

Press Release

**Consolidated Financial Results for the First Three Quarters Ended December 31, 2016**

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

(JP GAAP)



January 27, 2017

Listing Code: No. 4063 (URL: <http://www.shinetsu.co.jp/>)

Listing Stock Exchange: Tokyo and Nagoya

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Date of the filing of the quarterly consolidated financial statements: February 13, 2017

Date of dividend payment: -

Preparation of supplemental explanatory materials: No

Holding of quarterly financial results meeting: Yes (for investment analysts and institutional investors)

Amounts are stated in millions of yen by discarding fractional amounts less than 1 million.

Percentage figures indicate increase (decrease) over previous corresponding period.

**1. Consolidated Operating Performance for the First Three Quarters Ended December 31, 2016**

(From April 1, 2016 to December 31, 2016)

**(1) Results of consolidated operations**

(Millions of yen)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
April - December 2016	922,228	(5.5%)	181,101	11.5%	185,036	8.4%	135,232	16.2%
April - December 2015	975,914	5.0%	162,427	16.0%	170,736	11.9%	116,419	16.4%

(Note) Comprehensive income (Millions of yen) From April 1, 2016 to December 31, 2016: 1,942 [(97.6%)]  
From April 1, 2015 to December 31, 2015: 81,504 [(38.0%)]

	Basic earnings per share (yen)	Diluted earnings per share (yen)
April - December 2016	317.44	317.43
April - December 2015	273.34	273.31

**(2) Consolidated financial position**

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (yen)
December 31, 2016	2,448,335	2,034,202	81.1%	4,656.25
March 31, 2016	2,510,085	2,080,465	80.8%	4,761.48

(Note) Stockholders' equity (Millions of yen) As of December 31, 2016: 1,984,520 As of March 31, 2016: 2,028,291  
Stockholders' equity used for the calculation of indices is net assets excluding both share subscription rights and non-controlling interests in consolidated subsidiaries.

**2. Cash Dividends**

	Cash dividends per share in the fiscal year (yen)				
	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	Year-end	Fiscal year
April 2015 - March 2016	-	55.00	-	55.00	110.00
April 2016 - March 2017	-	60.00	-	-	-
April 2016 - March 2017 (forecast)	-	-	-	60.00	120.00

(Note) Revision of the latest forecast of cash dividends: No

**3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2017**

(From April 1, 2016 to March 31, 2017)

(Millions of yen)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share (yen)
Fiscal year	1,180,000	(7.8%)	225,000	7.9%	230,000	4.5%	160,000	7.5%	375.61

(Note) Revision of the latest forecast of consolidated operating performance: No

Forward-looking statements such as the forecast of results of operations made in this document involves risks and uncertainties since they are based on management's assumptions and beliefs in light of the information currently available to it. The reader should be aware that actual results may be materially different from any future results expressed herein due to various factors. Material factors affecting the actual results may include overall economic conditions in which the businesses of our company and our group companies are involved, the relevant market trends and fluctuations in foreign exchange rates of the yen, in particular, the exchange rate between the U.S. dollar and the yen; provided, however, that such factors as may affect results of operations are not limited to those enumerated above.

**(Notes)**

**(1) Changes in significant subsidiaries during the first three quarters ended December 31, 2016: No**

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first three quarters ended December 31, 2016.

**(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: No**

**(3) Changes in accounting policies applied, changes in accounting estimates and retrospective restatement**

Changes in accounting policies applied due to revisions of accounting standards: Yes

Changes in accounting policies other than the above: No

Changes in accounting estimates: No

Retrospective restatement: No

(Note) Please see “2. Other Information (1) Changes in Accounting Policies Applied, Changes in Accounting Estimates and Retrospective Restatement” on page 5 for further details.

**(4) Number of shares outstanding (common stock)**

	December 31, 2016	March 31, 2016
Number of shares outstanding at period end	432,106,693	432,106,693
Number of shares of treasury stock at period end	5,900,643	6,127,692
	April - December 2016	April - December 2015
Weighted-average number of shares outstanding over period	426,007,247	425,910,662

**(Information regarding the implementation of quarterly review procedures)**

The financial information contained in this report on the quarterly financial results is not subject to quarterly review procedures by independent auditors in accordance with the Financial Instruments and Exchange Law. At the time of issuing this report, the quarterly review procedures are in progress.

**(Attached Documents)**

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Appendix: Quarterly Operating Results

## **1. Qualitative Information Regarding Quarterly Results**

### **(1) Explanation Regarding the Operating Results**

With regard to the world economy, during the first three quarters of FY 2017 (April 1, 2016 to December 31, 2016), although in the United States and Europe a recovery of the economy was seen, economic growth in Japan only was able to record a slight increase. In China, the slowdown in its economic growth continued, and weakness in the economy was also seen in many emerging economies. Although a tendency toward the depreciation of the Japanese yen began from the end of November 2016, the Japanese manufacturing industry, in particular, during this fiscal period as a whole was affected by the increasing tendency toward the appreciation of the Japanese yen.

In these circumstances, in order to achieve continued increases in our business results, the Shin-Etsu Group endeavored (1) to deepen its relationships with its customers and further expand its global customer base; (2) to constantly carry out product development that strongly supports our customers' needs, improve product quality and achieve further differentiation in technologies; and (3) to continue our policy of strict cost management.

As a result, although the business results for the first three quarters of FY 2017 saw a decrease in net sales, mainly due to the effects of the yen's appreciation, we were able to achieve increased profit.

As a result, the business results for the first three quarters of FY 2017 are as follows:

\	April - December 2016 (Millions of yen)	Increase / (Decrease)
Net sales	922,228	(5.5%)
Operating income	181,101	11.5%
Ordinary income	185,036	8.4%
Profit attributable to owners of parent	135,232	16.2%

The situation of each of our business segments is as follows:

### **PVC/Chlor-Alkali Business**

\	April - December 2016 (Millions of yen)	Increase / (Decrease)
Net sales	308,167	(9.1%)
Operating income	44,305	21.0%

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

### **Silicones Business**

	April - December 2016 (Millions of yen)	Increase / (Decrease)
Net sales	133,451	(6.0%)
Operating income	31,603	0.6%

With regard to the silicones business, in Japan, shipments of product applications for cosmetics and on-board vehicles continued to do well. Globally, although general-purpose products were affected by sluggish market prices, shipments of functional products for the United States, China and Southeast Asia were firm.

### **Specialty Chemicals Business**

	April - December 2016 (Millions of yen)	Increase / (Decrease)
Net sales	81,967	(8.2%)
Operating income	16,966	18.4%

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

### **Semiconductor Silicon Business**

	April - December 2016 (Millions of yen)	Increase / (Decrease)
Net sales	186,116	(1.4%)
Operating income	39,515	5.8%

With regard to semiconductor silicon, together with applications for memory devices continuing to be firm, shipments of logic devices also did well on the whole, supported by strong demand for such applications as for smartphones in China. Although the business was affected by the increasing appreciation of the yen during the first half of this fiscal term, it achieved increased profit.

### **Electronics & Functional Materials Business**

	April - December 2016 (Millions of yen)	Increase / (Decrease)
Net sales	138,863	(0.7%)
Operating income	41,399	8.2%

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

## **Processing, Trading & Specialized Services Business\***

\*Starting from this third quarter of FY 2017, the name of this business segment was changed from the previous name of “Diversified Business” to “Processing, Trading & Specialized Services Business.” This change was made in order to make clearer the contents of this business segment. There is no change in the products and services that come under this business segment.

	April - December 2016 (Millions of yen)	Increase / (Decrease)
Net sales	73,661	(4.7%)
Operating income	7,356	78.3%

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

## **(2) Explanation Regarding Information Relevant to Forecasts such as Consolidated**

### **Business Forecast**

The world economy contains many uncertain factors, and a downturn in the economy is also a matter of concern.

Among the main products of the Shin-Etsu Group, there are those products that will be greatly affected by such factors as fluctuations in raw materials prices and in market conditions as well as supply and demand conditions. In addition, over 70% of the Group’s sales consist of sales outside of Japan, and exchange rate fluctuations affect our company’s business. Exchange rate fluctuations also affect us when converting Shin-Etsu Chemical’s overseas Group companies’ business results into Japanese yen.

Facing such a situation, the Shin-Etsu Group will carefully focus on developments in world markets and aggressively develop our sales activities while accurately capturing trends in demand. At the same time, we will further accelerate the development of our global business by such means as constructing manufacturing bases at optimal locations in the world and strengthening and expanding existing facilities. In addition, we will further focus on enhancing productivity and product quality, and at the same time, we will strive to develop products that have value for customers and will also strive to assure the stable supply of our products. For this purpose, while continuing to maintain a sound financial base, we will proactively utilize our financial strength to carry out appropriate investments in a timely manner.

Going forward, we will work to create value to meet the needs of the market and society over the long term.

As mentioned on the cover page of this summary of the Shin-Etsu Group’s financial results, no revision has been made to the business forecast we announced on July 26, 2016.

## **2. Other Information**

### **(1) Changes in Accounting Policies Applied, Changes in Accounting Estimates and Retrospective Restatement**

Changes in accounting policies

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

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

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

### **(2) Supplementary Information**

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

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

### **3. Consolidated Financial Statements**

#### **(1) Consolidated Balance Sheets**

As of March 31 and December 31, 2016

	Millions of yen	
	March 31, 2016	December 31, 2016
<b>ASSETS</b>		
Current Assets:		
Cash and time deposits	597,048	645,611
Notes and accounts receivable-trade	268,905	295,193
Securities	236,486	186,514
Inventories	281,013	251,492
Other	84,020	78,393
Less: Allowance for doubtful accounts	(14,840)	(17,283)
Total current assets	1,452,633	1,439,922
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	410,322	388,656
Other, net	394,649	353,503
Total property, plant and equipment	804,972	742,160
Intangible assets	13,152	10,826
Investments and other assets:		
Investments and other assets	241,135	257,589
Less: Allowance for doubtful accounts	(1,807)	(2,163)
Total investments and other assets	239,327	255,426
Total fixed assets	1,057,451	1,008,412
<b>TOTAL ASSETS</b>	<b>2,510,085</b>	<b>2,448,335</b>



LIABILITIES	Millions of yen	
	March 31, 2016	December 31, 2016
Current Liabilities:		
Notes and accounts payable-trade	115,557	113,636
Short-term borrowings	7,873	11,238
Accrued income taxes	29,519	15,664
Allowances	3,174	3,035
Other	125,828	141,138
Total current liabilities	281,954	284,713
Long-term Liabilities:		
Long-term debt	5,288	1,232
Net defined benefit liability	33,319	32,036
Other	109,056	96,150
Total long-term liabilities	147,665	129,419
TOTAL LIABILITIES	429,619	414,132
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,759	129,239
Retained earnings	1,731,042	1,817,287
Less: Treasury stock, at cost	(33,407)	(32,173)
Total stockholders' equity	1,945,813	2,033,774
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	13,780	23,189
Deferred gains (losses) on hedges	1,611	(1,076)
Foreign currency translation adjustments	68,566	(70,438)
Remeasurements of defined benefit plans	(1,480)	(928)
Total accumulated other comprehensive income	82,478	(49,253)
Share Subscription Rights	237	202
Non-Controlling Interests in Consolidated Subsidiaries	51,936	49,478
TOTAL NET ASSETS	2,080,465	2,034,202
TOTAL LIABILITIES AND NET ASSETS	2,510,085	2,448,335

## (2) Consolidated Statements of Income and Statements of Comprehensive Income

### Consolidated Statements of Income

For the first three quarters ended December 31, 2015 and 2016

	Millions of yen	
	April 1, 2015 - December 31, 2015	April 1, 2016 - December 31, 2016
Net sales	975,914	922,228
Cost of sales	702,597	642,409
Gross profit	273,317	279,818
Selling, general and administrative expenses	110,890	98,716
Operating income	162,427	181,101
Non-operating income:		
Interest income	2,902	3,553
Dividend income	4,308	1,686
Equity in earnings of affiliates	2,279	2,094
Other income	6,625	2,159
Total non-operating income	16,115	9,495
Non-operating expenses:		
Foreign exchange loss	-	2,533
Other expenses	7,807	3,027
Total non-operating expenses	7,807	5,560
Ordinary income	170,736	185,036
Income before income taxes and non-controlling interests	170,736	185,036
Income taxes:		
Current	57,161	43,514
Deferred	(4,378)	4,402
Total income taxes	52,782	47,917
Profit	117,954	137,119
Profit attributable to non-controlling interests	1,534	1,886
Profit attributable to owners of parent	116,419	135,232

**Consolidated Statements of Comprehensive Income**  
For the first three quarters ended December 31, 2015 and 2016

	Millions of yen	
	April 1, 2015 - December 31, 2015	April 1, 2016 - December 31, 2016
Profit	117,954	137,119
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	(634)	9,449
Deferred gains (losses) on hedges	656	(2,681)
Foreign currency translation adjustments	(37,523)	(142,168)
Remeasurements of defined benefit plans	1,166	551
Share of other comprehensive income of affiliates accounted for using the equity method	(115)	(327)
Total other comprehensive income	(36,449)	(135,176)
Comprehensive income	81,504	1,942
(Breakdown)		
Comprehensive income attributable to owners of parent	81,569	3,500
Comprehensive income attributable to non-controlling interests	(65)	(1,557)

### (3) Notes to Consolidated Financial Statements

#### (Notes on Premise of Going Concern)

Not applicable

#### (Notes on Significant Changes in Stockholders' Equity)

Not applicable

#### (Segment Information)

Information on sales and income (loss) of reportable segments

1) For the first three quarters ended December 31, 2016 (From April 1, 2016 to December 31, 2016)

	Millions of yen								Figures in consolidated financial statements
	April 1, 2016 - December 31, 2016								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services* <sup>1</sup>	Total	Adjustment* <sup>2</sup>	
Sales to outside customers	308,167	133,451	81,967	186,116	138,863	73,661	922,228	-	922,228
Intersegment sales	2,119	4,507	10,198	1	5,094	51,246	73,168	(73,168)	-
<b>Total</b>	<b>310,286</b>	<b>137,958</b>	<b>92,166</b>	<b>186,117</b>	<b>143,958</b>	<b>124,908</b>	<b>995,397</b>	<b>(73,168)</b>	<b>922,228</b>
Segment income (Operating income)	44,305	31,603	16,966	39,515	41,399	7,356	181,147	(45)	181,101

2) For the first three quarters ended December 31, 2015 (From April 1, 2015 to December 31, 2015)

	Millions of yen								Figures in consolidated financial statements
	April 1, 2015 - December 31, 2015								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services* <sup>1</sup>	Total	Adjustment* <sup>2</sup>	
Sales to outside customers	338,903	141,953	89,248	188,665	139,818	77,324	975,914	-	975,914
Intersegment sales	2,482	4,419	9,747	3	6,329	50,976	73,958	(73,958)	-
<b>Total</b>	<b>341,386</b>	<b>146,373</b>	<b>98,995</b>	<b>188,669</b>	<b>146,147</b>	<b>128,300</b>	<b>1,049,873</b>	<b>(73,958)</b>	<b>975,914</b>
Segment income (Operating income)	36,612	31,400	14,328	37,364	38,255	4,126	162,088	338	162,427

\*<sup>1</sup> Starting from this third quarter of FY 2017, the name of this business segment was changed from the previous name of "Diversified Business" to "Processing, Trading & Specialized Services Business." This change was made in order to make clearer the contents of this business segment. There is no change in the products and services that come under this business segment.

\*<sup>2</sup> Elimination of intersegment transactions

The main products and services of each segment are as follows:

Segment	Main products and services
PVC/Chlor-Alkali Business	Polyvinyl chloride, Caustic soda, Methanol, Chloromethane
Silicones Business	Silicones
Specialty Chemicals Business	Cellulose derivatives, Silicon metal, Polyvinyl alcohol, Synthetic pheromones
Semiconductor Silicon Business	Semiconductor silicon
Electronics & Functional Materials Business	Rare earth magnets for electronics industry and general applications, Semiconductor encapsulating materials, Packaging materials for LEDs, Photoresists, Photomask blanks, Synthetic quartz products, Liquid fluoroelastomers, Pellicles
Processing, Trading & Specialized Services Business	Processed plastics, Export of plant equipment, Technology licensing, International trade, Engineering

## Appendix: Quarterly Operating Results

(Billions of yen)

	FY 2016 April 1, 2015 - March 31, 2016					FY 2017 April 1, 2016 - March 31, 2017			
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	Total
	Net Sales	314.0	331.7	330.0	303.8	1,279.8	300.7	312.3	309.2
PVC / Chlor-Alkali	102.8	117.7	118.2	102.7	441.7	93.9	107.8	106.4	308.1
Silicones	46.8	48.3	46.8	45.7	187.7	45.4	44.5	43.4	133.4
Specialty Chemicals	29.7	30.0	29.5	27.6	116.8	28.5	27.0	26.4	81.9
Semiconductor Silicon	62.6	63.4	62.5	54.6	243.3	62.5	60.7	62.7	186.1
Electronics & Functional Materials	48.5	46.3	44.9	46.9	186.7	46.9	46.3	45.6	138.8
Processing, Trading & Specialized Services*	23.4	25.9	27.9	26.0	103.4	23.4	25.8	24.4	73.6
Operating Income	51.4	58.4	52.6	46.0	208.5	60.0	62.0	59.0	181.1
PVC / Chlor-Alkali	10.6	13.3	12.6	8.0	44.6	13.2	16.9	14.1	44.3
Silicones	10.2	10.3	10.8	10.1	41.5	10.2	10.3	11.0	31.6
Specialty Chemicals	4.7	5.1	4.4	3.8	18.1	6.3	5.6	4.9	16.9
Semiconductor Silicon	11.8	15.1	10.3	9.5	46.9	13.6	12.4	13.3	39.5
Electronics & Functional Materials	12.3	12.7	13.1	13.1	51.4	14.0	13.8	13.5	41.3
Processing, Trading & Specialized Services*	1.3	1.7	1.0	1.5	5.6	2.6	2.6	2.0	7.3
Ordinary Income	55.0	58.0	57.7	49.2	220.0	57.8	60.3	66.8	185.0
Profit Attributable to Owners of Parent	37.6	39.0	39.7	32.4	148.8	45.3	42.1	47.7	135.2
Depreciation and Amortization	25.4	25.5	26.2	23.1	100.4	20.7	23.0	23.7	67.5
Capital Expenditures	24.4	30.4	42.0	37.7	134.7	27.1	33.4	32.6	93.2
R&D Costs	13.8	15.2	14.2	9.9	53.1	12.5	10.9	13.1	36.6
Overseas Sales	228.9	247.6	246.2	225.6	948.3	215.7	229.2	223.3	668.3
Ratio of Overseas Sales to Net Sales	73%	75%	75%	74%	74%	72%	73%	72%	72%

(Note) Amounts are stated in billions of yen by discarding fractional amounts less than 0.1 billion.

\* Starting from this third quarter of FY 2017, the name of this business segment was changed from the previous name of "Diversified Business" to "Processing, Trading & Specialized Services Business." This change was made in order to make clearer the contents of this business segment. There is no change in the products and services that come under this business segment.