



**Shin-Etsu**  
Shin-Etsu Polymer Co., Ltd.

**Annual Review 2017**  
Year Ended March 31, 2017

# Profile

Shin-Etsu Polymer Co., Ltd. began operations in 1960 as a manufacturer of molded plastic products.

Since then, we have developed applications for our fundamental technologies involving materials and compounding, design, molding processes, and evaluation and analysis for silicon and various plastics.

In accordance with the corporate mission statement of the Shin-Etsu Group, we strictly comply with all laws and regulations, adhere to fair business practices, and contribute to people's daily lives as well as to society and industry by creating value with our key materials and technologies. We meet the diverse needs of our customers in a wide range of fields, from semiconductors, automobiles and information devices to food product packaging and construction materials.

## Technological Strengths as a Manufacturer of Molded Plastic Products


We meet diverse customer needs by consistently providing a wide range of high-value-added products that leverage our sophisticated technologies based on our fundamental technologies for processing various plastics. Our products include silicon rubber, PVC, and engineering plastics.

## Ability to Meet Global Needs

To meet increasing global demand and the diverse needs of customers, Shin-Etsu Polymer utilizes its sales and manufacturing network that extends beyond Japan to Europe, North America, and other parts of Asia to provide a stable supply of high-quality products.



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### Forward-Looking Statements

This annual review contains information about Shin-Etsu Polymer's current plans, strategies and other items not based on historical fact. These are forward-looking statements that involve risks and uncertainties. Actual results may differ significantly from those discussed in the forward-looking statements due to various factors in the Company's operating environment, including changes in economic and market conditions, foreign exchange rates and demand trends.

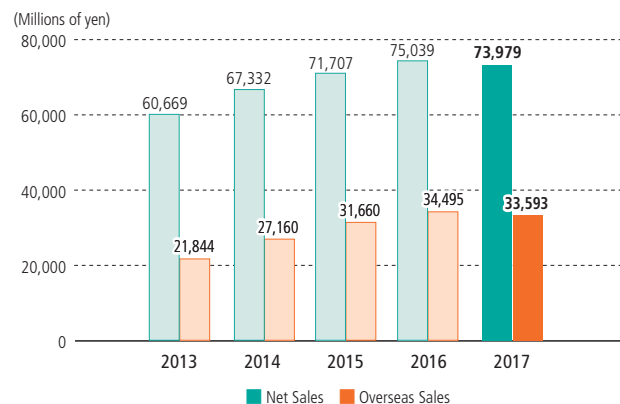
Note: All yen and dollar figures in this annual review have been rounded down to the nearest unit.

# Financial Highlights

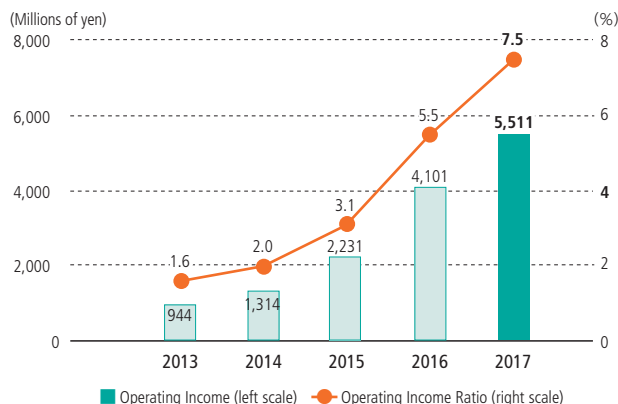
For the fiscal year ended March 31, 2017, sales of semiconductor-related containers grew substantially, sales of automotive input devices remained steady, and we made progress with restructuring in the PVC products business. As a result, consolidated net sales decreased 1.4% year on year to ¥73,979 million, operating income increased 34.4% to ¥5,511 million, and profit attributable to owners of parent increased 34.2% to ¥4,230 million, to mark the fourth consecutive year of growth in income.

The fiscal year-end cash dividend per share was ¥6.00. Total cash dividends per share including the interim cash dividend were ¥12.00.

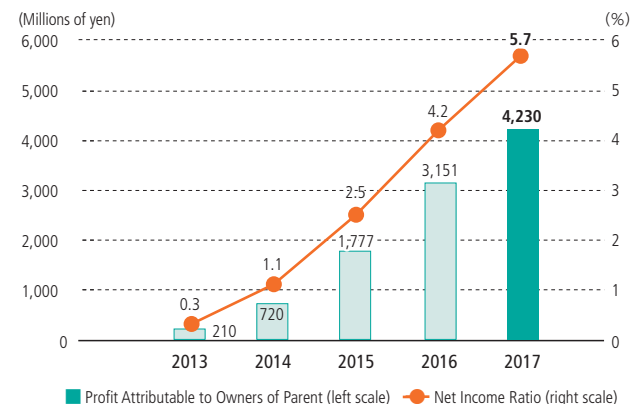
## Net Sales and Overseas Sales



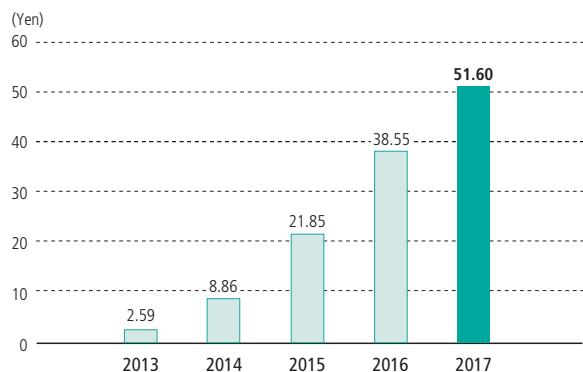
## Operating Income and Operating Income Ratio



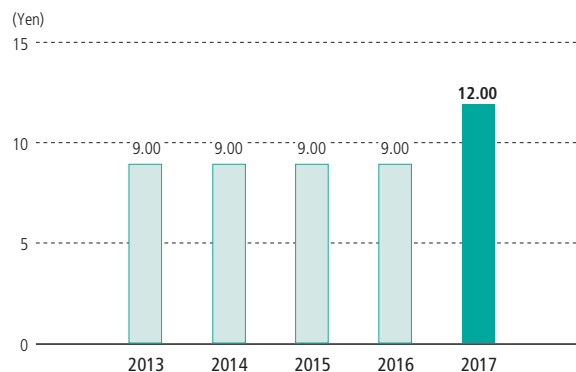
## Profit Attributable to Owners of Parent and Net Income Ratio



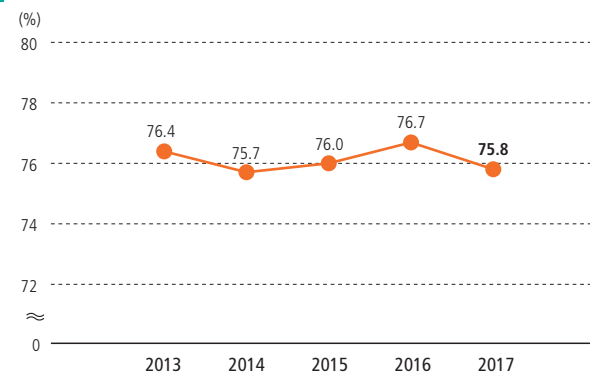
## Net Income per Share



## Cash Dividends per Share



## Equity Ratio





We aim to achieve sustainable growth by responding to changing customer needs with our three-pronged business structure of the Sales Unit, the Development Unit and the Production Unit, supported by our core businesses and new businesses, the two pillars of our operations.

**Q** How do you evaluate Shin-Etsu Polymer's performance in the fiscal year ended March 2017?

We achieved growth in income for the fourth consecutive year. Shipments of core products under our three-pronged business structure were strong.

In the fiscal year ended March 2017, shipments of automotive key switches and semiconductor-related containers were strong. We achieved growth in income for the fourth consecutive year. Sales were slightly lower than in the previous year due in part to the impact of yen appreciation in the first half of the fiscal year and our withdrawal from unprofitable businesses. However, in terms of income, the withdrawal from unprofitable businesses and the depreciation of the dollar against the currencies of countries where we have overseas production bases had a positive impact.

Growth in income was also underpinned by our continued efforts to review raw material procurement operations and to pursue rationalization at our factories in order to improve profitability. Although our overseas factories are the main force behind production, in recent years, the rise in personnel costs, even in emerging economies, is making it harder to maintain our low-cost country sourcing strategy. For this reason, we are positioning the introduction of automated equipment at overseas factories as a priority issue in an attempt to cut production costs. Our automated production technologies primarily come from the Kodama Plant in Japan, and the Production Unit, which is responsible for promoting the spread of automation, introduces the optimal system for each factory overseas.

The three-pronged business structure also greatly contributed to the strong shipments of automotive key switches and semiconductor-related containers. For the functional products that we offer, the needs of our customers change rapidly. For example, for automotive key switches, we need to redevelop the product each time a vehicle undergoes a model change.

Three years ago, we integrated four business divisions into our Sales Unit and established a collaborative system with the Development Unit and the Production Unit (with the latter two units created in April 2016 by separating the Technology & Production Unit). As a result, products that meet customers' quality requirements can be developed and delivered more quickly, and our automotive key switches and 300mm wafer shipping containers have captured top market shares.

**Q** What are your thoughts on the challenge of achieving sustainable growth and the Company's efforts?

Strengthening our core businesses and creating new businesses are important issues, and M&A is one way of achieving these tasks.

The first issue is to further strengthen our core businesses. We aim to speed up our ability to always respond to customer needs faster than our competitors through our three-pronged business structure.

The second issue is the creation of new businesses that will serve as another pillar, together with our core businesses. We have a number of development projects in the pipeline, with some that we have just started and others that have progressed to the stage

where customers are evaluating product prototypes. The development themes are selected from the fields in which we can fully leverage the technologies that we have cultivated, namely semiconductor, information and communication, and medical-related fields. In the medical field, for example, we have been developing parts for medical devices, but we want to evolve from being a manufacturer of components to a manufacturer of finished products.

Also, in our search for new themes among the increasing number of possibilities, it is important to evaluate the feasibility of each theme in order to prioritize projects. Going forward, the Development Unit will be responsible for identifying promising themes and will work to generate new businesses quickly.

In addition to unearthing new businesses from within the Company, we also place importance on the effective use of external resources and have been carefully considering M&A prospects. However, both the real challenge of an M&A and the key to success lie in the post-merger integration process. Therefore, the companies that we can target through M&A are limited to those that are engaged in the same development themes as we are or in fields that are peripheral to the technologies we possess. This is because we must be able to expect synergies from the M&A. If we can find good matches in terms of target markets and technologies, we believe we can achieve smooth post-merger integration. An alliance of that nature should present many commonalities, including corporate culture, regardless of where a partner company originates from.

**Q** What are your thoughts and policies on CSR?

**We feel that utilizing our diverse workforce to contribute to solving social issues is important.**

We are committed to working to solve not only the issues facing customers, but also those that confront society as a whole. For example, we are continuing our Green Activities that contribute to environmental conservation and the prevention of global warming.

We also recognize that safety is the foundation of our corporate activities. As such, we provide comprehensive training to employees, while also working to improve the work environment, facilities and

procedures at production bases.

Improvement of corporate governance is also an important issue. In this area, we are working to improve corporate value by ensuring management transparency, strengthening risk management and internal controls, and taking other measures.

Furthermore, based on respect for the human rights of our employees, we take measures to eliminate discrimination on the grounds of race, gender, educational background, disabilities, and other factors, at our domestic and overseas bases. At overseas bases, we have appointed local personnel to management positions, and they have demonstrated their strengths through the effective management of factory employees and by generating sales in local markets. Recruiting talented and experienced workers for mid-career positions in Japan is also effective for growing our existing businesses and generating new businesses. The pool of human resources in Japan and overseas is diversifying, but we share a common goal and our paths are aligned in our daily work.

In addition to promoting the creation of a comfortable work environment for all of our employees, we hope that our employees themselves also fulfill their duties as a member of a responsible organization, working with pride and confidence for a company recognized by society as a reputable, listed company.

**Q** Do you have a message for shareholders and investors?

**We will realize sustainable growth through aggressive investment and will work to increase dividends from a medium-term perspective.**

In the fiscal year ending March 2018, we will return to sales growth and achieve an increase in income for the fifth consecutive year. We will work to achieve uninterrupted sustainable growth. The two pillars of our operations — core businesses and new businesses — will drive growth, and we will make proactive investments to strengthen them or get them up and running. First of all, we will bolster our sales capabilities and make appropriate capital investments to increase supply capacity. We also plan to aggressively boost R&D investments for new products and new businesses.



As I mentioned earlier, one means of developing new businesses is through M&A, but we assume that in such cases, we would invest up to around ¥10 billion. We definitely want to examine the potential synergistic benefits of M&A accurately and make decisions quickly so that we can realize such integrations during the fiscal year ending March 2018.

As for shareholder returns, our basic policy is to maintain a stable dividend. Rather than prioritizing strong performance over the short term, we will endeavor to increase dividends based on our prospects for growth over the medium term.

Although there are uncertain elements in the future business environment, we are committed to further improving performance and corporate value with our three-pronged business structure of sales, development, and production. To all our stakeholders, I thank you for your continued understanding and support.

July 2017

*Yoshiaki Ono*

Yoshiaki Ono  
President

## Feature: Messages from Unit Leaders

The heads of four units talk about current issues and mutual collaboration.

We will discover new needs by listening to customer feedback.



### Sales Unit

**Toshiaki Deto**  
Senior Director,  
General Manager,  
Sales Unit

The Sales Unit's top priority is to increase sales to contribute to the strong growth of the Company. To achieve that, for each of Shin-Etsu Polymer's businesses, we must plan and execute strategies that are optimized for the target market. The Sales Unit has many opportunities to obtain information from customers first-hand, but it should first carefully discover new needs. In designing a better future, a lot of customers envision a world that is one step ahead. We will attempt to accurately capture that world and remain mindful of how we can contribute to achieving it through our sales activities.

When we identify a need that falls outside the framework of our existing businesses, we will work in close cooperation with the new business creation project team to respond as quickly as possible. In addition, we will work together with the Development Unit to design mechanisms that will allow us to quickly produce and present prototypes that conform to that concept. This will ensure that those newly identified needs lead to business expansion.

With an entrepreneurial spirit, we will become the source of new ideas while also promoting collaboration.



### Development Unit

**Satoru Sugano**  
Director,  
General Manager,  
Development Unit

We hope the Development Unit will become the source for creating new businesses throughout the Company. To accomplish this goal, we will work with each unit to share knowledge and create high added value. In order to respond more flexibly to environmental changes, we will review and reinforce the structure of the Development Unit, which was established just over a year ago.

In addition, individual developers must first take an interest in all aspects of their work, think about maximizing their respective team capabilities, and take action. Furthermore, developers need to have an entrepreneurial spirit, and have the resourcefulness to get others to easily understand their ideas. We aim to improve their skills by increasing the number of opportunities to attend PR events and presentations for new customers.

The Company's comprehensive capabilities encompass a wide array of processing technologies, multifaceted business development, and global human resources. The Development Unit aims to promote interdivisional communication and collaboration through a fusion of these elements.

We will maximize opportunities for growth by collaborating with the Sales Unit and the Development Unit.



### Production Unit

**Mitsuo Sato**  
Director,  
General Manager,  
Production Unit

We significantly changed the positioning of our production bases by turning our domestic production subsidiaries into our own factories and by strengthening cooperation between the production subsidiaries in ASEAN and China. To establish a production system that will enable us to succeed in the global market, it is important to improve customer satisfaction and reinforce our manufacturing competitiveness. With this as our objective, it is the Production Unit's responsibility and mission to further strengthen the mechanisms and systems for quality, cost, and delivery (QCD). In addition, we need to be aware of and prepare for various risks in production, procurement, delivery, and other operations, in order to maintain a stable supply of products. Moreover, we will promote safety awareness such as risk prediction in order to make the working environment as safe and secure as possible.

We aim to take on new challenges by further enhancing our basic production structure, working to reduce costs, and maximizing the opportunities for business growth on a global scale in collaboration with the Sales Unit and the Development Unit.

We will harness our knowledge and experience as specialists to provide logistical support while keeping in mind the concept of optimization.



### Administrative Unit

**Yasushi Shibata**  
Director,  
General Manager,  
Administrative Unit

Each department within the Administrative Unit, which provides logistical support for the Sales Unit, needs to make the most of its expertise to provide consultations on various fronts and offer pragmatic advice. To this end, based on our knowledge and experience as specialists, we work to make concrete, practical proposals.

In order for the Company to prevail over the competition, the Administrative Unit must continually monitor and comprehend changing societal trends. While building an in-depth understanding of the function and flow of our products, we want to make optimal and promising proposals by gathering information from a wide perspective through collaboration with the administrative department within the Sales Unit, the Development Unit and the Production Unit.

In addition, cost reduction and risk management are important tasks for the Administrative Unit. While achieving these objectives, the Administrative Unit will continue to make improvements to increase operational efficiency.

## At a Glance

### Electronic Devices

Net Sales (YoY) **¥18.6 billion** (−6.5%)

#### Segment Overview

The Electronic Devices segment primarily operates in electronics-related fields, such as electronic input devices for automobiles and information terminals. It expanded into overseas markets early on, and leads the Company in overseas business, including production.

Shin-Etsu Polymer leverages fundamental technologies such as those for silicone rubber processing and combined processing with other materials, and high-definition printing to provide products and services that meet the requirements of domestic and overseas automotive, mobile device, electronic components, and other manufacturers that operate globally.

#### Main Products

- Input devices
- Display-related devices
- Component-related products

### Housing and Living Materials

Net Sales (YoY) **¥17.3 billion** (−5.1%)

#### Segment Overview

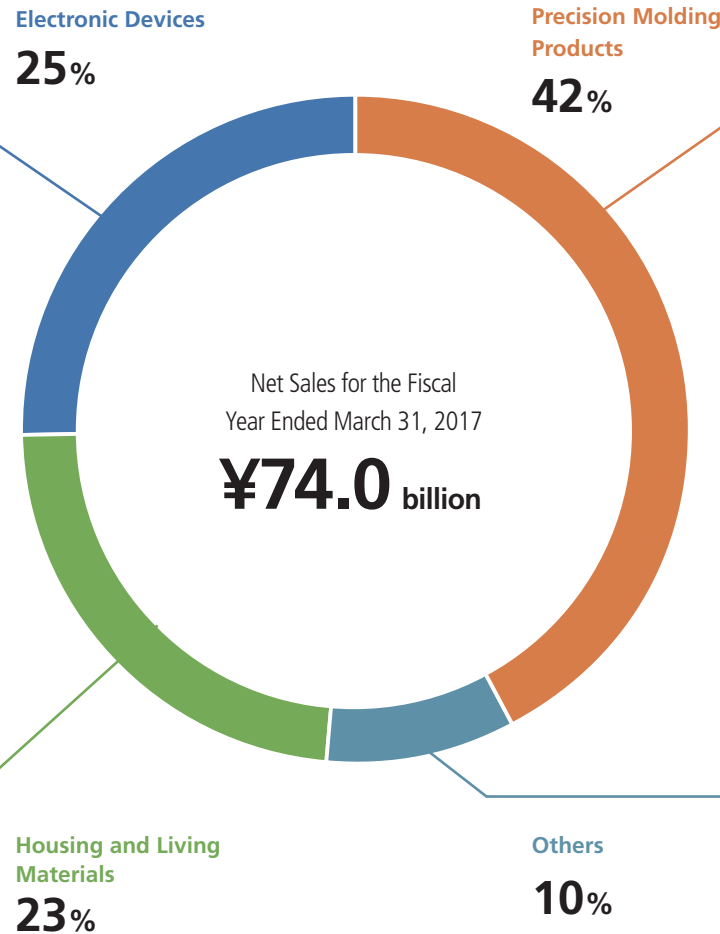
The Housing and Living Materials segment's wide lineup of products includes molding products that use PVC resin as the main raw material. Products include packaging materials for food products, construction materials, and semi-manufactured materials for molding products; and new products such as conductive polymers that offer conductivity and heat resistance properties and thin-film membranes made from engineering plastics.

Despite the slump in the housing and consumer markets in Japan, we are making steady progress with improving profitability thanks to efforts to maintain product price levels, efforts to enhance our product lineup, and rationalization of production and logistics operations.

#### Main Products

- Wrapping films
- PVC pipes
- Compounds
- Exterior products
- Conductive polymers

### Percentage of Net Sales by Segment



### Precision Molding Products

Net Sales (YoY) **¥31.1 billion** (+2.3%)

#### Segment Overview

The Precision Molding Products segment leverages Shin-Etsu Polymer's unique technologies to provide precision molding products in Japan and overseas, including shipping and carrying containers for semiconductor silicon wafers, materials for automatic mounting of electronic components, office automation (OA) device components and components for medical devices made primarily from silicone rubber.

Shin-Etsu Polymer's advanced precision molding technologies and evaluation and analysis technologies are particular strengths of this segment. We have established an excellent reputation and earned the trust of customers by ensuring steady supplies of high-quality products with cost-competitiveness through our flexible and quick production system, which allows us to provide services tailored to customer needs.

#### Main Products

- Semiconductor-related containers
- OA device components
- Silicone rubber molded products
- Carrier tapes

### Others

Net Sales (YoY) **¥7.0 billion** (+7.2%)

#### Segment Overview

The Others segment involves construction businesses such as construction for the interior and exterior of public and commercial facilities, and the development and sale of packaging materials for industrial use and food products.

In the construction business, we focus on commercial facilities such as supermarkets and restaurants, offering comprehensive services in which we are responsible for the entire process from planning to design, construction and after-sales service. In the development and sales business, we develop and sell industrial trays for carrying industrial components and products, trays for in-flight meals, and packaging and agricultural materials for fruit.

#### Main Products

- Design and construction of buildings, interiors and exteriors of commercial facilities, retail stores, portable toilets, etc.
- Other processed products

# Overview of Operations



Automobile steering switches



Automotive touch switches



Personal computer touchpads



View control film (VCF)

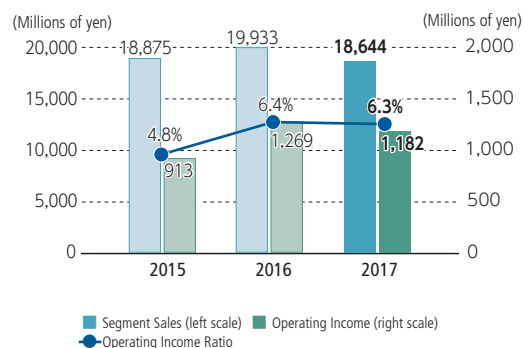
## Electronic Devices

(Automotive and Information Devices)

### Points

- Expanded input devices business overseas
- Focused on expanding sales of automotive input devices

### Segment Sales, Operating Income and Operating Income Ratio



### Market Environment and Business Trends

In the automotive market, automobile production and sales were steady due in part to record sales volume in the United States for the second straight year, but demand for high-end smartphones, tablets and other information devices continued to slow down.

We are currently focusing on sales of high-value-added products that meet customer needs for features such as high performance and ultra-thinness based on the high-definition printing, silicone rubber processing and other technologies in which we specialize and can display our competitive advantage. In working for the sustained growth of this business, we are especially focusing on sales of touch input devices, centered on key switches, with an emphasis on automotive input devices, a growing market. In production, we are increasing capacity utilization at the main production base of our subsidiary Suzhou Shin-Etsu Polymer Co., Ltd. in Jiangsu Province, China. In addition, the expanded facilities at Shin-Etsu Polymer India Pvt. Ltd.'s (Tamil Nadu, India) building No. 2 began full-scale production. We are also making investments to renew the production facilities of Shin-Etsu Polymer (Malaysia) Sdn. Bhd. (Selangor, Malaysia) to enable increased production of input device components and other products.

### Overview of Results for the Fiscal Year Ended March 31, 2017

In the Electronic Devices segment, although shipments of automotive input devices remained strong, overall sales and profits decreased from the previous fiscal year due to the impact of yen appreciation and other factors.

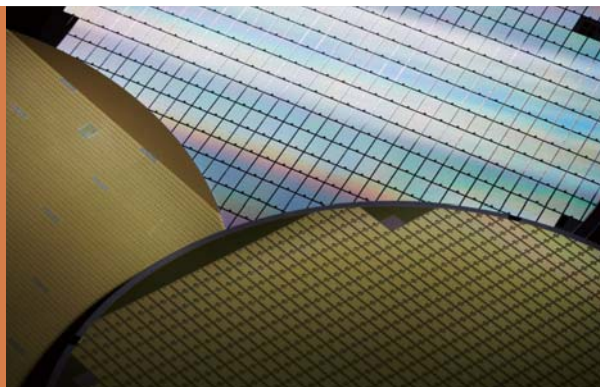
In input devices, shipments of automotive key switches and touch switches were robust reflecting the growing variety of automotive electrical switches and adoption of these switches in a wider range of vehicle models. Meanwhile, shipments of slim notebook computer touchpads fell sharply due to the stagnation in the PC market, among other factors. In display-related devices, the recovery in shipments of LCD connectors was weak and shipments also slowed for view control film (VCF) for ATM applications. Sales of component-related products were sluggish as demand for connectors used in the inspection of electronic components declined due to production adjustments for high-end smartphones.

As a result, segment sales totaled ¥18,644 million, a decrease of 6.5% year on year, and operating income was ¥1,182 million, a decrease of 6.8%.

### Technology and Development

We develop input device components that use the capacitance method based on high-definition printing technology. We also develop composite products made from dissimilar materials, such as resin and metal, based on silicone processing technologies. With an emphasis on these products, we are working to develop new demand in the automotive components, mobile and home appliance markets.





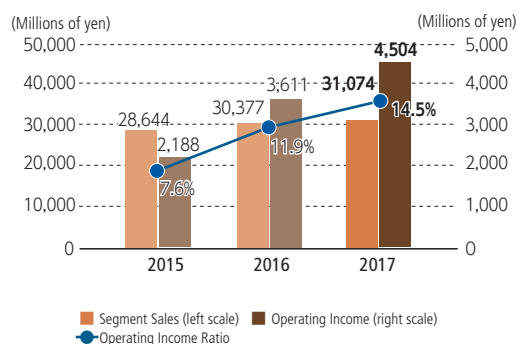
## Precision Molding Products

(Office and Medical Equipment, Semiconductor and Electronic Components)

### Points

- Improved differentiation and cost competitiveness with our proprietary compounding technology and advanced precision molding technologies
- Strengthened production system in Japan and overseas to respond to changing demand trends for semiconductor and electronic components

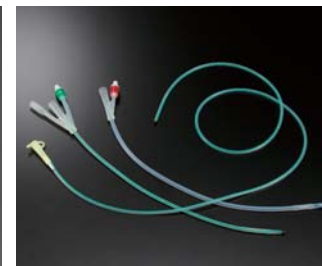
Segment Sales, Operating Income and Operating Income Ratio



Semiconductor-related containers (FOSB)



OA device components (OA rollers)



Medical catheters



Embossed carrier tape

### Market Environment and Business Trends

In the semiconductor market, demand increased for devices for automotive, mobile device, and IoT applications. Because our semiconductor-related container business accurately responds the needs of the world's leading semiconductor device and wafer manufacturers, we have succeeded in maintaining a leading share of global sales.

In the OA device market, demand for laser printers slowed in emerging economies where growth was expected. Meanwhile, in office applications where durability and high functionality are increasingly in demand, we have been further improving the quality and reinforcing cost competitiveness of our OA rollers.

In the electronic components market, demand has remained stable for automotive and smartphone applications, but demand was sluggish for our micro capacitors used in high-end smartphones. As for our carrier tape products, which are frequently used for micro capacitor applications, we are setting up a more flexible supply system by expanding overseas production.

In the medical equipment market, demand grew steadily both in Japan and overseas. Our silicone rubber molded products are used in high-precision products in the medical equipment market. We are also aggressively promoting our fireproof gaskets and carrying plates for electronic components for applications in other fields.

### Overview of Results for the Fiscal Year Ended March 31, 2017

In the Precision Molding Products segment, overall sales increased year on year and profit rose significantly thanks to strong shipments of semiconductor-related containers.

Shipments of semiconductor-related containers were robust throughout the year, especially for our mainstay products for 300mm wafers amid elevated demand. Sales of OA device components were weak due to the effect of yen appreciation and a decline in shipments of development rollers to major users against the backdrop of weakness in the laser printer market. As for carrier tape-related products, demand was firm for automotive electronic component applications, but sales of products for micro component applications were poor. As for silicone rubber molded products, shipments were stable for our mainstay products, including medical-related and construction material products.

As a result, segment sales totaled ¥31,074 million, an increase of 2.3% year on year, and operating income was ¥4,504 million, an increase of 24.7%.

### Technology and Development

We are working on the development of carrying containers for next-generation wafers and carrier tapes in response to the miniaturization of semiconductor processes and the decreasing size of electronic equipment, based on our proprietary precision processing technologies and evaluation technologies. Additionally, in response to the shift toward high-speed, low-cost OA devices, we are developing OA device components to meet customer needs by applying silicone rubber processing technologies such as semi-conductive technology and foaming technology.



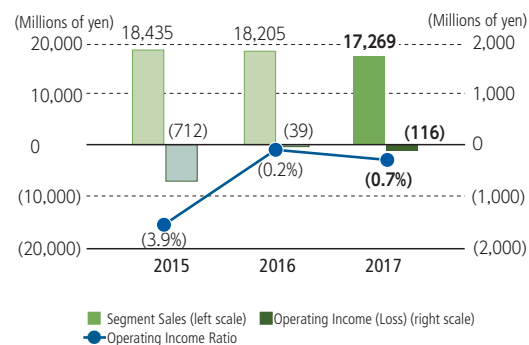
## Housing and Living Materials

(Packaging, Industrial Materials and Construction Materials)

### Points

- Expanded sales of living materials and construction materials using general-purpose resins in the domestic market
- Began implementing structural reforms to include materials-related products, such as functional compounds and conductive polymers

### Segment Sales, Operating Income (Loss) and Operating Income Ratio



PVC pipes and related products



Wrapping films



Compounds



Self-fusing silicone rubber tape



High-performance engineering plastic film

### Market Environment and Business Trends

Consumption was sluggish in the retail industry, including supermarkets, and in the restaurant industry, including family restaurants and hotels. We are working to maintain product price levels and boost productivity for our wrapping films and other packaging materials.

The prolonged slump in domestic public investment and the weakness in new housing starts for detached homes continued. In the area of construction materials, such as PVC pipes, we are working to reduce logistics costs and strengthen measures for attracting new customers.

Our compounds are used as molding materials in fields as diverse as automobiles, electric wiring, home appliances, construction and medical care. Shipments of highly slidable and high-performance compounds are increasing, especially for automotive and electric wiring applications.

For many products in this segment, raw material prices are directly affected by fluctuations in market prices for crude oil and naphtha. In the fiscal year ended March 31, 2017, this factor did not have a significant impact on earnings because fluctuations in raw material prices were only slight, allowing us to minimize revisions to sales prices.

### Overview of Results for the Fiscal Year Ended March 31, 2017

In the Housing and Living Materials segment, overall sales were lower than in the previous fiscal year and profits failed to improve due to the slump in domestic demand for PVC products and price competition, despite our efforts to liquidate unprofitable businesses.

Sales of packaging materials such as wrapping films remained flat year on year due to weak demand from supermarkets and the restaurant industry. We were unable to achieve growth in shipment volume for PVC pipes due to the weakness in housing starts. As for functional compounds, demand for automotive and industrial robot applications recovered gradually. In exterior products, demand slumped for corrugated sheets and sealants, and our withdrawal from the plastic siding business also impacted sales.

As a result, segment sales totaled ¥17,269 million, a decrease of 5.1% from the previous fiscal year, and operating loss was ¥116 million, compared with an operating loss of ¥39 million for the previous fiscal year.

### Technology and Development

Our compounding, kneading, extrusion molding and calendaring technologies have long been held in high regard as fundamental technologies for processed PVC products. As a result of our development of applications for these technologies, we have added a thin film made from engineered plastics and a conductive polymer with conductivity and heat resistance properties to this segment's product lineup. Additionally, we are developing products and cultivating demand for high-performance compounds with excellent sliding properties and sealing materials made from silicone materials for excellent workability.

## Research and Development



### Using Unique Technologies to Create Themes That Deliver Value for Customers

The basis of the Shin-Etsu Polymer Group's research and development is to communicate closely with customers, identify their potential needs and provide them with valuable products.

Our mission in R&D is to meet customer needs in a wide range of fields by applying our fundamental technologies for material compounding, design, molding processes, and evaluation and analysis technologies using silicone, plastics and conductive materials as key materials.

### Precise, Rapid Development through Collaboration between the Sales Unit, the Production Unit and the Development Unit

The Technology & Production Unit, which incorporated existing business development functions and new business development functions was restructured into the Development Unit and the Production Unit in April 2016. As a result, our research and

development structure is now led by the Development Unit and focuses on both enhancing core technologies and establishing new technologies. The Development Unit is working closely with the Sales Unit and Production Unit to uncover diverse customer needs even more precisely and to respond to them rapidly.

### Targeting Growth Markets by Developing New Products Using Core Technologies

We develop innovative products in a wide range of fields using our precision miniaturization molding technology and functional resin compounding technology, which includes technology for conductive materials.

Our development activities include the creation of applications for conductive polymers, products related to fuel cells, functional films, and noise suppression products.

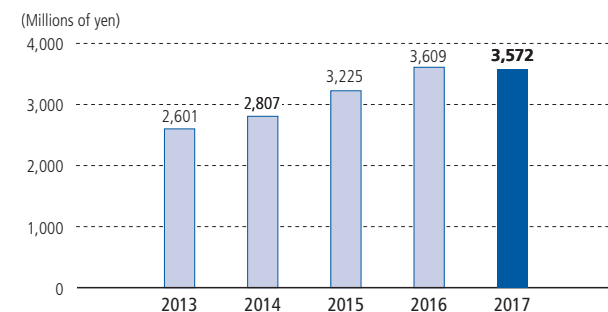
### Intellectual Property Initiatives

Based on the recognition that patents, technological know-how and other such attributes are important management assets, the Intellectual Property Division sets intellectual property strategies for each of the Company's divisions, which have different business models, and is improving its management of intellectual property "offensively" and "defensively" to develop and support new markets and new customers. The Sales Unit, the Development Unit and the Production Unit work together to promote offensive use of intellectual property, such as strategic filing for and utilization of industrial property rights. Such active use of our intellectual property rights will secure a competitive edge in the market. At the same time, we use defensive strategies such as increasing our global research activities, conducting intellectual property life cycle management, and making use of intellectual property agreements based on respect for the rights of other companies. We also plan to enhance training and awareness building to further raise the level of our intellectual property activities.

The number of proprietary patents and other intellectual property assets of the Shin-Etsu Polymer Group as of March 31, 2016 and 2017 were as follows.

	As of March 31, 2016	As of March 31, 2017
Patents	968	1,024
Utility models	6	6
Industrial designs	88	91
Trademarks	136	139
Foreign patents	519	514

### Research and Development Expenses



# Corporate Governance

## Enhancing and Strengthening Corporate Governance

### Basic Policy

#### [ Basic Approach ]

The Shin-Etsu Polymer Group recognizes that a fundamental premise of management is enhancing corporate value as a global corporation that is trusted by and meets the expectations of its shareholders and various other stakeholders.

Based on this fundamental awareness, the Shin-Etsu Polymer Group is working to enhance corporate governance through accurate decision-making and execution enabled by speeding up the decision-making process of management and by improving management transparency and internal control functions.

#### [ Basic Policy ]

#### 1 Ensure the rights and equality of shareholders

We will respect the rights of shareholders, give consideration to the equality of all shareholders including minority shareholders and non-Japanese shareholders, and strive to provide an environment where shareholders can exercise their rights appropriately.

#### 2 Cooperate appropriately with stakeholders other than shareholders

We will strive to cooperate with stakeholders other than shareholders for the sustained growth of the Company and the creation of corporate value over the medium to long term.

#### 3 Carry out appropriate disclosure of information and ensure transparency

We will make appropriate disclosures under laws and regulations, and proactively disclose other information in an effort to provide users with information that is easy to understand and highly useful.

#### 4 Duties of the Board of Directors

Based on its fiduciary responsibility to shareholders, we will strive to ensure the Board of Directors fulfills its roles and responsibilities in an appropriate manner.

#### 5 Shareholder engagement

We will explain our management policy to shareholders in an easily understandable manner, make efforts to obtain their understanding, and strive to engage in constructive dialogue.

### Corporate Governance System

Shin-Etsu Polymer has adopted the Audit & Supervisory Board system, and the Board of Directors and the Audit & Supervisory Board are the two institutions that supervise and audit business execution on multiple levels. The Company ensures functional and effective management supervision as well as neutral, objective audit functions by employing directors with excellent management skills who are specialists in business execution and outside directors with excellent supervision capabilities, and by employing outside Audit & Supervisory Board members with outstanding auditing skills.

### Management Decision-Making, and Business Execution and Supervision

The Board of Directors is responsible for important management decisions and appropriately supervises the directors in executing their duties. The Board of Directors is composed of 12 directors, two of whom are outside directors. The outside directors have deep experience and insight accumulated over many years, one as a corporate manager and the other as an accounting and tax specialist,

which allows for a comprehensive perspective in conducting objective and appropriate supervision of Shin-Etsu Polymer management.

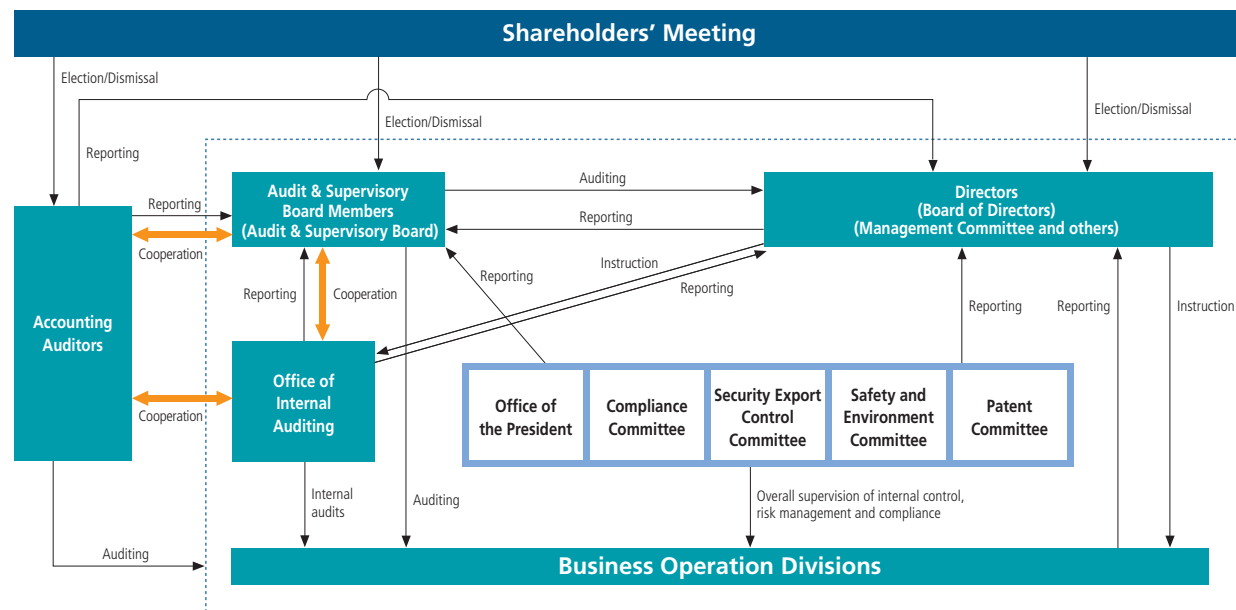
### Audit System

All three Audit & Supervisory Board members are from outside the Company. The Audit & Supervisory Board audits business execution from an independent perspective. Audit & Supervisory Board members fulfill their function of supervising management by attending Board of Directors meetings and other meetings, and also hold Audit & Supervisory Board meetings as necessary to report and discuss important auditing matters.

The Office of Internal Auditing audits the execution of management and operational mechanisms as well as work processes with respect to legality, rationality and efficiency.

Accounting auditors conduct quarterly reviews or audits of the Company's accounts and offer accounting advice when appropriate. We work to enhance audits by the Audit & Supervisory Board members, internal audits and accounting audits through the close exchange of information based on mutual cooperation and coordination.

### Corporate Governance System



### Relationship with the Parent Company

The major shareholder of Shin-Etsu Polymer is Shin-Etsu Chemical Co., Ltd., which owns 52.3% of Shin-Etsu Polymer shares issued and outstanding (excluding treasury stock). However, Shin-Etsu Polymer operates independently, deciding reasonable terms and conditions based on market prices for transactions with its parent company, including purchases of raw materials.

### Upgrading and Operation of Risk Management, Internal Control and Compliance Systems

The Shin-Etsu Polymer Group believes that risk management is important for the sustainable growth of the Company. Accordingly, the Office of the President shares information on significant Group-wide risks and takes necessary measures such as preparing the Disaster Planning and Business Continuity Manual. Having positioned the building, operation and upgrading of an internal control system as a key management responsibility, we also regularly upgrade our internal control system to make it as relevant and efficient as possible.

In addition, as a member of society, the Shin-Etsu Polymer Group strives for thorough compliance and rejects any association with antisocial forces based on its belief that legal compliance and sincere conduct that respects the values and ethics society requires is essential to its trustworthiness.

### Initiatives for Promoting Constructive Dialogue with Shareholders and Investors

The Shin-Etsu Polymer Group is dedicated to consistently enhancing corporate governance and ensuring management transparency. We believe it is important for the Group to grow together with its shareholders. Therefore, we communicate proactively with shareholders and investors on a regular basis, and reflect the views and requests of shareholders in management in order to achieve sustainable growth and enhance the Group's corporate value over the medium to long term.

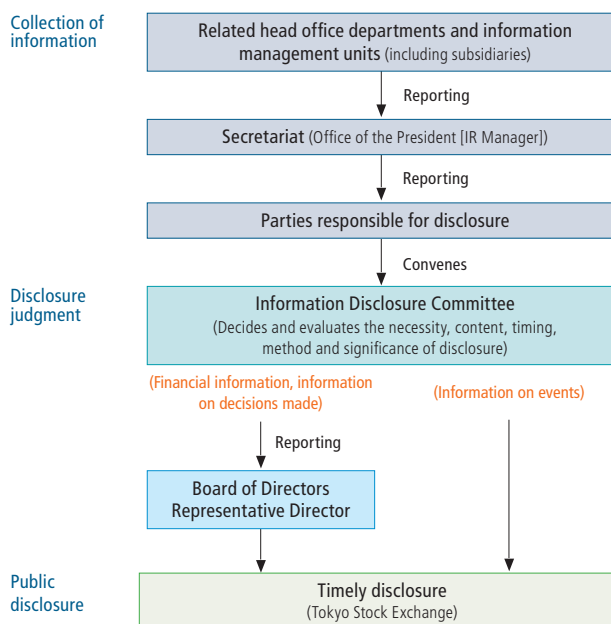
Regarding disclosure of information to shareholders and investors, we practice fair, timely and appropriate disclosure based on relevant laws concerning financial instrument transactions and Tokyo Stock Exchange regulations. In addition, we hold briefings for analysts, investors and the media when announcing financial results after the end of each fiscal year and interim period as an opportunity

to explain our operating conditions. We also use our website as a means to provide swift and fair information disclosure, providing information such as news releases, financial summaries, information meeting materials, annual reviews, notices of convocation of the General Meeting of Shareholders, and resolution notices.

IR activities are supervised by the Office of the President, with individual meetings handled by the Manager of the Office of the President and the IR Manager. Opinions and comments received through individual meetings are reported to the appropriate directors and related departments.

As part of our information disclosure system, we have set Information Disclosure Rules and established the Information Disclosure Committee based on our Information Disclosure Policy, and promote their awareness throughout the Company. Committed to flexible and rapid information disclosure, we have also created a system of cooperation centering on the IR Manager and PR Manager in the Office of the President, the Accounting & Finance Department and the Legal Department, and others responsible for disclosure.

### Information Disclosure System



### Officers (As of June 27, 2017)

#### Chairman

**Osamu Hiura**

#### President

**Yoshiaki Ono**

#### Senior Director

**Toshiaki Deto** General Manager, Sales Unit

#### Directors

**Kenjiro Hata\***

**Shigemichi Todoroki\***

**Toru Takayama** In charge of Environment Control & Safety and internal auditing-related matters; General Manager, Office of the President

**Mikio Furukawa** General Manager, Sales & Marketing Division III, Sales Unit and General Manager, Office of Products Development Management

**Satoru Sugano** General Manager, Development Unit

**Yasushi Shibata** General Manager, Human Resources Department, and General Manager, Administrative Unit

**Naoki Kobayashi** General Manager, Sales & Marketing Division I, Sales Unit and General Manager, Office of International Business

**Kan Ishihara** President, Shin-Etsu Finetech Co., Ltd.

**Mitsuo Sato** General Manager, Production Unit

#### Full-Time Audit & Supervisory Board Members

**Shuichi Noguchi\*\***

**Morio Miyazaki\*\***

#### Audit & Supervisory Board Member

**Sachihito Hosogi\*\***

\*Outside director

\*\*Outside Audit & Supervisory Board member

# Initiatives for Society and the Environment

## Basic Environmental Policy

### Guiding Principle

With the recognition that environmental conservation is one of management's most important tasks, the Shin-Etsu Polymer Group will actively involve itself in efforts to establish a sustainable, resource-recycling economy and society by fulfilling its related responsibilities to society.

### Action Policies

1. Develop an organization and structure to promote efficient and continuous environmental conservation activities
2. Comply with relevant laws and regulations concerning resource conservation, energy conservation, waste reduction, recycling, and proper management of environmental pollutants, as well as set higher targets to the extent technically and economically possible and work to achieve those targets to contribute to environmental conservation
3. Work to reduce environmental impact by evaluating the impact from new product development to procurement, production, use and disposal
4. Work to achieve conservation and sustainable use of biodiversity by evaluating, understanding and reducing the impact of business activities on ecosystems
5. Promote understanding among all employees of the Company's Basic Environmental Policy and improve environmental awareness through environmental education and other activities
6. Widely disclose information to the public about the Company's environmental conservation activities and work to develop goodwill relationships with local communities

## Basic Approach

The Shin-Etsu Polymer Group considers the supply of products that contribute to environmental conservation an important task in fulfilling its responsibilities to society as a processing company, based on its corporate philosophy. Every three years we establish new mid-term targets for the environment and make active efforts toward them using our Company-wide Green Activities, which include understanding and improving environmental performance and operation of our ISO 14001 certified environmental management system.

The fiscal year ended March 31, 2017 was the second year of the 5th Mid-term Target of Green Activities. We established goals for environmental contributions, complementing our existing goals for energy saving, effective use of resources, and environmental impact reduction. We are also moving forward with our plan to double the number of "environmentally friendly and contributing products" by the fiscal year ending March 31, 2018.

## Initiatives for Environmentally Friendly and Contributing Products

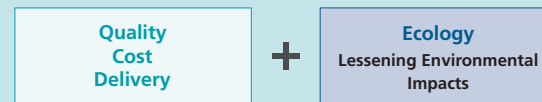
The Shin-Etsu Polymer Group strives to develop products that help to reduce environmental impact in accordance with its Basic Environmental Policy. Our environmentally friendly and contributing products refer to both new and existing products that help to solve

the challenges customers face. These products are certified and called environmental friendly and contributing based on a seven-point evaluation including effective use of resources and energy savings, after confirming that society and the environment really require them. We have also added the concept of ecology to quality, cost and delivery to ensure that our products help to lessen environmental impact, from raw materials procurement to manufacture, use and final disposal.

## Concepts for Reduction of Environmental Impact

### The concept is to convert conventional QCD to QCD+E [environmental friendliness]

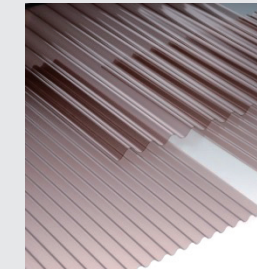
(Q stands for quality, C for cost, D for delivery and E for ecology (reduced environmental burden))



- 1 Effective use of resources
- 2 Energy saving
- 3 Waste reduction
- 4 Recycling
- 5 Environmental pollutants
- 6 Safety
- 7 Biodiversity conservation

By developing eco-friendly products, we target becoming a company that contributes to the realization of a recycling-oriented society and that is appreciated in society where environmental management is emphasized.

## Certified Products (Example)



Product name	Polica Tough Corrugated Sheets
Usage	Polycarbonate corrugated plates
Features	Corrugated sheets made from at least 50% recycled materials
Points	<ol style="list-style-type: none"> <li>1 Effective use of resources</li> <li>4 Recycling</li> </ol>



Product name	Shupua
Usage	Cups and glasses
Features	Silicone-rubber materials with glass-like transparency. Will not break if dropped.
Points	<ol style="list-style-type: none"> <li>6 Safety</li> </ol>



Product name	Polymer Ace
Usage	Adaptable putty-like sealing material made from silicone
Features	Unlike other liquid sealing materials, it is capable of self-shape retention. Easy to handle.
Points	<ol style="list-style-type: none"> <li>1 Effective use of resources</li> <li>2 Energy saving</li> </ol>

Please visit the following websites for more details.

• Environmental Initiatives

<http://www.shinpoly.co.jp/english/environment>

• Sustainability Report

<http://www.shinpoly.co.jp/english/environment/report/>

# Eleven-Year Summary (For the years ended March 31, 2007 through 2017)

	Millions of yen											Thousands of U.S. dollars <sup>1</sup>
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2017
<b>Operating Performance (For the year):</b>												
Net sales	¥ 73,979	¥ 75,039	¥ 71,707	¥ 67,332	¥ 60,669	¥ 62,650	¥ 70,469	¥ 70,181	¥ 84,739	¥ 105,799	¥ 107,784	\$ 660,526
New segments <sup>2</sup>												
Electronic Devices	18,644	19,933	18,875	16,453	15,103	16,935	22,258	25,370	—	—	—	166,644
Precision Molding Products	31,074	30,377	28,644	26,407	22,329	23,270	25,141	22,925	—	—	—	277,446
Housing and Living Materials	17,269	18,205	18,435	18,499	17,427	17,273	17,818	16,847	—	—	—	154,187
Others	6,991	6,522	5,753	5,971	5,808	5,170	5,250	5,038	—	—	—	62,419
Old segments												
Electronics and Functional Products	—	—	—	—	—	—	—	36,502	45,994	57,249	63,390	—
Packaging Products	—	—	—	—	—	—	—	24,142	26,739	35,607	30,255	—
Construction Materials and Constructing	—	—	—	—	—	—	—	9,537	12,005	12,942	14,138	—
Overseas sales	33,593	34,495	31,660	27,160	21,844	21,041	25,511	25,468	33,864	44,954	52,202	299,937
Gross profit	22,692	20,896	18,534	16,582	15,028	15,081	18,466	17,168	17,708	26,978	29,623	202,607
Operating income	5,511	4,101	2,231	1,314	944	1,071	3,385	2,457	1,359	9,482	11,854	49,205
Ordinary income <sup>8</sup>	5,934	4,532	2,865	1,662	1,291	1,248	3,054	2,816	1,263	9,296	12,063	52,982
Profit attributable to owners of parent	4,230	3,151	1,777	720	210	304	1,224	916	(200)	5,415	8,133	37,767
Comprehensive income (loss)	2,361	226	4,544	5,869	3,059	(877)	(1,461)	—	—	—	—	21,080
Capital expenditure	3,721	4,424	3,877	2,571	3,015	2,175	2,303	921	2,522	7,597	4,677	33,223
R&D expenses	3,572	3,609	3,225	2,807	2,601	2,260	2,581	2,519	2,699	2,788	2,702	31,892
<b>Financial Condition (At year-end):</b>												
Total assets	¥ 96,061	¥ 92,845	¥ 93,889	¥ 88,644	¥ 81,342	¥ 81,017	¥ 81,326	¥ 85,628	¥ 85,914	¥ 103,388	¥ 104,661	\$ 857,687
Total net assets	72,890	71,253	72,250	68,088	63,020	60,749	62,710	64,800	63,213	70,903	66,478	650,803
Net working capital <sup>3</sup>	51,549	49,917	49,798	46,092	41,745	39,810	40,057	39,831	36,169	40,267	38,447	460,258
<b>Cash Flows:</b>												
Cash flows from operating activities	¥ 7,278	¥ 7,682	¥ 4,656	¥ 4,373	¥ 3,106	¥ 5,252	¥ 7,505	¥ 8,806	¥ 4,412	¥ 3,130	¥ 13,585	\$ 64,982
Cash flows from investing activities	(1,843)	(4,768)	(1,572)	(3,036)	(3,286)	(2,789)	(3,113)	(949)	(2,798)	(7,453)	(4,847)	(16,455)
Free cash flow <sup>4</sup>	5,435	2,914	3,084	1,337	(180)	2,463	4,392	7,856	1,613	(4,322)	8,738	48,526
Cash flows from financing activities	(789)	(1,179)	(604)	(745)	(732)	(981)	(2,526)	4,805	482	(1,836)	(4,184)	(7,044)
<b>Per Share Data:</b>												
	Yen											U.S. dollars <sup>1</sup>
Net income (loss)	¥ 51.60	¥ 38.55	¥ 21.85	¥ 8.86	¥ 2.59	¥ 3.74	¥ 15.06	¥ 11.28	¥ (2.47)	¥ 66.64	¥ 100.25	\$ 0.46
Net assets	887.09	870.12	874.65	826.10	764.26	736.45	758.67	785.10	776.38	860.67	809.62	7.92
Cash dividend	12.00	9.00	9.00	9.00	9.00	9.00	12.00	9.00	12.00	15.00	15.00	0.10
<b>Financial Ratios:</b>												
	% (Except interest coverage ratio)											
Return on equity (ROE) <sup>5</sup>	5.9	4.4	2.6	1.1	0.3	0.5	2.0	1.5	—	8.0	13.2	
Return on assets (ROA) <sup>6,8</sup>	6.3	4.9	3.1	2.0	1.6	1.5	3.7	3.3	1.3	8.9	12.0	
Equity ratio	75.8	76.7	76.0	75.7	76.4	73.9	75.8	74.5	72.5	67.7	62.8	
Interest coverage ratio (Times) <sup>7</sup>	285.5	283.2	150.5	133.8	91.8	152.8	77.2	64.0	60.4	33.4	78.4	

Notes: 1. U.S. dollar amounts are included solely for the convenience of readers, using the conversion rate of ¥112 per US\$1 prevailing on March 31, 2017.

2. Segment classification under net sales has been changed from the year ended March 31, 2011 due to the application of new accounting standards for reportable segments.

Segment information for the previous fiscal year was restated accordingly to allow year-on-year comparison.

3. Net working capital = Current assets - Current liabilities

4. Free cash flow = Cash flows from operating activities + Cash flows from investing activities

5. ROE = Profit attributable to owners of parent / Total net assets (average of beginning and end of term balances)

6. ROA = Ordinary income / Total assets (average of beginning and end of term balances)

7. Interest coverage ratio = Cash flows from operating activities / Interest payment

8. In the fiscal year ended March 31, 2015, "loss on retirement of noncurrent assets" was reclassified from extraordinary loss to non-operating expenses.

Ordinary income and return on assets for the fiscal year ended March 31, 2014 were restated to reflect this change.

# Management's Discussion and Analysis

## Operating Results

### Net Sales

During the fiscal year ended March 31, 2017, business confidence remained strong in the United States, primarily due to solid personal consumption. Europe witnessed a moderate recovery, despite temporary confusion in the financial markets. In Asia, the economic slowdown in China continued, but the economies of ASEAN countries showed signs of an upturn.

In Japan, the economy was on track toward a modest recovery, as the environment for both employment and individual income remained firm. With the strengthening of the yen against the US dollar from the second half of the fiscal year, there were signs of improvement in earnings led by export-related companies.

In markets served by the Group, despite the strong yen and other factors, production in automotive-related markets remained steady on a global basis and demand for semiconductor-related products also remained high.

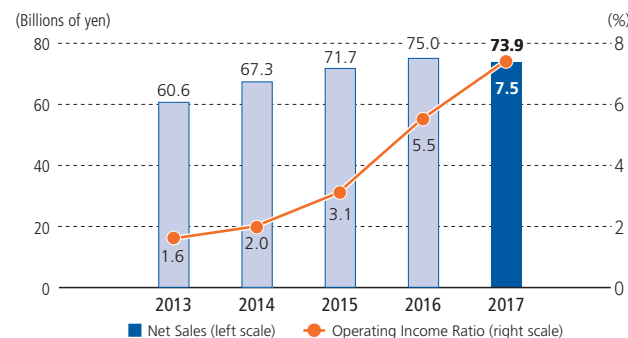
In this operating environment, the Group continued with its sales activities focused on increasing sales of core growth products in Japan and overseas. In addition, we are aggressively carrying out capital expenditures to increase production capacity, including expansion at production bases, and to improve productivity and quality. The Development Unit, the Production Unit and the Sales Unit, which were created through Company reorganization at the beginning of the fiscal year, are comprehensively managing their operations under the three-pronged business structure, and are striving to respond quickly to changes in the business environment.

As a result, net sales for the fiscal year ended March 31, 2017 decreased ¥1,060 million, or 1.4%, year on year to ¥73,979 million.

### Operating Income

Operating income increased ¥1,410 million, or 34.4%, year on year to ¥5,511 million. This increase is attributable to strong sales of semiconductor-related containers and improved profitability for silicon rubber molded products in the Precision Molding Products segment, which offset lower profit in the Electronic Devices segment and the Housing and Living Materials segment.

## Net Sales and Operating Income Ratio



### Net Non-Operating Income

Net non-operating income was ¥422 million, compared with ¥431 million in the previous fiscal year, because interest income and foreign exchange gains exceeded interest expenses and because of the loss on retirement of non-current assets.

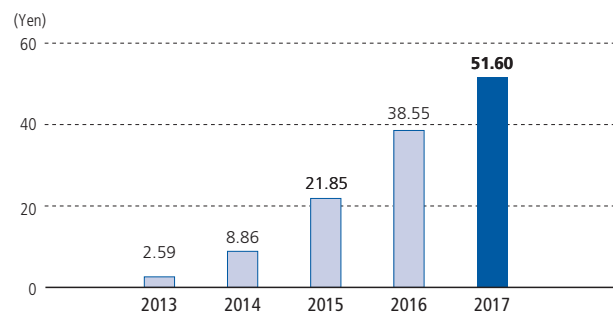
### Net Extraordinary Income (Loss)

Net extraordinary loss was ¥327 million, compared with net extraordinary loss of ¥158 million in the previous fiscal year, due mainly to the booking of impairment losses and loss on the liquidation of subsidiaries and affiliates.

### Profit Attributable to Owners of Parent

Profit attributable to owners of parent increased ¥1,079 million, or 34.2%, year on year to ¥4,230 million. Net income per share was ¥51.60, compared with ¥38.55 in the previous fiscal year.

## Net Income per Share



## Cash Flows

Cash and cash equivalents (hereafter "cash") as of March 31, 2017 increased ¥3,604 million from the end of the previous fiscal year to ¥38,981 million. Cash flows by business activity and the factors that influenced them are as follows.

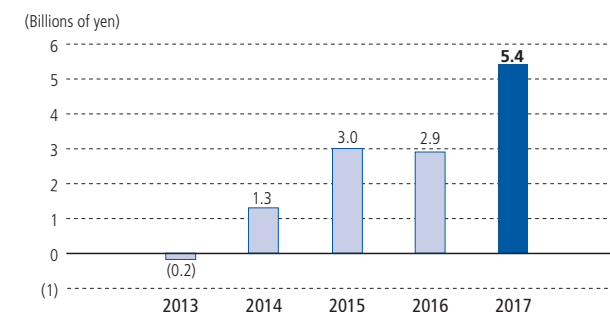
### Net Cash Provided by Operating Activities

Net cash provided by operating activities was ¥7,278 million, a decrease of ¥403 million compared with the previous fiscal year. Factors providing cash included income before income taxes of ¥5,606 million, depreciation and amortization of ¥2,872 million, and an increase in notes and accounts payable—trade of ¥785 million. Factors using cash included a ¥2,675 million increase in notes and accounts receivable—trade and ¥1,247 million in payment of income taxes.

### Net Cash Used in Investing Activities

Net cash used in investing activities was ¥1,843 million, a decrease of ¥2,924 million compared with the previous fiscal year, due to payments of ¥3,572 million for the purchase of property, plant and equipment, and a decrease in time deposits of ¥2,011 million. Free cash flow was ¥5,435 million, compared with ¥2,914 million in the previous fiscal year.

## Free Cash Flow



### Net Cash Used in Financing Activities

Net cash used in financing activities was ¥789 million, a decrease of ¥389 million compared with the previous fiscal year. The main factor was cash dividends paid of ¥859 million, among other factors.



### Fundamental Policy for Distribution of Profits

The Company regards shareholder returns as one of its most important management issues. The Company's fundamental policy is to continue providing stable dividends based on business performance. With the goal of enhancing our management foundation and improving corporate value through sustained growth, we will also ensure financial soundness and concentrate on research and development and manufacturing facility investments.

In the fiscal year ended March 31, 2017, the Company paid cash dividends per share of ¥12.00, an increase of ¥3.00 year on year, based on our fundamental policy and a comprehensive view of business performance. We remain committed to providing a stable return to shareholders and will work to increase dividends.

### Financial Position

#### Assets

Total assets as of March 31, 2017 increased ¥3,215 million from the end of the previous fiscal year to ¥96,061 million. Factors included increases of ¥1,510 million in cash and deposits, ¥1,865 million in notes and accounts receivable—trade, and ¥556 million in buildings and structures, net, and decreases of ¥352 million in work in progress and ¥453 million in construction in progress.

#### Liabilities

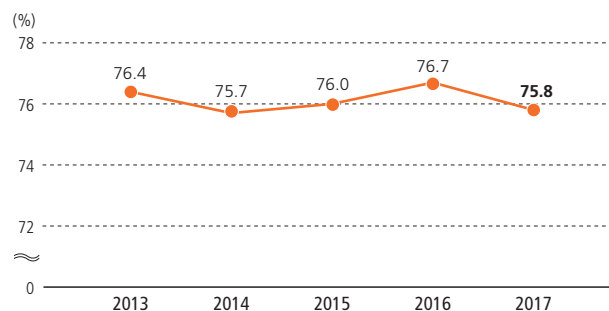
Total liabilities increased ¥1,578 million from the end of the previous fiscal year to ¥23,171 million. This reflects increases of ¥459 million in notes and accounts payable—trade, ¥363 million in income taxes payable, and ¥615 million in accrued expenses.

#### Net Assets

Total net assets increased ¥1,636 million from the end of the previous fiscal year to ¥72,890 million. This was primarily due to an increase of ¥3,303 million in retained earnings and a decrease of ¥2,009 million in foreign currency translation adjustments.

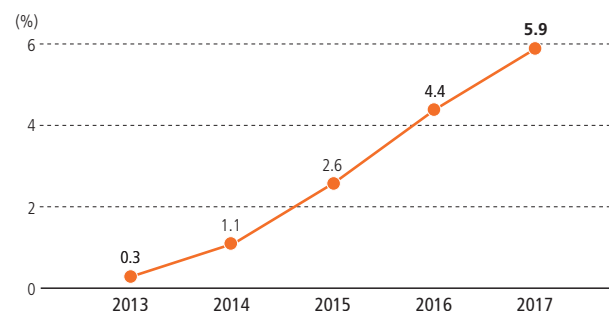
The equity ratio decreased 0.9 percentage points from the end of the previous fiscal year to 75.8%.

### Equity Ratio



Return on equity (ROE) increased 1.5 percentage points from the previous fiscal year to 5.9%.

### Return on Equity (ROE)

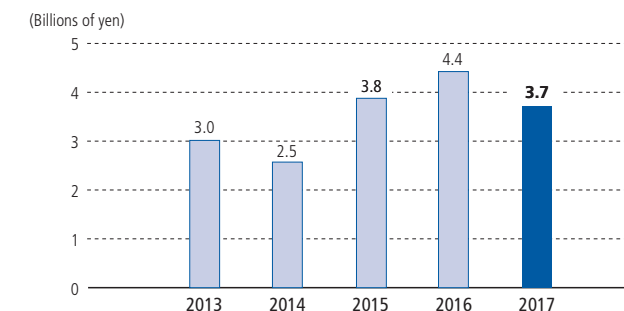


### Capital Expenditures

The Shin-Etsu Polymer Group makes investments with a focus on products and business with good long-term growth potential, as well as for energy saving, labor-saving and rationalization. In the fiscal year ended March 31, 2017, the Group focused on capital expenditures to invest in manufacturing facilities for new products such as touch input device-related products in the Electronic Devices segment, and to expand manufacturing facilities for semiconductor-related containers in the Precision Molding Products segment.

As a result, capital expenditures totaled ¥3,721 million. This included ¥1,080 million in the Electronic Devices segment, ¥1,873 million in the Precision Molding Products segment, and ¥462 million in the Housing and Living Materials segment.

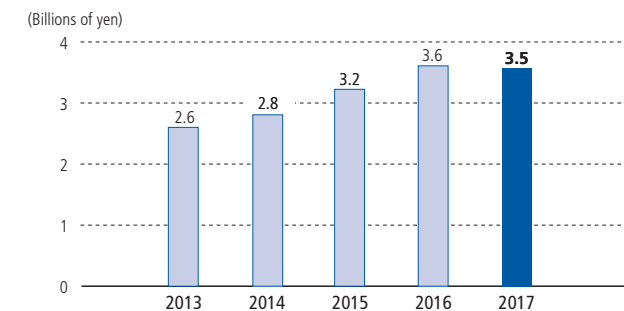
### Capital Expenditures



### Research and Development

In the fiscal year ended March 31, 2017, research and development expenses totaled ¥3,572 million. This included ¥1,058 million in the Electronic Devices segment, ¥1,700 million in the Precision Molding Products segment, and ¥813 million in the Housing and Living Materials segment.

### Research and Development Expenses



### Risk Information

The primary risks that could affect the results and financial position of the Shin-Etsu Polymer Group include, but are not limited to, those outlined below.

#### 1. Economic Trends

Demand for the Group's products is dispersed worldwide, and is influenced by economic conditions in the countries and regions in which the Group sells its products. In addition, problems in production, purchasing and sales caused by sudden deterioration in international social conditions could impact the Group's results.

#### 2. Exchange Rate Fluctuations

In overseas business, the Group conducts business in Asia, North America, Europe and other regions. Sales, expenses, assets and other items denominated in foreign currencies are translated into Japanese yen when the Group prepares its consolidated financial statements. Valuation of these items will therefore vary according to the exchange rate at which such items are translated into yen, which could affect the Group's financial position and results.

#### 3. Country Risk

The Group's overseas operating bases are exposed to a variety of risks in the countries where they are located. These risks could interfere with the Group's operating activities should they materialize, which could affect the Group's results and future plans.

#### 4. Rising Raw Material Costs and Supply Shortages

The Group uses petrochemicals as the raw materials for a substantial proportion of its products. Changes in market prices for crude oil, naphtha and other petrochemicals and sharp increases in other raw material prices could affect the Group's results. In addition, unforeseen contingencies involving suppliers that reduce the quality or availability of raw materials or components could affect the Group's manufacturing activities and results.

#### 5. Competition with Other Companies

Over the past several years, price competition and competition for market share with other companies has intensified in the Group's markets overseas. These conditions could affect the Group's results.

#### 6. Regulatory Risk

The Group is subject to a variety of laws and regulations in the countries and regions where it operates. These include investment approval, export controls, laws and regulations concerning fair competition and environmental protection, and others related to business transactions, labor, intellectual property rights, taxes and currency controls. Changes in these laws and regulations or their application could affect the Group's results.

#### 7. New Product Development

Competition in new product development and pricing is intense in the electronics equipment and semiconductor-related industries, where the Group operates. As a solutions provider and developer, the Group is working to develop new products and make innovations in production technologies, but inability to accurately respond to industry or market changes could affect the Group's results.

#### 8. Intellectual Property

In the course of its business, the Group acquires, maintains and manages intellectual property rights to products and production processes. The Group also obtains licenses to use intellectual property rights of third parties as necessary. Inability to properly protect, maintain or acquire those rights could subject the Group to copying or litigation from third parties, resulting in expenses or other factors that could affect the Group's results.

#### 9. Natural Disasters

The Group concentrates manufacturing of certain products at specialized plants. Earthquakes, windstorms, floods and other natural disasters have the potential to interfere with the manufacture of such products, which could affect the Group's results.

#### 10. Product Liability

The Group works to properly manage quality in all processes, including raw materials acquisition, product design, production and shipping. However, product liability claims or other developments resulting from unanticipated defects or other problems could affect the Group's results.

# Consolidated Financial Statements

## Consolidated Balance Sheets (As of March 31, 2017 and 2016)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits	¥40,236	¥38,725	\$359,250
Notes and accounts receivable—trade	18,903	17,037	168,776
Merchandise and finished goods	5,520	5,591	49,285
Work in progress	1,147	1,500	10,241
Raw materials and supplies	2,391	2,276	21,348
Deferred tax assets	1,042	992	9,303
Accounts receivable—other	1,202	1,206	10,732
Other	3,094	3,018	27,625
Allowance for doubtful accounts	(360)	(394)	(3,214)
Total current assets	73,178	69,953	653,375
<b>Noncurrent assets</b>			
Property, plant and equipment			
Buildings and structures, net	6,781	6,224	60,544
Machinery, equipment and vehicles, net	4,564	4,700	40,750
Land	6,471	6,415	57,776
Construction in progress	1,003	1,457	8,955
Other, net	1,028	972	9,178
Total property, plant and equipment	19,850	19,771	177,232
Intangible assets			
Software	209	298	1,866
Other	95	113	848
Total intangible assets	305	412	2,723
Investments and other assets			
Investment securities	1,184	1,265	10,571
Long-term loans receivable	0	2	0
Deferred tax assets	450	413	4,017
Other	1,091	1,027	9,741
Total investments and other assets	2,727	2,708	24,348
Total noncurrent assets	22,882	22,892	204,303
Total assets	¥96,061	¥92,845	\$857,687

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable—trade	¥13,080	¥12,621	\$116,785
Short-term loans payable	0	0	0
Accounts payable—other	2,737	2,713	24,437
Income taxes payable	966	603	8,625
Accrued expenses	2,641	2,026	23,580
Provision for bonuses	1,167	1,134	10,419
Provision for directors' bonuses	46	42	410
Other	987	893	8,812
Total current liabilities	21,628	20,035	193,107
<b>Noncurrent liabilities</b>			
Long-term loans payable	0	0	0
Net defined benefit liability	1,231	1,327	10,991
Other	310	228	2,767
Total noncurrent liabilities	1,542	1,556	13,767
Total liabilities	23,171	21,592	206,883
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Capital stock	11,635	11,635	103,883
Capital surplus	10,718	10,718	95,696
Retained earnings	51,970	48,667	464,017
Treasury stock	(360)	(528)	(3,214)
Total shareholders' equity	73,964	70,493	660,392
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	436	305	3,892
Foreign currency translation adjustment	(1,560)	449	(13,928)
Remeasurements of defined benefit plans	(1)	(11)	(9)
Total accumulated other comprehensive income	(1,125)	743	(10,044)
<b>Subscription rights to shares</b>	51	15	455
Total net assets	72,890	71,253	650,803
Total liabilities and net assets	¥96,061	¥92,845	\$857,687

## Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(For the years ended March 31, 2017 and 2016)

Consolidated Statements of Income	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
<b>Net sales</b> .....	<b>¥73,979</b>	¥75,039	<b>\$660,526</b>
<b>Cost of sales</b> .....	<b>51,287</b>	54,143	<b>457,919</b>
Gross profit .....	<b>22,692</b>	20,896	<b>202,607</b>
<b>Selling, general and administrative expenses</b> .....	<b>17,180</b>	16,795	<b>153,392</b>
Operating income .....	<b>5,511</b>	4,101	<b>49,205</b>
<b>Non-operating income</b>			
Interest income .....	<b>209</b>	240	<b>1,866</b>
Foreign exchange gains .....	<b>140</b>	348	<b>1,250</b>
Other .....	<b>127</b>	229	<b>1,133</b>
Total non-operating income .....	<b>478</b>	818	<b>4,267</b>
<b>Non-operating expenses</b>			
Interest expenses .....	<b>25</b>	27	<b>223</b>
Loss on retirement of noncurrent assets .....	<b>22</b>	351	<b>196</b>
Other .....	<b>7</b>	8	<b>62</b>
Total non-operating expenses .....	<b>55</b>	387	<b>491</b>
Ordinary income .....	<b>5,934</b>	4,532	<b>52,982</b>
<b>Extraordinary losses</b>			
Impairment loss .....	<b>210</b>	158	<b>1,875</b>
Loss on disposal of inventories .....	<b>57</b>	—	<b>508</b>
Loss on liquidation of subsidiaries .....	<b>59</b>	—	<b>526</b>
Total extraordinary losses .....	<b>327</b>	158	<b>2,919</b>
Income before income taxes .....	<b>5,606</b>	4,373	<b>50,053</b>
Income taxes—current .....	<b>1,538</b>	1,353	<b>13,732</b>
Income taxes—deferred .....	<b>(162)</b>	(140)	<b>(1,447)</b>
Total income taxes .....	<b>1,376</b>	1,213	<b>12,285</b>
Net income .....	<b>4,230</b>	3,160	<b>37,767</b>
Net income attributable to non-controlling interests .....	<b>—</b>	8	<b>—</b>
Profit attributable to owners of parent .....	<b>¥ 4,230</b>	¥ 3,151	<b>\$ 37,767</b>

### Consolidated Statements of Comprehensive Income

	2017	2016	2017
Income before minority interests .....	<b>¥ 4,230</b>	¥ 3,160	<b>\$ 37,767</b>
Other comprehensive income			
Valuation difference on available-for-sale securities .....	<b>130</b>	(135)	<b>1,160</b>
Foreign currency translation adjustment .....	<b>(2,009)</b>	(2,768)	<b>(17,937)</b>
Remeasurements of defined benefit plans .....	<b>9</b>	(29)	<b>80</b>
Total other comprehensive income .....	<b>(1,869)</b>	(2,933)	<b>(16,687)</b>
Comprehensive income .....	<b>2,361</b>	226	<b>21,080</b>
(Breakdown)			
Comprehensive income attributable to owners of parent .....	<b>2,361</b>	235	<b>21,080</b>
Comprehensive income attributable to non-controlling interests .....	<b>—</b>	¥ (8)	<b>—</b>

## Consolidated Statements of Cash Flows

(For the years ended March 31, 2017 and 2016)

Consolidated Statements of Cash Flows	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
<b>Cash flows from operating activities</b>			
Income before income taxes .....	<b>¥ 5,606</b>	¥ 4,373	<b>\$ 50,053</b>
Depreciation and amortization .....	<b>2,872</b>	3,315	<b>25,642</b>
Impairment loss .....	<b>210</b>	158	<b>1,875</b>
Increase (decrease) in net defined benefit liability .....	<b>(86)</b>	(33)	<b>(767)</b>
Interest and dividends income .....	<b>(234)</b>	(264)	<b>(2,089)</b>
Interest expense .....	<b>25</b>	27	<b>223</b>
Foreign exchange losses (gains) .....	<b>17</b>	(163)	<b>151</b>
Loss (gains) on liquidation of subsidiaries .....	<b>59</b>	—	<b>526</b>
Loss on retirement of noncurrent assets .....	<b>22</b>	351	<b>196</b>
Decrease (increase) in notes and accounts receivable—trade .....	<b>(2,675)</b>	438	<b>(23,883)</b>
Decrease (increase) in inventories .....	<b>86</b>	(214)	<b>767</b>
Increase (decrease) in notes and accounts payable—trade .....	<b>785</b>	(458)	<b>7,008</b>
Decrease/increase in consumption taxes receivable/payable .....	<b>69</b>	(38)	<b>616</b>
Other, net .....	<b>1,553</b>	816	<b>13,866</b>
Subtotal .....	<b>8,313</b>	8,306	<b>74,223</b>
Interest and dividends income received .....	<b>238</b>	287	<b>2,125</b>
Interest expenses paid .....	<b>(25)</b>	(27)	<b>(223)</b>
Income taxes (paid) refund .....	<b>(1,247)</b>	(884)	<b>(11,133)</b>
Net cash provided by (used in) operating activities .....	<b>7,278</b>	7,682	<b>64,982</b>
<b>Cash flows from investing activities</b>			
Decrease (increase) in time deposits .....	<b>2,011</b>	(882)	<b>17,955</b>
Purchase of property, plant and equipment .....	<b>(3,572)</b>	(3,985)	<b>(31,892)</b>
Purchase of intangible assets .....	<b>(69)</b>	(49)	<b>(616)</b>
Other, net .....	<b>(213)</b>	149	<b>(1,901)</b>
Net cash provided by (used in) investing activities .....	<b>(1,843)</b>	(4,768)	<b>(16,455)</b>
<b>Cash flows from financing activities</b>			
Cash dividends paid .....	<b>(859)</b>	(733)	<b>(7,669)</b>
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation .....	<b>(30)</b>	(578)	<b>(267)</b>
Other, net .....	<b>99</b>	133	<b>883</b>
Net cash provided by (used in) financing activities .....	<b>(789)</b>	(1,179)	<b>(7,044)</b>
Effect of exchange rate changes on cash and cash equivalents .....	<b>(1,041)</b>	(1,347)	<b>(9,294)</b>
Net increase (decrease) in cash and cash equivalents .....	<b>3,604</b>	388	<b>32,178</b>
Cash and cash equivalents at beginning of period .....	<b>35,377</b>	34,823	<b>315,866</b>
Increase in cash and cash equivalents from newly consolidated subsidiary .....	<b>—</b>	166	<b>—</b>
Cash and cash equivalents at end of period .....	<b>¥38,981</b>	¥35,377	<b>\$348,044</b>

# Company Profile, Investor Information and Group Network (As of March 31, 2017)

## Company Profile (As of March 31, 2017)

<b>Corporate Name:</b>	Shin-Etsu Polymer Co., Ltd.
<b>Established:</b>	September 15, 1960
<b>Head Office:</b>	Sotetsu Kandasudacho Building, 1-9 Kanda-Sudacho, Chiyoda-ku, Tokyo 101-0041 Japan
<b>Paid-in Capital:</b>	¥11,635 million
<b>Number of Employees:</b>	4,144 (Consolidated) 607 (Non-consolidated)
<b>Consolidated Subsidiaries:</b>	18 companies
<b>URL:</b>	<a href="http://www.shinpoly.co.jp/english/">http://www.shinpoly.co.jp/english/</a>

## Investor Information (As of March 31, 2017)

<b>Number of Shares Authorized:</b>	320,000,000
<b>Number of Shares Issued:</b>	82,623,376
<b>Number of Shareholders:</b>	9,931
<b>Fiscal Year-End:</b>	March 31
<b>Stock Listing:</b>	Tokyo Stock Exchange (Ticker code 7970)
<b>Transfer Agent:</b>	Mizuho Trust & Banking Co., Ltd.

## Major Shareholders (As of March 31, 2017)

	Number of Shares (Thousands)	Percentage of Total Equity (%)
Shin-Etsu Chemical Co., Ltd.	42,986	52.3
Japan Trustee Services Bank, Ltd. (Trust account)	3,908	4.7
NORTHERN TRUST CO. (AVFC) RE-HCRO0	1,443	1.7
The Master Trust Bank of Japan, Ltd. (Trust account)	1,321	1.6
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	1,019	1.2
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,009	1.2
GOLDMAN SACHS INTERNATIONAL	911	1.1
Nippon Life Insurance Company	768	0.9
Japan Trustee Services Bank, Ltd. (Trust account 5)	754	0.9
THE BANK OF NEW YORK MELLON 140044	744	0.9

Note: In addition to the above, Shin-Etsu Polymer Co., Ltd. holds 513 thousand shares of treasury stock. Percentage of total equity is calculated excluding treasury stock.

## Group Network (As of April 1, 2017)



## Composition of Shareholders (As of March 31, 2017)

