

Our Efforts and Initiatives to Meet Our Customers' Increasing Requirements Contributed to the Record Earnings.



FY2018 was a remarkable year for our company. We again renewed the record earnings and exceeded a ¥400 billion mark for profit before tax for the first time. We declared an annual dividend of ¥200 per share, which is the highest mark in the company's dividend history, as well. We announced a couple of major capital projects, as I will review below. And last but not least, we implemented a 100 billion yen's worth of share repurchase. We passed a significant milestone in the FY2018.

In this fiscal year, we grew the sales turnover by 10.7% over the year before (FY2017) on a local currency basis and 10.6% on a Japanese yen denominated basis. Each of the business segments achieved top-line and bottom-line growth to renew its records. We worked very diligently to meet our customers' increasing requirements for availability, quality and product advancement throughout our operations. The efforts and initiatives certainly

contributed to strong rise in earnings segmentally and companywide. We increased the operating income by 19.9% to ¥403.7 billion, income before income taxes 22.0% to ¥415.3 billion and net income by 16.1% to ¥309.1 billion. This result marks the ninth consecutive year of growth in the earnings. Since March, 2010, the cumulative growth in earnings was ¥288.3 billion on a pretax basis and ¥225.3 billion on an after tax basis, which equates to a compound annual growth rate of 14.1% and 15.6%, respectively.

The record earnings and the implemented share repurchase reflect in the key indices. We succeeded in raising return on invested capital (ROIC) by 3.3 percent point to 21.5% and return on equity (ROE) by 0.9 percent point to 12.8%. These numbers are all good ones and we will strive to maintain them at these levels.

We are leveraging what we accomplished in this last fiscal year to advance the revenue and earnings. It is not an easy task but we must do so. The objective is not necessarily to build a bigger company but rather build a stronger and more resilient one, so that we can serve our customers better, innovate well and reward our shareholders.

We are vigorously and attentively serving our customers' growing needs for our products. To this end, we initiated a number of capital projects last year. Among them, we have \$1.49 billion project at Shintech, ¥110 billion investments in silicone facilities and ¥14 billion investment in photomask blanks capacity. We forecast the amount of capital investments will be 300 billion yen in the FY2019, about 20% greater than last fiscal year.

We have been busy running all the plants worldwide. We do so with our strong commitment to safety and quality. We have 21,000 motivated and dedicated people working day in day out to deliver our commitments. We invest in our employees through managerial interactions, various training programs and career development opportunities. Our technical and engineering expertise is the backbone of our operation. Coupled with our employees' commitment to safety and quality, it enables us to deliver quality products consistently in a timely manner.

Our research and development activities are on the rise. We invested ¥56.4 billion or 3.5% of the yearly sales in the FY2018. Roughly five thousand new products were introduced and 1,779 patents were granted. More than thirty percent of our revenue comes from patent-advantaged product sales. Our researchers are eager to devise solutions for customers and industries. The R&D investment efficiency measured by ratio of operating income for the recent five year period to R&D expenses for five year period prior to the period is very high among peers.

Our product portfolio and developmental direction are in line with SDGs. We are mindful of SDGs. We believe that our product offerings facilitate the achievement thereof and SDGs will facilitate our business in turn. For the sustainable development of human society and the improvement of its quality, it is vital to greatly lessen burden on the environment caused by human activities. To this end, we believe that it is essential to maximize efficiency. Technologies such as processing of proliferating data, IoT, 5G and AI are being utilized and continue to evolve for the purposes. We commit to apply, improve and innovate what we have and produce throughout our operation in

this endeavor. It is our daily goal to provide materials of value which will be regarded in a way that it is owing to our products that human life has been enhanced and problems markets and customers experienced have been solved.

We pay great attention to shareholders return. Thus, we increased the annual dividend by more than 40% last year and proceeded with the major share repurchase. We consider share repurchase as a part of our capital deployment strategy.

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

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

A stylized, handwritten signature in black ink, appearing to read 'YSaitoh'.

President
Yasuhiko Saitoh