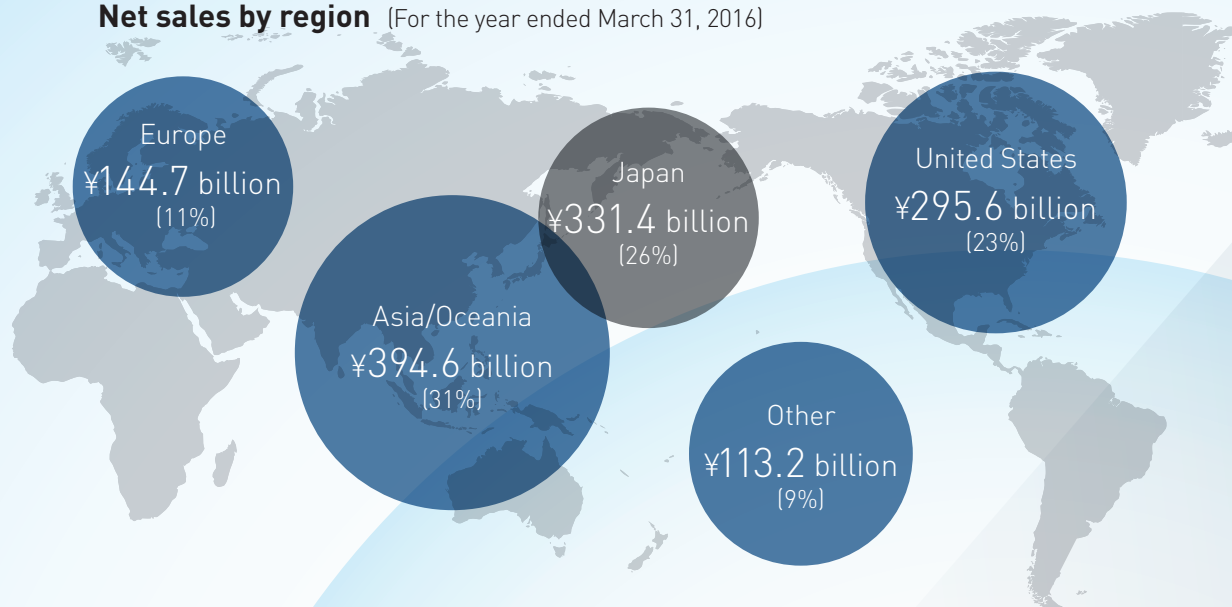
The earnings forecast and other forward-looking statements presented in this document represent judgments and assumptions based on information available at the time of publication and therefore include risks and uncertainties. Please understand that actual earnings might differ significantly from forecast earnings due to a variety of factors. Critical factors that could affect actual earnings include economic conditions surrounding the Group and Group company business domains, market trends and yen exchange rates versus the U.S. dollar and other currencies. Moreover, factors that could affect earnings and performance are not limited to those mentioned above.

For more details

Financial & IR Information ▶ <https://www.shinetsu.co.jp/en/ir/>
CSR Information ▶ <https://www.shinetsu.co.jp/en/csr/>

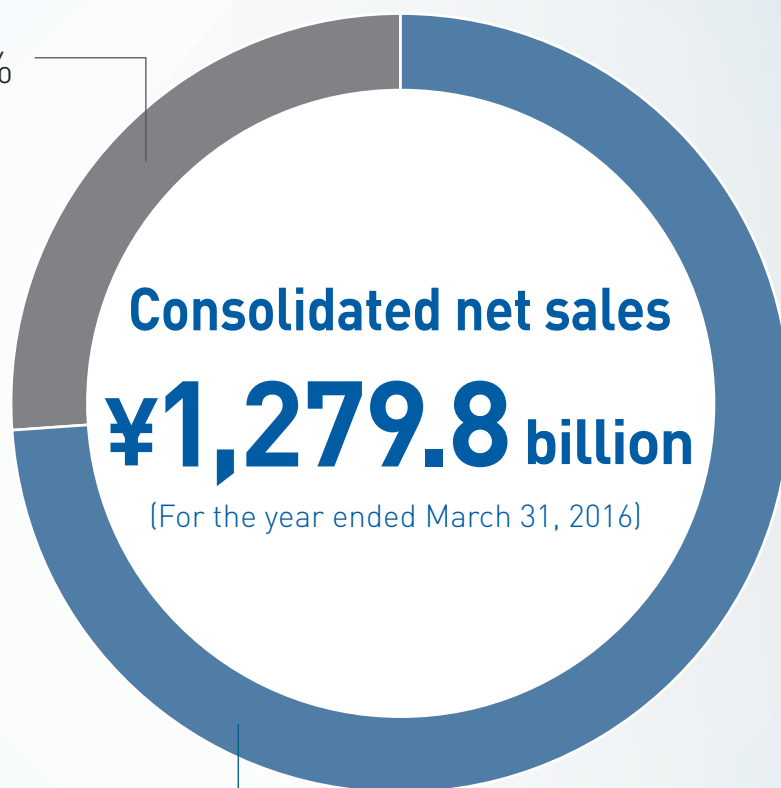
Shin-Etsu Group Business

Net sales by region (For the year ended March 31, 2016)



Domestic approximately 26%

The Group comprises Shin-Etsu Chemical and 146 Group companies that cooperate to develop their respective business activities. These business activities are divided into six segments: PVC/Chlor-Alkali Business, Semiconductor Silicon Business, Silicones Business, Electronics and Functional Materials Business, Specialty Chemicals Business and Diversified Business. In each of these fields, we have products with strong market share, with the world's top share in polyvinyl chloride (PVC) and semiconductor silicon and the top domestic share for silicones.



Consolidated net sales
¥1,279.8 billion
 (For the year ended March 31, 2016)

Overseas approximately 74%

Business Activities

Net Sales

Market Share

PVC/ Chlor-Alkali Business



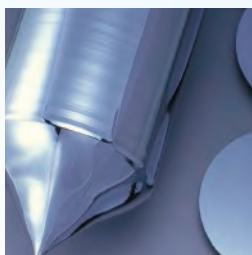
Providing a stable supply of high-quality products as the world's top manufacturer of basic materials, including PVC and caustic soda, which are indispensable for housing and infrastructure development.

¥441.7 billion
(34%)

Polyvinyl chloride (PVC) resin share

Global No. 1

Semiconductor Silicon Business



Providing silicon wafers for semiconductor device substrates used in a wide range of applications, including various mobile devices, automobiles and home appliances.

¥243.3 billion
(19%)

Semiconductor silicon share

Global No. 1

Silicones Business



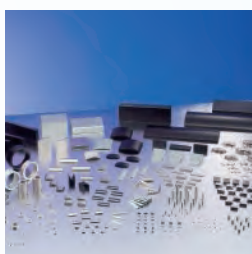
Providing highly functional silicone products offering a variety of features, including heat and cold resistance and water repellency, in a wide range of areas such as automobiles, electronics, cosmetics, construction and food.

¥187.7 billion
(15%)

Silicones share

Japan No. 1
Global No. 4

Electronics and Functional Materials Business



Providing rare earth magnets, semiconductor encapsulation materials, LED coating materials, photoresists, synthetic quartz and other products for a wide range of high-tech applications, including electronic components, automobile sensors and magneto-optical disks.

¥186.7 billion
(15%)

Photoresists share

Global No. 2

Advanced photomask blanks share

Global No. 1

Specialty Chemicals Business



Providing cellulose derivatives, POVAL and synthetic pheromones as agricultural materials for pest control. Also, providing silicon metal, the main raw material for silicones, semiconductor silicon and synthetic quartz.

¥116.8 billion
(9%)

Cellulose share

Global No. 2

Japan No. 1

Pheromone formulation share

Global No. 1

Diversified Business



Providing processed plastic products, technology and plant export, import and export of goods, engineering, information processing and other services.

¥103.4 billion
(8%)

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

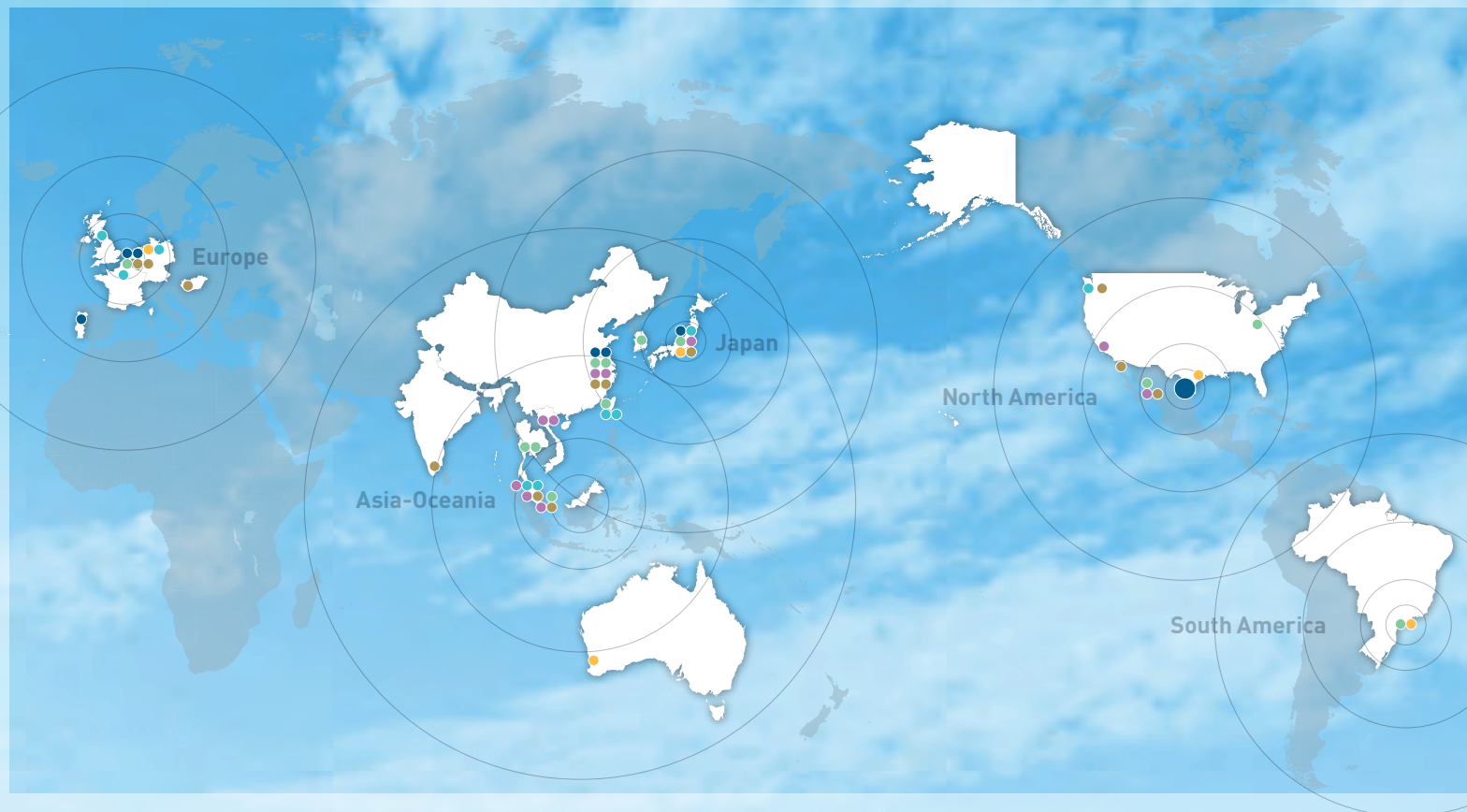


WORLDWIDE NETWORK

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.

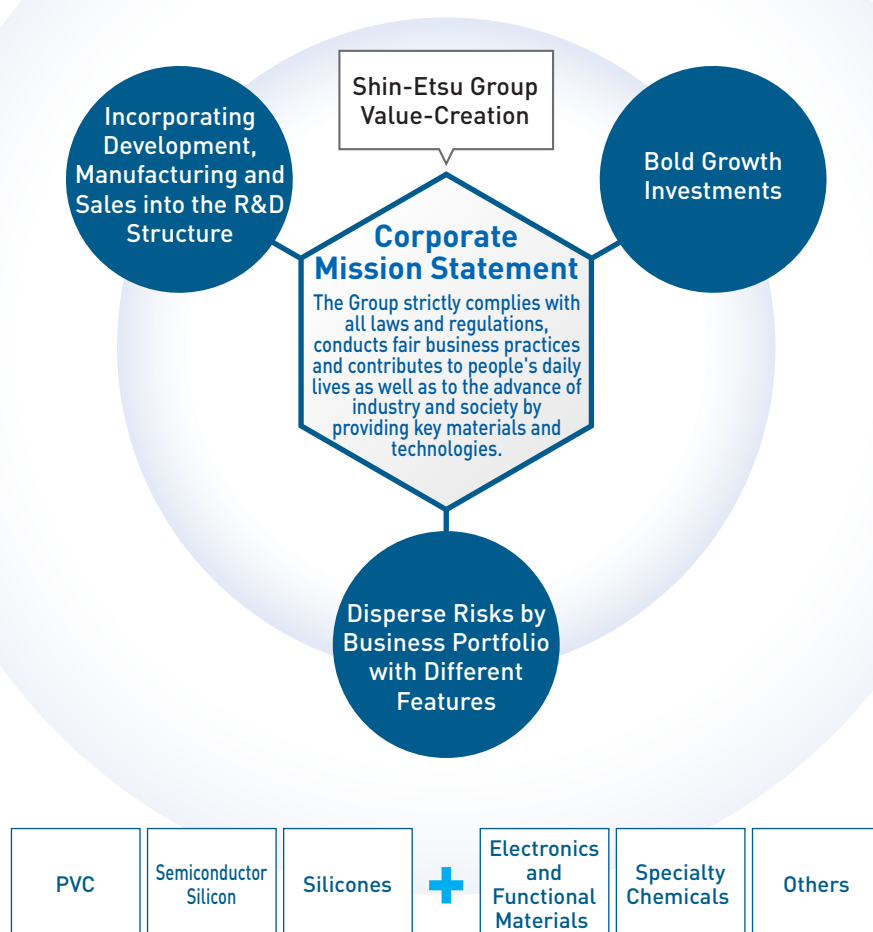
In the Diversified Business, shipments of Shin-Etsu Polymer automotive input devices and semiconductor wafer-related containers were on track. Shin-Etsu Engineering's Engineering Business also performed well.

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.

Major Investments in Growth

Aggressively Investing in Areas Indispensable for Lifestyle and Social Developments in an Attempt to Further Expand Business

The Group is attempting to further expand business through aggressive investments seizing opportunities in areas indispensable for lifestyle and social developments where demand and business growth are expected in the future.

Shintech (U.S.) is moving forward with the construction of an ethylene production plant, one of the main raw materials used in PVC. This is the first ethylene plant built in the United States by a Japanese chemical company. The plant, currently under construction at Shintech's industrial site in Louisiana, will produce 500,000 tons of ethylene annually. This approximately US\$1.4 billion investment is scheduled for completion in the first half of 2018. With the completion of this ethylene plant, we will expand the integrated production system from PVC raw materials, firmly establishing our position as the world's largest polyvinyl chloride manufacturer.

In the Silicones Business, we have more than a 50% market share in Japan. We expect global demand for high-performance silicone products to increase. Accordingly, we are investing nearly ¥20.0 billion in Gunma, Niigata and other areas of Japan to upgrade equipment used in each stage of mass production, from R&D to prototyping.

Furthermore, with respect to photoresists, an indispensable photosensitive resin used in the manufacture of semiconductor devices, increased production of semiconductor devices and advances in miniaturization are driving increased demand. Aiming to expand the photoresist business, Shin-Etsu Chemical is investing approximately ¥13.0 billion in the construction of a new plant in Taiwan, one area where demand is growing. In conjunction with the existing Naoetsu plant, this will enable the dispersion of risk across two manufacturing bases.

Major Investments Completed This Year or Still Ongoing

PVC/Chlor-Alkali Business	
United States (Louisiana)	
Enhancing PVC and Raw Materials Plant Production Capacity	Construction of New Ethylene Plant
Investment amount	Investment amount
US\$500 million	US\$1.4 billion
End of 2015: PVC plant completed March 2016: Vinyl Chloride Monomer (VCM) plant partially completed Autumn 2017: VCM plant scheduled for completion Annual production capacity of VCM increased by 300,000 tons, caustic soda increased by 200,000 tons and PVC increased by 300,000 tons. After facility expansions are complete, the Louisiana plant and the existing Texas plant's combined annual PVC production will increase to 2.95 million tons.	Mid-2018: Scheduled for completion Annual ethylene production capacity will be 500,000 tons. This investment will further strengthen the raw materials-based integrated production system being developed.



Shintech (U.S.) Plaquemine plant



Asia Silicones Monomer Limited
(Thailand)



Shin-Etsu Silicones (Thailand) Ltd.



SE Tylose USA, Inc.

In addition, we established a joint venture company in China with the largest fiber optical product manufacturer in China. With an investment totaling nearly ¥12.5 billion, we will construct a fiber optical preform plant.

Silicones Business Japan (Gunma Prefecture)	Silicones Business Japan (Gunma and Niigata prefectures)	Silicones Business Thailand (Rayong Province)	Specialty Chemicals Business United States (Louisiana)
Construction of New Facility at the Silicone-Electronics Materials Research Center Investment amount ¥5.0 billion February 2016: Completed As the core of Shin-Etsu Chemical's Silicones Business, this R&D center works with technical service bases in Asia, the United States and Europe to strengthen the development of products meeting customer demands.	Enhancing the Production Capacity of Silicone High-Performance Products Investment amount ¥20.0 billion Summer 2017: Scheduled for completion Expanding facilities at all levels, from R&D and prototyping to mass production to meet rising global demand for high-performance silicon products.	Enhancing the Production Capacity of Silicone Investment amount ¥20.0 billion In 2018: Scheduled for completion 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.	Construction of a New Cellulose Plant Investment amount US\$120 million End of 2015: Completed SE Tylose expanded hydroxyethyl cellulose (HEC) production capacity by 50%, from 18,000 tons to 27,000 tons annually.
Electronics and Functional Materials Business Vietnam (Haiphong)	Electronics and Functional Materials Business Taiwan	Electronics and Functional Materials Business China (Hubei Province)	Electronics and Functional Materials Business Japan (Fukui Prefecture)
Construction of a New Rare Earth Magnet Plant Investment amount ¥12.0 billion End of 2015: Phase 1 completed End of 2016: Phase 2 scheduled for completion This investment will increase rare earth magnet sintering process annual production capacity by 50%, or 2,000 tons. This will enable us to meet an expected rise in demand mainly in automotive applications and utilize multiple production bases, which will contribute to stable supplies.	Construction of a New Photoresist-Related Products Plant Investment amount ¥13.0 billion Second half of 2017: Scheduled for completion 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.	Construction of a New Fiber Optical Preform Plant Investment amount ¥12.5 billion End of 2016: Scheduled for completion Shin-Etsu Chemical entered a joint venture with YOFC, China's largest fiber optical and optical cable company. We will leverage our strength in preforms to meet expanding demand for optical fiber in China.	Construction of a New Photomask Blanks Plant Investment amount ¥7.0 billion End of 2016: Scheduled for completion This investment will increase annual production capacity by approximately 20%. In addition to meeting rising demand for mask blanks due to increased semiconductor device production and advances in miniaturization, the establishment of multiple production bases will contribute to stable supplies.

Building the Foundation for a Strong Corporate Structure

Going Beyond Cost Reductions to Enhance Competitiveness through Manufacturing Technology Innovations

Fumio Akiya

Vice Chairman

In charge of Semiconductors,
Technologies and Environment Control & Safety



The Shin-Etsu Group has engaged in rationalization efforts to stably provide customers with high-quality products and realize high profitability.

As the promotion of rationalization contributes to the creation of a strong corporate structure during economic downturns, former president Kanagawa established and activated the “G Committee” in 1992 based on his concept and determination after the collapse of the bubble economy. The object of the G Committee activities is to lower expenses and reduce costs by improving manufacturing technologies at Shin-Etsu Chemical’s four plants. Former vice president Koyanagi was the first chairman of this committee.

Based on our engineers’ understanding of the essence of technology, the G Committee engaged in the promotion of laborsaving, automation and facility renovations. While promoting cost reductions through rationalization, we also rapidly implemented thorough repairs to ensure safety.

Initially, some had the mistaken impression that rationalization would cause workplace morale to decline, but once the engineers understood that the committee’s proposals would contribute to earnings as specific rationalization costs, there was a complete turnaround and these activities provided motivation to engineers, who ambitiously engaged in rationalization.

These initiatives had a major effect in a variety of ways. Successful rationalization efforts at one plant were deployed at other plants, promoting the exchange of technologies between plants. Rationalization ideas were shared among plants, giving rise to a competitive atmosphere, the effects of which cannot be calculated in monetary terms.

Since being appointed as chairman in 2004, I have extended the G Committee activities conducted until now at Shin-Etsu Chemical’s four plants to manufacturing subsidiaries across Japan.

The first step was to raise engineers’ awareness. There are a variety of factors with unspecified causes that have both positive and negative impacts on current processes, thus there was resistance to the risks accompanying changes to these processes. I regularly visit each plant to provide guidance directly to young engineers, which I consider part of my role as committee chairman. Rather than simply maintaining the status quo, I want to emphasize that engineers should not accept that the current processes are the best. The mission of every Shin-Etsu Chemical engineer is to improve current processes, reduce costs, increase quality and reap the rewards of enhanced productivity. At present, engineers continue to be engaged in rationalization, verifying risks related to process changes from the collection and analysis of data.

In this way, the G Committee will go beyond cost reductions and engage in a variety of activities aimed at strengthening our corporate structure and achieving waste elimination, energy conservation, quality consistency and engineering developments. These long-term efforts have led to manufacturing technology reforms that contribute to strengthening the competitiveness of the Shin-Etsu Group.



Shin-Etsu Chemical Kashima plant



Environmental Control and Safety Audits (Kashima Plant, Ibaraki, Japan)

Auditors from the Headquarters Environment Control and Safety Department and each plant monitor Shin-Etsu Chemical's four plants and two domestic Group company plants. They conduct reports on the implementation status of environmental and safety management plans and conduct onsite inspections to confirm equipment safety measures.

Research and Development Meeting Social Demands

Aiming for Sustainable Growth and the Resolution of Social Issues through Research and Development

Toshinobu Ishihara

Senior Managing Director
In charge of New Functional Materials and Patents,
General Manager, Research & Development Department



The Group engages in R&D activities focused on a variety of themes based on 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 advancement of industry and society by providing key materials and technologies." We view R&D capabilities as an important "asset" that will ensure the future of the Group and society. Research themes are carefully selected primarily on the basis of whether they meet next-generation needs and for their distinction in terms of not being researched by other companies. Thus, we have successfully achieved the development of many "world's first" materials. In recent years, social demands have called for automobiles that are safer, more fuel efficient and with lower emissions. Using materials for automobiles as an example, I would like to introduce Group technological development initiatives focused on magnets that will contribute to the resolution of social issues.

The Group's magnet technologies contribute to the improved performance of the motors used in hybrid electric vehicles (HEVs), plug-in hybrid vehicles (PHVs), fuel cell vehicles (FCVs) and electric vehicles (EVs). In particular, the rare earth magnet technologies (grain boundary diffusion method) developed by the Group ahead of other companies offering high heat resistance and high magnetic field strength are used in the motors of the aforementioned vehicles, improving performance and contributing to the resolution of the following social issues.

Contributing to the Realization of Weight Reduction and Fuel-Efficient Vehicles

The spread of HEVs, PHVs, FCVs and EVs encourages the reduction of fuel usage or the promotion of fuel efficiency. Furthermore, the Group's silicone technologies contribute to lighter weight vehicles as high weather resistant silicone parts able to withstand harsh conditions can be used to replace conventional metal parts.

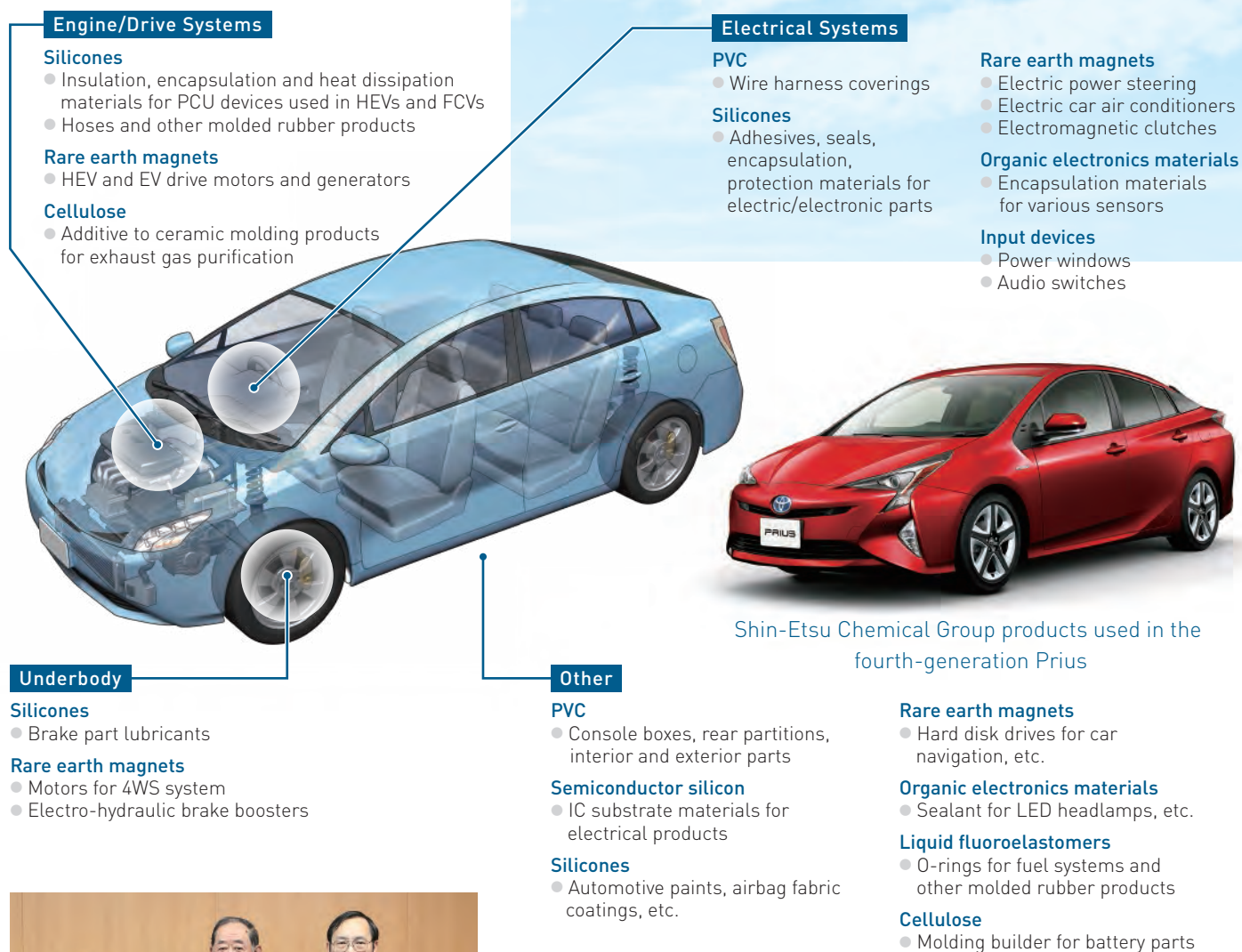
Contributing to the Realization of Low and No Emission Vehicles

Encouraging the spread of HEVs, PHVs, FCVs and EVs also contributes to lowering or eliminating vehicle emissions. The Group's onboard lithium-ion battery anode technology also contributes to the spread of EVs and PHVs.

Contributing to the Realization of High Safety

Advances in vehicle driving electronic controls are increasing safety by providing emergency assistance to drivers who are slow to react or make errors of judgment.

Automobile-Related Products Example



Thomson Reuters "Top 100 Global Innovator 2015" worldwide intellectual property award ceremony. Jun Watanabe, General Manager of the Patent Department (right), receives the award from Yoshiko Tanahashi, Director, Thomson Reuters Japan (left). The Shin-Etsu Group's protection capabilities of intellectual property through patent applications have a strong reputation. This is the fifth year in a row we have received this award.

Patents by Region

► Patents Acquired

(in the fiscal year ended March 31, 2016)

Japan	616
North America	282
Asia/Oceania	602
Europe	270
Other	9
Total	1,779

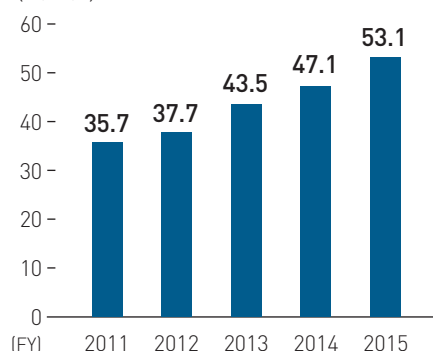
► Patents Held

(Cumulative as of March 31, 2016)

Japan	7,027
North America	2,850
Asia/Oceania	4,190
Europe	3,035
Other	27
Total	17,129

R&D Expenses

(¥ billion)



PVC/Chlor-Alkali Business

Business Overview

Polyvinyl chloride resins (PVC) are general-purpose resins used in a wide range of applications, from everyday products to all kinds of industrial materials. This is one of the Group's core businesses, the forerunner of international expansion.

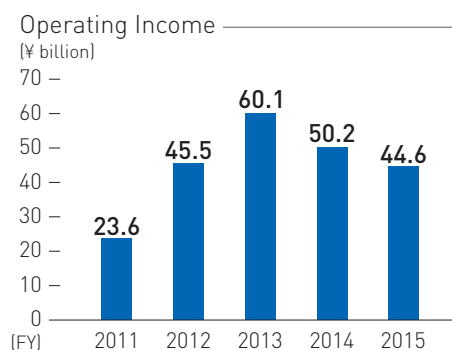
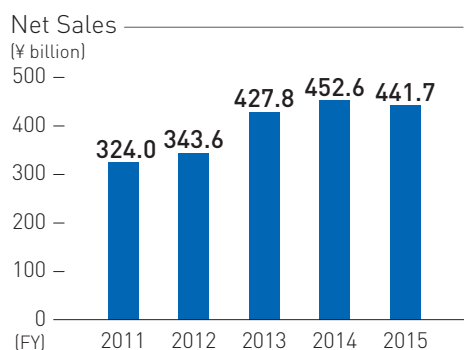
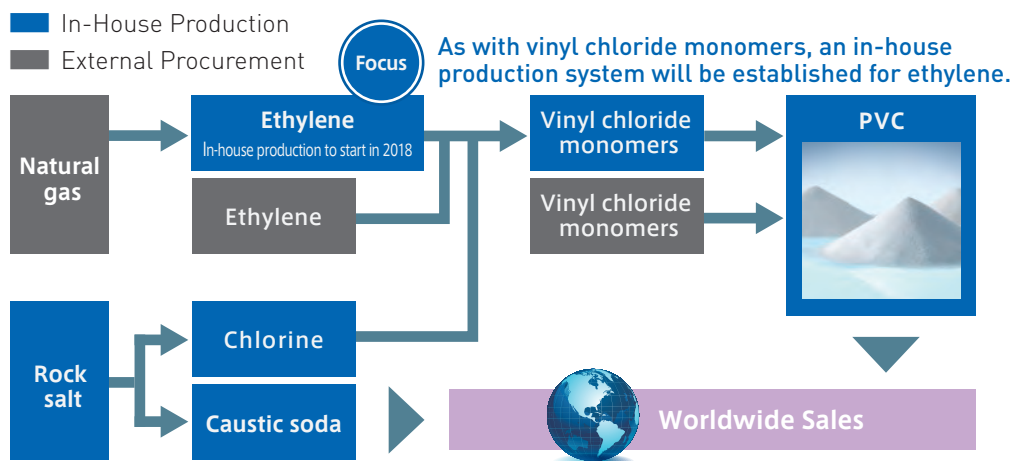
In 1960, the Group became the first Japanese chemical manufacturer to establish a polyvinyl chloride manufacturing base overseas (Portugal). In 1973, Shintech was established in the United States as the Group advanced into the world's largest market. In 1999, Shin-Etsu PVC was established in the Netherlands via a business acquisition. At present, the Group has large-scale manufacturing capabilities in the three major markets of the United States, Europe and Japan. With annual production of 4.15 million tons, the Group is the world's largest maker of PVC, providing a stable supply of superior materials to customers around the world.

Resolving Social Issues through Products

Of the raw materials used to make PVC, 60% is salt, which in terms of weight ratio is abundant throughout the world, and 40% is petroleum, making this a general-purpose resin less dependent on petroleum resources. PVC manufacturing has a low environmental impact and consumes only 60% of the energy required to make other general-purpose resins. Highly durable and easy to recycle, PVC is used in a wide range of construction materials, including window profiles and water and sewer pipes.

Shintech's Integrated Production Facilities

Integrated Production to Begin with Raw Materials



- ▶ In Japan, although exports increased, domestic housing-related demand was slow.
- ▶ Despite North American demand decreasing year-on-year in the whole industry, Shintech in the U.S. expanded its domestic sales and at the same time aggressively carried out sales to its worldwide customers, and its shipments continued to be firm. Shin-Etsu PVC in the Netherlands was affected by facility problems that occurred at a raw materials supplier during the latter half of the previous fiscal year.

➤ Main Products and Applications

PVC pipes and conduits

A backbone material supporting lifelines



Window profiles

Used for thermal insulation, sound insulation and superior condensation prevention, PVC window profiles are attracting attention as a construction material that conserves energy and creates a comfortable residential environment.



Plastic greenhouses for agriculture

An excellent flame retardant that is easy to recycle, plastic greenhouses for agriculture use a resource-saving material that boasts a recycling rate of more than 50%.

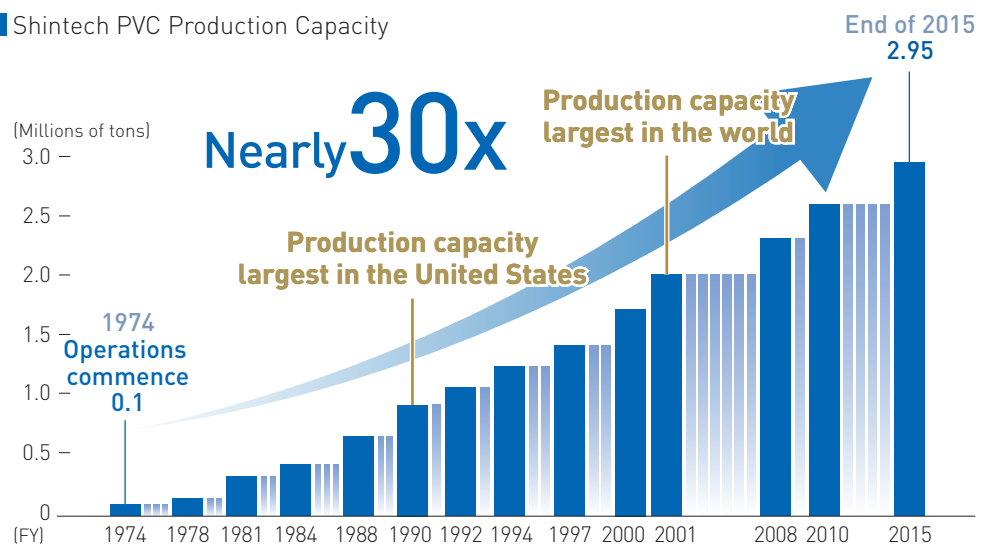


Vinyl sidings

This is a lightweight, easy-to-install exterior material for a house. In addition to superior weather and impact resistance, this material provides excellent protection against rust and corrosion.



Shintech PVC Production Capacity



Semiconductor Silicon Business

Business Overview

Since the establishment of Shin-Etsu Handotai in 1967, the Group has been the leader in large diameter and ultra-flat technological innovations as the world's leading provider of silicon wafers for semiconductors. The Group successfully achieved early mass production of next-generation 300-mm wafers and silicon-on-insulator (SOI) wafers utilizing the world's highest level of its own single crystallization technologies, advanced processing technologies and quality control technologies. At present, local subsidiaries have been established in the United States, Malaysia, the United Kingdom and Taiwan where the high-quality semiconductor silicon wafers are manufactured, providing a stable supply of excellent products as the world's largest supplier of silicon wafers. We are also gaining attention as a manufacturer engaged in the integrated production of Gallium phosphide (GaP) as a material used in light-emitting diodes, from compound semiconductor crystals to chips.

Resolving Social Issues through Products

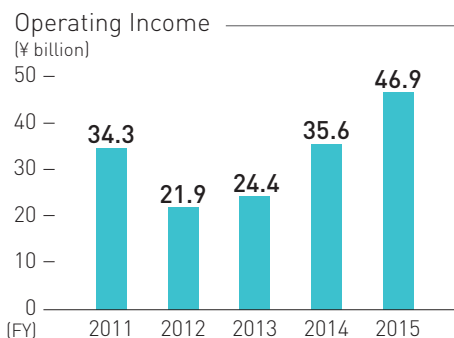
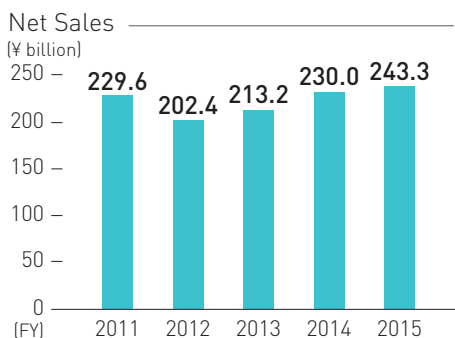
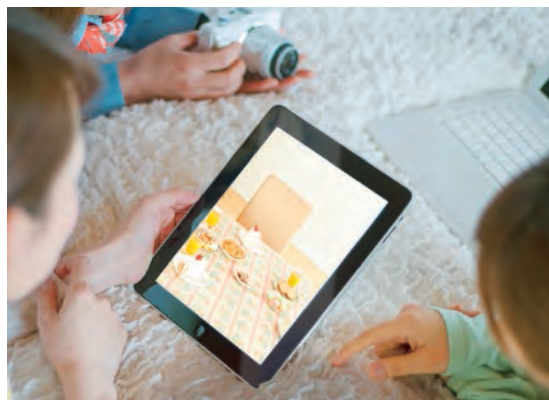
Silicon wafers contribute to society as basic infrastructural materials supporting an advanced information society by reducing the size and weight of electronic equipment, reducing power consumption, improving the fuel efficiency and safety controls of automobiles and advancing medical equipment. Furthermore, they realize a stable supply of electric power mainly to electronic equipment, as power semiconductors can minimize power consumption and accommodate high voltage and high currents. Group products are also used to accurately regulate motor drive controls from high to low speeds and as power-saving transistors enabling the efficient transfer of power from generators to transmission lines.

Main Products and Applications

Silicon wafers are used as substrate materials in semiconductor devices used in our daily lives, including personal computers and smartphones, televisions and digital cameras.

Application examples

- Electrical components for digital equipment and automotive parts
- IC substrates for home appliances
- LED displays



▶ The business was affected by inventory adjustments of logic devices caused by a slowdown in demand for electronics equipment, including for smartphones. However, applications for memory devices on the whole continued to be firm.

Silicones Business

Business Overview

Since being the first to commercialize silicones in Japan in 1953, the Group has continued to maintain its top domestic share through strong technological capabilities and detailed support for market needs. Currently, the Company offers more than 5,000 varieties of silicone products used in a wide range of industries, including electric and electronic applications, automobiles, construction, cosmetics, chemicals and food. Furthermore, our advanced technological capabilities in silicones chemistry create high-value-added products realizing strong profitability.

Resolving Social Issues through Products

The results of a study commissioned by the Global Silicones Council in 2012 show how the use of various functional silicones can lead to the reduction of greenhouse gas emissions. In particular, the use of silicones for automobile, construction and solar battery applications account for a large proportion of greenhouse gas emission reductions from the silicone product cycle, substantially contributing to improved social sustainability.

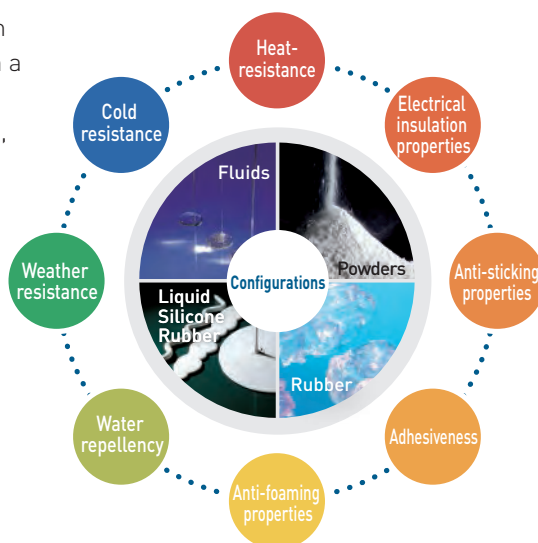
Main Products and Applications

Combining inorganic and organic properties and numerous characteristics, silicone products with various configurations are supplied in a wide range of areas, from electronics and electrical to transport equipment, construction, cosmetics and food.

Application examples

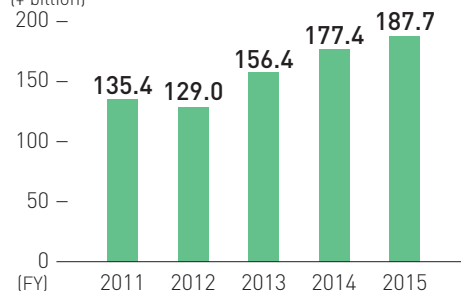
- Cosmetic ingredients
- Electronic device heat dissipation material
- High-performance contact lens material
- Building sealant
- Eco-tires

Silicone configurations and numerous characteristics



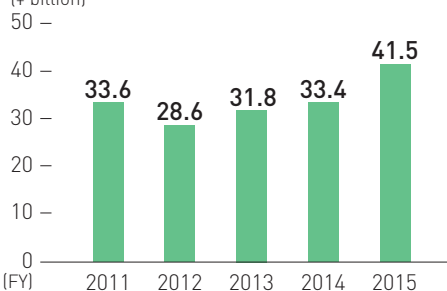
Net Sales

(¥ billion)



Operating Income

(¥ billion)



- ▶ In Japan, although a demand slowdown was seen in some product applications in the electric and electronics fields, in a wide range of fields, including cosmetics and automobile applications, shipments were firm.
- ▶ Outside of Japan continued to do well, particularly for highly functional silicone products for Europe, the United States and Southeast Asia.

Electronics & Functional Materials Business

Business Overview

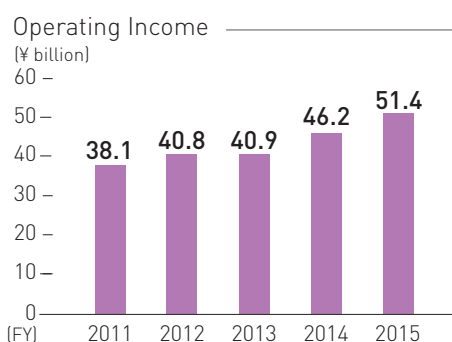
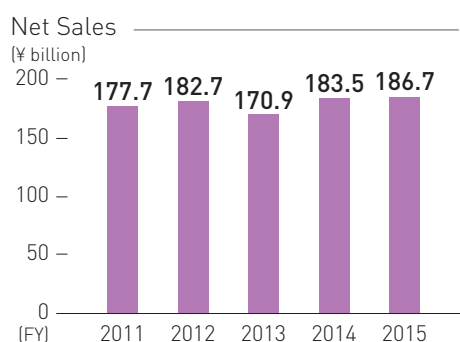
The Group's mission is to develop materials linked to new value creation. In the past, we successfully achieved the world's first mass production of synthetic quartz and liquid fluorinated elastomer. We also develop and supply a wide variety of functional materials, including rare earth magnets to the electronics industry that are indispensable as materials for hard disc drives (HDDs) and rare earth magnets for general industry used in home appliances and automobile motors. We also provide photoresists and photomask blanks, which are materials required for the semiconductor manufacturing process, optical fiber preform and other synthetic quartz products.

Resolving Social Issues through Products

Rare earth magnets have 10 times the magnetic force of conventional ferrite magnets. Even small rare earth magnets generate a powerful magnetic field. When they are used in hybrid and electric cars, they realize increased power with smaller size and weight. Rare earth magnets are also used in compressors for energy-saving air conditioners. These products raise electric power efficiency and realize reduced CO₂ emissions.

Main Products and Applications

- Rare earth magnets
(Automobiles, drive units for computers and digital consumer electronics hard disk drives, etc.)
- Epoxy molding compound
(Semiconductor device encapsulation)
- Photoresists
(Photosensitive material used to write semiconductor circuits)
- Photomask blanks
(Pattern master used to write semiconductor circuits)
- Shin-Etsu SIFEL
(Liquid fluorinated elastomer that hardens into a flexible solid synthetic rubber upon heating)
- Optical fiber preform
- Synthetic quartz substrate for photomasks
(For integrated circuits and liquid crystal displays)



- ▶ With regard to the rare earth magnets business, although products for applications in industrial equipment were slow, products for applications in automobiles continued to be firm, including those for hybrid cars.
- ▶ With regard to the photoresist products business, ArF resists and trilayer materials continued to be steady. Shipments of photomask blanks greatly increased.

Specialty Chemicals Business

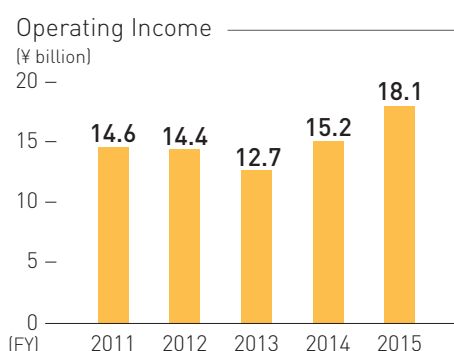
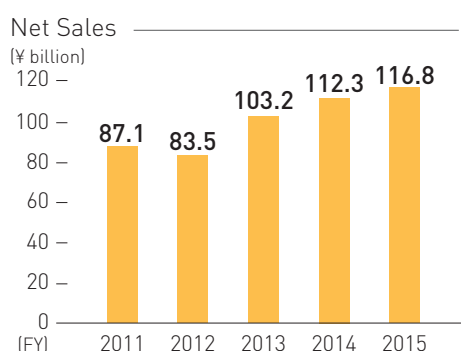


Business Overview

Our main specialty chemical products are cellulose derivatives, nature-friendly materials made from natural polymer cellulose. The Shin-Etsu Group began manufacturing cellulose derivatives in 1962. Currently, we have the largest share in Japan and meet market needs as the world's foremost manufacturer. In addition, we provide synthetic pheromones as pest control and POVAL. We also provide a variety of other products, including silicon metal, a main ingredient in silicones, semiconductor silicon and synthetic quartz.

Resolving Social Issues through Products

Industrial cellulose derivatives reduce the separation of concrete in water, contributing to environmental preservation by enabling concrete to be poured without polluting water, which prevents water pollution. Synthetic pheromones inhibit pests' mating by disturbing signals between male and female agricultural pests. Eliminating only agricultural pests prevents the destruction of biodiversity while reducing the amount of pesticides used, which in turn makes food safer.



Main Products and Applications (Cellulose Derivatives)

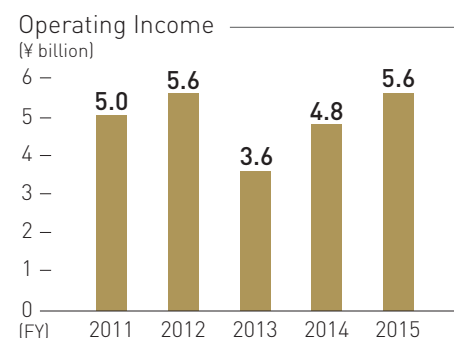
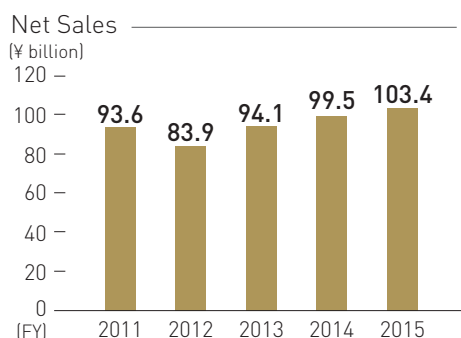
- Drug tablet coating and binder
- Body soap and shampoo foam stabilizer
- Automobile exhaust gas purifying device

- ▶ With regard to cellulose derivatives, in Japan, shipments of pharmaceutical-use products and products for construction materials were firm.
- ▶ The business of SE Tylose in Germany continued to be steady, mainly for coatings products. In the silicon metal business of Simcoa Operations in Australia, shipments continued to be firm.

Diversified Business

Business Overview

As an input device pioneer, Shin-Etsu Polymer Co., Ltd., develops and supplies highly operable and functional products making use of materials and processing technologies. Shin-Etsu Engineering Co., Ltd., is involved in the design and construction of manufacturing plants and manufacturing technologies for Group products. These technologies also have a strong reputation with customers outside the Group.



Main Applications (Shin-Etsu Polymer)

- Input devices
(Switches for car navigation systems and air conditioning, etc.)



- Wafer cases for transporting silicon wafers



- Various rollers for OA equipment



- Shupua (silicone glasses)



- ▶ Shin-Etsu Polymer's business of input devices for automobiles and semiconductor wafer-related containers continued to do well.
- ▶ The engineering business of Shin-Etsu Engineering also continued to be steady.

Sustainability (CSR)

Growing Sustainably with Society

The Shin-Etsu Group promotes corporate activities on the global stage in its 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." We focus efforts on contributing to the development of society and realizing sustainable growth into the future based on the principles of compliance with laws and regulations, safety assurance and reducing the environmental burden.

CSR Promotion Initiatives

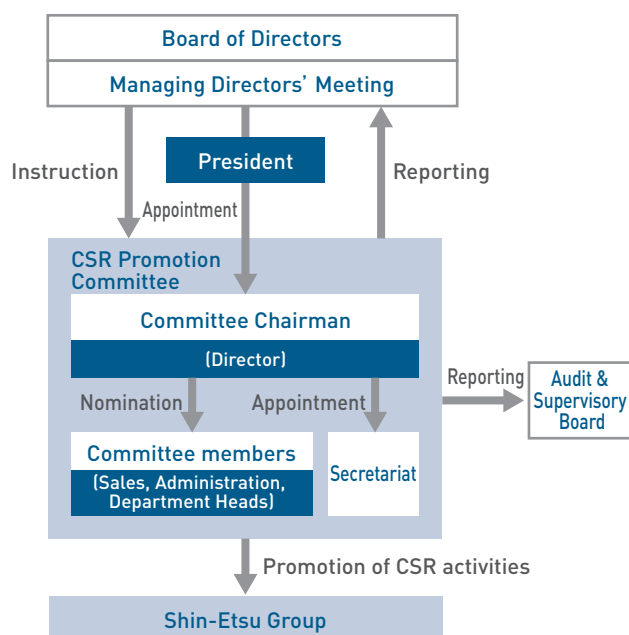
By practicing our corporate mission, it is the Group's corporate responsibility to contribute to shareholders, investors, business partners, regional communities, employees and all other stakeholders. To achieve this, we promote activities based on the establishment of a Basic CSR Policy and various internal regulations. To promote the Basic CSR Policy in an effective and appropriate manner at a company-wide level in all aspects of corporate activity, we set up a CSR Promotion Committee comprising managers from relevant divisions and departments, and appointed a director in charge of CSR.

Basic CSR Policy (Formulated June 2011)

The Shin-Etsu Group:

1. Will do our best to increase the Group's corporate value through sustained growth and make multifaceted contributions to society.
2. Will carry out all of our company activities by always making safety our utmost priority.
3. Will constantly pursue energy-saving, resource-saving and the reduction of the environmental impact, and seek to help create a sustainable future world in which we all live in harmony with the Earth.
4. Will endeavor to contribute to the prevention of global warming and the conservation of biodiversity by means of our cutting-edge technologies and products.
5. Will strive to respect human dignity, assure equality in employment opportunities and support the self-fulfillment of our employees.
6. Will appropriately disclose information in a timely manner.
7. Will carry out trustworthy corporate activities that are based on the integrity of the Group's ethical values.

CSR Organizational Chart: CSR Promotion Committee



Supporting and Implementing Principles and Global Charters

The Shin-Etsu Group signed and put into practice the Responsible Care Global Charter of the International Council of Chemical Associations (ICCA) in 2006. In 2014, we signed the revised Responsible Care Global Charter. In 2010, the Shin-Etsu Group became a participant in the United Nations Global Compact (UNGC) and has been voluntarily supporting and practicing in its business operations and strategies the UNGC's Ten Principles with regard to human rights, labor standards, the environment and the prevention of corruption. These principles are all in line with the Group's corporate mission and Basic CSR Policy. The Shin-Etsu Group will continue to uphold these initiatives and charters and will endeavor to build even deeper relationships of trust with people around the world.



Specification of Important Issues (Materiality) within the Shin-Etsu Group's CSR

In 2015, the CSR Promotion Committee officially decided on "Key CSR Issues" as a mechanism for issues where the Group needs to make special efforts.

While engaging in these issues, the Group also formulated goals for contributing to the future of the Earth through the achievement of our corporate mission.

We aim to establish targets for each of the Key CSR Issues as well as evaluate and improve them.

Shin-Etsu Group Key CSR Issues

The cornerstone of all activities: legal compliance, fair corporate activities

Eight Key CSR Issues

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

Steps for Specifying the Shin-Etsu Group's Key CSR Issues

STEP 1 Identify the Key CSR Issues

We specified important stakeholders and organized CSR issues, scoring the degree of importance in terms of the Group and stakeholders to identify key issues.

STEP 2 Create a Key CSR Issue Scattergram and Organize Issues

The CSR Promotion Committee created and reviewed a scattergram, then summarized the proposal of important CSR issues.



STEP 3 Outside Director Hearings

Hearings based on the aforementioned proposals were conducted with outside directors, who provided an external and objective viewpoint, addressing the rationality of the proposals and providing suggestions.

STEP 4 Reevaluation by the CSR Promotion Committee, Mechanism Determination by the Managing Directors' Meeting

In addition to further consideration by the CSR Promotion Committee, the Managing Directors' Meeting attended by all directors and audit and supervisory board members decided on the cornerstone of all activities and eight issues as the Group's Key CSR Issues. We will make equal efforts in no particular order toward all the important CSR issues.

Shin-Etsu Group Key CSR Issues

Please visit the CSR section of our Web site for detailed information on each initiative.

WEB <https://www.shinetsu.co.jp/en/csr/>

The cornerstone of all activities: legal compliance, fair corporate activities

Issue Recognition

Corporate improprieties related to compliance are considered critical social issues. The opening lines of the Group's Corporate Mission Statement include the concepts "legal compliance" and "fair corporate activities." In recognition of

issues related to all eight key issues comprising the cornerstone of all these activities, Group companies in Japan and overseas engage in legal compliance and fair corporate activities.

Specific Initiatives

Thorough Legal Compliance	<ul style="list-style-type: none"> ● Show on the corporate mission and management objectives each year. ● Notify via the Legal Department the thorough observance of legal revisions. ● Submit Compliance Pledges signed by all directors, audit and supervisory board members and employees. ● Facilitate consultation and reporting related to legal, ethical or regulatory infractions, and protect those who have made such consultations and reports from disadvantageous treatment with Consultation and Notification Regulations.
Corruption Prevention	<ul style="list-style-type: none"> ● Formulated the Anti-Bribery Regulations. ● Include overall work ethic and compliance status in employee evaluation. ● Conduct anti-bribery training and regular internal monitoring.
Export Control	<ul style="list-style-type: none"> ● Established the Internal Control Program on Security Export Control to comply with export-related laws and regulations.
Anti-Monopoly Act Initiatives	<ul style="list-style-type: none"> ● Formulated and strictly observe the Anti-Monopoly Act Compliance Guidelines, conduct monitoring. ● Conduct webinars to ensure compliance with the Anti-Monopoly Act.

Key Issue

1

Health and safety for workers

Issue Recognition

As a chemicals company, we recognize the importance of issues related to employee safety and health. To this end, we engage in environmental preservation at each plant, occupational safety and health and process safety and prevention plans. The Group is engaged in creating safe and comfortable workplaces that aim to prevent the occurrence of serious accidents and reduce lost time incidents to zero.

Specific Initiatives

Occupational safety and health	<ul style="list-style-type: none"> ● Identified and eliminated injury and illness risks, conducted thorough risk assessment and risk prediction activities, and implemented countermeasures for close calls and other incidents of concern.
Process safety and prevention	<ul style="list-style-type: none"> ● Conducted risk assessments and planned safety measures based on plant malfunction scenarios, utilized a system for evaluating safety capabilities.
Education and drills	<ul style="list-style-type: none"> ● Conducted safety education and emergency drills, transmitted manufacturing equipment operating skills, cultivated a culture that emphasizes safety.
Environmental control and safety audits	<ul style="list-style-type: none"> ● Conducted internal audits of plant environmental safety, occupational safety and health and process safety and prevention plans.
Attention to health	<ul style="list-style-type: none"> ● Established the Safety and Health Committees to engage in illness prevention and other health guidance.
Reporting of accidents and lost time incidents	<ul style="list-style-type: none"> ● In fiscal 2015, there were four lost time incidents reported group-wide, for which we analyzed the causes and formulated countermeasures.

Issue Recognition

Products provided by the Group have become indispensable aspects of global industries and people's lifestyles. For this reason, we are aware that it is critical to reduce environmental burdens not only during manufacturing but also during use, disposal and throughout all processes. The Group strives not only to ensure thorough reduction of environmental burdens in manufacturing processes but also for product development and sales of eco-friendly products such as rare earth magnets and PVC. Rare earth magnets are used in eco-cars, and PVC has a low dependency on petroleum resources.

Specific Initiatives

Environmental management	<ul style="list-style-type: none"> Conducted management based on environmental and safety management plans created from Responsible Care codes. Conducted environment and safety audits. Promoted reduction of the environmental burden at the manufacturing stage. Developed products with a focus on reduction of the environmental burden at the usage stage.
Response to climate change	<ul style="list-style-type: none"> Improved manufacturing processes and yield rates, however, fell slightly short of the medium-term objective of reducing greenhouse gas emissions by 50% compared to 1990 levels by 2015. From fiscal 2016, promoted a new medium-term objective of reducing greenhouse gas emissions to 45% compared to 1990 levels by 2025.
Water resource conservation, water pollutant elimination	<ul style="list-style-type: none"> Reduced water intake and promoted water recycling aimed at reducing water intake by 1% per production unit at an average annual rate and reducing water pollutant emissions by 1% per production unit at an average annual rate. Observed regulations related to water pollutants.
Waste elimination	<ul style="list-style-type: none"> Promoted initiatives aimed at achieving zero waste emissions. Due to certain production process conditions at some plants, we had difficulty in achieving significant reductions in the amount of waste for final disposal. We are currently studying this issue.
Resource recycling	<ul style="list-style-type: none"> Recycled rare earth metals recovered from manufacturing process scrap, disposed of energy-saving air conditioners and hybrid vehicles. Conducted material recycling of used PVC pipe and other PVC products.
Biodiversity protection initiatives, pollutant countermeasures	<ul style="list-style-type: none"> Conducted environmental beautification activities including cleanup of rivers near plants. Asked business partners to implement environmental conservation initiatives. Reported the amount of chemical substances used and moved in the environment in line with the PRTR system¹ under the Act on Confirmation, etc., of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof.² Converted to low-sulfur fuels and established reduction targets for air pollutants at each Group company. Monitored groundwater and soil contamination in line with the Soil Contamination Countermeasures Act.
Environmental accounting	<ul style="list-style-type: none"> Calculated investments and expenses related to Shin-Etsu Chemical's environmental burden and energy-saving measures, waste elimination and recycling efforts. In fiscal 2015, the total amount of environmental conservation investment was ¥982 million. Expenses were ¥10,631 million.

1. A system for calculating and disclosing the amount of waste emitted and moved based on national data and statistics taken from reports by handlers submitted to the government pertaining to the emission of chemicals potentially harmful to human health and the ecosystem into the environment from offices (air, water, soil) and the amount of waste discharge moved offsite.

2. A law intended to promote improved self-directed control of chemical substances by business operators, in order to prevent the risk of damage to the environment.

Key Issues

3

Product quality improvements and product safety control

Issue Recognition

The Group's products are used in people's daily lives and to support society. At the same time, there is a critical focus on the safety of chemical substances as a global social issue. The Group strictly manages product safety and improves quality control in line with the laws and regulations of each country.

Specific Initiatives

Quality control	<ul style="list-style-type: none"> Cooperation among the Sales, Research & Development, Manufacturing and Quality Assurance departments.
Response to claims and complaints	<ul style="list-style-type: none"> Claims and complaints are responded to in different manners, and a response team is formed in the event of major claims.
Quality audits and support	<ul style="list-style-type: none"> Quality audits and Six Sigma¹ activities are conducted regularly.
Product safety management	<ul style="list-style-type: none"> Product safety management is conducted based on internal regulations. Risks to the environment and health are assessed when new chemical substances are developed. Developing products and manufacturing technologies without the use of the hazardous substances specified in the Industrial Safety and Health Act, the Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc. (Chemical Substances Control Law),² and the EU RoHS Directive.³ The Safety Data Sheet (SDS) is used to convey information appropriately to the supply chain, while dangerous and hazardous substances are indicated pictorially in accordance with the GHS.⁴

1. A quality management method involving the analysis of manufacturing processes using systematic methods including statistical analysis and quality management to reduce defect rates.

2. Law aimed at preventing environmental pollution from chemical substances potentially affecting human health and biodiversity.

3. EU directive on restricting the use of certain hazardous substances in electrical and electronic equipment.

4. The Globally Harmonized System of Classification and Labeling of Chemicals

Key Issues

4

Promoting CSR procurement and the diversification of supply sources

Issue Recognition

There is a critical focus on appropriate procurement of raw materials throughout the global supply chain as a global social issue. The Group promotes fair procurement activities based on its Basic Procurement Policy in an effort to create supply chains that consider the environment.

Specific Initiatives

Basic Procurement Policy	<ul style="list-style-type: none"> Formulated the Basic Procurement Policy, published on our Web site and included in the base contracts with our business partners.
Compliance with the Act Against Delay in Payment of Subcontract Proceeds, etc., to Subcontractors	<ul style="list-style-type: none"> Regularly confirm whether suppliers fall under this Act and provide training for staff in charge of purchasing and procurement.
Elimination of conflict minerals	<ul style="list-style-type: none"> The Basic Procurement Policy calls for the elimination of all conflict minerals. All business partners are asked to adhere to this policy, and we regularly track production all the way back to the smelt factory phase.
Procurement audits	<ul style="list-style-type: none"> Business partners in Japan and overseas are asked to complete a procurement audit checklist and accept our conducting an onsite audit.
Procurement conferences	<ul style="list-style-type: none"> Twice each year, company-wide meetings are held for procurement staff focused on CSR procurement education and to confirm progress status.
Business continuity initiatives	<ul style="list-style-type: none"> Business continuity plans are formulated to prepare for unforeseen events; business partners are asked to understand our plans and formulate plans of their own.
Control of chemical substance used as raw materials	<ul style="list-style-type: none"> We confirm the ISO 14001 acquisition status of business partners and engage in preferential business transactions with certified suppliers to purchase materials with low environmental impact.



Key Issues

5

Respect for human rights, the development of human resources and the promotion of diversity

Issue Recognition

The Group is engaged in realizing the creation of a comfortable work environment that respects basic human rights where each employee can achieve health, self-realization and follow a career path.

Specific Initiatives

Respect for human rights	<ul style="list-style-type: none"> ● Confirm compliance with labor standards of the International Labour Organization. ● Training is held by the Human Rights Enlightenment Promotion Committee.
Education/Training and personal development	<ul style="list-style-type: none"> ● Conduct international adaptation training. ● Provide one year of university study under the auditing student system.
Performance-based personnel evaluation systems and equal opportunities	<ul style="list-style-type: none"> ● Provide evaluation training, disclose evaluation standards and results, and conduct evaluation interviews.
Respect for diversity	<ul style="list-style-type: none"> ● Promote the hiring of local staff at overseas group companies and the hiring of non-Japanese staff in Japan. ● Enrich child-care leave and nursing care leave systems.

Key Issues

6

Respect for and protection of intellectual property

Issue Recognition

We maintain the confidentiality, integrity and availability of information assets possessed by the Group and engage in the acquisition and use of intellectual property and appropriately manage and protect information assets to strategically execute corporate management focused on intellectual assets.

Specific Initiatives

Intellectual property management	<ul style="list-style-type: none"> ● Formulated the Basic Regulations on Intellectual Property and offered a reward system for useful inventions and other work activities that enhance profitability.
Information asset management initiatives	<ul style="list-style-type: none"> ● Formulated the Basic Policy on Information Asset Management and Basic Regulations on Intellectual Property. ● Formulated Standards for Preventing Technology Leaks to prevent unintentional leaks of technologies due to business development into regions with weak protections for intellectual property rights.
Protection of personal information	<ul style="list-style-type: none"> ● Formulated the Personal Information Protection Policy and conduct related training.

Key Issues

7

Contribution to industry and social initiatives

Group companies and employees proactively promote social contribution activities rooted in local communities throughout the world. For example, for the past nine years Shintech (U.S.) has collaborated with several local business partners to conduct the "Safety Town" program, which teaches safety to local kindergarten and elementary school students.

Key Issues

8

Accurate and timely information disclosure and communication with stakeholders

The Group believes the timely and accurate disclosure of company information promotes stakeholder understanding and results in appropriate market valuations. We publish information on our Web site, make announcements through news media and stock exchanges and disclose information in a fair and highly transparent manner through annual reports and business reports for shareholders. We also take advantage of a variety of methods and opportunities to proactively engage in dialogues with stakeholders.

Corporate Governance

For more detailed information, please see the Governance section on the Group's Web site.

WEB https://www.shinetsu.co.jp/en/csr/csr_governance.html

Basic Approach

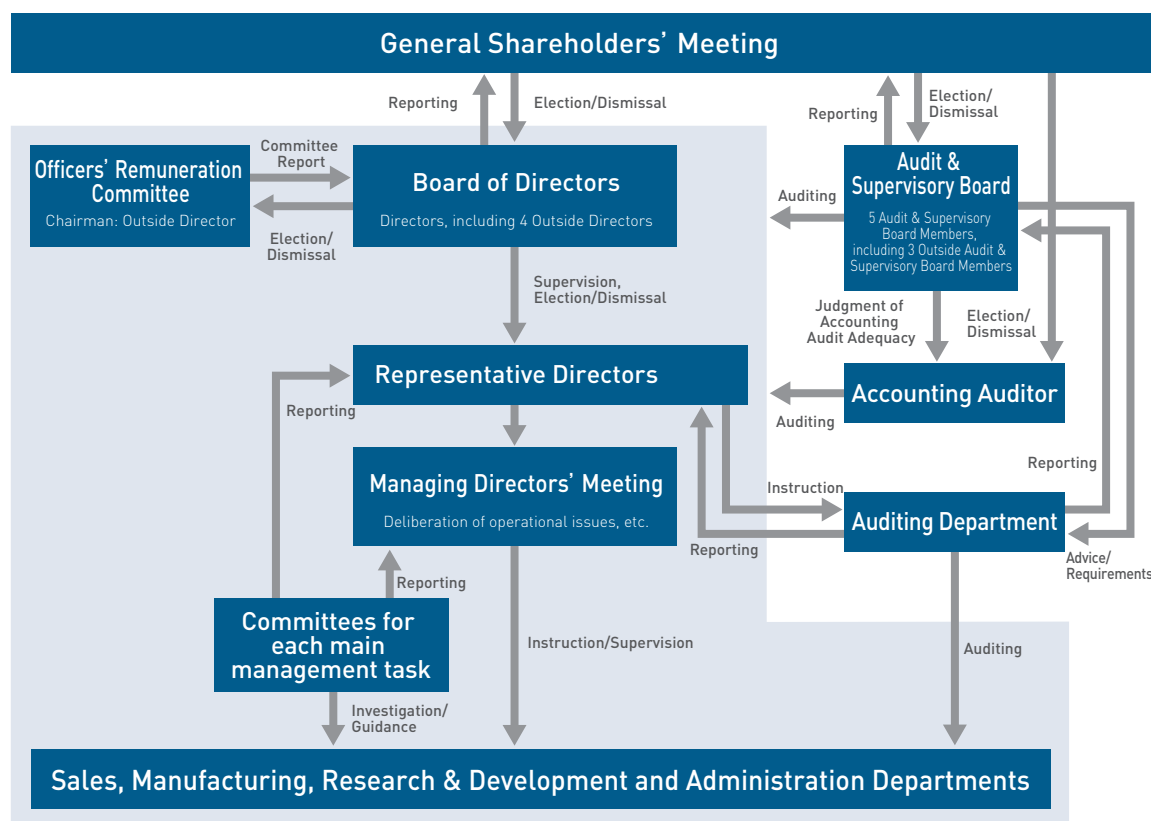
Shin-Etsu Chemical develops various systems and has an efficient organizational structure able to quickly respond to changes in the business environment to realize the basic management policies of meeting shareholder expectations and continuously enhancing corporate value. Furthermore, our basic approach to corporate governance is focused on efforts to disclose accurate information to shareholders and investors from the perspectives of improving management transparency and enhanced monitoring functions, which we position as one of our most important management priorities.

Corporate Governance Structure

Corporate Governance Structure (as of June 30, 2016)

Shin-Etsu Chemical's Audit & Supervisory Board comprises five members, including three highly independent Outside Audit & Supervisory Board members, who strive to ensure a sufficient auditing function by Audit & Supervisory Board members through collaborations between members and internal audit departments. We also strive to enhance the system and the staff members supporting the audits conducted by the Audit & Supervisory Board members. Furthermore, the four highly independent Outside Directors have an effective mechanism to strengthen management supervisory functions. The Outside Directors conduct sufficient management supervision with help by the Audit & Supervisory Board members and the internal audit departments. In this way, the Company employs a statutory auditor system as our corporate governance system to ensure the governance structure desired by the Company and earn the confidence of shareholders and investors.

Shin-Etsu Chemical's Board of Directors consists of 23 members (of which four are Outside Directors) and five Audit & Supervisory Board Members (of which three are Outside Audit & Supervisory Board members). In addition to the Board of Directors, the legally designated deliberator of business execution and the decision-making body, we have established a Managing Directors' Meeting, both of which meet once each month, in principle. Furthermore, the Officers' Remuneration Committee, chaired by an Outside Director, deliberates and evaluates executive remuneration and reports to the Board of Directors.



Officers' Remuneration Committee

To ensure the transparency and fairness of executive remuneration, the Officers' Remuneration Committee was established in 2002 as an advisory body to the Board of Directors. This committee, chaired by Outside Director Frank Peter Popoff, assesses the overall degree of contribution by each Director to performance and general management each fiscal year, reporting the results of these evaluations to the Board of Directors.

About Decision Making Related to the Remuneration Amount and Calculation Method

Shin-Etsu Chemical Director remuneration is within the scope of the compensation framework approved by the General Shareholders' Meeting and determined by the Board of Directors in light of assessments and evaluations by the Officers' Remuneration Committee chaired by an Outside Director. Director remuneration consists of "basic remuneration" reflecting position and duties, a "bonus" based on annual performance and "stock options."

Audit & Supervisory Board member remuneration is within the scope of the compensation framework approved by the General Shareholders' Meeting and is determined through consultation with Audit & Supervisory Board members in light of the duties as an Audit & Supervisory Board member, and consists of "basic remuneration" and a "bonus."

Moreover, Outside Directors and Audit & Supervisory Board members do not receive "stock options." Outside Directors and Outside Audit & Supervisory Board members also do not receive a "bonus."

► Remuneration Amount by Director Type and Its Detail, Number of Applicable Directors (For the year ended March 31, 2016)

Designation	Amount of Remuneration by Type (¥ million)			Number of Recipients (Persons)	Amount of Remuneration by Type (¥ million)	Number of Recipients (Persons)
	Base Amount	Bonus	Total		Stock Option	
Directors (excluding Outside Directors)	978	437	1,415	20	115	18
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	31	9	40	3	—	—
Outside Directors and Outside Audit & Supervisory Board Members	170	—	170	8	—	—

Notes:

1. Includes two Directors and one Audit & Supervisory Board member who resigned at the conclusion of the 138th General Shareholders' Meeting held on June 26, 2015.
2. The bonus indicates the total amount of bonus accrued in the current fiscal year.
3. The Officers' Retirement Benefits Program was repealed at the conclusion of the 131st General Shareholders' Meeting held on June 27, 2008.
4. In line with accounting standards, stock option amounts indicate an expense booked in the current fiscal year.
5. Payments to Directors do not include employee salary amounts (including bonuses) equivalent to concurrently held positions. However, salary amounts for concurrently held positions are immaterial.
6. The total amount of remuneration to Directors (excluding Outside Directors) consisting of "basic remuneration," "bonus" and "stock options" was ¥1,531 million.



Corporate Governance

Internal Control System

Status of Internal Control System Development

Shin-Etsu Chemical has formulated a Basic Policy on Internal Controls to comply with Japanese law, Article 362, Paragraph 4, Item 6, of the Companies Act. In line with this basic policy, we have established and operate an internal control system that undergoes constant review in an effort to enhance its appropriateness and efficiency.

Status of Audit and Supervisory Board Auditing and Internal Auditing

Shin-Etsu Chemical's Audit and Supervisory Board members attend important internal meetings and conduct audits on the execution of operations through the review of important documents and physical observation of plants in Japan and overseas. As necessary, regarding audits conducted by the accounting auditor, the Audit and Supervisory Board members request reports and explanations, sitting down with them for research, and exchange information and opinions several times throughout the year. The staff from the Auditing Department and the Legal Department also assist the Audit and Supervisory Board members with their duties.

In terms of the internal auditing organizational structure, the Auditing Department is constantly engaged in the operational auditing of each department from the perspectives of legal compliance and the rationality of business activities. The results of these activities are reported to management, the Outside Directors and the Audit and Supervisory Board members.

The Audit and Supervisory Board members hold regular monthly meetings with the Auditing Department where they receive progress reports on activities, internal auditing results and other matters. They provide advice on topics including these activities and the selection of key auditing themes and request investigations, if necessary. They also exchange information and opinions on an ongoing basis. The Auditing Department also attends meetings where Audit and Supervisory Board members receive reports and explanations from the Accounting Auditor in an effort to strengthen the auditing function based on more effective tripartite cooperation.

Compliance with the Corporate Governance Code

The Group is in compliance with the Tokyo Stock Exchange Corporate Governance Code and implements all 11 principles therein.

IR Activities

In recognition of the extreme importance of enhancing corporate value through sustainable growth based on dialogues with shareholders and investors, Shin-Etsu Chemical incorporates feedback from these dialogues into management and daily business operations as necessary.

► Status of IR Activities (For the year ended March 31, 2016)

Activity Items	Activity Status	Activity Items	Activity Status
Earnings presentations for analysts and institutional investors	Midyear and full-year earnings	Financial results conference calls with analysts and institutional investors	1Q and 3Q
Small meetings and conferences hosted by securities companies	Six times Two conferences Four small meetings	Briefing for individual investors	Six times
Plant tours, business briefings	Two times Gunma Complex (Japan) Asia Silicones Monomer Limited (Thailand)	Communications tools	<ul style="list-style-type: none"> • IR Web site • Annual Report • Shin-Etsu Report (only Japanese available)

Outside Directors and Outside Audit & Supervisory Board Members (As of March 31, 2016)

	Important Concurrent Positions (Year Ended March 31, 2016)	Status of Activities	Attendance at Board Meetings (Year Ended March 31, 2016)
 Outside Director Frank Peter Popoff	Senior Advisor, American Express Company	Mr. Popoff's opinions and practical advice, from a broad perspective based on his management experience as CEO of The Dow Chemical Company, a U.S. company that has a long history as a global company, have been of significant importance for the Company to expand its business overseas and enhance its corporate value.	Board of Directors Meetings 93%
 Outside Director Masashi Kaneko (Note)		He shared his comments from a broad, high-level perspective capitalizing on his management experience at the former Nikko Cordial Corporation. He also provided thorough supervision from an independent standpoint.	Board of Directors Meetings 100%
 Outside Director Tsuyoshi Miyazaki	Advisor, Mitsubishi Logistics Corporation	He shared his comments from a broad, high-level perspective capitalizing on his management experience at Mitsubishi Logistics Corporation. He also provided thorough supervision from an independent standpoint.	Board of Directors Meetings 100%
 Outside Director Toshihiko Fukui	President, Canon Institute for Global Studies Outside Director, Kikkoman Corporation	He shared his comments from a broad, high-level perspective capitalizing on his outstanding knowledge and wealth of experience related to global finance and economy as an ex-Governor of the Bank of Japan. He also provided thorough supervision from an independent standpoint.	Board of Directors Meetings 93%
 Outside Director Hiroshi Komiyama	Chairman, Mitsubishi Research Institute, Inc. Outside Director, JX Holdings, Inc.	The Director, who has served as President of the University of Tokyo, as well as in a variety of distinguished positions, shared his comments from a broad, high-level perspective capitalizing on his outstanding knowledge and wealth of experience in a wide range of disciplines, including chemical engineering, the global environment, and natural resources and energy. He also provided thorough supervision from an independent standpoint.	Board of Directors Meetings 86%

Note: Outside Director Masashi Kaneko resigned at the end of his term of office effective June 29, 2016.

Corporate Governance

Outside Directors and Outside Audit & Supervisory Board Members (As of March 31, 2016)

	Important Concurrent Positions	Status of Activities	Attendance at Board Meetings (Year Ended March 31, 2016)
 Outside Audit & Supervisory Board Member Taku Fukui	Lawyer <hr/> Managing Partner, Kashiwagi Sogo Law Offices <hr/> Professor, Keio University Law School	At the meetings of the Board of Directors and of the Audit & Supervisory Board, he shared his comments from a legal specialist's point of view and contributed to the establishment of a compliance structure.	Board of Directors Meeting 100% <hr/> Audit & Supervisory Board Members Meeting 100%
 Outside Audit & Supervisory Board Member Yoshihito Kosaka	C.P.A. <hr/> Certified Public Tax Accountant <hr/> Counselor, Kisaragi Audit Corporation <hr/> Outside Auditor, ASTMAX Co., Ltd. <hr/> Audit and Supervisory Committee Member, Star Mica Co., Ltd.	At the Audit & Supervisory Board meetings, he shared his comments from a finance and accounting specialist's point of view and contributed to the establishment of a compliance structure.	Board of Directors Meetings 93% <hr/> Audit & Supervisory Board Members Meetings 100%
 Outside Audit & Supervisory Board Member Kiyoshi Nagano	Outside Director, SBI Holdings, Inc. <hr/> Outside Director, LEC, INC.	At the Audit & Supervisory Board meetings, he shared his comments from an extensive viewpoint based on his management experience at the former Jasdac Securities Exchange, Inc., and contributed to the establishment of a compliance structure.	Board of Directors Meetings 100% <hr/> Audit & Supervisory Board Members Meetings 100%

Board of Directors and Audit & Supervisory Board Members

[As of June 29, 2016]



Chairman
Chihiro Kanagawa

Director & Chairman of SHINTECH Inc.



Vice Chairman
Fumio Akiya

In charge of Semiconductors, Technologies and Environment Control & Safety,
Representative Director & President of Shin-Etsu Handotai Co., Ltd.



President
Yasuhiko Saitoh

Director & President of SHINTECH Inc.
Director & President of Shin-Etsu Handotai America, Inc.

Senior Managing Director	Toshinobu Ishihara	In charge of New Functional Materials and Patents, General Manager, Research & Development Department
Senior Managing Director	Susumu Ueno	General Manager, Silicone Division
Managing Director	Koji Takasugi	In charge of International Business and Purchasing
Managing Director	Masahiko Todoroki	General Manager, Planning & Administration Dept., Semiconductor Materials Division, Managing Director of Shin-Etsu Handotai Co., Ltd.
Managing Director	Toshiya Akimoto	In charge of Public Relations and Legal Affairs, General Manager, Office of the Secretariat and Office of the President
Managing Director	Fumio Arai	General Manager, Organic Chemicals Division, Director & President of Shin-Etsu PVC B.V. and SE Tylose GmbH & Co. KG
Managing Director	Yukihiro Matsui	General Manager and Magnet Department Manager of Electronics Materials Division
Managing Director	Masaki Miyajima	In charge of Advanced Materials, General Manager, PVC Division
Director-Advisor	Shunzo Mori	
Director	Frank Peter Popoff ¹	Senior Advisor, American Express Company
Director	Tsuyoshi Miyazaki ¹	Advisor, Mitsubishi Logistics Corporation
Director	Toshihiko Fukui ¹	President, the Canon Institute for Global Studies
Director	Hiroshi Komiyama ¹	Chairman, Mitsubishi Research Institute, Inc.
Director	Toshiyuki Kasahara	General Manager, Finance & Accounting Department
Director	Hidenori Onezawa	In charge of Auditing
Director	Kazumasa Maruyama	General Manager, New Functional Materials Department
Director	Kenji Ikegami	In charge of General Affairs, General Manager, Personnel & Labor Relations Department
Director	Toshio Shiobara	In charge of Special Functional Products, Deputy General Manager and Organic Electronics Materials Department Manager of Electronics Materials Division
Director	Yoshimitsu Takahashi	General Manager, Business Development Department
Director	Kai Yasuoka	General Manager, International Division
Full-Time Audit & Supervisory Board Member	Osamu Okada	
Full-Time Audit & Supervisory Board Member	Hiroaki Okamoto	
Audit & Supervisory Board Member	Taku Fukui ²	Managing Partner, Kashiwagi Sogo Law Offices
Audit & Supervisory Board Member	Yoshihito Kosaka ²	Counselor, Kisaragi Audit Corporation
Audit & Supervisory Board Member	Kiyoshi Nagano ²	Outside Director, SBI Holdings, Inc.

Notes: 1. Indicates an Outside Director as defined in Item 15, Article 2, of the Corporations Law.

2. Indicates an Outside Audit & Supervisory Board Member as defined in Item 16, Article 2, of the Corporations Law.

Eleven-Year Summary

For more detailed information, please see the Financial & IR Information on the Group's Web site

WEB https://www.shinetsu.co.jp/en/ir/_data.html

	2006	2007	2008	2009	2010
For the year:					
Net sales	¥1,127,915	¥1,304,695	¥1,376,364	¥1,200,813	¥ 916,837
Cost of sales	831,333	933,199	946,940	853,433	700,902
Selling, general and administrative expenses	111,262	130,467	142,278	114,453	98,718
Operating income	185,320	241,028	287,145	232,927	117,215
Ordinary income	185,040	247,018	300,040	250,533	127,019
Profit attributable to owners of parent	115,045	154,010	183,580	154,731	83,852
Capital expenditures	145,329	210,613	268,479	159,406	123,793
R&D costs	32,003	41,737	47,944	37,469	33,574
Depreciation and amortization	111,637	138,462	141,269	119,457	87,722
At year-end:					
Total assets	¥1,671,280	¥1,859,995	¥1,918,544	¥1,684,944	¥1,769,139
Working capital	572,205	628,986	638,806	606,632	612,447
Common stock	119,419	119,419	119,419	119,419	119,419
Net assets	—	1,360,315	1,483,669	1,407,353	1,474,212
Stockholders' equity	1,173,679	—	—	—	—
Interest-bearing debt	83,838	45,143	34,045	23,827	20,052
Per share (Yen and U.S. dollars):					
Earnings per share—basic	¥ 266.63	¥ 357.78	¥ 426.63	¥ 362.39	¥ 197.53
Earnings per share—fully diluted ²	266.07	357.32	426.35	362.35	197.50
Cash dividends	35.00	70.00	90.00	100.00	100.00
Payout ratio (%)	13.1	19.6	21.1	27.6	50.6
Net assets	2,730.94	3,065.80	3,344.17	3,218.28	3,370.56
General:					
Operating income to net sales ratio (%)	16.4	18.5	20.9	19.4	12.8
Profit attributable to owners of parent to net sales ratio (%)	10.2	11.8	13.3	12.9	9.1
ROE (%) ³	10.6	12.4	13.3	11.0	6.0
ROA (%)	11.8	14.0	15.9	13.9	7.4
Equity ratio (%)	70.2	71.0	75.0	81.1	80.9
Number of employees	18,888	19,177	20,241	19,170	16,955
Number of shares issued (Thousands)	432,106	432,106	432,106	432,106	432,106

Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥113 = US\$1, the approximate rate of exchange on March 31, 2016.

2. Diluted earnings per share for the fiscal year ended March 31, 2012 is not presented as there were no securities with dilutive effect.

3. Stockholders' equity used for calculation of indices from the fiscal year ended March 31, 2007 consists of "stockholders' equity" and "accumulated other comprehensive income."

					Millions of yen	Thousands of U.S. dollars ¹
2011	2012	2013	2014	2015	2016	2016
¥ 1,058,257	¥ 1,047,731	¥ 1,025,409	¥ 1,165,819	¥ 1,255,543	¥ 1,279,807	\$ 11,325,727
803,574	798,592	769,427	873,879	940,399	930,019	8,230,260
105,460	99,505	98,938	118,130	129,814	141,262	1,250,107
149,221	149,632	157,043	173,809	185,329	208,525	1,845,359
160,338	165,237	170,207	180,605	198,025	220,005	1,946,948
100,119	100,643	105,714	113,617	128,606	148,840	1,317,169
119,884	87,165	86,841	83,155	109,903	134,753	1,192,505
37,321	35,725	37,671	43,546	47,165	53,165	470,494
93,732	82,868	80,961	91,445	96,918	100,466	889,084
¥ 1,784,166	¥ 1,809,841	¥ 1,920,903	¥ 2,198,912	¥ 2,452,306	¥ 2,510,085	\$ 22,213,145
638,493	694,803	832,878	981,667	1,100,999	1,170,679	10,359,992
119,419	119,419	119,419	119,419	119,419	119,419	1,056,811
1,469,429	1,494,573	1,623,176	1,822,135	2,012,711	2,080,465	18,411,201
—	—	—	—	—	—	—
14,574	15,732	13,929	15,638	14,328	13,470	119,209
¥ 235.80	¥ 237.03	¥ 248.94	¥ 267.20	¥ 302.05	¥ 349.46	\$ 3.093
235.80	—	248.92	267.07	301.98	349.42	3.092
100.00	100.00	100.00	100.00	100.00	110.00	0.973
42.4	42.2	40.2	37.4	33.1	31.5	31.5
3,360.39	3,422.93	3,709.19	4,165.28	4,602.80	4,761.48	42.137
14.1	14.3	15.3	14.9	14.8	16.3	16.3
9.5	9.6	10.3	9.7	10.2	11.6	11.6
7.0	7.0	7.0	6.8	6.9	7.5	7.5
9.0	9.2	9.1	8.8	8.5	8.9	8.9
80.0	80.3	82.0	80.6	79.9	80.8	80.8
16,302	16,167	17,712	17,892	18,276	18,407	18,407
432,106	432,106	432,106	432,106	432,106	432,106	432,106

Consolidated Balance Sheets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
ASSETS			
Current Assets:			
Cash and time deposits	¥ 461,489	¥ 597,048	\$ 5,283,612
Notes and accounts receivable—trade	292,748	268,905	2,379,692
Securities	304,180	236,486	2,092,803
Merchandise and finished goods	139,133	133,664	1,182,873
Work in process	12,533	13,367	118,295
Raw materials and supplies	125,243	133,981	1,185,678
Deferred taxes, current	36,721	36,330	321,507
Other	38,370	47,689	422,035
Less: Allowance for doubtful accounts	(10,575)	(14,840)	(131,335)
Total current assets	1,399,846	1,452,633	12,855,163
Fixed Assets:			
Property, Plant and Equipment:			
Buildings and structures, net	175,857	170,478	1,508,662
Machinery and equipment, net	441,123	410,322	3,631,171
Land	79,679	83,108	735,469
Construction in progress	80,230	133,551	1,181,874
Other, net	7,519	7,510	66,468
Total property, plant and equipment	784,409	804,972	7,123,646
Intangible Assets	18,012	13,152	116,395
Investments and Other Assets:			
Investments in securities	145,726	130,202	1,152,238
Net defined benefit asset	2,040	1,551	13,725
Deferred taxes, non-current	15,858	16,458	145,646
Other	87,808	92,923	822,328
Less: Allowance for doubtful accounts	(1,394)	(1,807)	(15,998)
Total investments and other assets	250,038	239,327	2,117,940
Total fixed assets	1,052,460	1,057,451	9,357,981
Total Assets	¥ 2,452,306	¥ 2,510,085	\$ 22,213,145

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
LIABILITIES			
Current Liabilities:			
Notes and accounts payable—trade	¥ 120,694	¥ 115,557	\$ 1,022,630
Short-term borrowings	6,825	7,873	69,678
Accounts payable—other	60,692	49,071	434,261
Accrued expenses	60,233	56,824	502,867
Accrued income taxes	33,554	29,519	261,235
Accrued bonuses for employees	2,721	2,627	23,248
Accrued bonuses for directors	513	547	4,848
Other	13,611	19,933	176,400
Total current liabilities	298,846	281,954	2,495,170
Long-Term Liabilities:			
Long-term debt	7,116	5,288	46,804
Deferred taxes, non-current	93,571	96,183	851,183
Net defined benefit liability	33,401	33,319	294,865
Other	6,659	12,872	113,920
Total long-term liabilities	140,748	147,665	1,306,772
Total Liabilities	439,594	429,619	3,801,943
NET ASSETS			
Stockholders' Equity:			
Common stock	119,419	119,419	1,056,811
Additional paid-in capital	128,572	128,759	1,139,461
Retained earnings	1,626,873	1,731,042	15,318,963
Less: Treasury stock, at cost	(33,837)	(33,407)	(295,645)
Total stockholders' equity	1,841,029	1,945,813	17,219,590
Accumulated Other Comprehensive Income:			
Unrealized gains (losses) on available-for-sale securities	22,349	13,780	121,949
Deferred gains (losses) on hedges	(91)	1,611	14,263
Foreign currency translation adjustments	100,425	68,566	606,786
Remeasurements of defined benefit plans	(3,382)	(1,480)	(13,104)
Total accumulated other comprehensive income	119,300	82,478	729,895
Share Subscription Rights	139	237	2,099
Non-Controlling Interests in Consolidated Subsidiaries	52,242	51,936	459,616
Total net assets	2,012,711	2,080,465	18,411,201
Total Liabilities and Net Assets	¥ 2,452,306	¥ 2,510,085	\$ 22,213,145

Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the fiscal years ended March 31, 2016, 2015 and 2014

	Millions of yen			Thousands of U.S. dollars
	2014	2015	2016	2016
Net Sales	¥ 1,165,819	¥ 1,255,543	¥ 1,279,807	\$ 11,325,727
Cost of Sales	873,879	940,399	930,019	8,230,260
Gross profit	291,939	315,143	349,787	3,095,466
Selling, General and Administrative Expenses	118,130	129,814	141,262	1,250,107
Operating income	173,809	185,329	208,525	1,845,359
Other Income (Expenses):				
Interest income	3,454	3,867	4,011	35,499
Dividend income	1,725	1,913	4,506	39,879
Equity in earnings (losses) of affiliates	1,499	(383)	3,302	29,228
Subsidy income	—	—	2,837	25,112
Interest expenses	(872)	(790)	(452)	(4,000)
Loss on disposal of property, plant and equipment	(1,386)	(976)	(1,329)	(11,769)
Foreign exchange gain (loss)	9,006	15,164	(2,760)	(24,425)
Other, net	(6,630)	(6,099)	1,363	12,064
Ordinary income	180,605	198,025	220,005	1,946,948
Income before income taxes and non-controlling interests	180,605	198,025	220,005	1,946,948
Income Taxes:				
Current	67,138	71,330	65,342	578,255
Deferred	(1,370)	(3,207)	4,284	37,916
	65,768	68,122	69,627	616,171
Profit	114,837	129,902	150,377	1,330,776
Profit Attributable to Non-Controlling Interests	(1,219)	(1,295)	(1,537)	(13,607)
Profit Attributable to Owners of Parent	¥ 113,617	¥ 128,606	¥ 148,840	\$ 1,317,169

	Yen			U.S. dollars
Earnings per Share:				
Profit attributable to owners of parent—basic	¥ 267.20	¥ 302.05	¥ 349.46	\$ 3.092
Profit attributable to owners of parent—fully diluted	267.07	301.98	349.42	3.092
Cash dividends	100.00	100.00	110.00	0.973
Weighted-Average Number of Shares Outstanding (Thousands)	425,222	425,784	425,919	425,919

Consolidated Statements of Comprehensive Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the fiscal years ended March 31, 2016, 2015 and 2014

	Millions of yen			Thousands of U.S. dollars
	2014	2015	2016	2016
Profit	¥ 114,837	¥ 129,902	¥ 150,377	\$ 1,330,776
Other Comprehensive Income:				
Unrealized gains (losses) on available-for-sale securities	(1,122)	11,978	(8,589)	(76,013)
Deferred gains (losses) on hedges	309	(585)	1,703	15,073
Foreign currency translation adjustments	125,605	92,686	(33,370)	(295,314)
Remeasurements of defined benefit plans	—	(1,936)	1,905	16,866
Share of other comprehensive income of affiliates accounted for using the equity method	1,835	271	(141)	(1,248)
Total other comprehensive income	126,627	102,414	(38,491)	(340,636)
Comprehensive Income	¥ 241,465	¥ 232,316	¥ 111,885	\$ 990,140
(Breakdown)				
Comprehensive income attributable to owners of parent	¥ 236,409	¥ 228,992	¥ 112,017	\$ 991,309
Comprehensive income attributable to non-controlling interests	5,056	3,324	(132)	(1,168)

Consolidated Statements of Changes in Net Assets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

	Thousands	Stockholders' Equity				Millions of yen
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total
Balance at April 1, 2013	432,106	¥119,419	¥128,234	¥1,470,015	¥(39,167)	¥1,678,502
Cash dividends				(42,505)		(42,505)
Profit attributable to owners of parent				113,617		113,617
Purchase of treasury stock					(150)	(150)
Disposal of treasury stock			391		4,362	4,754
Net changes of items other than stockholders' equity						
Balance at March 31, 2014	432,106	¥119,419	¥128,625	¥1,541,127	¥(34,954)	¥1,754,218

	Accumulated Other Comprehensive Income							Millions of yen
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Share subscription rights	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2013	¥11,591	¥174	¥(114,172)	¥ —	¥(102,406)	¥2,149	¥44,931	¥1,623,176
Cash dividends								(42,505)
Profit attributable to owners of parent								113,617
Purchase of treasury stock								(150)
Disposal of treasury stock								4,754
Net changes of items other than stockholders' equity	(1,152)	319	123,624	(1,470)	121,321	(1,722)	3,643	123,242
Balance at March 31, 2014	¥10,439	¥493	¥ 9,451	¥(1,470)	¥ 18,914	¥ 426	¥48,574	¥1,822,135

	Thousands	Stockholders' Equity				Millions of yen
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total
Balance at April 1, 2014	432,106	¥119,419	¥128,625	¥1,541,127	¥(34,954)	¥1,754,218
Cumulative effects of changes in accounting policies				(287)		(287)
Cash dividends				(42,573)		(42,573)
Profit attributable to owners of parent				128,606		128,606
Purchase of treasury stock					(24)	(24)
Disposal of treasury stock			(53)		1,141	1,088
Net changes of items other than stockholders' equity						
Balance at March 31, 2015	432,106	¥119,419	¥128,572	¥1,626,873	¥(33,837)	¥1,841,029

	Accumulated Other Comprehensive Income							Millions of yen
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Share subscription rights	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2014	¥10,439	¥493	¥ 9,451	¥(1,470)	¥ 18,914	¥426	¥48,574	¥1,822,135
Cumulative effects of changes in accounting policies								(287)
Cash dividends								(42,573)
Profit attributable to owners of parent								128,606
Purchase of treasury stock								(24)
Disposal of treasury stock								1,088
Net changes of items other than stockholders' equity	11,909	(585)	90,973	(1,912)	100,385	(287)	3,667	103,766
Balance at March 31, 2015	¥22,349	¥(91)	¥100,425	¥(3,382)	¥119,300	¥139	¥52,242	¥2,012,711

Consolidated Statements of Changes in Net Assets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

	Thousands	Stockholders' Equity				Millions of yen
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total
Balance at April 1, 2015	432,106	¥119,419	¥128,572	¥1,626,873	¥(33,837)	¥1,841,029
Cash dividends				(44,720)		(44,720)
Profit attributable to owners of parent				148,840		148,840
Purchase of treasury stock					(16)	(16)
Disposal of treasury stock			(19)		445	425
Others			206	49		255
Net changes of items other than stockholders' equity						
Balance at March 31, 2016	432,106	¥119,419	¥128,759	¥1,731,042	¥(33,407)	¥1,945,813

	Accumulated Other Comprehensive Income							Millions of yen
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Share subscription rights	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2015	¥22,349	¥ (91)	¥100,425	¥(3,382)	¥119,300	¥139	¥52,242	¥2,012,711
Cash dividends								(44,720)
Profit attributable to owners of parent								148,840
Purchase of treasury stock								(16)
Disposal of treasury stock								425
Others								255
Net changes of items other than stockholders' equity	(8,568)	1,703	(31,858)	1,901	(36,822)	97	(306)	(37,030)
Balance at March 31, 2016	¥13,780	¥1,611	¥ 68,566	¥(1,480)	¥ 82,478	¥237	¥51,936	¥2,080,465

	Thousands	Stockholders' Equity				Thousands of U.S. dollars
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total
Balance at April 1, 2015	432,106	\$1,056,811	\$1,137,809	\$14,397,114	\$(299,442)	\$16,292,292
Cash dividends				(395,754)		(395,754)
Profit attributable to owners of parent				1,317,169		1,317,169
Purchase of treasury stock					(143)	(143)
Disposal of treasury stock			(172)		3,940	3,767
Others			1,824	433		2,257
Net changes of items other than stockholders' equity						
Balance at March 31, 2016	432,106	\$1,056,811	\$1,139,461	\$15,318,963	\$(295,645)	\$17,219,590

	Accumulated Other Comprehensive Income							Thousands of U.S. dollars
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Share subscription rights	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2015	\$197,779	\$(810)	\$888,718	\$(29,931)	\$1,055,755	\$1,235	\$462,325	\$17,811,609
Cash dividends								(395,754)
Profit attributable to owners of parent								1,317,169
Purchase of treasury stock								(143)
Disposal of treasury stock								3,767
Others								2,257
Net changes of items other than stockholders' equity	(75,829)	15,073	(281,932)	16,827	(325,860)	863	(2,709)	(327,706)
Balance at March 31, 2016	\$121,949	\$14,263	\$606,786	\$(13,104)	\$729,895	\$2,099	\$459,616	\$18,411,201

Consolidated Statements of Cash Flows

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the fiscal years ended March 31, 2016, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2016
Cash Flows from Operating Activities:			
Income before income taxes and non-controlling interests	¥ 180,605	¥ 198,025	¥ 220,005
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	91,445	96,918	100,466
Loss on impairment of fixed assets	—	4,679	3,343
Increase (decrease) in net defined benefit liability	4,007	(573)	2,461
(Gain) loss on sales of investments in securities	(1)	(45)	(145)
(Gain) loss on write-down of investments in securities	175	1,379	40
Increase (decrease) in allowance for doubtful accounts	(32)	4,296	4,128
Interest and dividend income	(5,180)	(5,780)	(8,517)
Interest expenses	872	790	452
Exchange (gain) loss	660	(2,152)	4,451
Equity in (earnings) losses of affiliates	(1,499)	383	(3,302)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(561)	(13,990)	20,180
(Increase) decrease in inventories	18,246	7,967	(8,510)
(Increase) decrease in long-term advance payment	2,830	7,398	3,900
Increase (decrease) in notes and accounts payable	3,593	6,674	(4,610)
Other, net	1,081	507	12,270
Subtotal	296,245	306,477	346,614
Proceeds from interest and dividends	5,931	6,529	9,133
Payments of interest	(887)	(782)	(468)
Payments of income taxes	(41,554)	(68,765)	(73,635)
Net cash provided by operating activities	259,734	243,459	281,643
Cash Flows from Investing Activities:			
(Increase) decrease in time deposits	(15,019)	(15,278)	(79,555)
Purchases of securities	(450,429)	(216,654)	(190,901)
Proceeds from redemption of securities	285,380	170,359	265,146
Purchases of property, plant and equipment	(66,814)	(86,709)	(147,227)
Proceeds from sales of property, plant and equipment	175	820	271
Purchases of intangible fixed assets	(2,444)	(659)	(818)
Purchases of investments in securities	(3,836)	(7,528)	(1,854)
Proceeds from sales of investments in securities	2,277	122	310
Proceeds from redemption of investments in securities	5,000	0	5,000
Purchases of investments in subsidiaries resulting in change in scope of consolidation	(7,296)	—	(2,516)
Payments of loans	(5)	(333)	(2,858)
Proceeds from collection of loans	561	462	698
Other, net	5,558	(11,743)	(12,294)
Net cash used for investing activities	(246,894)	(167,142)	(166,599)
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term borrowings	(693)	(918)	151
Proceeds from long-term debt	306	16	—
Repayments of long-term debt	(1,203)	(244)	(875)
Purchases of treasury stock	(150)	(24)	(16)
Proceeds from sales of treasury stock	3,806	920	361
Cash dividends paid	(42,505)	(42,573)	(44,720)
Cash dividends paid to non-controlling interests	(496)	(508)	(576)
Other, net	(425)	(213)	6,733
Net cash used for financing activities	(41,361)	(43,545)	(38,941)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	28,052	28,515	(12,513)
Net Increase (Decrease) in Cash and Cash Equivalents	(468)	61,286	63,589
Cash and Cash Equivalents at Beginning of Year	363,028	362,560	423,846
Increase (Decrease) in Cash and Cash Equivalents Resulting from Changes in Scope of Consolidation	—	—	167
Cash and Cash Equivalents at End of Year	¥ 362,560	¥ 423,846	¥ 487,604

Consolidated Subsidiaries

(As of March 31, 2016)

				PVC/Chlor-Alkali Business		Semiconductor Silicon Business		Silicones Business		
Electronics and Functional Materials Business				Specialty Chemicals Business		Diversified Business				
North America	Company Name	Location	Percentage of Voting Rights	Europe	Company Name	Location	Percentage of Voting Rights			
	Shintech Inc.	U.S.A.	100.0		Shin-Etsu Handotai Europe, Ltd.	U.K.	100.0			
	Shin-Etsu Handotai America, Inc.	U.S.A.	100.0		Shin-Etsu PVC B.V.	The Netherlands	100.0			
	S-E, Inc.	U.S.A.	100.0		Shin-Etsu International Europe B.V.	The Netherlands	100.0			
	Shin-Etsu MicroSi, Inc.	U.S.A.	100.0		Shin-Etsu Polymer Europe B.V.	The Netherlands	100.0			
	Shin-Etsu Silicones of America, Inc.	U.S.A.	100.0		Shin-Etsu Silicones Europe B.V.	The Netherlands	100.0			
	Shin-Etsu Polymer America, Inc.	U.S.A.	100.0		SE Tylose GmbH & Co. KG	Germany	100.0			
	K-Bin, Inc.	U.S.A.	100.0		Shin-Etsu Polymer Hungary Kft.	Hungary	100.0			
	SE Tylose USA, Inc.	U.S.A.	100.0		CIRES, Lda.	Portugal	100.0			
Japan	Company Name	Location	Percentage of Voting Rights	Asia	Company Name	Location	Percentage of Voting Rights			
	Shin-Etsu Handotai Co., Ltd.	Chiyoda-ku, Tokyo	100.0		S.E.H. Malaysia Sdn. Bhd.	Malaysia	100.0			
	Shin-Etsu Polymer Co., Ltd.	Chiyoda-ku, Tokyo	52.6		Shin-Etsu (Malaysia) Sdn. Bhd.	Malaysia	100.0			
	Shin-Etsu Astech Co., Ltd.	Chiyoda-ku, Tokyo	99.6		Shin-Etsu Polymer (Malaysia) Sdn. Bhd.	Malaysia	100.0			
	Naoetsu Electronics Co., Ltd.	Joetsu City, Niigata	100.0		S.E.H. (Shah Alam) Sdn. Bhd.	Malaysia	100.0			
	Shin-Etsu Engineering Co., Ltd.	Chiyoda-ku, Tokyo	100.0		Shin-Etsu Electronics Materials Singapore Pte. Ltd.	Singapore	100.0			
	Nagano Electronics Industrial Co., Ltd.	Chikuma City, Nagano	90.0		Shin-Etsu Singapore Pte. Ltd.	Singapore	100.0			
	Shin-Etsu Finetech Co., Ltd.	Taito-ku, Tokyo	100.0		Shin-Etsu Polymer Singapore Pte. Ltd.	Singapore	100.0			
	JAPAN VAM & POVAL Co., Ltd.	Sakai City, Osaka	100.0		SHIN-ETSU HANDOTAI SINGAPORE PTE. LTD.	Singapore	100.0			
	Nissin Chemical Industry Co., Ltd.	Echizen City, Fukui	100.0		Shin-Etsu Handotai Taiwan Co., Ltd.	Taiwan	70.0			
	Nihon Resin Co., Ltd.	Minato-ku, Tokyo	100.0		Shin-Etsu Silicone Taiwan Co., Ltd.	Taiwan	93.3			
	Naoetsu Precision Co., Ltd.	Joetsu City, Niigata	100.0		Shin-Etsu Opto Electronic Co., Ltd.	Taiwan	80.0			
	Skyward Information System Co., Ltd.	Chiyoda-ku, Tokyo	100.0		Shin-Etsu Magnetics Philippines, Inc.	Philippines	100.0			
	Shinano Electric Refining Co., Ltd.	Chiyoda-ku, Tokyo	100.0		Shin-Etsu Silicones (Thailand) Ltd.	Thailand	100.0			
	Fukui Environmental Analysis Center Co., Ltd.	Echizen City, Fukui	100.0		Asia Silicones Monomer Limited	Thailand	100.0			
	Shin-Etsu Film Co., Ltd.	Echizen City, Fukui	100.0		Shin-Etsu Polymer (Thailand) Ltd.	Thailand	100.0			
	Shin-Etsu Technology Service Co., Ltd.	Echizen City, Fukui	76.9		Shin-Etsu Silicone International Trading (Shanghai) Co., Ltd.	China	100.0			
	Urawa Polymer Co., Ltd.	Kuki City, Saitama	100.0		Shin-Etsu Polymer Shanghai Co., Ltd.	China	100.0			
	Niigata Polymer Company Limited	Itoigawa City, Niigata	100.0		Shin-Etsu Polymer Hong Kong Co., Ltd.	China	100.0			
	Shinano Polymer Co., Ltd.	Shiojiri City, Niigata	100.0		Dongguan Shin-Etsu Polymer Co., Ltd.	China	100.0			
	Naoetsu Sangyo Limited	Joetsu City, Niigata	100.0		Suzhou Shin-Etsu Polymer Co., Ltd.	China	100.0			
	San-Ace Co., Ltd.	Saitama City, Saitama	100.0		Shin-Etsu Silicone (Nantong) Co., Ltd.	China	100.0			
	Shinken Total Plant Co., Ltd.	Takasaki City, Gunma	100.0		Shin-Etsu (Jiangsu) Optical Preform Co., Ltd.	China	75.0			
	Saitama Shinkoh Mold Co., Ltd.	Higashi Matsuyama City, Saitama	100.0		PT. Shin-Etsu Polymer Indonesia	Indonesia	100.0			
	Shinkoh Mold Co., Ltd.	Annaka City, Gunma	100.0		Shin-Etsu Polymer India Pvt. Ltd.	India	100.0			
	Shin-Etsu Magnet Co., Ltd.	Echizen City, Fukui	100.0		Shin-Etsu Silicone Korea Co., Ltd.	South Korea	100.0			
	Human Create Co., Ltd.	Chiyoda-ku, Tokyo	100.0		Simcoa Operations Pty. Ltd.	Australia	100.0			
	Kashima Chlorine & Alkali Co., Ltd.	Kamisu City, Ibaraki	79.0							
	Kashima Vinyl Chloride Monomer Co., Ltd.	Kamisu City, Ibaraki	70.6							
				21 other consolidated subsidiaries						

Investor Information

[As of March 31, 2016]

Company Name	Shin-Etsu Chemical Co., Ltd.	
Head Office	6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, Japan	
Date of Establishment	September 16, 1926	
Capital	¥119,419 million	
Number of Employees	18,407 (Consolidated)	
Common Stock	Number of Shares Authorized	1,720,000,000
	Number of Shares Issued*	432,106,693
	*Includes 6,127,692 treasury shares.	
	Share Unit of Exchange	100 stocks
	Number of Stockholders	54,699
Stock Listings	Tokyo, Nagoya (Ticker Code: 4063)	
Fiscal Year-End	March 31	
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation	
Stockholders' Meeting	June	
Contact	Public Relations Department	Phone: +81-3-3246-5091 Fax: +81-3-3246-5096 e-mail: sec-pr@shinetsu.jp

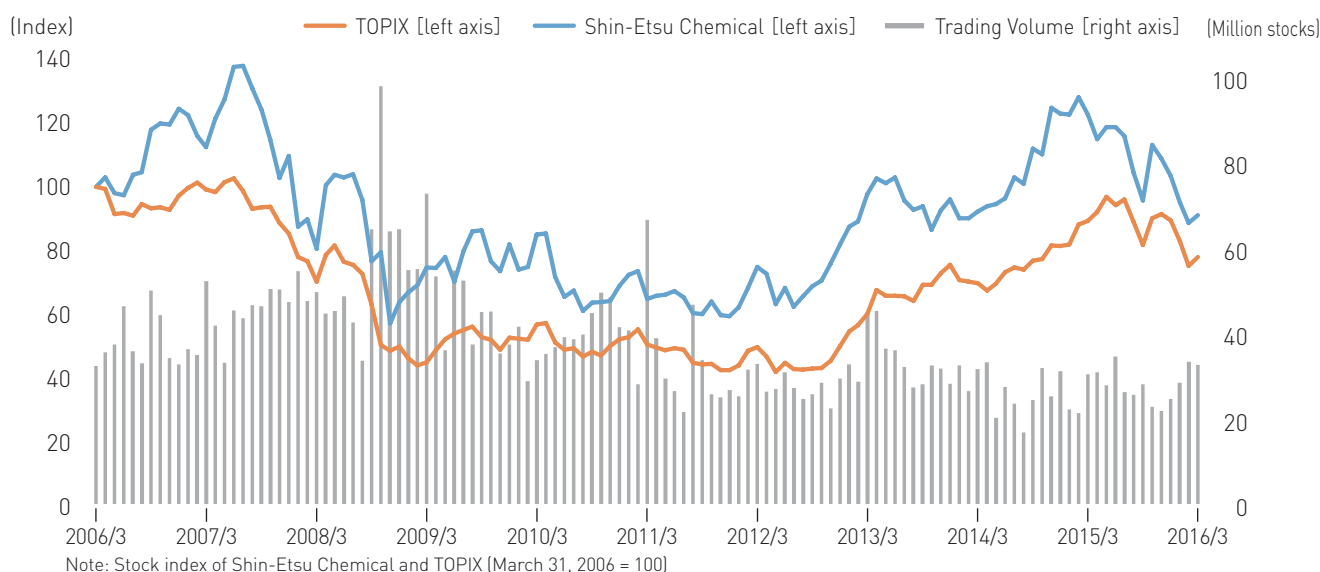
Major Shareholders

(*Rounded down to the nearest 1,000.)

Name of Shareholder	Number of Shares Held (Thousand shares*)	Holding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	41,394	9.7
Japan Trustee Services Bank, Ltd. (Trust Account)	32,268	7.6
Nippon Life Insurance Company	21,933	5.1
The Hachijuni Bank, Ltd.	11,790	2.8
Japan Trustee Services Bank, Ltd. (Trust Account 4)	11,512	2.7
Meiji Yasuda Life Insurance Company	10,687	2.5
GIC PRIVATE LIMITED	6,487	1.5
THE BANK OF NEW YORK MELLON SA/NV 10	6,467	1.5
STATE STREET BANK WEST CLIENT - TREATY 505234	6,315	1.5
Sompo Japan Nipponkoa Insurance Inc.	5,357	1.3

Note: Shin-Etsu Chemical, which owns 6,127,692 treasury shares, is excluded from consideration as a major shareholder as defined above. The holding ratios are computed net of this treasury stock.

Stock Price Movement



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Corporate Information



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