



Chemistry at Work

ANNUAL REPORT 2017

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 creating value through providing key materials and technologies.

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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For more details:

Financial and IR information

▶ <https://www.shinetsu.co.jp/en/ir/>

CSR information

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

HIGHLIGHT

FY2016 Performance Highlights

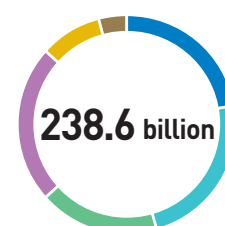
(For the year ended March 31, 2017)

Billions of yen

	FY2014	FY2015	FY2016
Net Sales	1,255.5	1,279.8	1,237.4
Operating Income	185.3	208.5	238.6
Income before Income Taxes and Non-Controlling Interests	198.0	220.0	242.1
Profit Attributable to Owners of Parent	128.6	148.8	175.9
			Yen
Earnings per Share	302	349	412
Cash Dividend per Share	100	110	120
			%
ROIC ¹	9.9	11.4	14.0
ROE	6.9	7.5	8.5

Billions of yen

Operating Income by Segment	FY2014	FY2015	FY2016
■ PVC/Chlor-Alkali Business	50.2	44.6	53.1
■ Semiconductor Silicon Business	35.6	46.9	55.9
■ Silicones Business	33.4	41.5	42.5
■ Electronics and Functional Materials Business	46.2	51.4	55.2
■ Specialty Chemicals Business	15.2	18.1	22.2
■ Processing, Trading & Specialized Services Business ²	4.8	5.6	9.5



1. ROIC (Return on invested capital): Net operating profit after tax / (Net assets + Interest-bearing liabilities-Cash)

2. The name of this business segment was changed from the previous name of "Diversified Business" to "Processing, Trading & Specialized Services Business" in FY2016. This change was made in order to make clearer the contents of this business segment. There is no change in the products and services that come under this business segment.

Operational safety
exceeding
industry
average



0.17

Low lost time incident frequency rate
(Japan industrial average 0.33)

High market
share



Global rank Japan rank

Polyvinyl chloride

Semiconductor
silicon

Advanced
photomask blanks

Pheromone
formulations

No. 1

Cellulose

Photoresists

No. 2 No. 1

Silicones

No. 4 No. 1

Production and
sales bases
throughout the world



20 countries and regions

PVC/Chlor-Alkali Business	5 countries
Semiconductor Silicon Business	6
Silicones Business	10
Electronics and Functional Materials Business	8
Specialty Chemicals Business	8
Processing, Trading & Specialized Services Business	12

Global employees



19,000 people

Including 8,000 people in Japan

Patents
acquired



2,000 patents

Patents acquired

18,000 patents

Patents held

Chairman's Message

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

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

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

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

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

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



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

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

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

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



C. Kanagawa
Chairman



President's Message

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



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

(Billions of yen)

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

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

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

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

Aggressive Growth Investments

Our capital initiatives continue:

1 Major Capital Investments Completed in FY2016

PVC/Chlor-Alkali Business

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

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

Electronics and Functional Materials Business

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

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

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

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

2 Major Capital Investments Underway



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

PVC/Chlor-Alkali Business

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

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

Silicones Business

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

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

Aggressive Growth Investments

2 Major Capital Investments Underway (Continued)



Shin-Etsu Magnetic Materials Vietnam (Haiphong City)

Silicones Business

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

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

Electronics and Functional Materials Business

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

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

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

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

3 Major Investment Decisions Made in FY2016



Photomask blanks plant (Fukui Prefecture, Japan)

Silicones Business

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

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

Processing, Trading & Specialized Services Business

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

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

Our Technical and Engineering Expertise as Backbone of Our Operation

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

Let me share our engineering *modus operandi*:

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

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

Strong Research and Development Initiatives

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

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

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



President

PVC/Chlor-Alkali Business

Business Overview

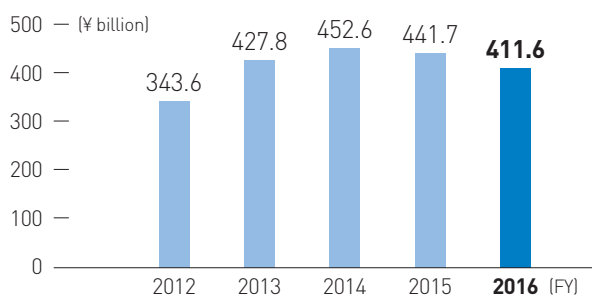
Polyvinyl chloride resins (PVC) are general-purpose resins used in a wide range of applications, from everyday products to all kinds of industrial materials. This is one of the Group's core businesses. In 1960, the Group became the first Japanese chemical manufacturer to establish a polyvinyl chloride manufacturing base overseas (Portugal). In 1973, Shintech was established in the United States. Shintech has grown into the world's largest manufacturer of PVC through continuous large-scale capital investments. In 1999, Shin-Etsu PVC was established in the Netherlands via a business acquisition, and furthermore, other efforts to proactively promote international expansion were proceeded. 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.



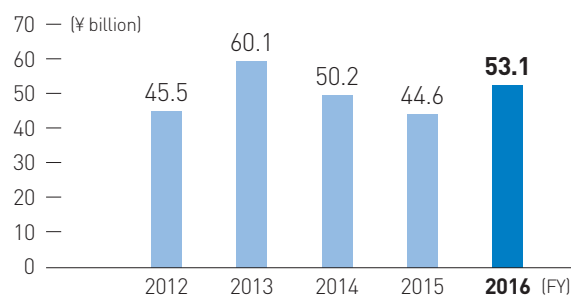
Resolving Social Issues through Products

PVC is made using petroleum and salt, with petroleum accounting for 40% of raw materials used. Compared to other general-purpose resins, the merits of PVC include a low dependence on petroleum resources, placing a relatively small burden on the environment. The process of manufacturing PVC from raw materials uses only 60% of the energy required to make other general-purpose resins. Highly durable and easy to recycle, PVC is used for a wide range of social infrastructure materials, including window profiles, water and sewer pipes, construction and civil engineering.

Net Sales



Operating Income

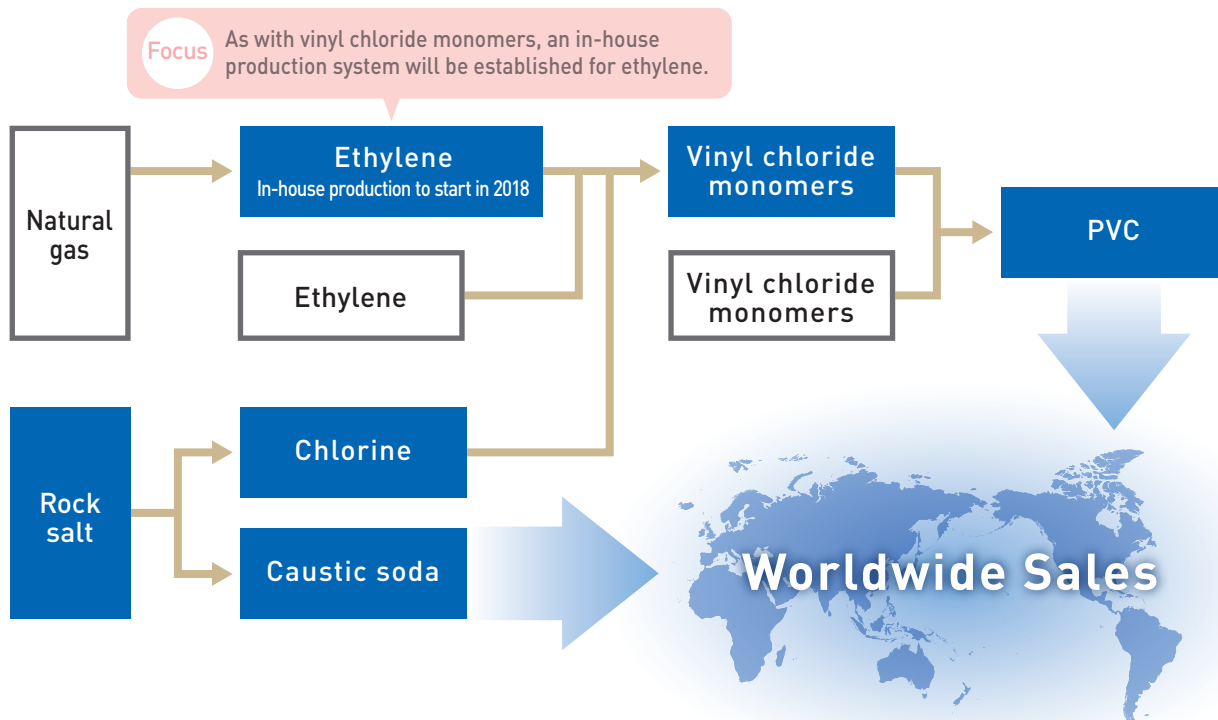


- Because Shintech in the U.S., making good use of its expanded production capacity, realized sales growth that surpassed that of the industry both within and outside of North America, it achieved a double-digit profit increase. Shin-Etsu PVC in Europe continued steady operation, and its shipments continued to be firm. The PVC business in Japan increased its sales volume both within Japan and outside of Japan and improved its profit.

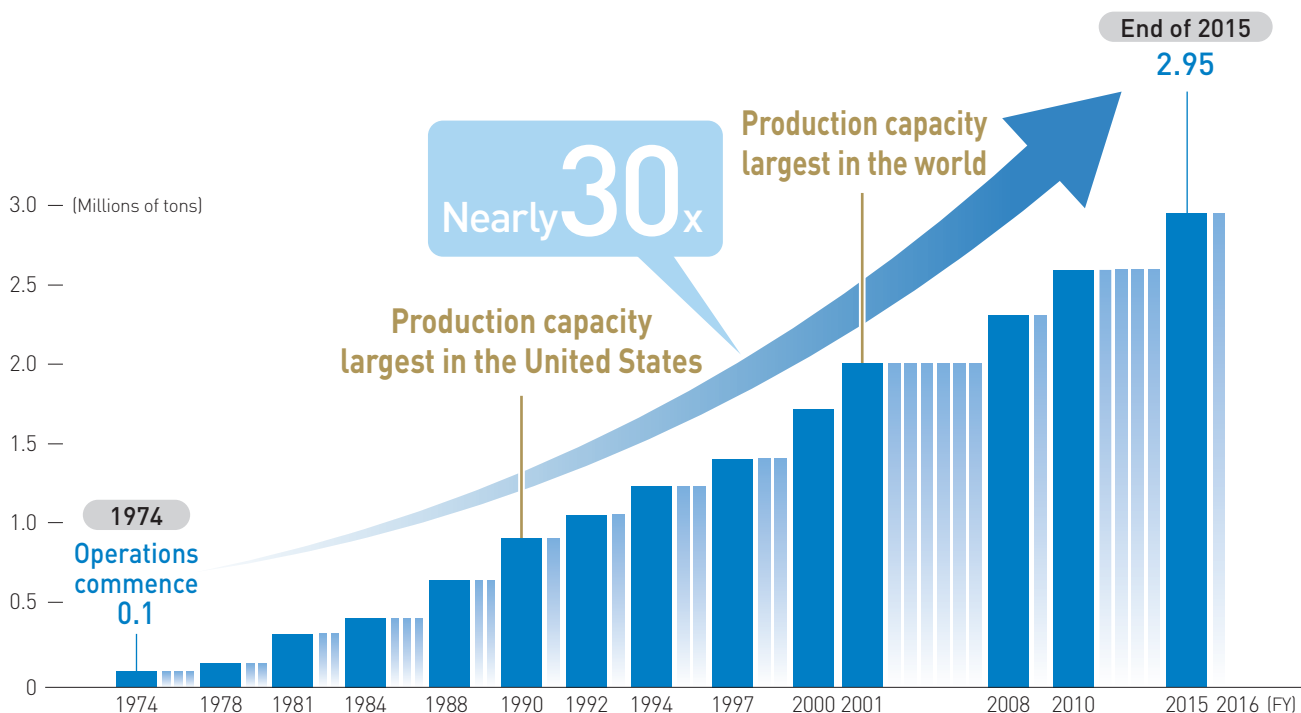
Shintech's Integrated Production Facilities

Integrated Production to Begin with Raw Materials

■ In-House Production □ External Procurement



Shintech PVC Production Capacity



PVC/Chlor-Alkali Business

Main Products and Applications

PVC

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 boasting a recycling rate of more than 50%.



Siding materials

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.



Electric line coating material

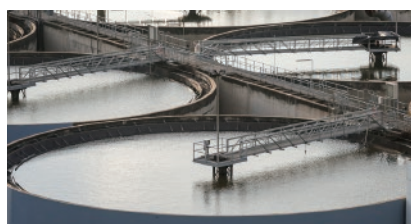
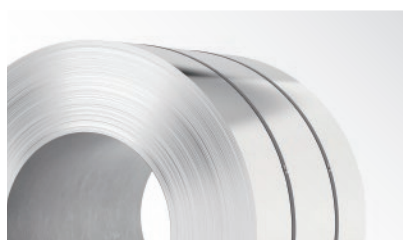
With excellent insulation properties, PVC coating is used for a variety of high- and low-voltage lines.

Caustic Soda



Paper and pulp

Caustic soda is used for digesting and bleaching wood chips in the dissolved pulp manufacturing process.



Wastewater treatment

Caustic soda is used as a neutralizing agent for acidic wastewater due to its strong alkaline properties.



Alumina

Aluminum hydroxide, made by dissolving bauxite with caustic soda, is a raw material for alumina (aluminum oxide).



Soaps and detergents

Caustic soda reacts with fats and oils to become a raw material for soap or a raw material for synthetic detergents.

Semiconductor Silicon Business



Business Overview

The Shin-Etsu Group is engaged in large-diameter and ultra-flat technological innovations as the world's leading provider of silicon wafers for integrated circuits. We successfully achieved early mass production of 300-mm wafers and SOI wafers* utilizing the world's highest level of proprietary single crystallization technologies, advanced processing technologies and quality control technologies. We have also promoted overseas operations, with local subsidiaries established in the

United States, Malaysia, the United Kingdom and Taiwan, which provide a stable supply of high-quality products. We are also engaged in the integrated production of gallium phosphide (GaP), gallium arsenide (GaAs) and other compound semiconductor crystals mainly as a material used in light-emitting diodes, from compound semiconductor crystals to chips.

*SOI: Silicon on Insulator. Wafer with a structure having an insulating oxide film directly under a silicon active layer. A material suitable for high-speed LSI, low-power consumption LSI, sensors, power devices and other cutting-edge devices.

Resolving Social Issues through Products

As a basic material supporting our modern high-speed information society, silicon wafers contribute to society by reducing the size and weight of electronic equipment, reducing power consumption, improving automobile fuel efficiency, driving support systems and other safety controls and medical equipment advancements. Furthermore, they are useful for the

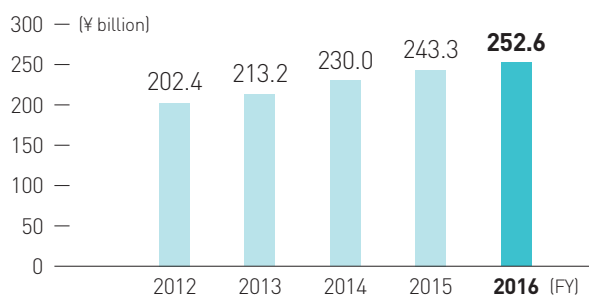
stable supply of electric power mainly to electronic equipment, as power semiconductors can minimize power consumption and accommodate high voltage and high currents. Group products are also used to accurately regulate motor drive controls from high to low speeds and as power-saving transistors enabling the efficient transfer of power from generators to transmission lines.

Main Products and Applications

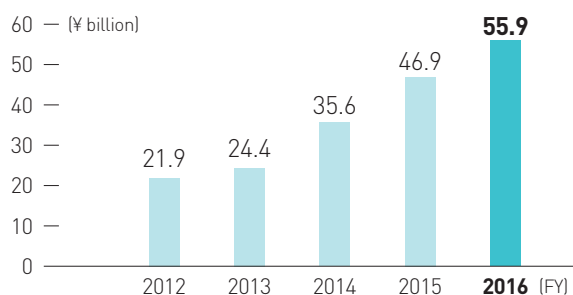
Products	Applications
Various types of silicon wafers	Electrical components for digital equipment and automotive parts Used as a substrate material for semiconductor devices in electronic devices such as personal computers, smartphones and televisions as well as automobiles.
Compound semiconductor products	LED components Used in a wide range of applications including outdoor displays, traffic lights, in-vehicle stop lamps, sensor light sources, etc.



Net Sales



Operating Income



► Together with applications for memory devices continuing to be firm, shipments of logic devices also did well, supported by demand in a wide range of fields for applications such as for smartphones.

Silicones Business



Business Overview

Since becoming the first Company to commercialize silicones in Japan in 1953, the Group has captured more than a 50% 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, the Group's advanced technological capabilities in silicon chemistry enable us to provide high-value-added products.

Resolving Social Issues through Products

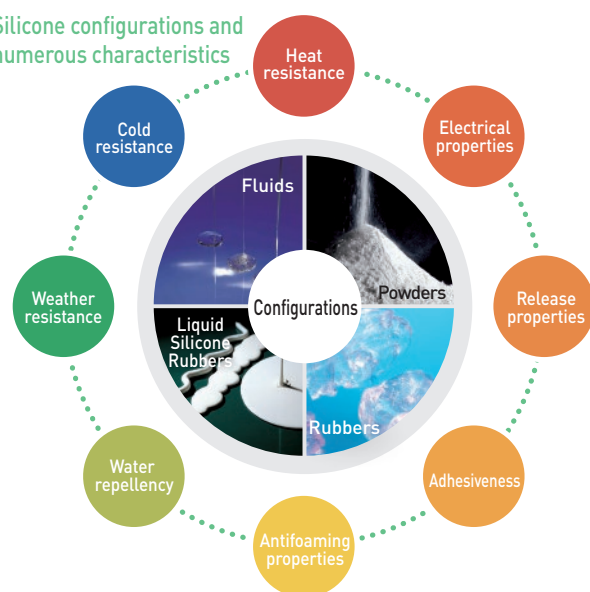
Using silicones has the effect of reducing greenhouse gases emission. It is estimated that the effect is nine times as large as the emission volume of silicone production and waste disposal, according to a study commissioned by the Global Silicones Council in 2012. Among these, the use of silicones for automobile, construction and solar battery

applications account for a large proportion of greenhouse gas emission reductions from the silicone product cycle. This constitutes a substantial contribution toward the realization of an environmentally friendly and sustainable society.

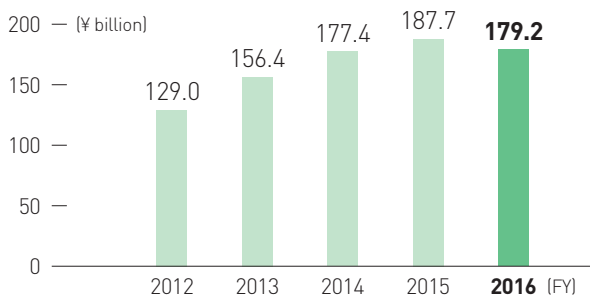
Main Products and Applications

Products	Applications
Silicones	Cosmetic ingredients Enhances the usability of cosmetics by preventing the smearing due to sweat and sebum.
	Electronic device thermal interface materials Enables efficient dissipation of heat generated by electronic devices.
	Contact lens materials Uses silicone to allow oxygen permeability.
	Building sealant Used as a building sealing material for buildings and houses.

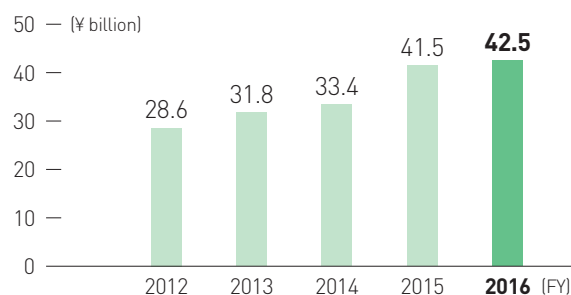
Silicone configurations and numerous characteristics



Net Sales



Operating Income



► In Japan, shipments of product applications for cosmetics and on-board automobiles continued to do well. Globally, although general-purpose products were affected in the first half of the fiscal year by sluggish market prices, shipments of functional products for the United States, China and Southeast Asia were firm.

Electronics and Functional Materials Business

Business Overview



The Shin-Etsu Group's rare earth magnets are used in a wide range of applications including automobile motors, industrial robots, home appliances and hard disk drives. We also develop and provide photoresists, photomask blanks, encapsulation materials and pellicles which are used in the semiconductor manufacturing process. We have also successfully launched the world's first mass production

of synthetic quartz products, used as a substrate for photomasks. Furthermore, we successfully developed liquid fluoroelastomers.*

* Employs silicone addition reaction technology, and hardens into a flexible solid synthetic rubber upon heating. Offers outstanding functionality and processability, and far more resistant to cold, oil, solvents and chemicals than conventional products. This material is expected to be applied in a wide range of fields, from automobiles and aircraft to electronic equipment and optical applications.

Resolving Social Issues through Products

Rare earth magnets have about 10 times the magnetic force of conventional ferrite magnets. Even small rare earth magnets generate a powerful magnetic field. They are used in hybrid and electric cars to realize smaller size and weight as well as

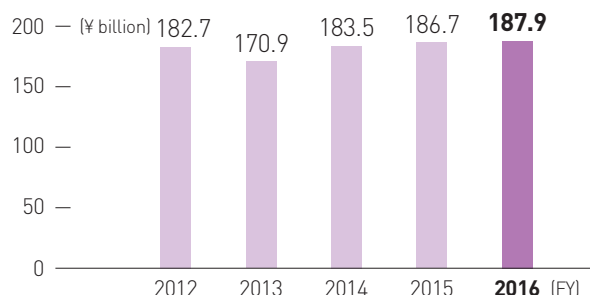
the increased power regeneration. Rare earth magnets are also used in compressors for energy-saving air conditioners. They raise electric power efficiency in a variety of products and contribute to the reduction of greenhouse gas emissions.

Main Products and Applications

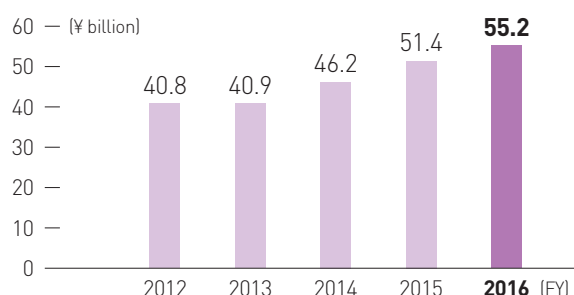
Products	Applications
Rare earth magnets	Various types of motors Used in automobiles, air-conditioner compressors, wind power generators, industrial robots, hard disk drives for digital consumer electronics, etc.
Encapsulation material	Semiconductor and LED device encapsulation Protects semiconductor and LED devices from severe environment for reliable operation.
Photoresists	Photosensitive material used to write semiconductor circuits Used as a photosensitive material when transferring semiconductor circuit patterns onto a silicon wafer.

Products	Applications
Photomask blanks	Pattern master used to write semiconductor circuits A pattern master with a light-shielding thin film formed on a synthetic quartz substrate used when transferring semiconductor circuit patterns.
Liquid fluoroelastomers	Antifouling coating Used on smartphone cover glass or eyeglass lenses to repel water and oil, making it easier to wipe off fingerprints and other impurities.
Optical fiber preforms	Optical fiber A synthetic quartz preform with excellent optical transparency is processed into a single optical fiber with a length of approximately 5,000 km (diameter: 200 mm, length: 2,000 mm).

Net Sales



Operating Income



► With regard to the rare earth magnets business, although products for hard-disk drives were slow, products for applications in automobiles were firm, including those for hybrid and electric vehicles. As for the photoresist products business, ArF resists and trilayer materials continued to perform steadily and photomask blanks had good shipments. Although the business of materials for LED packaging was affected by production adjustments made by some customers, optical fiber preform continued to have firm shipments.

Specialty Chemicals Business



Business Overview

Our main specialty chemical products are cellulose derivatives, environmentally 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 global needs as the world's foremost manufacturer

with bases in Japan, Europe and the United States. In addition, we provide synthetic pheromones used for agricultural pest control and functional resin POVAL. We also provide a variety of other products, including silicon metal, a main ingredient in silicones and synthetic quartz.

Resolving Social Issues through Products

Industrial cellulose derivatives reduce the separation of concrete in water, enabling concrete to be poured without polluting water. This contributes to environmental preservation by preventing water pollution. Synthetic pheromones are very safe,

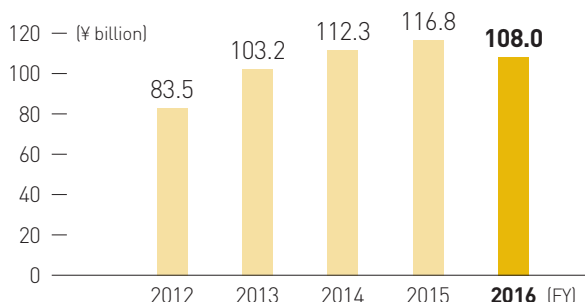
environmentally friendly and eliminate agricultural pests. They are useful for making food safer through the reduction of insecticides and agricultural chemicals sprayed in fields.

Main Products and Applications

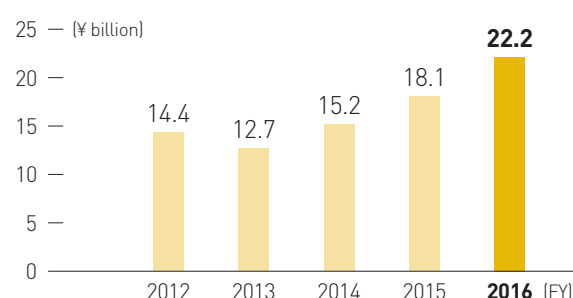
Products	Applications
Cellulose	Drug tablet coating and binder Enables a variety of functions including control of where medicine melts inside the body, how quickly the medicine melts, etc.
	Automobile exhaust gas purifying device binder Used as a binder that helps mold automobile exhaust gas purification equipment that contributes to the prevention of global warming.
Synthetic pheromones	Agricultural and grain-storage pest control Artificially synthesized pheromones that inhibit mating by disturbing signals between male and female agricultural pests.

Products	Applications
Silicon metal	Materials of silicone, semiconductor silicon, synthetic quartz Produced by Simcoa Operations in Australia http://simcoa.com.au/
POVAL	Adhesives, various films, fiber treatment agents, paper processing agents, etc. POVAL, manufactured and sold by Japan VAM & Poval Co., Ltd., leverages the characteristics of water-soluble synthetic resin, and in addition to the above applications, is used as additives for cosmetics, pharmaceuticals, etc. http://www.j-vp.co.jp/english/index.html
Solbin®	Adhesives, paints, etc. Modified resins with excellent adhesion and solubility provided by Nissin Chemical Industry Co., Ltd. Used for paints, inks, adhesives, etc. http://www.nissin-chem.co.jp/english/

Net Sales



Operating Income



► With regard to cellulose derivatives, in Japan, although sales of construction materials products were slow, shipments of pharmaceutical-use products continued to do well. The business of SE Tylose in Europe continued to be steady on the whole for coating products and construction materials products. Shipments were firm in the silicon metal business of Simcoa Operations in Australia, although it was affected by a decline in market prices.

Processing, Trading & Specialized Services Business

Business Overview

Shin-Etsu Polymer Co., Ltd., develops and supplies highly operable and functional products making use of materials processing technologies. Shin-Etsu Engineering Co., Ltd.,

involved in the design and construction of the Group's product manufacturing plants, has a strong reputation for engineering with customers.

Resolving Social Issues through Products

The construction material (corrugated rigid polycarbonate sheets) manufactured by Shin-Etsu Polymer Co., Ltd., is used

as an exterior roofing material. Using more than 50% reclaimed raw materials, this product contributes to recycling.

*The name of this business segment was changed from the previous name of "Diversified Business" to "Processing, Trading & Specialized Services Business" in FY2016. This change was made in order to make clearer the contents of this business segment. There is no change in the products and services that come under this business segment.

Main Products and Applications

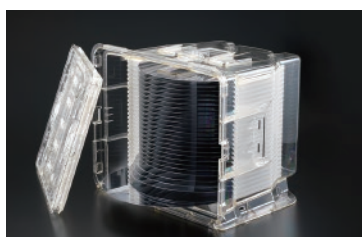
Input devices

Providing input devices such as automobile dashboard audio and air conditioners.



Various rollers for OA equipment

Providing semi-conductive developing rollers and fuser rollers making use of proprietary processing technologies including conductivity, foaming and compositing using silicone rubber.



Wafer containers

Providing containers used for transportation from silicon wafer makers to device makers and silicon wafer transport containers within the device manufacturing process.



Shupua

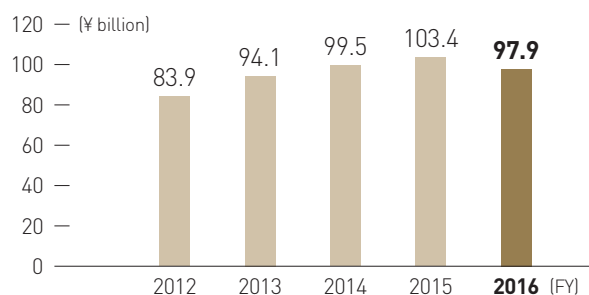
Glasses made of high transparent silicone rubber.



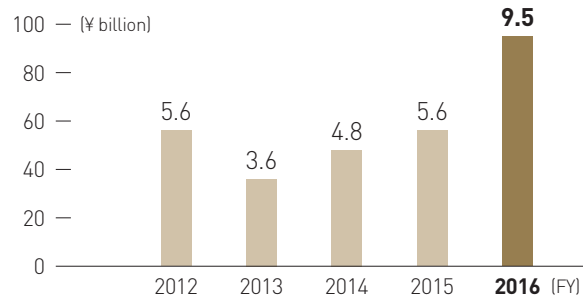
Engineering

The engineering business of Shin-Etsu Engineering Co., Ltd. is involved in the design, construction and maintenance of various Shin-Etsu Group product manufacturing plants.

Net Sales



Operating Income



► Shin-Etsu Polymer Co., Ltd.'s business of input devices for automobiles and semiconductor wafer-related containers continued to do well.

Sustainability (CSR)

Aiming for Sustainable Growth Alongside Society

The Shin-Etsu Group will fulfill its social responsibility and strive to create and expand new value demanded by society through all our business activities based on products and technologies.

CSR Promotion Structure

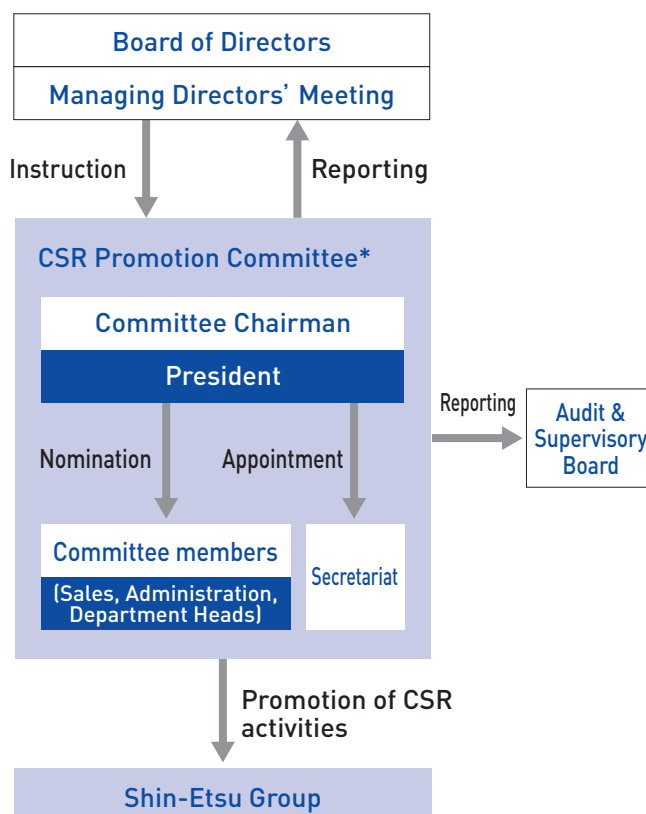
The Group's social responsibility is to execute its corporate mission and contribute to shareholders, investors, customers, business partners, regional communities, employees and all other stakeholders. To achieve this, we promote activities based on the establishment of a Basic CSR Policy and various internal regulations. We established the CSR Promotion Committee, chaired by the president, comprising managers from relevant divisions and departments, to promote Companywide CSR activities in all aspects of corporate activities.

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



*Renamed as the ESG Promotion Committee as of August 1, 2017.

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. Furthermore, since November of that same year, we have also participated in Global Compact Network Japan and incorporate the latest trends in CSR

obtained from the Supply Chain and SRI/ESG Subcommittees to promote CSR throughout the Group. 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.



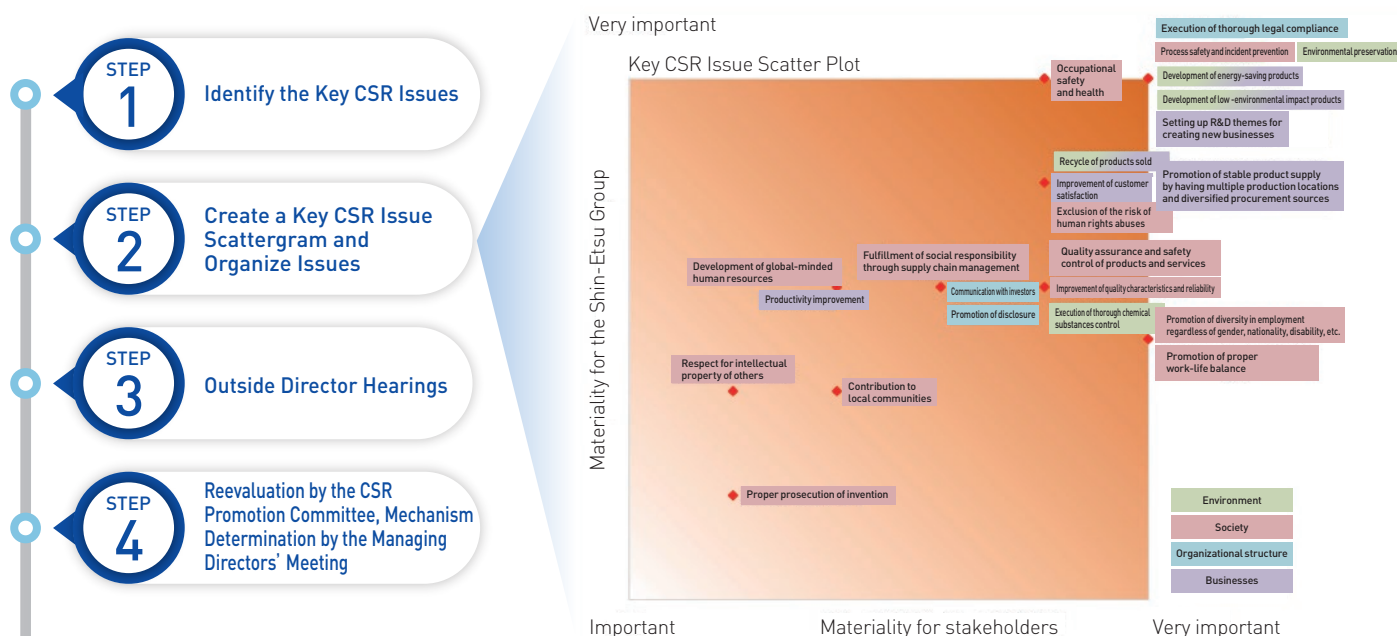
Identifying Key CSR Issues (Materiality)

Since the establishment of the CSR Promotion Committee in 2005, the Shin-Etsu Group has promoted CSR initiatives within all its business activities. In 2015, we conducted a careful examination of global CSR guidelines and demands from stakeholders. The CSR Promotion Committee conducted a survey of all divisions and major Group companies to identify key issues facing the Group. Then, the Managing Directors' Meeting, the decision-making body for the

execution of operations comprising all directors, deliberated to define key CSR issues that require specific attention.

The Group targets "Contributions to the Earth's Future" by addressing all these issues equally and putting the Corporate Mission Statement into practice. In most cases, these efforts conform to the United Nations' Sustainable Development Goals (SDGs).

Process of Specifying Shin-Etsu Group Key CSR Issues



Shin-Etsu Group Aims Contributions to the Earth's Future

Strengthen existing businesses
Create new businesses



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

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

- 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 the Compliance Consultation and Notification Regulations.

Corruption prevention

- 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

- Established the Control Program on Security Export to comply with export-related laws and regulations.

Competition Laws initiatives

- Formulated and strictly observe the Guidelines Regarding Compliance with Competition Laws, conduct monitoring.
- Conduct webinars to ensure compliance with the Competition Laws.

Key Issue

Employees and contractor health and safety

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

- 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

- Conducted risk assessments and planned safety measures based on plant malfunction scenarios, utilized a system for evaluating safety capabilities.

Education and drills

- Conducted safety education and emergency drills, transmitted manufacturing equipment operating skills, cultivated a culture that emphasizes safety.

Environmental control and safety audits

- Conducted internal audits of plant environmental safety, occupational safety and health and process safety and prevention plans.

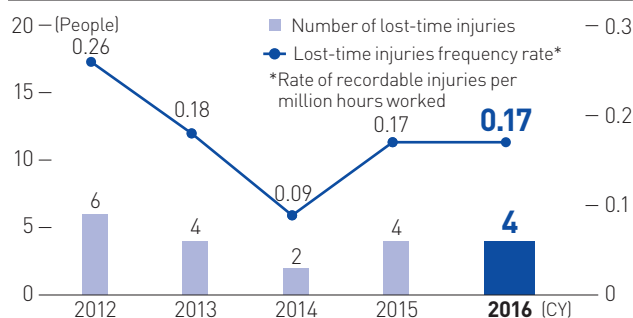
Attention to health

- Established the Safety and Health Committees to engage in illness prevention and other health guidance.

Reporting of accidents and lost time incidents

- In fiscal 2015, there were four lost time incidents reported group-wide, for which we analyzed the causes and formulated countermeasures.

Number of Lost-Time Injuries and Changes in Frequency Rates (Group companies in Japan)



Participants of Safety Education Programs

Coverage	FY2014	FY2015	FY2016
Shin-Etsu Chemical	7,224	7,531	7,970
Consolidated companies*	—	—	22,166

*Started to compile the consolidated data from FY2016.

Promotion of Safety Education

It is important to heighten sensitivity with respect to safety through the acquisition and improvement of skills and knowledge by each individual employee for the safe and stable operation of plants.

To this end, in addition to safety education on handling materials, understanding dangers inherent in processes and simulating dangerous experiences, we conduct emergency drills to prepare for major earthquakes or fires. We also strive to pass on manufacturing equipment operational skills. Furthermore, we make an effort to inculcate a company culture that places an emphasis on safety through workplaces engaged in manufacturing that observes work procedures and rules.



Comprehensive disaster drill (Shin-Etsu Chemical Naoetsu Plant)

Key Issue

2

Energy-saving, resource-saving and the reduction of the environmental impact

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

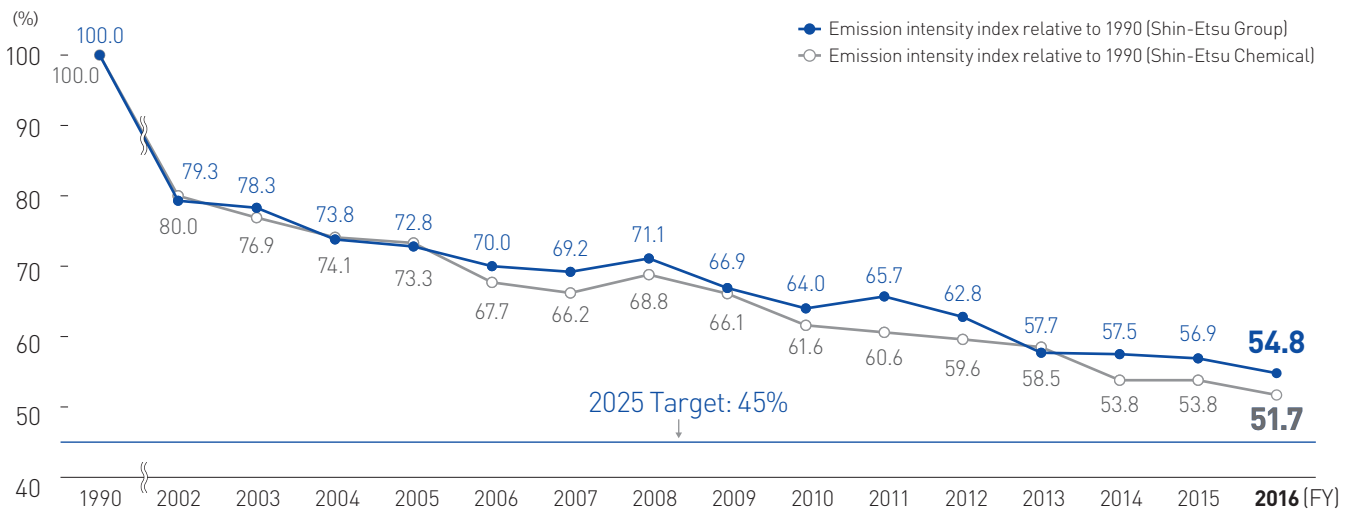
Environmental management	<ul style="list-style-type: none"> Conducted management based on environmental and safety management plans created from Responsible Care codes. Conducted environment and safety audits. Promoted reduction of the environmental burden at the manufacturing stage. Developed products 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 45% compared to 1990 levels by 2025. From FY2016, 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 FY2016, the total amount of environmental conservation investment was ¥4,547 million. Expenses were ¥9,236 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.

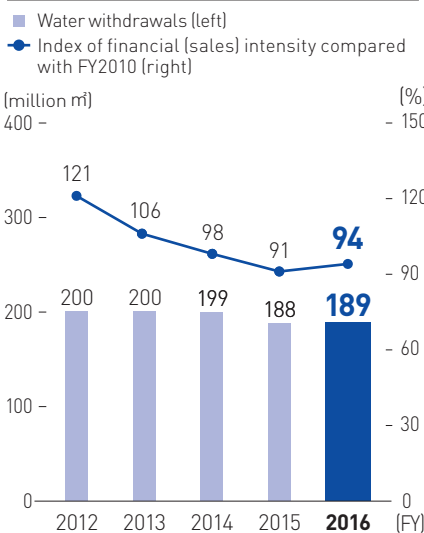
2. A law intended to promote improved self-directed control of chemical substances by business operators, in order to prevent the risk of damage to the environment.

Sustainability (CSR)

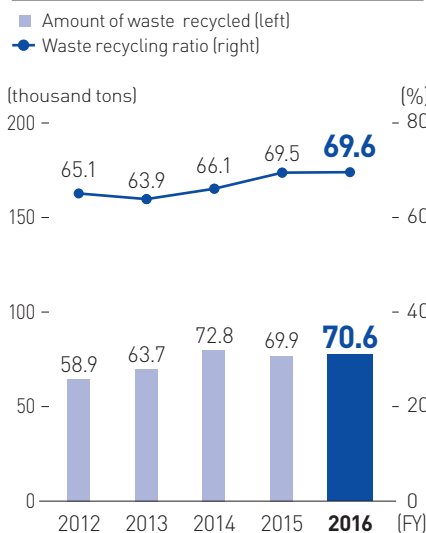
Changes in Greenhouse Gas Emission Intensity Relative to FY1990 Levels



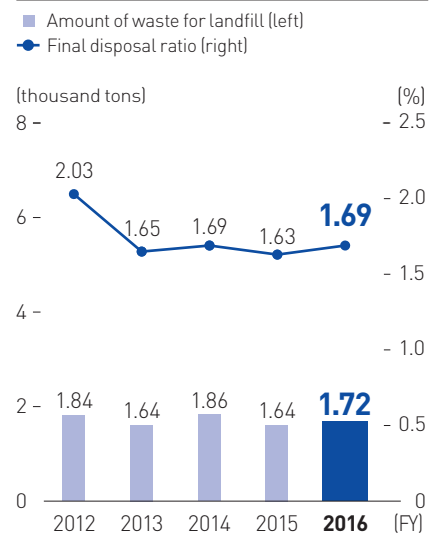
Water Withdrawals



Amount of Waste Recycled



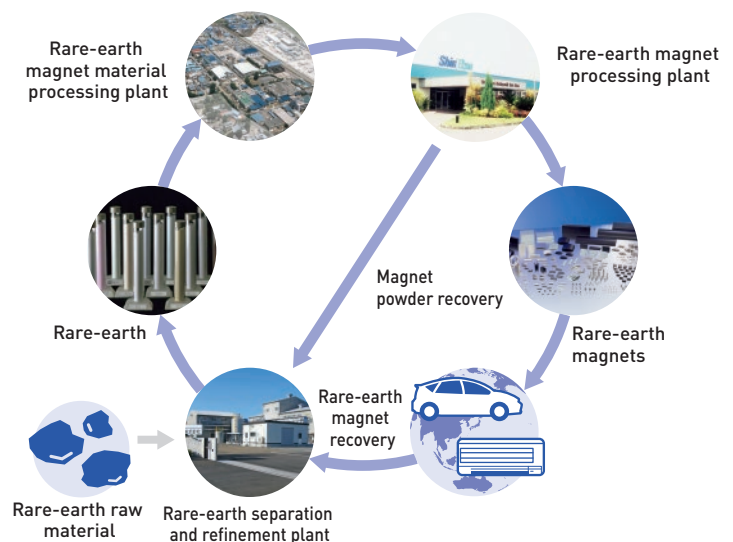
Amount of Waste for Landfill



Rare Earth Magnet Recycling Aimed at Resource Conservation

The Shin-Etsu Group utilizes separation and refinement techniques to extract rare earth metals from used materials. Since 2013, we have used the latest technologies to recover rare earth magnets used in energy-saving air conditioners and hybrid cars. This ensures a stable source of valuable rare earth metals and contributes to protecting the environment by reducing waste and reusing resources.

Rare-Earth Magnet Resource Recycling Process



Key Issue

3

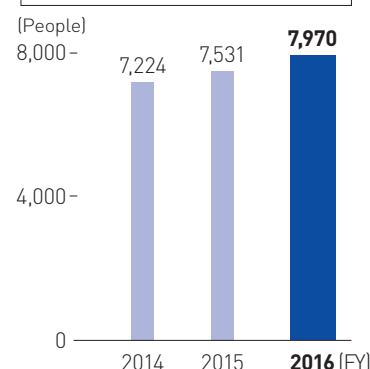
Product quality improvements and product safety control

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

Participants of Product Safety Related Training Programs



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 Issue

4

Promoting CSR procurement and the diversification of supply sources

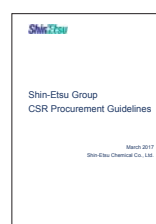
There is a critical focus on appropriate procurement of raw materials throughout the global supply chain as a global social issue. The Group promotes fair procurement activities based on its Basic Procurement Policy in an effort to create supply chains that consider the environment.

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 Subcontractor	<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.

Creation of the CSR Procurement Guidelines

The Shin-Etsu Group formulated the CSR Procurement Guidelines. In accordance with these guidelines, we educate staff in the Purchasing Department and conduct briefings to inculcate an understanding of Group initiatives among business partners and companies upstream. Through these activities, the Group will contribute to the realization of a sustainable society.



Briefing of CSR Procurement Guidelines held in July 2017

Sustainability (CSR)

Key Issue

5

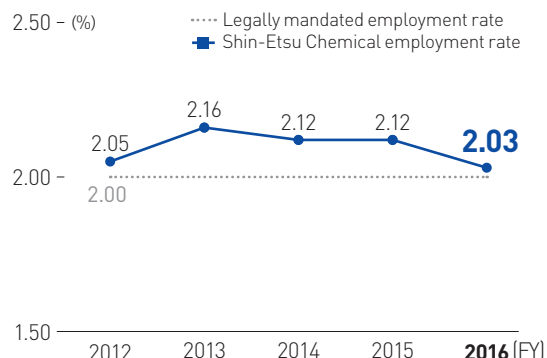
Respect for human rights, the development of human resources and the promotion of diversity

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.

Employment Rate of Persons with Disabilities



Number of Employees Who Have Taken Child-Care Leave

(People)	FY2014		FY2015		FY2016	
	Female	Male	Female	Male	Female	Male
Shin-Etsu Chemical	8	2	6	0	9	0
Consolidated companies in Japan	44	3	36	2	35	0
Consolidated companies total	86	56	73	44	72	68

Number of People Obtaining Nursing Care Leave

(People)	FY2014	FY2015	FY2016
Consolidated companies in Japan	3	3	1

Note: Data of the Shin-Etsu Group includes employees and secondees.

Key Issue

6

Respect for and protection of intellectual property

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	<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.

Number of Patents Acquired and Held (Major group companies)

Breakdown	Patents acquired		Patents held	
	(Number of patents)			
	FY2015	FY2016	FY2015	FY2016
Japan	616	697	7,027	7,355
Overseas total	1,163	1,325	10,102	10,951
Asia/Oceania	602	642	4,190	4,707
North America	282	220	2,850	2,924
Europe	270	458	3,035	3,286
Other	9	5	27	34
Total	1,779	2,022	17,129	18,306

Key Issue

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. Group company) has collaborated with several local business partners to conduct the "Safety Town" safety education program targeting local kindergarten and elementary school students.

Social Contribution Activities by Overseas Group Companies

The "Safety Town" Program Conducted by Shintech

Shintech's Addis plant in Louisiana supports a variety of local organizations and proactively participates in civic activities, including the "Safety Town" program organized by the local government, in which it has participated since 2007. This program provides guidance related to safety, including how to cross streets and report emergencies, targeting local kindergarten and elementary school students. Eleven employee volunteers from Shintech participated in the two-day program held in April of this year. They offered guidance on how to safely ride bicycles in "Mini Town," which provides a virtual experience of an actual roadway.



Key Issue

Accurate and timely information disclosure and communication with stakeholders

The Shin-Etsu Group believes the appropriate and timely disclosure of Company information promotes stakeholder understanding and also leads to appropriate market valuation. We engage in fair and transparent disclosure through information posted on our corporate website, announcements in the media and at stock exchanges and publications including the annual report and reports for shareholders. We also participate in a pilot project* for a non-financial disclosure system focused on environmental information, the first of its kind in the world, created by the Ministry of the

Environment in 2013. This information is viewed by a wide range of stakeholders. As ESG investment is expected to increase going forward, we will make an effort to provide even more non-financial information.

*Environmental Information Disclosure Platform Development Project: In light of the growing global trend of environmental, social and governance (ESG) investment, the Ministry of the Environment launched a project aimed at developing a non-financial information disclosure system focused on environmental information in 2013, the first of its kind in the world. In 2016, we launched a pilot program assuming full-year operations aiming to further invigorate dialogue with companies and investors.
Reference: <http://www.env.go.jp/press/102683.html> (Japanese language only)

Outside Assessments

Selected for the MSCI Global ESG Select Leaders Index

A leading global socially responsible investment (SRI) index created by Morgan Stanley Capital International (MSCI). This index is composed of companies having excellent ESG ratings within each industry from among the top 500 companies by market capitalization.



Selected for the Morningstar Socially Responsible Investment Index

Morningstar Japan K.K., created the first socially responsible investment stock index in Japan, which selects 150 companies assessed for their excellent social performance out of approximately 3,700 domestic listed companies.



(As of January 4, 2017)

Selected for the SNAM Sustainability Index

This index consists of companies with above-standard ESG scoring derived from corporate research related to environmental (E) factors conducted by Sampo Risk Management & Health Care, and corporate research related to social (S) and governance (G) factors conducted by IntegreX Inc.



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.

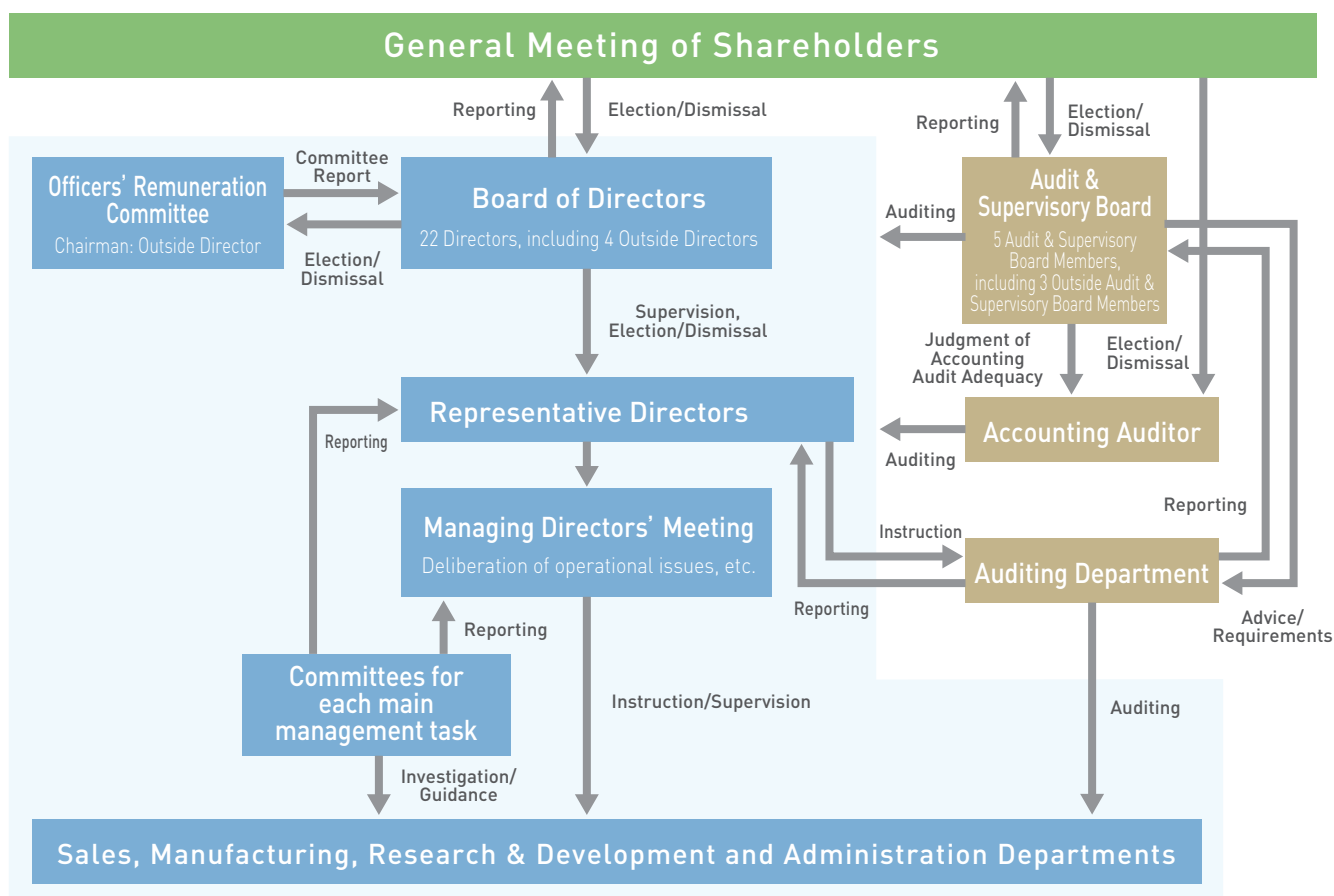
Corporate Governance Structure

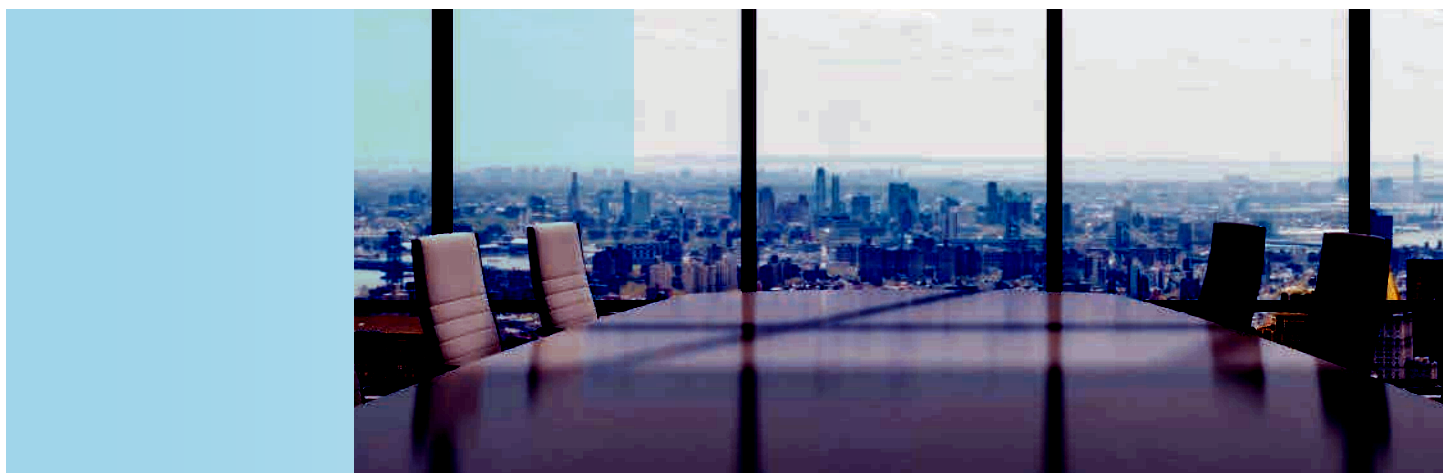
Corporate Governance Structure (as of June 30, 2017)

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 22 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 Meeting of Shareholders 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." Directors did not receive "stock options" for the year ended March 31, 2017.

Audit & Supervisory Board member remuneration is within the scope of the compensation framework approved by the General Meeting of Shareholders 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, 2017)

Designation	Amount of Remuneration by Type (¥ million)			Number of Recipients (People)
	Base Amount	Bonus	Total	
Directors (excluding Outside Directors)	1,042	496	1,539	20
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	31	9	40	2
Outside Directors and Outside Audit & Supervisory Board Members	155	—	155	8

Notes:

1. Includes two Directors who resigned at the conclusion of the 139th Ordinary General Meeting of Shareholders held on June 29, 2016.
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 Ordinary General Meeting of Shareholders held on June 27, 2008.
4. 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.
5. Directors did not receive "stock options" for the year ended March 31, 2017.

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 & 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 & 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 & 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 & Supervisory Board members.

The Audit & 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. They also exchange information and opinions on an ongoing basis if necessary. The Auditing Department also attends meetings where Audit & 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.

WEB <https://www.shinetsu.co.jp/en/csr/pdf/CG170710.pdf>

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, 2017)

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	Seven times One conference Six small meetings	Briefing for individual investors	Six times
Plant tours, business briefings	Two times Tour at Kashima Plant (Japan) Briefing by Organic Chemicals Division	Communications tools	<ul style="list-style-type: none"> IR Web site Annual Report Business Report (only Japanese available)

Outside Directors and Outside Audit & Supervisory Board Members (As of March 31, 2017)



From the left: Toshihiko Fukui, Hiroshi Komiyama, Frank Peter Popoff, Tsuyoshi Miyazaki

	Important Concurrent Positions (As of March 31, 2017)	Status of Activities	Attendance at Board Meetings (Year Ended March 31, 2017)
Outside Director Frank Peter Popoff	Senior Adviser, 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 92%
Outside Director Tsuyoshi Miyazaki	Adviser, 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 100%
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 92%

Corporate Governance

Outside Directors and Outside Audit & Supervisory Board Members (As of March 31, 2017)



From the left: Yoshihito Kosaka, Kiyoshi Nagano, Taku Fukui

	Important Concurrent Positions (As of March 31, 2017)	Status of Activities	Attendance at Board Meetings (Year Ended March 31, 2017)
Outside Audit & Supervisory Board Member Taku Fukui	<p>Lawyer</p> <p>.....</p> <p>Managing Partner, Kashiwagi Sogo Law Offices</p> <p>.....</p> <p>Professor, Keio University Law School</p>	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.	<p>Board of Directors Meeting 100%</p> <p>.....</p> <p>Audit & Supervisory Board Members Meeting 100%</p>
Outside Audit & Supervisory Board Member Yoshihito Kosaka	<p>C.P.A.</p> <p>.....</p> <p>Certified Public Tax Accountant</p> <p>.....</p> <p>Counselor, Kisaragi Audit Corporation</p>	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.	<p>Board of Directors Meetings 100%</p> <p>.....</p> <p>Audit & Supervisory Board Members Meeting 100%</p>
Outside Audit & Supervisory Board Member Kiyoshi Nagano	<p>Outside Director, LEC, INC.</p>	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.	<p>Board of Directors Meetings 100%</p> <p>.....</p> <p>Audit & Supervisory Board Members Meeting 100%</p>

Board of Directors and Audit & Supervisory Board Members

[As of June 29, 2017]



Representative Director-
Chairman
Chihiro Kanagawa

Director, Chairman and
Founder of SHINTECH Inc.



Representative Director-
Vice Chairman
Fumio Akiya

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



Representative Director-
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, R&D and Patents
Senior Managing Director	Susumu Ueno	General Manager, Silicone Div.
Senior Managing Director	Masahiko Todoroki	General Manager, Planning & Administration Dept., Semiconductor Materials Div., Senior Managing Director of Shin-Etsu Handotai Co., Ltd.
Managing Director	Toshiya Akimoto	In charge of Secretariat, Public Relations and Legal Affairs, General Manager, Office of the President
Managing Director	Fumio Arai	General Manager, Organic Chemicals Div., Director & President of Shin-Etsu PVC B.V. and SE Tylose GmbH & Co. KG
Managing Director	Yukihiro Matsui	General Manager and Magnet Dept. Manager of Electronics Materials Div.
Managing Director	Masaki Miyajima	In charge of Advanced Materials General Manager, PVC Div.
Director	Shunzo Mori	
Director	Frank Peter Popoff ¹	Senior Adviser, American Express Company
Director	Tsuyoshi Miyazaki ¹	Adviser, Mitsubishi Logistics Corporation
Director	Toshihiko Fukui ¹	President, the Canon Institute for Global Studies Outside Director, Kikkoman Corporation
Director	Hiroshi Komiyama ¹	Chairman, Mitsubishi Research Institute, Inc.
Director	Toshiyuki Kasahara	General Manager, Finance & Accounting Dept.
Director	Hidenori Onezawa	In charge of Business Auditing
Director	Kazumasa Maruyama	General Manager, New Functional Materials Dept.
Director	Kenji Ikegami	In charge of General Affairs, Personnel & Labor Relations and Purchasing
Director	Toshio Shiobara	In charge of Special Functional Products, Deputy General Manager and Organic Electronics Materials Dept. Manager of Electronics Materials Div.
Director	Yoshimitsu Takahashi	General Manager, Business Development Dept.
Director	Kai Yasuoka	General Manager, International Div.
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, LEC, 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.

Ten-Year Summary

SHIN-ETSU CHEMICAL CO., LTD AND SUBSIDIARIES

For the fiscal years ended March 31, 2008 to 2017

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

[WEB https://www.shinetsu.co.jp/en/ir/ir_data.html](https://www.shinetsu.co.jp/en/ir/ir_data.html)

	2008	2009	2010	2011
For the year:				
Net sales	¥1,376,364	¥1,200,813	¥ 916,837	¥1,058,257
Cost of sales	946,940	853,433	700,902	803,574
Selling, general and administrative expenses	142,278	114,453	98,718	105,460
Operating income	287,145	232,927	117,215	149,221
Ordinary income	300,040	250,533	127,019	160,338
Profit attributable to owners of parent	183,580	154,731	83,852	100,119
Capital expenditures	268,479	159,406	123,793	119,884
R&D costs	47,944	37,469	33,574	37,321
Depreciation and amortization	141,269	119,457	87,722	93,732
At year-end:				
Total assets	¥1,918,544	¥1,684,944	¥1,769,139	¥1,784,166
Working capital (Current assets - Current liabilities)	638,806	606,632	612,447	638,493
Common stock	119,419	119,419	119,419	119,419
Net assets	1,483,669	1,407,353	1,474,212	1,469,429
Interest-bearing debt	34,045	23,827	20,052	14,574
Per share (Yen and U.S. dollars):				
Earnings per share—basic	¥ 426.63	¥ 362.39	¥ 197.53	¥ 235.80
Earnings per share—fully diluted ²	426.35	362.35	197.50	235.80
Cash dividends	90.00	100.00	100.00	100.00
Payout ratio (%)	21.1	27.6	50.6	42.4
Net assets	3,344.17	3,218.28	3,370.56	3,360.39
General:				
Operating income to net sales ratio (%)	20.9	19.4	12.8	14.1
Profit attributable to owners of parent to net sales ratio (%)	13.3	12.9	9.1	9.5
ROE (%)	13.3	11.0	6.0	7.0
ROA (%)	15.9	13.9	7.4	9.0
Equity ratio (%)	75.0	81.1	80.9	80.0
Number of employees	20,241	19,170	16,955	16,302
Number of shares issued (Thousands)	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 ¥112 = US\$1, the approximate rate of exchange on March 31, 2017.

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

					Millions of yen	Millions of U.S. dollars ¹
2012	2013	2014	2015	2016	2017	2017
¥ 1,047,731	¥ 1,025,409	¥ 1,165,819	¥ 1,255,543	¥ 1,279,807	¥ 1,237,405	\$ 11,048
798,592	769,427	873,879	940,399	930,019	868,404	7,753
99,505	98,938	118,130	129,814	141,262	130,383	1,164
149,632	157,043	173,809	185,329	208,525	238,617	2,130
165,237	170,207	180,605	198,025	220,005	242,133	2,161
100,643	105,714	113,617	128,606	148,840	175,912	1,570
87,165	86,841	83,155	109,903	134,753	145,647	1,300
35,725	37,671	43,546	47,165	53,165	49,020	437
82,868	80,961	91,445	96,918	100,466	93,087	831
¥ 1,809,841	¥ 1,920,903	¥ 2,198,912	¥ 2,452,306	¥ 2,510,085	¥ 2,655,636	\$ 23,711
694,803	832,878	981,667	1,100,999	1,170,679	1,232,607	11,005
119,419	119,419	119,419	119,419	119,419	119,419	1,066
1,494,573	1,623,176	1,822,135	2,012,711	2,080,465	2,190,082	19,554
15,732	13,929	15,638	14,328	13,470	14,642	130
¥ 237.03	¥ 248.94	¥ 267.20	¥ 302.05	¥ 349.46	¥ 412.86	\$ 3.686
—	248.92	267.07	301.98	349.42	412.83	3.685
100.00	100.00	100.00	100.00	110.00	120.00	1.071
42.2	40.2	37.4	33.1	31.5	29.1	29.1
3,422.93	3,709.19	4,165.28	4,602.80	4,761.48	5,002.16	44.662
14.3	15.3	14.9	14.8	16.3	19.3	19.3
9.6	10.3	9.7	10.2	11.6	14.2	14.2
7.0	7.0	6.8	6.9	7.5	8.5	8.5
9.2	9.1	8.8	8.5	8.9	9.4	9.4
80.3	82.0	80.6	79.9	80.8	80.3	80.3
16,167	17,712	17,892	18,276	18,407	19,206	19,206
432,106	432,106	432,106	432,106	432,106	432,106	432,106

Consolidated Balance Sheet

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 2016 and 2017

		Millions of yen	Millions of U.S. dollars
	2016	2017	2017
ASSETS			
Current Assets:			
Cash and time deposits	¥ 597,048	¥ 752,675	\$ 6,720
Notes and accounts receivable-trade	268,905	287,853	2,570
Securities	236,486	186,591	1,665
Merchandise and finished goods	133,664	126,026	1,125
Work in process	13,367	12,234	109
Raw materials and supplies	133,981	128,896	1,150
Deferred taxes, current	36,330	35,937	320
Other	47,689	33,941	303
Less: Allowance for doubtful accounts	(14,840)	(14,549)	(129)
Total current assets	1,452,633	1,549,607	13,835
Fixed Assets:			
Property, Plant and Equipment:			
Buildings and structures, net	170,478	174,923	1,561
Machinery and equipment, net	410,322	437,775	3,908
Land	83,108	86,953	776
Construction in progress	133,551	139,180	1,242
Other, net	7,510	7,737	69
Total property, plant and equipment	804,972	846,570	7,558
Intangible Assets	13,152	10,229	91
Investments and Other Assets:			
Investments in securities	130,202	135,311	1,208
Net defined benefit asset	1,551	1,928	17
Deferred taxes, non-current	16,458	22,562	201
Other	92,923	91,265	814
Less: Allowance for doubtful accounts	(1,807)	(1,840)	(16)
Total investments and other assets	239,327	249,228	2,225
Total fixed assets	1,057,451	1,106,028	9,875
Total Assets	¥ 2,510,085	¥ 2,655,636	\$ 23,711

		Millions of yen	Millions of U.S. dollars
	2016	2017	2017
LIABILITIES			
Current Liabilities:			
Notes and accounts payable—trade	¥ 115,557	¥ 123,823	\$ 1,105
Short-term borrowings	7,873	12,788	114
Accounts payable—other	49,071	54,671	488
Accrued expenses	56,824	61,611	550
Accrued income taxes	29,519	32,711	292
Accrued bonuses for employees	2,627	2,898	25
Accrued bonuses for directors	547	612	5
Other	19,933	27,881	248
Total current liabilities	281,954	317,000	2,830
Long-Term Liabilities:			
Long-term debt	5,288	1,578	14
Deferred taxes, non-current	96,183	98,228	877
Net defined benefit liability	33,319	35,809	319
Other	12,872	12,936	115
Total long-term liabilities	147,665	148,553	1,326
Total Liabilities	429,619	465,553	4,156
NET ASSETS			
Stockholders' Equity:			
Common stock	119,419	119,419	1,066
Additional paid-in capital	128,759	129,626	1,157
Retained earnings	1,731,042	1,857,857	16,588
Less: Treasury stock, at cost	(33,407)	(31,213)	(278)
Total stockholders' equity	1,945,813	2,075,690	18,532
Accumulated Other Comprehensive Income:			
Unrealized gains (losses) on available-for-sale securities	13,780	22,887	204
Deferred gains (losses) on hedges	1,611	862	7
Foreign currency translation adjustments	68,566	35,154	313
Remeasurements of defined benefit plans	(1,480)	(1,761)	(15)
Total accumulated other comprehensive income	82,478	57,142	510
Share Subscription Rights	237	152	1
Non-Controlling Interests in Consolidated Subsidiaries	51,936	57,096	509
Total net assets	2,080,465	2,190,082	19,554
Total Liabilities and Net Assets	¥ 2,510,085	¥ 2,655,636	\$ 23,711

Consolidated Statement of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the fiscal years ended March 31, 2016 and 2017

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Net Sales	¥ 1,279,807	¥ 1,237,405	\$ 11,048
Cost of Sales	930,019	868,404	7,753
Gross profit	349,787	369,001	3,294
Selling, General and Administrative Expenses	141,262	130,383	1,164
Operating income	208,525	238,617	2,130
Other Income (Expenses):			
Interest income	4,011	4,714	42
Dividend income	4,506	2,602	23
Equity in earnings (losses) of affiliates	3,302	2,788	24
Subsidy income	2,837	—	—
Interest expenses	(452)	(529)	(4)
Loss on disposal of property, plant and equipment	(1,329)	(974)	(8)
Foreign exchange gain (loss)	(2,760)	(3,697)	(33)
Other, net	1,363	(1,388)	(12)
Ordinary income	220,005	242,133	2,161
Income before income taxes and non-controlling interests	220,005	242,133	2,161
Income Taxes:			
Current	65,342	67,187	599
Deferred	4,284	(3,363)	(30)
	69,627	63,823	569
Profit	150,377	178,309	1,592
Profit Attributable to Non-Controlling Interests	(1,537)	(2,397)	(21)
Profit Attributable to Owners of Parent	¥ 148,840	¥ 175,912	\$ 1,570
Earnings per Share:		Yen	U.S. dollars
Profit attributable to owners of parent—basic	¥ 349.46	¥ 412.86	\$ 3.686
Profit attributable to owners of parent—fully diluted	349.42	412.83	3.685
Cash dividends	110.00	120.00	1.071
Weighted-Average Number of Shares Outstanding (Thousands)	425,919	426,086	426,086

Consolidated Statement of Comprehensive Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the fiscal years ended March 31, 2016 and 2017

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Profit	¥ 150,377	¥ 178,309	\$ 1,592
Other Comprehensive Income:			
Unrealized gains (losses) on available-for-sale securities	(8,589)	9,149	81
Deferred gains (losses) on hedges	1,703	(753)	(6)
Foreign currency translation adjustments	(33,370)	(34,265)	(305)
Remeasurements of defined benefit plans	1,905	(280)	(2)
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	(141)	(205)	(1)
Total other comprehensive income (loss)	(38,491)	(26,356)	(235)
Comprehensive Income	¥ 111,885	¥ 151,953	\$ 1,356
(Breakdown)			
Comprehensive income attributable to owners of parent	¥ 112,017	¥ 150,576	\$ 1,344
Comprehensive income attributable to non-controlling interests	(132)	1,376	12

Consolidated Statement 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

								Millions of yen
	Accumulated Other Comprehensive Income							
	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				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, 2016	432,106	¥119,419	¥128,759	¥1,731,042	¥(33,407)	¥1,945,813
Cash dividends				(48,987)		(48,987)
Profit attributable to owners of parent				175,912		175,912
Purchase of treasury stock					(19)	(19)
Disposal of treasury stock			878		2,213	3,092
Others			(11)	(109)		(121)
Net changes of items other than stockholders' equity						
Balance at March 31, 2017	432,106	¥119,419	¥129,626	¥1,857,857	¥(31,213)	¥2,075,690

								Millions of yen
	Accumulated Other Comprehensive Income							
	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, 2016	¥13,780	¥1,611	¥68,566	¥(1,480)	¥82,478	¥237	¥51,936	¥2,080,465
Cash dividends								(48,987)
Profit attributable to owners of parent								175,912
Purchase of treasury stock								(19)
Disposal of treasury stock								3,092
Others								(121)
Net changes of items other than stockholders' equity	9,106	(749)	(33,412)	(280)	(25,335)	(84)	5,160	(20,259)
Balance at March 31, 2017	¥22,887	¥862	¥35,154	¥(1,761)	¥57,142	¥152	¥57,096	¥2,190,082

Consolidated Statement of Changes in Net Assets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

	Thousands	Millions of U.S. dollars				
		Stockholders' Equity				
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total
Balance at April 1, 2016	432,106	\$1,066	\$1,149	\$15,455	\$(298)	\$17,373
Cash dividends				(437)		(473)
Profit attributable to owners of parent				1,570		1,570
Purchase of treasury stock					(0)	(0)
Disposal of treasury stock			7		19	27
Others			(0)	(0)		(1)
Net changes of items other than stockholders' equity						
Balance at March 31, 2017	432,106	\$1,066	\$1,157	\$16,588	\$(278)	\$18,532

Millions of U.S. dollars								
	Accumulated Other Comprehensive Income					Share subscription rights	Non-controlling interests in consolidated subsidiaries	Total net assets
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total			
Balance at April 1, 2016	\$123	\$14	\$612	\$(13)	\$736	\$2	\$463	\$18,575
Cash dividends								(437)
Profit attributable to owners of parent								1,570
Purchase of treasury stock								0
Disposal of treasury stock								27
Others								(1)
Net changes of items other than stockholders' equity	81	(6)	(298)	(2)	(226)	0	46	(180)
Balance at March 31, 2017	\$204	\$7	\$313	\$(15)	\$510	\$1	\$509	\$19,554

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

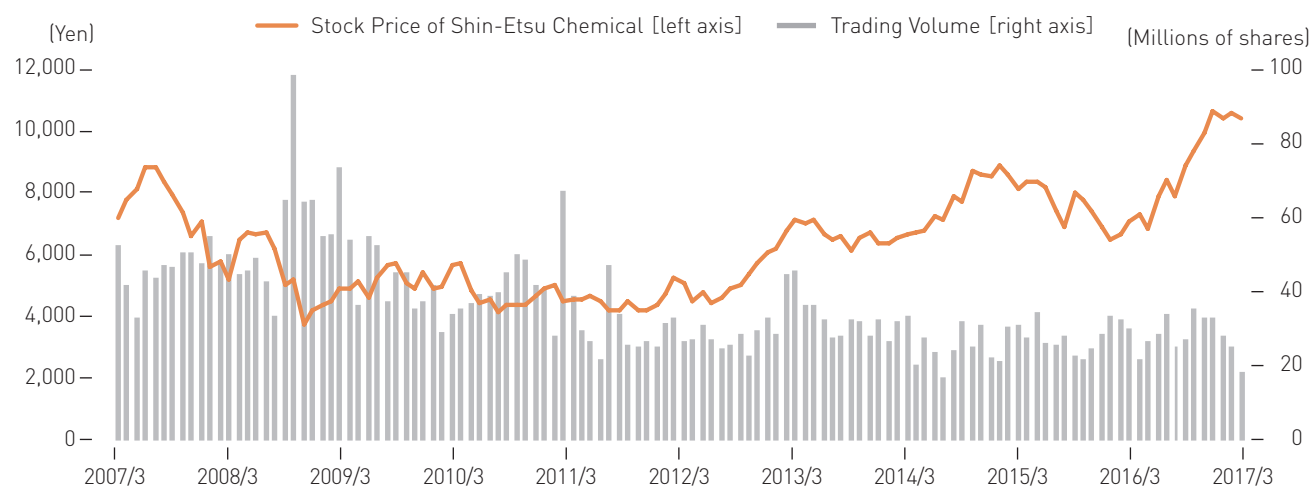
SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the fiscal years ended March 31, 2016 and 2017

	Millions of yen		Millions of U.S. dollars
	2016	2017	2017
Cash Flows from Operating Activities:			
Income before income taxes and non-controlling interests	¥ 220,005	¥242,133	\$ 2,161
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	100,466	93,087	831
Loss on impairment of fixed assets	3,343	2,028	18
Increase (decrease) in net defined benefit liability	2,461	1,384	12
(Gain) loss on sales of investments in securities	(145)	(0)	0
(Gain) loss on write-down of investments in securities	40	—	—
Increase (decrease) in allowance for doubtful accounts	4,128	(165)	(1)
Interest and dividend income	(8,517)	(7,317)	(65)
Interest expenses	452	529	4
Exchange (gain) loss	4,451	2,370	21
Equity in (earnings) losses of affiliates	(3,302)	(2,788)	(24)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	20,180	(23,501)	(209)
(Increase) decrease in inventories	(8,510)	10,621	94
(Increase) decrease in long-term advance payment	3,900	3,180	28
Increase (decrease) in notes and accounts payable	(4,610)	9,606	85
Other, net	12,270	15,351	137
Subtotal	346,614	346,522	3,093
Proceeds from interest and dividends	9,133	7,774	69
Payments of interest	(468)	(528)	(4)
Payments of income taxes	(73,635)	(62,895)	(561)
Net cash provided by operating activities	281,643	290,872	2,597
Cash Flows from Investing Activities:			
(Increase) decrease in time deposits	(79,555)	30,289	270
Purchases of securities	(190,901)	(74,001)	(660)
Proceeds from redemption of securities	265,146	186,381	1,664
Purchases of property, plant and equipment	(147,227)	(134,897)	(1,204)
Proceeds from sales of property, plant and equipment	271	235	2
Purchases of intangible fixed assets	(818)	(1,377)	(12)
Purchases of investments in securities	(1,854)	(1,613)	(14)
Proceeds from sales of investments in securities	310	53	0
Proceeds from redemption of investments in securities	5,000	0	0
Purchases of investments in subsidiaries resulting in change in scope of consolidation	(2,516)	—	—
Payments of loans	(2,858)	(481)	(4)
Proceeds from collection of loans	698	3,494	31
Other, net	(12,294)	(6,802)	(60)
Net cash used for investing activities	(166,599)	1,281	11
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term borrowings	151	520	4
Proceeds from long-term debt	—	25	0
Repayments of long-term debt	(875)	(212)	(1)
Purchases of treasury stock	(16)	(19)	0
Proceeds from sales of treasury stock	361	2,979	26
Cash dividends paid	(44,720)	(48,987)	(437)
Cash dividends paid to non-controlling interests	(576)	(615)	(5)
Other, net	6,733	9,110	81
Net cash used for financing activities	(38,941)	(37,199)	(332)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(12,513)	(13,584)	(121)
Net Increase (Decrease) in Cash and Cash Equivalents	63,589	241,369	2,155
Cash and Cash Equivalents at Beginning of Year	423,846	487,604	4,353
Increase (Decrease) in Cash and Cash Equivalents Resulting from Changes in Scope of Consolidation	167	4,332	38
Cash and Cash Equivalents at End of Year	¥ 487,604	¥733,306	\$ 6,547

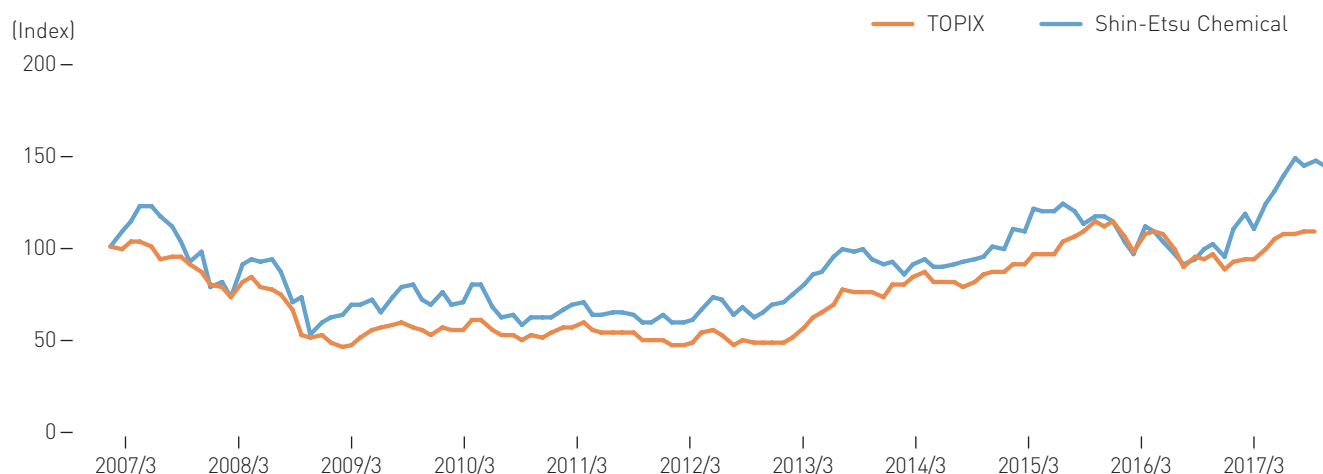
Investor Information

[As of March 31, 2017]

Stock Price Movement



Total Shareholder Return over the Past 10 Years



	Shin-Etsu Chemical	TOPIX
2007	100	100
2008	73	72
2009	69	47
2010	79	60
2011	63	55
2012	73	55
2013	95	68
2014	91	81
2015	120	106
2016	93	94
2017	147	108

Stock index of Shin-Etsu Chemical and TOPIX (March 31, 2007 = 100)

Note: The above chart and the table show the rate of return taking into consideration the dividend as of March 31, 2017, and the stock price when an investment was conducted on March 31, 2007. Investment performance including dividends has been added to Shin-Etsu Chemical stock price and indexed at 100 as of March 31, 2007. The TSE Stock Price Index (TOPIX), which is a comparative index, also uses indexed data and is indexed in the same way.

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	19,206 (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 43,793
Stock Listings	Tokyo, Nagoya (Ticker Code: 4063)
Fiscal Year-End	March 31
Ordinary General Meeting of Shareholders	June
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation
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)	45,182	10.6
Japan Trustee Services Bank, Ltd. (Trust Account)	35,765	8.4
Nippon Life Insurance Company	21,933	5.1
Japan Trustee Services Bank, Ltd. (Trust Account 4)	12,229	2.9
The Hachijuni Bank, Ltd.	11,790	2.8
Meiji Yasuda Life Insurance Company	10,687	2.5
Japan Trustee Service Bank, Ltd. (Trust Account 5)	6,901	1.6
GIC PRIVATE LIMITED-C	6,180	1.4
STATE STREET BANK WEST CLIENT - TREATY 505234	5,906	1.4
Japan Trustee Service Bank, Ltd. (Trust Account 9)	5,516	1.3

Note: Shin-Etsu Chemical, which owns 5,724,030 treasury shares, is excluded from consideration as a major shareholder as defined above. The holding ratios are computed net of this treasury stock.

Please visit our Web site:

Corporate Information



<http://www.shinetsu.co.jp/en/> (English)
<http://www.shinetsu.co.jp/cn/> (Chinese)
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Financial & IR Information



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