



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

Annual Review 2018

Year Ended March 31, 2018

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.

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.

Contents

Introduction to Shin-Etsu Polymer

- 01 Profile
- 02 Financial Highlights
- 03 Interview with the President
- 05 Feature: Shin-Etsu Polymer technologies, Essential for cars

Business Review

- 06 At a Glance
- 07 Overview of Operations
- 07 Electronic Devices
- 08 Precision Molding Products
- 09 Housing and Living Materials

Growth Platforms

- 10 Research and Development
- 11 Corporate Governance
- 13 Initiatives for Society and the Environment

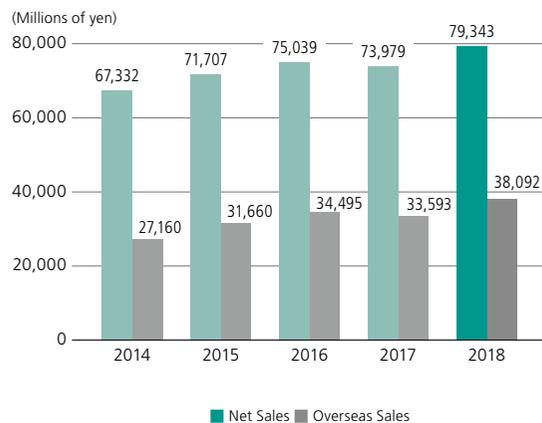
Data Section

- 14 Eleven-Year Summary
- 15 Management's Discussion and Analysis
- 18 Consolidated Financial Statements
- 20 Company Profile, Investor Information and Group Network

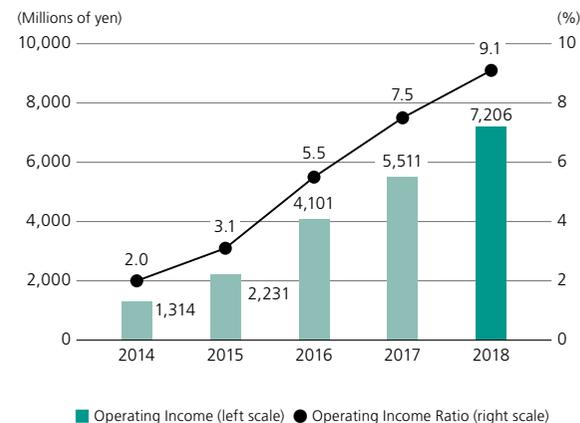
Financial Highlights (Consolidated)

For the fiscal year ended March 31, 2018, the semiconductor industry continued to boom, and demands in the automotive-related markets also continued to rise. The Group has continued to develop its sales activities with a focus on increasing sales of core products and new business products both in Japan and overseas. Consolidated net sales rose 7.3% year on year to ¥79,343 million, operating income increased 30.7% to ¥7,206 million, and net income attributable to parent company shareholders increased 28.9% to ¥5,455 million, marking the fifth consecutive year of increased profits. The fiscal year-end cash dividend was ¥6 per share with the annual dividend at ¥12 per share.

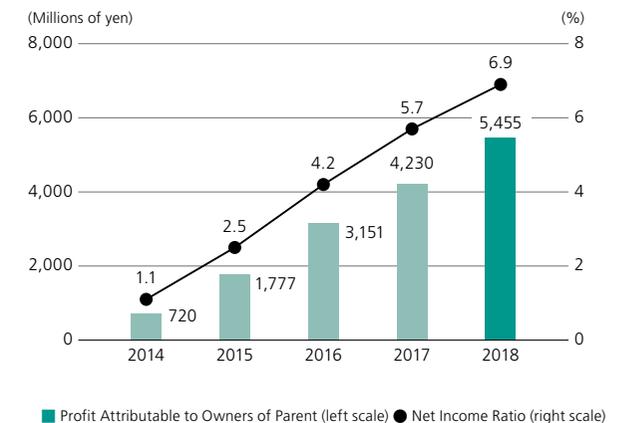
Net Sales and Overseas Sales



Operating Income and Operating Income Ratio



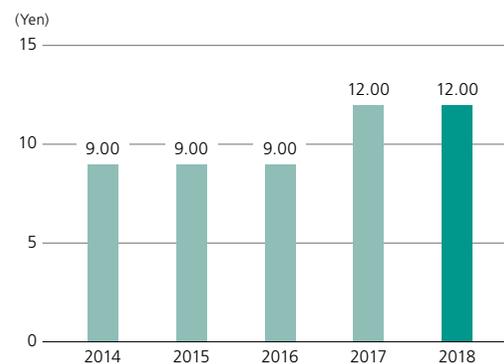
Profit Attributable to Owners of Parent and Net Income Ratio



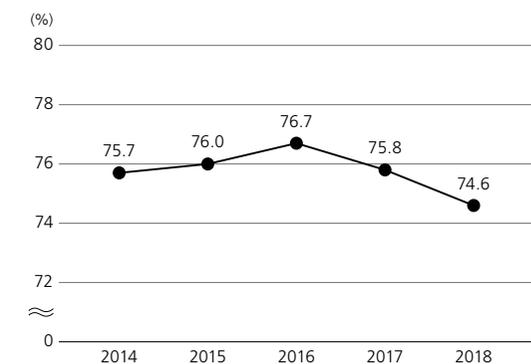
Net Income per Share



Cash Dividends per Share



Equity Ratio





Top message

Looking to the future beyond change...

Expanding growth areas in our core businesses
To achieve continued sustainable growth.

Yoshiaki Ono
Yoshiaki Ono
President

In the fiscal year ended March 31, 2018, Shin-Etsu Polymer was able to achieve increased profits for the fifth consecutive year. In the fiscal year ending March 31, 2019, we intend to carry out some M&A, the basis for sustainable development, while at the same time we will look to double our efforts in research and development to strengthen our existing businesses and accelerate the development of new technologies. Looking towards 2020, the company's 60th anniversary, we will set out to achieve sales of ¥100 billion and ordinary income of ¥10 billion, further strengthening the foundations of our company as one that can provide social value.

A review of the last fiscal year and the business environment

The global economy in the year ended March 31, 2018 continued its moderate economic recovery centered on the developed nations. Despite uncertainty in politics in the United States personal consumption remained steady and corporate earnings also improved. In addition, there was a review of

the monetary easing policy within the eurozone and signs of economic recovery were seen in China and ASEAN countries. In Japan, the gradual economic recovery continues with the continuing weak yen, improved corporate earnings and solid consumer spending.

The business environment of our company was generally good. Driven by the thriving semiconductor industry,

semiconductor-related containers and automotive input devices accompanying the accelerated computerization of automobiles led to a strong performance. As a result, consolidated results achieved an increase in profits for the fifth consecutive year, as net sales, operating income, ordinary income and profit attributable to owners of parent increased year on year.

Focus areas for growth

Shin-Etsu Polymer has set out to achieve sales of ¥100 billion and ordinary income of ¥10 billion in 2020 when the company celebrates its 60th anniversary. These are not just numbers we intend to reach but instead they are merely a passing point. The major pillars of our business are the electronic device business which includes automotive key switches, the precision molding products business which focuses on semiconductor related containers, and the housing and living materials business which deals with wrapping films etc. In order to grow sustainably for the next 10 and 20 years, we will focus not only on current mainstay semiconductor-related containers and automotive input devices, but we will endeavor to have 5 businesses like these two strong and powerful businesses. In particular, we plan to strengthen our earnings base by steadily creating new businesses around medical equipment in the precision molding products business, and materials handled in the housing and living materials business. At the same time, we will clarify the roles of each of our bases, including our overseas bases such as in research and development, and manufacturing, and we will work on thorough efficiency improvements to improve productivity, promoting a system to respond to all our customers' needs.

Core Business Outlook and Strategy

We will further strengthen our core business to keep growing amidst a constantly changing business environment and we will build a solid foundation to secure lasting profitability.

In the fiscal year ended March 31, 2018, despite the higher

demand for semiconductor-related containers than we had initially anticipated we were able to handle demand with our factories at full capacity. As semiconductor related markets are expected to rise further we began expansion of the Itoigawa Plant (Niigata Prefecture). The expanded plant is expected to be fully operational in January 2019 as planned with the production capacity being increased to about 1.2 times the current level. The plant's production capacity can be increased to about 1.7 times the current level in the future.

Moreover, with the gaining progress of autonomous cars and the rapid rise of electric vehicles (EV) installations of touch input devices for automobiles is expected to increase. We believe the global needs for our technologies will increase, including conductive polymers used in touch panels for car navigation systems, functional compounds indispensable for automotive interior and exterior products. Since the growth of the automotive industry in India has been remarkable, we will expand our production base in India, a good base for exporting into Europe, to about twice the current area.

With regards to research and development we will focus on the semiconductor, automotive, electric and electronic fields where the required level of technology is increasing year by year, pinpointing the needs of the ever evolving markets.

Strategies for creating new business

The creation of new businesses is essential for sustained business growth. At the same time as enhancing our own core technologies we will endeavor to establish and bring to market new technologies as quickly as possible. While time is required to nurture our core business, speed is imperative for management. Effective utilization of external resources is also an option and we believe that we can carry out mergers and acquisitions this fiscal year. From the perspective of further strengthening our existing businesses the field of silicone rubber processing is a strong choice. The target of which would be a European company with high market demand.

Medical equipment will also be covered when new business is created through M&A. For this a strong candidate is the United States which has one of the world's largest markets and expects double digit growth in the future. Regarding M&A, I would like to make investments on the basis of achieving sustainable growth along with increased earnings by creating synergies with existing businesses, not just investing in projects to increase sales.

To be a company that contributes to creating a better society

CSR initiatives are essential for contributing to the creation of a better, sustainable society for the future. In November 2017 we formed the CSR Promotion Committee and established eight important issues. In the fiscal year ending March 31, 2019, the committee's first full year, we are working on the promotion of CSR procurement and promotion of respect for human rights and human resource development as our top priorities. There are many social issues in the environment currently surrounding us, such as global environmental problems and the declining labor force in Japan due to its aging population. As the United Nations adopts sustainable development goals (SDGs) to tackle these issues the roles required by businesses are ever increasing. The Company's corporate philosophy is to become a company that contributes to people's daily lives as well as to society and industry by creating value with our key materials and technologies, adhering to fair business activities in compliance with all laws and regulations. By achieving these SDGs through our business activities we will continue to make ceaseless efforts to keep our company relevant to our stakeholders and essential for society. At the same time by continuing to contribute to the realization of a sustainable society we will continue to enhance our corporate value.

To our shareholders and investors

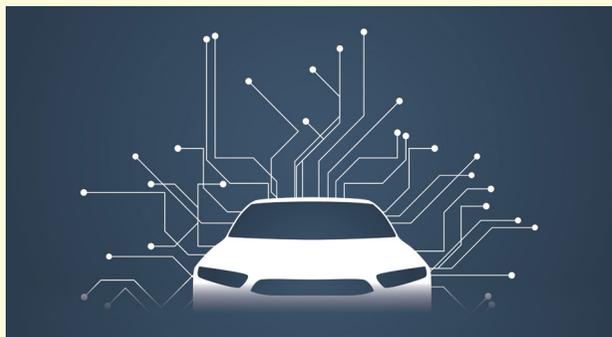
We believe that returning profits to shareholders and investors



is one of the most important management issues. We will return the fruits of management's efforts that have grown the business over the medium term, centered on growth in existing business, the creation of new business and M & A, with due consideration given to the balance between investment, finance, and results. A totally new automotive society will be upon us in the not too distant future with the rapid shift towards EV and autonomous cars. What is needed at these times is our proprietary technology. Through close communication with our customers we will uncover potential needs and look ahead at what kind of demands will be placed on our products connecting the road ahead for solid growth. To all our shareholders and investors I would appreciate for the continued understanding and support.

Both
now and
beyond

Shin-Etsu Polymer technologies, Essential for cars



The automobile industry is on the cusp of a revolution said to come around only once in a hundred years. One of the major reasons for this is the realization of fully autonomous cars achievable through IT. Another reason is the increasing shift towards electric vehicles as the car's power source changes from engine to motor in order to respond to the rigorous environmental regulations around the world.

Seizing this huge revolutionary change, Shin-Etsu Polymer will continue to build a solid position as a company essential for the automobile industry, now and beyond, by further refining our technologies developed thus far.

Shin-Etsu Polymer's technologies, continuing to be essential for the automobile industry

Many of our products and technologies are used in automobiles. In the future, as demand for automotive input devices, such as touch panels, increases in proportion to the rise of autonomous cars, so will their significance increase further and the existence of our company will become ever

more indispensable.

For example, it is possible to prevent touch device errors by adding capacitive sensor sheets, created with our proprietary conductive polymers, and silicone rubber processing technologies continually developed over the years. Because touch screens work on the basis of whether they are actually touched or not, there is the possibility that cars could react unusually if the screen is unintentionally touched. By using our products as sensors, the accuracy of intentional or unintentional touching of the screen can be detected significantly better than those of other companies. Accordingly, demand is expected to rise for technologies that contribute to ensuring the highest standards of safety as is required for cars. Shin-Etsu Polymer will continue to deliver products and technologies that are required more than ever before by further developing new applications for existing products, fine-tuning our current businesses, and by carrying out research and development into new businesses.



Naoki Kobayashi
Director, General Manager of Sales & Marketing Division I, Head of Office of International Business, Sales Unit

Seizing change as opportunity for further growth

Our technologies and results, which have been closely tied to the automobile related input device business for more than 40 years, are highly appreciated and have earned the trust of clients both domestically and internationally. These are strengths chosen by the market in an automotive industry where high quality standards are required for every single component to be used in cars.

The petrol-engine car was the leading star on the automotive stage over the past 100 years, but now that is all changing with the birth of autonomous cars and electric vehicles. We see this paradigm shift in the automobile industry, said to be a once in a hundred year revolution, as an opportunity to be seized upon. Building on what we have created up until now and maximizing what we can create in the future, we want to make a safe, secure and comfortable future car society a reality.

The shift of the world's supply base to India

There is a growing need for electric vehicles overseas, especially in Europe where there are strict environmental regulations. A country which we are closely scrutinizing, among others, is India.

In India, which is sure to have the world's largest population by 2030, the government has proposed to make 40% of all new vehicles sold in the country electric by the same year. Shin-Etsu Polymer entered India in 2008 where we are engaged in the production and sale of electronic device products relating to cars, etc. We will expand our India plant to meet the increased demand expected in India and to respond to increased exports to Europe, capturing the global demands which will only continue to grow. Establishing systems that can steadily supply products to growing demands will lead to continued sustainable business growth.



Started the operation at 2nd plant in India

At a Glance

■ Production ● Sales

Overseas

13 Locations



- Shin-Etsu Polymer Europe B.V.
- Shin-Etsu Polymer Hungary Kft.

Others

6.7 billion yen (-3.9%)

Leading construction business and packaging and agricultural materials business

Housing and Living Materials

18.7 billion yen (+8.3%)

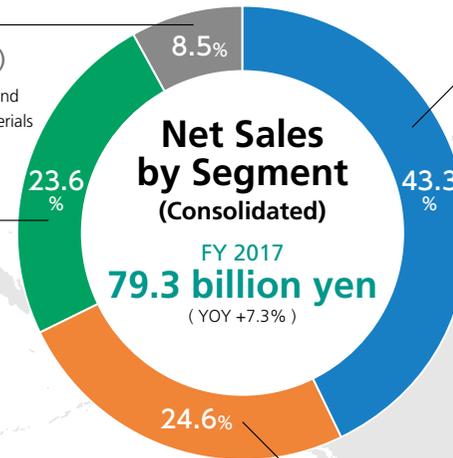
Providing wrapping films for supermarkets, PVC pipe related products and functional compounds

Net Sales by Segment (Consolidated)

FY 2017

79.3 billion yen

(YOY +7.3%)



Precision Molding Products

34.3 billion yen (+10.6%)

Providing shipping and carrying containers for semiconductor silicon wafers and parts for medical equipment using silicone rubber

Electronic Devices

19.5 billion yen (+4.9%)

Leading company-wide overseas business in electronics such as electronic input devices for automobiles and information terminals

Others

23.8 billion yen

Net Sales by Shipping Area

FY 2017

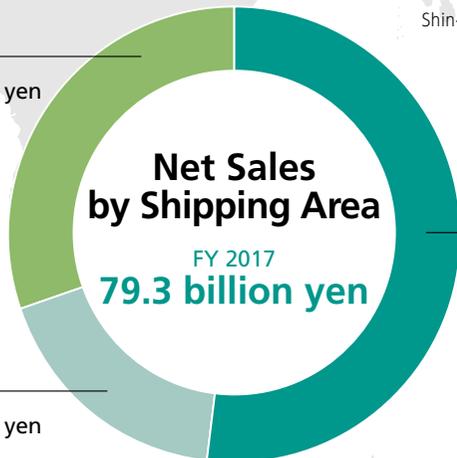
79.3 billion yen

Japan

41.2 billion yen

China

14.2 billion yen



Shin-Etsu Polymer Shanghai Co., Ltd.

Suzhou Shin-Etsu Polymer Co., Ltd.

Dongguan Shin-Etsu Polymer Co., Ltd.

Shin-Etsu Polymer Vietnam Co., Ltd.

Shin-Etsu Polymer Hong Kong Co., Ltd.

Shin-Etsu Polymer India Pvt. Ltd.

Shin-Etsu Polymer (Thailand) Ltd.

Shin-Etsu Polymer (Malaysia) Sdn. Bhd.

Shin-Etsu Polymer Singapore Pte. Ltd.

PT. Shin-Etsu Polymer Indonesia

Shin-Etsu Polymer America, Inc.

Tokyo Plant

Kodama Plant

Itoigawa Plant

Shiojiri Plant

Nanyo Plant

Head Office

Shin-Etsu Finetech Co., Ltd.

Japan

7 Locations



Overview of Operations

Electronic Devices

(Automotive and Information Devices)

Business Summary

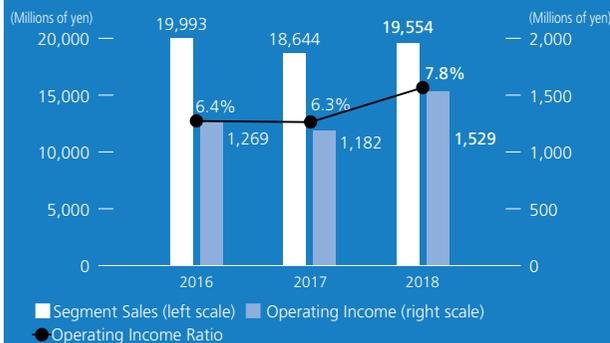
The Electronic Devices segment primarily operates in electronics-related fields, such as electronic input devices for automobiles and information terminals. It expanded into overseas markets early on, leading the Company in overseas sales and production.

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

Segment Sales, Operating Income and Operating Income Ratio



View control film (VCF)



Automobile steering switches



Automotive touch switches



Personal computer touchpads

Points of Note for Year Ended March 31, 2018

Input devices

Sales of automotive key switches were solid. Sales of touch pads for slim notebook PCs remained sluggish.

Display-related products

Sales of inter-connectors for LCD connections were recovered. Sales of view control film (VCF) were decreased.

Component-related products

Testing connectors for electronic components of smartphones were increased.

Market Environment and Business Trends

In the automotive market, production and sales of automobiles remained steady, including steady growth in the production of electric cars, and the market for communication and information devices such as high-end smartphones showed signs of recovery.

We are currently focusing on sales of value-added products that meet the needs of customers for higher performance and ultra-thinness based on 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 placing particular emphasis on the growing market of automotive input devices focusing on sales of touch input devices of which key switches will play a central role. To enable increased production of input devices and other products, we are now operating in a new building and improving the capacity utilization at the main production base of our subsidiary Suzhou Shin-Etsu Polymer Co., Ltd. in Jiangsu Province, China. Additionally, full-scale production began at Shin-Etsu Polymer India Pvt. Ltd's (Tamil Nadu, India) building No. 2 with land having been secured for the expansion of these facilities, and investment was made to renew the production facilities of Shin-Etsu Polymer (Malaysia) Sdn. Bhd. (Selangor, Malaysia).

Segment Outlook

In the Electronics Devices business, we will further develop the construction of a high value-added product structure with input device products mainly for automobiles as the driving force for growth. In order to strengthen development in our overseas business we will make concerted efforts for sustained business growth with a focus on improving the sales force and productivity in North America, Greater China, ASEAN and India.

Technology and Development

We develop input device components that use capacitive sensing based on high-definition printing technologies. 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 device and home appliance markets.

Overview of Operations

Precision Molding Products

(Semiconductors, electronic components, office and medical equipment)

Business Summary

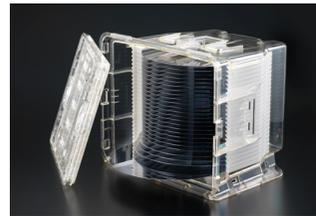
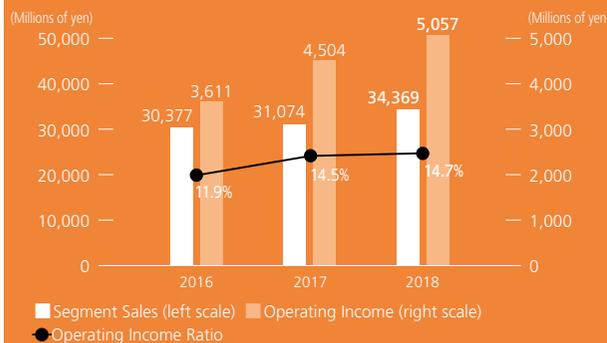
The Precision Molding Products segment leverages Shin-Etsu Polymer's unique technologies to provide precision molding products in Japan and overseas, including shipping and carrying containers for semiconductor silicon wafers, materials for automatic mounting of electronic components, office automation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

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

Main Products

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

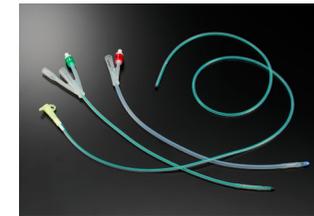
Segment Sales, Operating Income and Operating Income Ratio



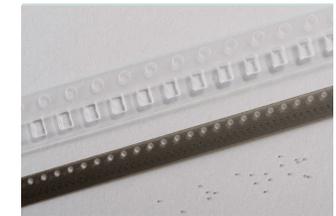
Semiconductor-related containers (FOSB)



OA device components (OA rollers)



Medical catheters



Embossed carrier tape

Points of Note for Year Ended March 31, 2018

Semiconductor-related containers

Significant growth amid buoyant semiconductor industry. Increased sales for 300 mm, small diameter wafers.

OA device components

Recovery slowdown in products for key users.

Carrier tape related products

Strong demand for semiconductors and recovery for microelectronic components.

Silicone rubber molded products

Sluggish growth in mainstay medical related products.

Market Environment and Business Trends

In the semiconductor market demand increased for automotive and mobile devices and IoT applications. Our market share in semiconductor-related containers has expanded, maintaining our top global position.

In the OA device market, demand for laser printers began to recover but slowed in the second half. Meanwhile, we have been further improving the quality and reinforcing cost competitiveness of our OA rollers.

In the electronic components market, demand remained steady for automotive and mobile devices, and demand for micro capacitors

also recovered. 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.

Demand was sluggish in the medical equipment market in Japan. Our silicone rubber molded products are used in high-performance products in this market. We are also actively developing fireproof gaskets in the building materials market and carrying plates for electronic components in the electronic parts market.

Segment Outlook

In the Precision Molding Products segment, we continue to push forwards with the expansion of production and supply systems, striving to expand sales by responding accurately to customer's needs while also further improving the quality and performance of products through further advancements of evaluation and analysis technologies for semiconductor-related containers and carrying materials for electronic components. With regards to components for OA devices, we will look to increase profits by incorporating demands for components of multifunction devices. As for silicone rubber molded products, we will focus our efforts on developing new products such as our medical-related products and composite products, and exploring new markets.

Technology and Development

Based on our proprietary precision processing technologies and evaluation technologies, we are working on the development of carrying containers for next-generation semiconductor packages and carrier tapes in response to the miniaturization of semiconductor processes and the decreasing size of electronic equipment. Additionally, in response to the shift towards 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.

Overview of Operations

Housing and Living Materials

(Packaging, Construction Materials and Industrial Materials)

Business Summary

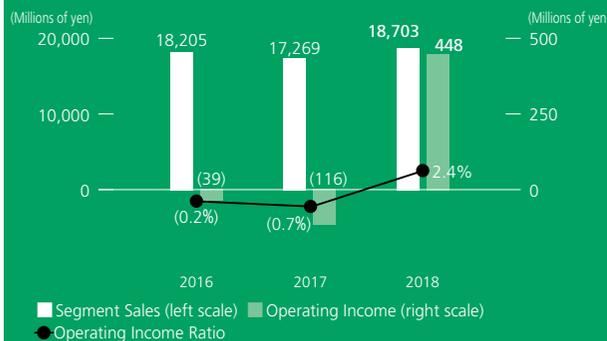
Within the Housing and Living Materials segment, as well as molded products made primarily from PVC resin, such as packaging materials for food products, construction materials, and semi-manufactured materials for molding products, a wide-ranging business is being developed with new products including conductive polymers that offer conductivity and heat resistance properties and thin film made from engineering plastics.

Compounds with improved functionality and conductive polymers are growth products with increasing rates of adoption in the automotive sector among and others.

Main Products

- ▶ Wrapping films
- ▶ PVC pipe-related products
- ▶ Compounds
- ▶ Exterior products
- ▶ Conductive polymers

Segment Sales, Operating Income and Operating Income Ratio



Wrapping films



Compounds



Conductive polymers



High-performance engineering plastic film

Points of Note for Year Ended March 31, 2018

Wrapping films

Sales for food supermarkets and food services struggled to grow due to difficult price revisions.

PVC pipes and related products

Sales were improved but incomes were decreased.

Functional compounds

Sales for automobiles and robot cables increased steadily.

Material products

Sales of conductive polymers were increasing for antistatic application and others, contributed to improve the segment incomes.

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 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.

Conductive polymers are increasingly being used with industrial materials and electronic components where conductivity and heat resistance properties are essential.

For many products in this segment, raw material prices are directly affected by fluctuations in the market price of crude oil and naphtha. As raw material prices rose during the fiscal year ended March 31, 2018, we attempted to revise sales prices; however, the price revisions did not do enough to counter the rise in raw material prices which consequently affected profits.

Segment Outlook

In the Housing and Living Materials segment, we will make further efforts to improve profitability by reducing costs of PVC-related products and bolstering sales of high-grade products. As well as increasing sales of functional compound products for automobiles and electrical wiring, and other value-added functional material products such as conductive polymers and high-performance engineering plastic films which are expected to have a range of uses, we will pay particular attention to improving production capacity and stabilizing production with the goal of achieving greater profits.

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 repairing materials made from silicone for superior 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.

The fundamental technologies that are the core of the Group's technological development are material compounding, design, molding processes, and evaluation and analysis with silicone, various resins and conductive materials as key materials. We believe that our mission in R&D is to meet customer's needs in a wide range of fields by applying these fundamental technologies.

Precise and Rapid Development through Collaboration with Sales and Production Units

Research and development is led by the Development Unit with the aim of enhancing core technologies and establishing new ones. Development Departments I - IV handle work-site operations development while the Office of New Business

Development and the Office of Business Industrialization Management takes care of new business development. The Development Unit works closely with the Sales and Production Units to accurately pinpoint the needs of customers and respond to them rapidly.

Targeting Growth Markets by Developing New Products Using Core Technologies such as Compounding

Currently, we are developing innovative products in a wide range of fields such as in automotive, semiconductor, and medical equipment related markets using our core technologies of precision processing and compounding of functional resins including 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

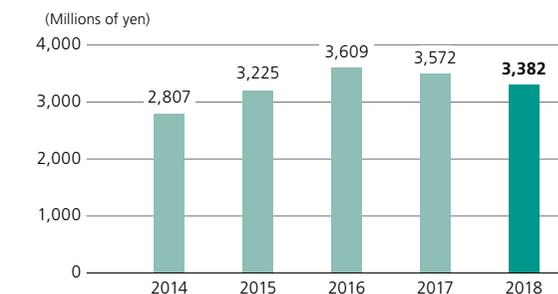
Based on the recognition that patents, technological know-how,

and other such attributes are important management assets, the Intellectual Property Division sets intellectual property strategies for each of the Company's divisions with different business models, and is improving its management of intellectual property both "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 expanding 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 are also conducting training and awareness building activities to further raise the level of our intellectual property activities.

● Number of Proprietary Patents and Others

		As of March 31, 2017	As of March 31, 2018
Japan	Patents	1,024	1,028
	Utility models	6	6
	Industrial designs	91	178
	Trademarks	139	139
Foreign patents		514	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 company with company auditors system with 3 of its auditors as outside auditors. 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 specialist business execution corporate directors with excellent management skills and outside directors with excellent supervisory capabilities. Auditors are assisted by personnel with the required auditing experience and capabilities.

● Management Decision-Making, 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 extensive experience and deep insight accumulated over many years, one as a corporate executive and the other as an accounting and tax specialist, which allows for a broad

perspective in conducting objective and appropriate supervision of Shin-Etsu Polymer management.

● Audit System

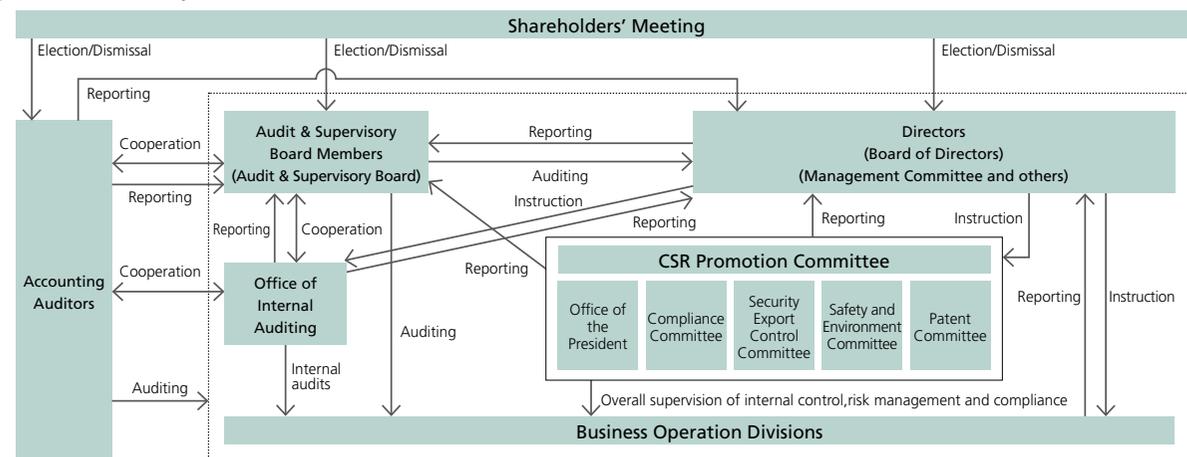
With regard to the auditor's audit, three outside auditors (of which one is an independent outside auditor) constitute the Audit & Supervisory Board and carry out audits independently from business execution. Audit & Supervisory Board members fulfill their function of supervising management by attending Board of Directors meetings and other meetings, and also hold Audit & Supervisory Board meetings as necessary to discuss important auditing matters arising from reports from each Audit & Supervisory Board member.

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.

With regards to accounting audits, we receive quarterly reviews or audits from an auditing firm, receiving accounting advice where appropriate.

The auditor's audits, internal audits and accounting audits are all thoroughly carried out with close exchange of information based on mutual cooperation and collaboration to provide effective audits.

● Corporate Governance System



Corporate Governance

● Relationship with the Parent Company

Shin-Etsu Chemical Co., Ltd., the parent company of Shin-Etsu Polymer, is a controlling shareholder holding 52.6% of the total number of outstanding shares (excluding treasury stock) of the Company. The Company maintains autonomy in its business activities and also purchases raw materials from its parent company, but in terms of transactions the Company properly decides terms and conditions based on market prices.

Maintaining and Operation of Risk Management, Internal Control and Compliance Systems

The Shin-Etsu Polymer Group recognizes 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 any necessary measures. Furthermore, after having positioned the establishment, maintenance and operation of the internal control system as an important management obligation, the Company works towards developing and operating a more appropriate and efficient internal control system.

Additionally, in order for the Company to gain trust 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 “compliance with laws and regulations and sincere conduct with respect to values and ethics that society expects” is essential.

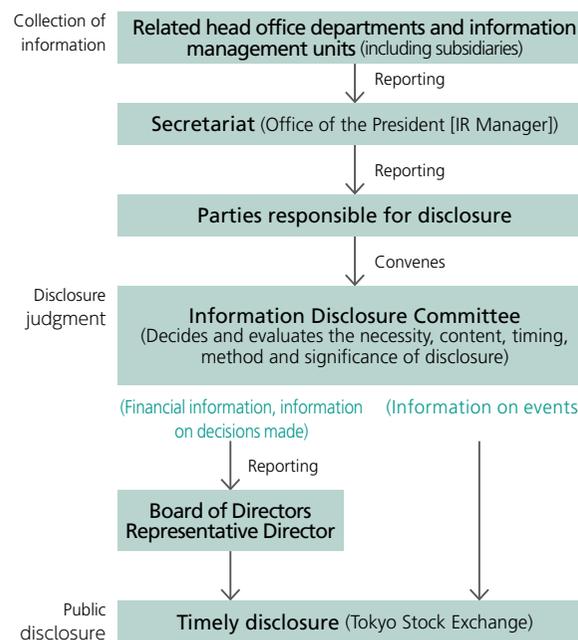
Initiatives for Promoting Constructive Dialogue with Shareholders and Investors

The Shin-Etsu Polymer Group is dedicated to consistently enhancing corporate governance and ensuring management transparency. The Company believes it is important for the Group to grow together with its shareholders. Therefore, the Company communicates proactively with its shareholders and investors on a regular basis, and reflects the views and requests received 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, the Company practices fair, timely and appropriate disclosure based on relevant laws concerning financial instrument transactions and Tokyo Stock Exchange regulations. In addition, the Company holds 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 its operating conditions. The Company also uses its website as a means to provide swift and fair information disclosure, providing information such as news releases, financial summaries, presentation materials, annual reviews, Annual Meeting of Shareholders materials, and resolution notices. IR activities are supervised by the Office of the

● Information Disclosure System



President, with individual meetings handled by the Executive Secretary and the IR Manager. Opinions and comments received through individual meetings are reported to the appropriate directors and relevant departments

As part of its disclosure system, the Company has set Information Disclosure Rules and established the Information Disclosure Committee based on its Information Disclosure Policy, and promotes their awareness throughout the Company. Committed to flexible and prompt information disclosure, the Company has also created, with a focus on Information Disclosure Managers, a system of cooperation between the Office of the President (IR Manager and PR Manager), the Accounting & Finance Department, the Legal Department and other relevant departments.

● Officers (As of June 26, 2018)

■ Chairman	
Osamu Hiura	
■ President	
Yoshiaki Ono	
■ Executive Director	
Toshiaki Deto	General Manager, Sales Unit
■ Senior Directors	
Toru Takayama	Executive Secretary in charge of Environment Control & Safety and Internal Audits General Manager, Office of President
Mikio Furukawa	General Manager, Sales & Marketing Division III, Sales Unit, and General Manager, Office of Products Development Management
■ Directors	
Kenjiro Hata	(Outside Director*)
Shigemichi Todoroki	(Outside Director*)
Satoru Sugano	General Manager, Development Unit
Yasushi Shibata	General Manager, Administrative Unit and General Manager, Human Resources Department
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	(Outside Corporate Auditor*)
Morio Miyazaki	(Outside Corporate Auditor)
■ Audit & Supervisory Board Member	
Sachihito Hosogi	(Outside Corporate Auditor)

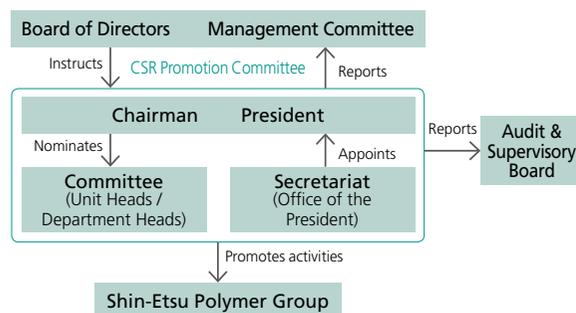
*Independent officer under the Tokyo Stock Exchange listing rules

CSR Initiatives

Promotion of CSR Management

● Establishment of a Framework to Promote CSR

Previously the Shin-Etsu Polymer Group engaged in CSR activities with departments and group companies each playing a role. The Company has now established a system to further strengthen the promotion of CSR management and in November 2017 the CSR Promotion Committee was launched. Under the new framework we will clarify our CSR activity policy and rebuild our company-wide CSR activity structure to strengthen our response to risks and opportunities related to ESG.



● Important CSR Issues

As a member of the Shin-Etsu Chemical Group, the Group is promoting initiatives to address important CSR issues for the Shin-Etsu Chemical Group. The CSR Promotion Committee designated the promotion of CSR procurement and the diversification of materials procurement as well as the promotion of respect for people, development of human resources and diversity, as particular priority issues in the fiscal year ending March 31, 2019.

Important CSR Issues for the Shin-Etsu Chemical Group

1. Securing the safety of workers and promoting good health
2. Saving energy and resources and reducing the impact on the environment
3. Improving product quality and product safety management
4. Promotion of CSR procurement and diversification of materials procurement
5. Promotion of respect for people, development of human resources and diversity
6. Respect and protection of intellectual property
7. Community contribution activities
8. Timely and accurate information disclosure and dialog with stakeholders

Quality Control Initiatives

The Shin-Etsu Polymer Group is working to strengthen its quality assurance control system for the entire group so that customers can use our products with peace of mind.

In order to meet the requirements of customers and for the regulations on and management of chemicals contained in products, the Shin-Etsu Polymer Group created the Global Environmental Communication System (G-Environmental System) to centrally manage all Group companies including overseas plants. We also apply this system to respond to items which the whole group gets involved in, such as customers' environmental quality system, CSR surveys and risk management surveys.

Development of Environmentally Friendly and Contributing Products

The Shin-Etsu Polymer Group is working on the development of environmentally friendly and contributing products to reduce its impact on the environment 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

● The Concept of Reduced Impact on the Environment

Environmental Initiatives

The concept is to change conventional QCD to QCD+E (environment friendly)

(Q stands for quality, C for cost, D for delivery and E for ecology, or reduced impact on the environment)



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 aim to be a company that contributes to the creation of a recycling-oriented society and a company that is appreciated in a society where environmental management is seen as important.

customers face. These products are certified as such based on a seven-point evaluation which includes effective use of resources and energy saving, after confirming that society and the environment really require them. We will strive to contribute to the creation of a sustainable society by working to reduce the environmental impact of the entire product value chain from the procurement of raw materials through to manufacturing, product use, and disposal.

The number of certified products as at the year ended March 31, 2018 has doubled compared with fiscal year 2014.

CSR Information Communication

The Group's 2017 Sustainability Report which was published in September 2017 received the Award of Excellence in the Environmental Report category of the 21st Environmental Communication Awards sponsored by the Ministry of the Environment. This is the second time the Company has won the award following its 2015 report publication. The Environmental Communication Awards were founded to recognize outstanding reports on the environment, as a means of promoting environmental communication initiatives by businesses and improving the quality of environmental information disclosures. Many of our customers who are highly conscious of the environment have also won numerous awards.



The award certificate received at the ceremony in February 2018

For more details please visit our website.

Environmental Initiatives

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

Sustainability Report

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

Eleven-Year Summary

(For the years ended March 31, 2008 through 2018)

	Millions of yen											Thousands of U.S. dollars ¹
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2018
Operating Performance (For the year):												
Net sales	¥79,343	¥73,979	¥75,039	¥71,707	¥67,332	¥60,669	¥62,650	¥70,469	¥70,181	¥84,739	¥105,799	\$748,518
New segments ²												
Electronic Devices	19,554	18,644	19,933	18,875	16,453	15,103	16,935	22,258	25,370	—	—	184,471
Precision Molding Products	34,369	31,074	30,377	28,644	26,407	22,329	23,270	25,141	22,925	—	—	324,235
Housing and Living Materials	18,703	17,269	18,205	18,435	18,499	17,427	17,273	17,818	16,847	—	—	176,443
Others	6,715	6,991	6,522	5,753	5,971	5,808	5,170	5,250	5,038	—	—	63,349
Old segments												
Electronics and Functional Products	—	—	—	—	—	—	—	—	36,502	45,994	57,249	—
Packaging Products	—	—	—	—	—	—	—	—	24,142	26,739	35,607	—
Construction Materials and Constructing	—	—	—	—	—	—	—	—	9,537	12,005	12,942	—
Overseas sales	38,092	33,593	34,495	31,660	27,160	21,844	21,041	25,511	25,468	33,864	44,954	359,358
Gross profit	24,627	22,692	20,896	18,534	16,582	15,028	15,081	18,466	17,168	17,708	26,978	232,330
Operating income	7,206	5,511	4,101	2,231	1,314	944	1,071	3,385	2,457	1,359	9,482	67,981
Ordinary income ³	7,274	5,934	4,532	2,865	1,662	1,291	1,248	3,054	2,816	1,263	9,296	68,622
Profit attributable to owners of parent	5,455	4,230	3,151	1,777	720	210	304	1,224	916	(200)	5,415	51,462
Comprehensive income (loss)	6,239	2,361	226	4,544	5,869	3,059	(877)	(1,461)	—	—	—	58,858
Capital expenditure	5,420	3,721	4,424	3,877	2,571	3,015	2,175	2,303	921	2,522	7,597	51,132
R&D expenses	3,382	3,572	3,609	3,225	2,807	2,601	2,260	2,581	2,519	2,699	2,788	31,905
Financial Condition (At year-end):												
Total assets	¥103,667	¥96,061	¥92,845	¥93,889	¥88,644	¥81,342	¥81,017	¥81,326	¥85,628	¥85,914	¥103,388	977,990
Total net assets	77,510	72,890	71,253	72,250	68,088	63,020	60,749	62,710	64,800	63,213	70,903	731,226
Net working capital ⁴	54,606	51,549	49,917	49,798	46,092	41,745	39,810	40,057	39,831	36,169	40,267	515,150
Cash Flows:												
Cash flows from operating activities	¥8,447	¥7,278	¥7,682	¥4,656	¥4,373	¥3,106	¥5,252	¥7,505	¥8,806	¥4,412	¥3,130	79,688
Cash flows from investing activities	(4,437)	(1,843)	(4,768)	(1,572)	(3,036)	(3,286)	(2,789)	(3,113)	(949)	(2,798)	(7,453)	(41,858)
Free cash flow ⁵	4,009	5,435	2,914	3,084	1,337	(180)	2,463	4,392	7,856	1,613	(4,322)	37,820
Cash flows from financing activities	(1,670)	(789)	(1,179)	(604)	(745)	(732)	(981)	(2,526)	4,805	482	(1,836)	(15,754)
Per Share Data:												
	Yen											U.S. dollars ¹
Net income (loss)	¥66.48	¥51.60	¥38.55	¥21.85	¥8.86	¥2.59	¥3.74	¥15.06	¥11.28	¥(2.47)	¥66.64	\$0.63
Net assets	948.31	887.09	870.12	874.65	826.10	764.26	736.45	758.67	785.10	776.38	860.67	8.95
Cash dividend	12.00	12.00	9.00	9.00	9.00	9.00	9.00	12.00	9.00	12.00	15.00	0.11
Financial Ratios:												
	% (Except interest coverage ratio)											
Return on equity (ROE) ⁶	7.3	5.9	4.4	2.6	1.1	0.3	0.5	2.0	1.5	—	8.0	
Return on assets (ROA) ^{3,7}	7.3	6.3	4.9	3.1	2.0	1.6	1.5	3.7	3.3	1.3	8.9	
Equity ratio	74.6	75.8	76.7	76.0	75.7	76.4	73.9	75.8	74.5	72.5	67.7	
Interest coverage ratio (Times) ⁸	345.1	285.5	283.2	150.5	133.8	91.8	152.8	77.2	64.0	60.4	33.4	

Notes: 1. U.S. dollar amounts are included solely for the convenience of readers, using the conversion rate of ¥106 per US\$1 prevailing on March 31, 2018.

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. 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.

4. Net working capital = Current assets - Current liabilities

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

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

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

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

Management's Discussion and Analysis

Operating Results

● Net Sales

During the fiscal year ended March 31, 2018, business continued its moderate economic recovery centered on the developed nations. Despite uncertain policies of the current administration in the United States economic recovery continued with growth in personal consumption and improved corporate earnings. Europe witnessed a moderate recovery supported by monetary easing policies and the recovery of emerging economies. In Asia, the Chinese economy slowed and showed signs of stability due to the effects of its economic policy while ASEAN economies recovered.

In Japan, the economy continued its moderate economic recovery with a relatively weak yen and improved corporate earnings, and consumer spending also remained steady on the back of strong employment and income.

In markets served by the Group, the semiconductor industry continued to boom, and demands in the automotive-related markets also continued to rise.

Within this operating environment the Group has continued to develop its sales activities with a focus on increasing sales of core growth products and new business products both in Japan and overseas. Furthermore, we have made efforts to improve productivity and efficiency by aggressively carrying out capital expenditures to boost production capacity both in Japan and overseas along with the merger of four domestic production subsidiaries at the beginning of the fiscal year, restructured to consolidate management resources.

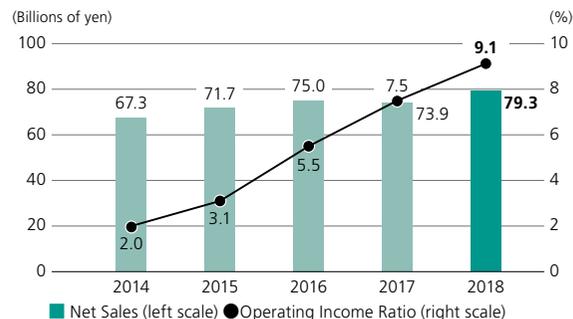
As a result, net sales for the fiscal year ended March 31, 2018 increased by ¥5,363 million (7.3%) from the previous fiscal year to ¥79,343 million.

Operating Income

Operating income increased by ¥1,694 million (30.7%) from the previous fiscal year to ¥7,206 million. This increase in operating income was due to continued steady shipments mainly of automobile-related input devices in the Electronic Devices

business, and strong sales of semiconductors-related containers in the Precision Molding Products business.

● Net Sales and Operating Income Ratio



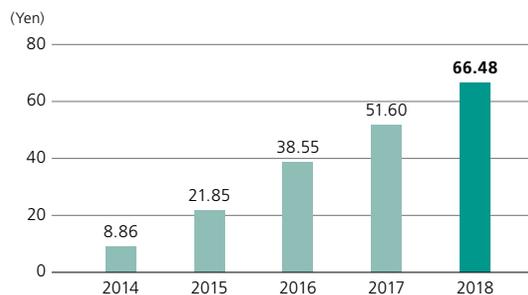
● Net Non-Operating Income

For net non-operating income, interest income exceeded foreign exchange losses, losses on retirement of non-current assets and interest expenses, etc., resulting in a profit of ¥68 million (a profit of ¥422 million in the previous fiscal year).

● Profit Attributable to Owners of Parent

Profit attributable to parent company shareholders increased by ¥1,224 million (28.9%) from the previous fiscal year to ¥5,455 million. Net income per share was ¥66.48, compared with ¥51.60 in the previous fiscal year.

● Net Income per Share



Basic Policy on Distribution of Profits

The Company regards shareholder returns as one of its most important management issues. The Company's basic policy is to continue to provide 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, investment in research and development, and capital investment for manufacturing facilities and M&A, etc.

In the fiscal year ended March 31, 2018 the Company paid cash dividends of ¥12.00 per share based on the Company's basic policy and a comprehensive view of business performance and future business development. We remain committed to providing a stable return to shareholders and will work to increase dividends.

Cash Flow

Cash and cash equivalents (hereinafter referred to as "cash") as of March 31, 2018 increased by ¥3,000 million from the end of the previous fiscal year to ¥41,982 million. Cash flow by business activity and factors which have influenced it are as follows.

● Net Cash Provided by Operating Activities

Net cash provided by operating activities was ¥8,447 million, an increase of ¥1,168 million compared with the previous fiscal year. Factors providing an increase in cash included income before income taxes of ¥7,274 million, depreciation and amortization of ¥3,011 million, and an increase in accounts payable of ¥1,834 million. Factors contributing to a decline in cash included payments for such things as corporation tax of ¥1,602 million, an increase in inventory of ¥1,333 million, an increase in accounts receivable of ¥1,096 million, and other factors.

● Net Cash Used in Investing Activities

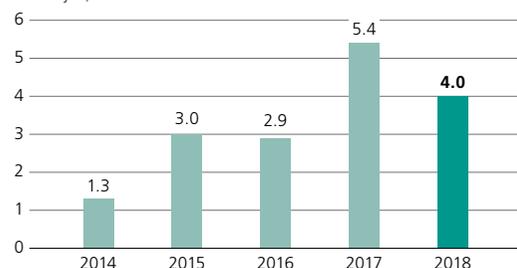
Net cash used in investing activities was ¥4,437 million, a decrease of ¥2,594 million compared with the previous fiscal year, due to

Management's Discussion and Analysis

expenditure of ¥4,546 million for the purchase of tangible fixed assets and a decrease of ¥146 million in fixed deposits. Free cash flow amounted to ¥4,009 million, compared with ¥5,435 million in the previous fiscal year.

● Free Cash Flow

(Billions of yen)



● Net Cash Used in Financing Activities

Net cash used in financing activities was ¥1,670 million, a decrease of ¥880 million from the previous fiscal year, due to, among other things, dividend payments of ¥984 million and expenditure of ¥700 million for treasury stock.

Financial Position

● Assets

Total assets as of March 31, 2018 were ¥103,667 million (an increase of ¥7,605 million from the end of the previous fiscal year), due to respective increases of ¥2,871 million in cash and deposits, ¥1,466 million in construction in progress due to the construction of the Itoigawa Plant, etc., ¥973 million in goods and products, ¥474 million in accounts receivable, ¥455 million in notes and accounts receivable, ¥368 million for raw materials and supplies, ¥363 million for machinery and vehicles (net), and ¥329 million in other current assets.

● Liabilities

Total liabilities as of March 31, 2018 were ¥26,156 million (an increase of ¥2,985 million from the end of the previous

fiscal year) due to respective increases of ¥1,838 million for other current liabilities such as the introduction of settlement by electronically recorded obligations, ¥587 million in notes and accounts payable, ¥449 million in accounts payable, and ¥443 million for liabilities related to retirement benefits, and a decrease of ¥317 million in accrued expenses.

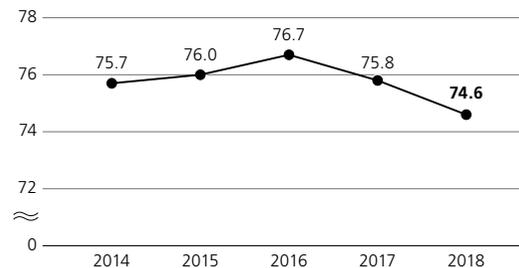
● Net Assets

Total net assets as of March 31, 2018 increased by ¥4,620 million from the end of the previous fiscal year to ¥77,510 million. This was primarily due to an increase of ¥4,433 million in retained earnings and an increase of ¥752 million in foreign currency transaction adjustments due to the weaker yen against the Malaysian ringgit, Euro and Chinese yuan compared with the end of the previous fiscal year and an increase of ¥673 million from treasury stock (recorded as a minus).

The equity ratio decreased by 1.2 percentage points from the end of the previous fiscal year to 74.6%.

● Equity Ratio

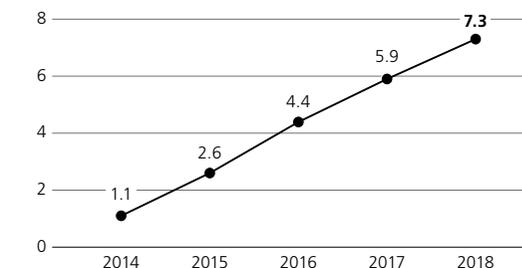
(%)



Return on equity (ROE) increased by 1.4 percentage points from the previous fiscal year to 7.3%.

● Return on Equity (ROE)

(%)



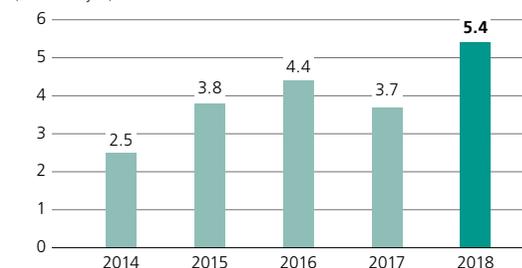
Capital Expenditure

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 streamlining. During the fiscal year ended March 31, 2018, 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 Business and to expand manufacturing facilities for semiconductor-related containers in the Precision Molding Products Business.

As a result, total capital expenditure totaled ¥5,420 million. This included ¥1,373 million in the Electronic Device Business, ¥3,084 million in the Precision Molded Products Business, and ¥737 million in the Housing and Living Materials Business.

● Capital Expenditure

(Billions of yen)



Management's Discussion and Analysis

Research and Development

In the fiscal year ended March 31, 2018 research and development expenses totaled ¥3,382 million. This included ¥1,060 million in the Electronic Devices Business, ¥1,630 million in the Precision Molded Products Business, and ¥692 million in the Housing and Living Materials Business.

Risk Information

The primary risks that could affect the results and financial position of the Shin-Etsu Polymer Group as determined by the Group as of the fiscal year ended March 31, 2018 include, but are not limited to, those outlined below.

① Economic Trends

Demand for the Group's products is increasing worldwide, and is influenced by economic conditions in the countries and regions in which the Group sells its products. In addition, sudden changes in international social conditions could impact production, purchasing, and sales, which could affect the Group's business 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 converted into Japanese yen when the Group prepares its consolidated financial statements. As a result, valuation of these items will vary according to the exchange rate at the time of conversion 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 as well as soaring prices with other raw materials could affect the Group's results. In addition, unforeseen contingencies involving suppliers that reduce the quality or supply 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 (For the years ended March 31, 2018 and 2017)

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Assets			
Current assets			
Cash and deposits	¥43,107	¥40,236	\$406,669
Notes and accounts receivable—trade	19,358	18,903	182,622
Merchandise and finished goods	6,494	5,520	61,264
Work in progress	1,341	1,147	12,650
Raw materials and supplies	2,759	2,391	26,028
Deferred tax assets	1,004	1,042	9,471
Accounts receivable—other	1,677	1,202	15,820
Other	3,424	3,094	32,301
Allowance for doubtful accounts	(350)	(360)	(3,301)
Total current assets	78,817	73,178	743,556
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	6,780	6,781	63,962
Machinery, equipment and vehicles, net	4,928	4,564	46,490
Land	6,715	6,471	63,349
Construction in progress	2,470	1,003	23,301
Other, net	1,305	1,028	12,311
Total property, plant and equipment	22,200	19,850	209,433
Intangible assets			
Software	102	209	962
Other	72	95	679
Total intangible assets	174	305	1,641
Investments and other assets			
Investment securities	1,221	1,184	11,518
Long-term loans receivable	5	0	47
Deferred tax assets	262	450	2,471
Other	984	1,091	9,283
Total investments and other assets	2,474	2,727	23,339
Total noncurrent assets	24,849	22,882	234,424
Total assets	¥103,667	¥96,061	\$977,990

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Liabilities			
Current liabilities			
Notes and accounts payable—trade	¥13,667	¥13,080	\$128,933
Short-term loans payable	0	0	0
Accounts payable—other	3,187	2,737	30,066
Income taxes payable	914	966	8,622
Accrued expenses	2,323	2,641	21,915
Provision for bonuses	1,254	1,167	11,830
Provision for directors' bonuses	37	46	349
Other	2,825	987	26,650
Total current liabilities	24,211	21,628	228,405
Noncurrent liabilities			
Long-term loans payable	—	0	—
Net defined benefit liability	1,675	1,231	15,801
Other	269	310	2,537
Total noncurrent liabilities	1,945	1,542	18,349
Total liabilities	26,156	23,171	246,754
Net assets			
Shareholders' equity			
Capital stock	11,635	11,635	109,764
Capital surplus	10,718	10,718	101,113
Retained earnings	56,403	51,970	532,103
Treasury stock	(1,033)	(360)	(9,745)
Total shareholders' equity	77,724	73,964	733,245
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	463	436	4,367
Foreign currency translation adjustment	(807)	(1,560)	(7,613)
Remeasurements of defined benefit plans	2	(1)	18
Total accumulated other comprehensive income	(341)	(1,125)	(3,216)
Subscription rights to shares			
	127	51	1,198
Total net assets	77,510	72,890	731,226
Total liabilities and net assets	¥103,667	¥96,061	\$977,990

Consolidated Financial Statements

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(For the years ended March 31, 2018 and 2017)

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Consolidated Statements of Income			
Net sales	¥79,343	¥73,979	\$748,518
Cost of sales	54,715	51,287	516,179
Gross profit	24,627	22,692	232,330
Selling, general and administrative expenses	17,421	17,180	164,349
Operating income	7,206	5,511	67,981
Non-operating income			
Interest income	264	209	2,490
Foreign exchange gains	—	140	—
Other	120	127	1,132
Total non-operating income	384	478	3,622
Non-operating expenses			
Interest expenses	24	25	226
Foreign exchange losses	220	—	2,075
Loss on retirement of noncurrent assets	65	22	613
Other	5	7	47
Total non-operating expenses	316	55	2,981
Ordinary income	7,274	5,934	68,622
Extraordinary losses			
Impairment loss	—	210	—
Loss on disposal of inventories	—	57	—
Loss on liquidation of subsidiaries	—	59	—
Total extraordinary losses	—	327	—
Income before income taxes	7,274	5,606	68,622
Income taxes—current	1,610	1,538	15,188
Income taxes—deferred	208	(162)	1,962
Total income taxes	1,819	1,376	17,160
Net income	5,455	4,230	51,462
Net income attributable to non-controlling interests	—	—	—
Profit attributable to owners of parent	¥5,455	¥4,230	\$51,462
Consolidated Statements of Comprehensive Income			
Income before minority interests	¥5,455	¥4,230	\$51,462
Other comprehensive income			
Valuation difference on available-for-sale securities	27	130	254
Foreign currency translation adjustment	752	(2,009)	7,094
Remeasurements of defined benefit plans	3	9	28
Total other comprehensive income	783	(1,869)	7,386
Comprehensive income	6,239	2,361	58,858
(Breakdown)			
Comprehensive income attributable to owners of parent	6,239	2,361	58,858
Comprehensive income attributable to non-controlling interests	—	—	—

Consolidated Statements of Cash Flows

(For the years ended March 31, 2018 and 2017)

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash flows from operating activities			
Income before income taxes	¥7,274	¥5,606	\$68,622
Depreciation and amortization	3,011	2,872	28,405
Impairment loss	—	210	—
Increase (decrease) in net defined benefit liability	447	(86)	4,216
Interest and dividends income	(290)	(234)	(2,735)
Interest expense	24	25	226
Foreign exchange losses (gains)	(5)	17	(47)
Loss (gains) on liquidation of subsidiaries	—	59	—
Loss on retirement of noncurrent assets	65	22	613
Decrease (increase) in notes and accounts receivable—trade	(1,096)	(2,675)	(10,339)
Decrease (increase) in inventories	(1,333)	86	(12,575)
Increase (decrease) in notes and accounts payable—trade	1,834	785	17,301
Decrease/increase in consumption taxes receivable/payable	(472)	69	(4,452)
Other, net	324	1,553	3,056
Subtotal	9,785	8,313	92,311
Interest and dividends income received	288	238	2,716
Interest expenses paid	(24)	(25)	(226)
Income taxes (paid) refund	(1,602)	(1,247)	(15,113)
Net cash provided by (used in) operating activities	8,447	7,278	79,688
Cash flows from investing activities			
Decrease (increase) in time deposits	146	2,011	1,377
Purchase of property, plant and equipment	(4,546)	(3,572)	(42,886)
Purchase of intangible assets	(18)	(69)	(169)
Purchase of investment securities	(33)	(4)	(311)
Proceeds from sales of investment securities	26	0	245
Other, net	(11)	(208)	(103)
Net cash provided by (used in) investing activities	(4,437)	(1,843)	(41,858)
Cash flows from financing activities			
Purchase of treasury stock	(700)	(0)	(6,603)
Cash dividends paid	(984)	(859)	(9,283)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(30)	—
Other, net	14	100	132
Net cash provided by (used in) financing activities	(1,670)	(789)	(15,754)
Effect of exchange rate changes on cash and cash equivalents	310	(1,041)	2,924
Net increase (decrease) in cash and cash equivalents	2,649	3,604	24,990
Cash and cash equivalents at end of period	38,981	35,377	367,745
Increase in cash and cash equivalents from newly consolidated subsidiary	350	—	3,301
Cash and cash equivalents at end of period	¥41,982	¥38,981	\$396,056

Company Profile, Investor Information and Group Network (As of March 31, 2018)

Company Profile

Corporate Name	Shin-Etsu Polymer Co., Ltd.
Established	September 15, 1960
Head Office	Sotetsu Kandasudacho Building, 1-9 Kanda-Sudacho, Chiyoda-ku, Tokyo 101-0041 Japan
Paid-in Capital	¥11,635 million
Number of Employees	4,407 (Consolidated) 1,019 (Non-consolidated)
Consolidated Subsidiaries	14 companies
URL	https://www.shinpoly.co.jp/

Investor Information

Number of Shares Authorized	320,000,000
Number of Shares Issued	82,623,376
Number of Shareholders	9,239
Fiscal Year-End	March 31
Stock Listing	Tokyo Stock Exchange (Ticker code 7970)
Transfer Agent	Mizuho Trust & Banking Co., Ltd.

Major Shareholders

	Number of Shares (Thousands)	Percentage of Total Equity (%)
Shin-Etsu Chemical Co., Ltd.	42,986	52.6
Japan Trustee Services Bank, Ltd. (Trust account)	4,953	6.0
The Master Trust Bank of Japan, Ltd. (Trust account)	2,487	3.0
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,558	1.9
GOLDMAN SACHS INTERNATIONAL	1,019	1.2
Japan Trustee Services Bank, Ltd. (Trust account 5)	783	0.9
Nippon Life Insurance Company	768	0.9
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	759	0.9
THE BANK OF NEW YORK MELLON 140044	713	0.8
Japan Trustee Services Bank, Ltd. (Trust account 1)	590	0.7

- In addition to the above and excluded from the above major shareholders, 1,022 thousand shares of treasury stock are held in the name of Shin-Etsu Polymer Co., Ltd.
- Percentage of total equity is calculated excluding treasury stock.

Network

Our Company

Head Office

Chiyoda-ku, Tokyo

Plants

Tokyo Plant (Saitama Prefecture)
Kodama Plant (Saitama Prefecture)
Nanyo Plant (Yamaguchi Prefecture)
Shiojiri Plant (Nagano Prefecture)
Itoigawa Plant (Niigata Prefecture)

Subsidiaries

Sales and Construction, etc.

Shin-Etsu Finetech Co., Ltd. (Tokyo)

Sales

Shin-Etsu Polymer America, Inc. (U.S.A.)
Shin-Etsu Polymer Europe B.V. (Netherlands)
Shin-Etsu Polymer Shanghai Co., Ltd. (China)
Shin-Etsu Polymer Singapore Pte. Ltd. (Singapore)
Shin-Etsu Polymer Hong Kong Co., Ltd. (China)
Shin-Etsu Polymer (Thailand) Ltd. (Thailand)
Shin-Etsu Polymer Vietnam Co., Ltd. (Vietnam)

Manufacturing

Shin-Etsu Polymer (Malaysia) Sdn. Bhd. (Malaysia)
Suzhou Shin-Etsu Polymer Co., Ltd. (China)
PT. Shin-Etsu Polymer Indonesia (Indonesia)
Shin-Etsu Polymer Hungary Kft. (Hungary)
Shin-Etsu Polymer India Pvt. Ltd. (India)
Dongguan Shin-Etsu Polymer Co., Ltd. (China)

Composition of Shareholders

