June 7, 2017

To: All Shareholders of Shin-Etsu Chemical Co., Ltd. (the "Company")

Matters to be Disclosed via the Internet for the Notice of Convocation of the 140th Ordinary General Meeting of Shareholders

1. Notes to Consolidated Financial Statements

2. Notes to Non-Consolidated Financial Statements

Shin-Etsu Chemical Co., Ltd.

The matters mentioned above are provided to the shareholders by publishing them via the Internet on the website of the Company (http://www.shinetsu.co.jp/) pursuant to laws and Article 16 of the articles of incorporation of the Company.

Notes to Consolidated Financial Statements

Basis of presenting consolidated financial statements

1. Scope of consolidation

(1) Information on consolidated subsidiaries

Number of consolidated subsidiaries-------94

Names of the principal consolidated subsidiaries

SHINTECH INC.	Shin-Etsu Handotai Co., Ltd.
S.E.H. Malaysia Sdn. Bhd.	Shin-Etsu Handotai America, Inc.
Shin-Etsu PVC B.V.	Shin-Etsu Polymer Co., Ltd.
SE Tylose GmbH & Co. KG	Shin-Etsu Astech Co., Ltd.
Shin-Etsu Engineering Co., Ltd.	Shin-Etsu Handotai Taiwan Co., Ltd.
SIMCOA OPERATIONS PTY. LTD.	Shin-Etsu Silicones (Thailand) Limited
Asia Silicones Monomer Limited	Nagano Electronics Industrial Co., Ltd.

(2) Information on unconsolidated subsidiaries

Name of the principal unconsolidated subsidiary

Shin-Etsu Electronics (Malaysia) Sdn. Bhd.

Reasons for excluding unconsolidated subsidiaries from scope of consolidation

There are 34 unconsolidated subsidiaries excluded from the scope of consolidation as their total assets, net sales, net income (loss) and retained earnings in the aggregate are not material to the consolidated financial statements.

2. Application of equity method

(1) Information on unconsolidated subsidiaries and affiliates to which equity method is applied

Number of affiliates to which equity method is applied-------3

Names of the principal subsidiaries and affiliates to which equity method is applied

Mimasu Semiconductor Industry Co., Ltd.
Shin-Etsu Quartz Products Co., Ltd.

(2) Information on unconsolidated subsidiaries and affiliates to which equity method is not applied

Name of the principal unconsolidated subsidiary and affiliate to which equity method is not applied

Shin-Etsu Electronics (Malaysia) Sdn. Bhd.

Reasons for excluding unconsolidated subsidiaries and affiliates from scope of equity method

There are 34 unconsolidated subsidiaries and 11 affiliates excluded from the scope of the equity method as their net income (loss) and retained earnings in the aggregate are not material to the consolidated financial statements.

(3) Details on the application of equity method

Two of the affiliates accounted for under the equity method have a different closing date from that of the consolidated financial statements with one of those affiliates consolidated based on its latest financial statements and, for the remaining affiliate, provisional financial statements as of the end of February are prepared.

3. Fiscal year of consolidated subsidiaries

The fiscal year of SHINTECH INC., S.E.H. Malaysia Sdn. Bhd. and 65 other subsidiaries ends on December 31, and the fiscal year of Nagano Electronics Industrial Co., Ltd., Naoetsu Electronics Co., Ltd. and 5 other subsidiaries ends at the end of February. For consolidation of subsidiaries whose fiscal year-ends are not the same as the Company, necessary adjustments are made on significant inter-company transactions occurring during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

4. Summary of significant accounting policies

(1) Valuation of significant assets:

i) Valuation of securities:

Held-to-maturity debt securities	-------------	Amortized cost (straight-line method)
Available-for-sale securities		
Marketable securities	-------------	Fair market value as of the balance sheet date (Any net unrealized gains or losses are recognized in net assets, while costs of sales of marketable securities are calculated based mainly on the moving-average method.)
Non-marketable securities	-------------	At cost, mainly determined by the moving-average method

ii) Valuation of derivatives:
Fair value based on market quotations

iii) Valuation of inventories:
Inventories are mainly stated at cost determined primarily by the weighted-average method. (Balance sheet amounts are written down based on any decline in profitability.)

(2) Depreciation and amortization of fixed assets:

i) Property, plant and equipment (excluding leased assets):
The declining-balance method is mainly applied.
It should be noted, however, that the straight-line method is applied for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and for facilities attached to buildings and structures acquired on or after April 1, 2016 by the Company and certain domestic subsidiaries.

Useful lives mainly are as follows:

Buildings and structures ------- 15 – 47 years

Machinery and vehicles----------2 – 20 years

Additional depreciation is recorded based on excess operating hours for machinery and equipment that operate significantly in excess of their normal utilization rates.

(Changes in accounting policies)

Application of Practical Solution on a change in depreciation method due to Tax Reform 2016

Effective the first quarter of FY 2017, the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Accounting Standards Board of Japan (ASBJ) PITF No.32, issued June 17, 2016) was adopted, in accordance with the revision of the Corporation Tax Law of Japan. As a result, the depreciation method for facilities attached to buildings and for structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The impact of this change on operating income, ordinary income, and income before income taxes and non-controlling interests for FY 2017 was immaterial.

ii) Intangible assets (excluding leased assets):

Straight-line method

iii) Leased assets:

Leased assets under finance lease transactions that transfer ownership	--------------	The same method is applied as that for owned fixed assets.
Leased assets under finance lease transactions that do not transfer ownership	--------------	The straight-line method is applied using the lease term as the useful life with zero residual value.

(3) Calculation policy for allowances:

i) Allowance for doubtful accounts:

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts using the historic percentage of bad debt loss against the balance of general receivables plus an amount deemed necessary to cover individual accounts estimated to be uncollectible.

ii) Accrued bonuses for employees:

Certain consolidated subsidiaries recognize the estimated amount of employees' bonuses to be paid in the subsequent period that is attributable to the current fiscal year.

iii) Accrued bonuses for directors:

The Company and its certain consolidated subsidiaries recognize the estimated amount of directors' bonuses to be paid in the subsequent period that is attributable to the current fiscal year.

(4) Other bases for presenting consolidated financial statements:

i) Hedge accounting:

The Company and certain subsidiaries defer recognition of unrealized gains or losses on hedge transactions.

For interest rate swaps, the Company and certain subsidiaries apply special hedge accounting when the swap transaction meets the criteria for such treatment.

ii) Accounting treatment for retirement benefits:

The Company records the retirement benefit obligation after deducting pension plan assets as net defined benefit liability. For the calculation of the retirement benefit obligation, the Company attributes the expected retirement benefit to the service period of employees by the benefit formula basis.

Actuarial differences are amortized over a five-year period, which is within the average remaining service period of employees, using the straight-line method from the fiscal year when the difference was generated. Prior service cost is amortized as incurred over a ten-year period, which is within the average remaining service period of employees, using the straight-line method from the time when the prior service cost was generated.

iii) Consumption tax:

Consumption tax withheld by the Company and certain subsidiaries on sales of products and services is not included in the amount of net sales in the consolidated statement of income.

(Supplementary Information)

Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets

Effective the first quarter of FY 2017, the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, issued March 28, 2016) was adopted.

Notes to consolidated balance sheet

(Millions of yen)

1. Accumulated depreciation of property, plant and equipment --------------------- 1,939,277

2. Contingent liabilities

Kashima Berth Co., Ltd. (Bank loans) --- 183

Employee housing loans -- 8

Total 191

Notes to consolidated statement of changes in net assets

1. Type and number of shares outstanding as of March 31, 2017

Common stock ---------------------- 432,106,693 shares

2. Cash dividends

(1) Payment of cash dividends

Resolution	Type of shares	Total amount of dividends	Cash dividends per share	Record date	Effective date
Ordinary general meeting of shareholders held on June 29, 2016	Common stock	23,428 million yen	55.00 yen	March 31, 2016	June 30, 2016
Board of directors meeting held on October 28, 2016	Common stock	25,558 million yen	60.00 yen	September 30, 2016	November 18, 2016
Total	-	48,987 million yen	-	-	-

(2) Dividends with a record date in the fiscal year ended March 31, 2017 but with an effective date in the following fiscal year

The Company proposes the following agendum at the ordinary general meeting of shareholders to be held on June 29, 2017.

Type of shares	Total amount of dividends	Source of dividends	Cash dividends per share	Record date	Effective date
Common stock	25,582 million yen	Retained earnings	60.00 yen	March 31, 2017	June 30, 2017

3. Share subscription rights as of March 31, 2017

Details of share subscription rights	Type of shares subject to share subscription rights	Number of shares subject to share subscription rights
Resolved at the board of directors meeting held on September 8, 2015	Common stock	367,000 shares

Financial instruments

1. Overview of financial instruments

In principle, fund management is limited to deposits with financial institutions with high credit ratings and risk-free bonds, and financing is obtained primarily through borrowings from banks. With regard to credit risk generated by notes and accounts receivable-trade, each business department not only controls and manages account due dates and balances, but also confirms the credit standing of major customers periodically, making efforts to identify doubtful accounts as early as possible.

Regarding securities and investments in securities, the Company regularly determines their fair value and the financial situation of the issuing companies. For stocks, the Company also continually reviews the stock holding status, considering its relationship with the issuing companies. All derivative transactions are entered into for the purpose of hedging risks arising in the ordinary course of business, and there are no derivative transactions entered into for trading or speculative purposes.

2. Fair value of financial instruments

As of March 31, 2017, the book value, fair value and the difference between the two of financial instruments are as follows:

	Millions of yen		
	Book value	Fair value	Difference
Assets			
(1) Cash and time deposits	752,675	752,675	-
(2) Notes and accounts receivable-trade	287,853	287,853	-
(3) Securities and investments in securities			
i) Held-to-maturity debt securities	9,263	9,226	(37)
ii) Investments in capital of affiliates	24,250	24,860	610
iii) Available-for-sale securities	260,071	260,071	-
(4) Long-term loans	6,422	6,182	(240)
Total	1,340,537	1,340,870	332

Liabilities			
(1) Notes and accounts payable-trade	123,823	123,823	-
(2) Short-term borrowings	12,788	12,788	-
(3) Accounts payable-other	54,671	54,671	-
(4) Accrued expenses	61,611	61,611	-
(5) Accrued income taxes	32,711	32,711	-
(6) Long-term debt	1,578	1,559	(19)
Total	287,185	287,166	(19)

Derivative transactions			
Hedge accounting not applied	(3,941)	(3,941)	-
Hedge accounting applied	1,149	1,149	-
Total	(2,791)	(2,791)	-

(Note 1) Method for calculating fair value of financial instruments, and notes regarding securities and derivative transactions

Assets

(1) Cash and time deposits, and (2) Notes and accounts receivable-trade

These are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as the fair value in the table above.

(3) Securities and investments in securities

These consist mainly of stocks, quoted bonds and negotiable certificates of deposit. The fair value of stocks is based on prices quoted on stock exchanges, while the fair value of bonds is based on either prices quoted on the exchanges or prices provided by counterparty financial institutions. Negotiable certificates of deposit are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as the fair value in the table above.

(4) Long-term loans

The fair value of long-term loans is calculated based on future cash flow discounted at an appropriate rate, such as mid-term and long-term interest rates with credit spreads, for all loans grouped by a certain period of time and credit rating under the credit exposure management.

Liabilities

(1) Notes and accounts payable-trade, (2) Short-term borrowings, (3) Accounts payable-other, (4) Accrued expenses and (5) Accrued income taxes

These are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as the fair value in the table above.

(6) Long-term debt

The fair value of long-term debt is calculated based on a present value of principal and interest, discounted at an expected rate for new borrowings with the same terms.

Derivative transactions

Assets and liabilities arising from derivative transactions are presented in the table above. Total net payables are shown in parenthesis.

(Note 2) Non-listed stocks (book value: ¥28,318 million) whose fair value is extremely difficult to calculate because no market value is available and future cash flows cannot be estimated are not included in “(3) Securities and investments in securities”.

Per share information

Per share information as of and for the fiscal year ended March 31, 2017 is as follows:

	(Yen)
Net assets per share	5,002.16
Basic earnings per share	412.86
Diluted earnings per share	412.83

Notes to Non-Consolidated Financial Statements

Summary of significant accounting policies

1. Valuation of significant assets

(1) Valuation of securities:

Held-to-maturity debt securities	---------------	Amortized cost (straight-line method)
Investments in capital of subsidiaries and affiliates	---------------	Moving-average cost method
Available-for-sale securities		
Marketable securities	---------------	Fair market value as of the balance sheet date (Any net unrealized gains or losses are recognized in net assets, while costs of sales of marketable securities are calculated based on the moving-average cost method.)
Non-marketable securities	---------------	At cost, mainly determined by the moving-average cost method

(2) Valuation of derivatives:

Fair value based on market quotations

(3) Valuation of inventories:

Inventories are mainly stated at cost determined primarily by the weighted-average method. (Balance sheet amounts are written down based on any decline in profitability.)

2. Depreciation and amortization of fixed assets:

(1) Property, plant and equipment (excluding leased assets):

The declining-balance method is mainly applied.

It should be noted, however, that the straight-line method is applied for machinery and equipment related to PVC manufacturing facilities and electrolysis facilities, for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and for facilities attached to buildings and structures acquired on or after April 1, 2016.

Useful lives mainly adopted are as follows:

Buildings ------------------------15 – 31 years
Machinery and equipment -------2 – 9 years

Additional depreciation is recorded based on excess operating hours for machinery and equipment that operate significantly in excess of their normal utilization rates.

(Changes in accounting policies)

Application of Practical Solution on a change in depreciation method due to Tax Reform 2016

Effective the first quarter of FY 2017, the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (Accounting Standards Board of Japan (ASBJ) PITF No.32, issued June 17, 2016) was adopted, in accordance with the revision of the Corporation Tax Law of Japan. As a result, the depreciation method for facilities attached to buildings and for structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The impact of this change on operating income, ordinary income, and income before income taxes and non-controlling interests for the FY 2017 was immaterial.

(2) Intangible assets (excluding leased assets):

Straight-line method (Software for internal use is amortized by the straight-line method over the useful life of 5 years.)

(3) Leased assets:

Leased assets under finance lease transactions that transfer ownership	--------------	The same method is applied as that for owned fixed assets.
Leased assets under finance lease transactions that do not transfer ownership	--------------	The straight-line method is applied using the lease term as the useful life with zero residual value.

3. Calculation policy for allowances:

Allowance for doubtful accounts:

The Company provides an allowance for doubtful accounts using the historic percentage of bad debt loss against the balance of general receivables plus an amount deemed necessary to cover individual accounts estimated to be uncollectible.

Accrued bonuses for directors:

The Company recognizes the estimated amount of directors’ bonuses to be paid in the subsequent period that is applicable to the current fiscal year.

Accrued retirement benefits:

The Company recognizes pension and severance costs for employees based on the estimates of the pension obligations and the plan assets at the end of current fiscal year. For the calculation of the retirement benefit obligation, the Company attributes the expected retirement benefit to the service period of employees by the benefit formula basis.

Actuarial differences are amortized over a five-year period, which is within the average remaining service period of employees, using the straight-line method from the fiscal year when the difference was generated. Prior service cost is amortized as incurred over a ten-year period, which is within the average remaining service period of employees, using the straight-line method from the time when the prior service cost was generated.

4. Other bases for presenting non-consolidated financial statements

(1) Hedge accounting:

The Company defers gains or losses on its hedges.
For interest rate swaps, the Company applies special hedge accounting treatment when the swap transaction meets the criteria for such treatment.

(2) Consumption tax:

Consumption tax withheld by the Company on sales of products and services is not included in the amount of net sales in the non-consolidated statement of income.

(Supplementary Information)

Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets

Effective the first quarter of FY 2017, the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, issued March 28, 2016) was adopted.

Notes to non-consolidated balance sheet (Millions of yen)

1. Accumulated depreciation of property, plant and equipment------------------------ 551,447

2. Contingent liabilities:
   Employee housing loans-- 6

3. Accounts receivable due from and payable due to subsidiaries and affiliates:
   Short-term accounts receivable --- 103,993
   Long-term accounts receivable --- 1,908
   Short-term accounts payable -- 192,343

Notes to non-consolidated statement of income

Transactions with subsidiaries and affiliates: (Millions of yen)

Sales -- 269,046
Purchases-- 368,919
Non-operating transactions -- 43,068

Notes to non-consolidated statement of changes in net assets

Type and number of treasury stock as of March 31, 2017
Common stock --------------------- 5,724,030 shares

Deferred taxes

Components of deferred tax assets and liabilities:

	(Millions of yen)
Deferred tax assets:	
Loss on valuation of stocks of subsidiaries and affiliates	5,579
Depreciation and amortization	4,726
Unsettled accounts receivable and payable	2,320
Allowance for doubtful accounts	1,814
Accrued bonuses	1,608
Maintenance costs	1,544
Accrued enterprise taxes	809
Other	14,272
Subtotal	32,674
Valuation allowance	(7,974)
Total deferred tax assets	24,700
Deferred tax liabilities:	
Unrealized gains on available-for-sale securities	9,596
Reserve for reduction entry for fixed assets	873
Reserve for special depreciation	66
Other	33
Total deferred tax liabilities	10,569
Net deferred tax assets	14,130

Leased assets

In addition to the fixed assets on the non-consolidated balance sheet, the Company leases certain office equipment and manufacturing facilities under finance lease transactions that do not transfer ownership.

Related party transactions

Directors, major individual shareholders and others (Millions of yen)

Type	Name	Percentage of voting rights	Relationship	Transactions	Transaction amount (Thousands of shares)	Account	Balance at the year end
Director	Fumio Akiya	Direct Ownership 0.00%	Representative Director - Vice Chairman	Exercise of stock options (Note)	264 (36)	-	-
Director	Toshinobu Ishihara	Direct Ownership 0.00%	Senior Managing Director	Exercise of stock options (Note)	161 (22)	-	-
Director	Susumu Ueno	Direct Ownership 0.00%	Senior Managing Director	Exercise of stock options (Note)	124 (17)	-	-
Director	Koji Takasugi	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	124 (17)	-	-

(Millions of yen)

Type	Name	Percentage of voting rights	Relationship	Transactions	Transaction amount (Thousands of shares)	Account	Balance at the year end
Director	Masahiko Todoroki	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	58 (8)	-	-
Director	Toshiya Akimoto	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	44 (6)	-	-
Director	Fumio Arai	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	124 (17)	-	-
Director	Yukihiro Matsui	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	102 (14)	-	-
Director	Masaki Miyajima	Direct Ownership 0.01%	Managing Director	Exercise of stock options (Note)	29 (4)	-	-
Director	Shunzo Mori	Direct Ownership 0.00%	Director - Adviser	Exercise of stock options (Note)	513 (70)	-	-
Director	Toshiyuki Kasahara	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	44 (6)	-	-
Director	Hidenori Onezawa	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	66 (9)	-	-
Director	Kazumasa Maruyama	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	58 (8)	-	-
Director	Kenji Ikegami	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	73 (10)	-	-
Director	Toshio Shiobara	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	44 (6)	-	-
Director	Yoshimitsu Takahashi	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	51 (7)	-	-

(Note) Share subscription rights were approved at the board of directors meeting held on September 8, 2015.

Per share information

Non-consolidated per share information as of and for the fiscal year ended March 31, 2017 is as follows:

(Yen)

Net assets per share -- 1,919.50

Net income per share -- 194.63