

Press Release

Consolidated Financial Results for the First Three Quarters Ended December 31, 2017



Shin-Etsu Chemical Co., Ltd.

(JP GAAP)

January 26, 2018

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, 2018

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, 2017

(From April 1, 2017 to December 31, 2017)

(1) Results of consolidated operations

(Millions of yen)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
April - December 2017	1,061,100	15.1%	243,330	34.4%	250,238	35.2%	173,332	28.2%
April - December 2016	922,228	(5.5%)	181,101	11.5%	185,036	8.4%	135,232	16.2%

(Note) Comprehensive income (Millions of yen) From April 1, 2017 to December 31, 2017: 177,317 [—%]

From April 1, 2016 to December 31, 2016: 1,942 [(97.6%)]

	Basic earnings per share (yen)	Diluted earnings per share (yen)
April - December 2017	406.47	406.35
April - December 2016	317.44	317.43

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (yen)
December 31, 2017	2,797,118	2,314,870	80.6%	5,286.14
March 31, 2017	2,655,636	2,190,082	80.3%	5,002.16

(Note) Stockholders' equity (Millions of yen) As of December 31, 2017: 2,254,544 As of March 31, 2017: 2,132,832

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 st quarter	2 nd quarter	3 rd quarter	Year-end	Fiscal year
April 2016 - March 2017	-	60.00	-	60.00	120.00
April 2017 - March 2018	-	65.00	-		
April 2017 - March 2018 (forecast)				75.00	140.00

(Note) Revision of the latest forecast of cash dividends: Yes

3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2018

(From April 1, 2017 to March 31, 2018)

(Millions of yen)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share (yen)
Fiscal year	1,420,000	14.8%	323,000	35.4%	335,000	38.4%	227,000	29.0%	532.31

(Note) Revision of the latest forecast of consolidated operating performance: Yes

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, 2017: 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, 2017.

(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: No

Changes in accounting policies other than the above: No

Changes in accounting estimates: No

Retrospective restatement: No

(4) Number of shares outstanding (common stock)

	December 31, 2017	March 31, 2017
Number of shares outstanding at period end	432,106,693	432,106,693
Number of shares of treasury stock at period end	5,605,193	5,724,030
	April - December 2017	April - December 2016
Weighted-average number of shares outstanding over period	426,439,862	426,007,247

(Information regarding quarterly review procedures)

The financial information contained in this report is not subject to quarterly review procedures by independent auditors.

(Attached Documents)

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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 2018 (April 1, 2017 to December 31, 2017), it was on a gradual recovery track. In the U.S., a steady recovery of the economy continued. In Japan and Europe, as well as in the area of the emerging economies, these economies also made a gradual recovery. In China, due to the effect of various policies, a movement toward economic recovery continued.

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, the business results for the first three quarters of FY 2018 are as follows:

	April - December 2016 (Millions of yen)	April - December 2017 (Millions of yen)	Increase / (Decrease)
Net sales	922,228	1,061,100	15.1%
Operating income	181,101	243,330	34.4%
Ordinary income	185,036	250,238	35.2%
Profit attributable to owners of parent	135,232	173,332	28.2%

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

PVC/Chlor-Alkali Business

	April - December 2016 (Millions of yen)	April - December 2017 (Millions of yen)	Increase / (Decrease)
Net sales	308,167	365,001	18.4%
Operating income	44,305	65,189	47.1%

With regard to our PVC business, because Shintech in the U.S., making good use of its expanded production capacity, made aggressive sales efforts both within and outside of North America, it continued a high level of shipments and greatly increased its business results. Furthermore, the performance of our business bases in Japan and Europe both continued to be firm and contributed to the Group's profit.

Silicones Business

	April - December 2016 (Millions of yen)	April - December 2017 (Millions of yen)	Increase / (Decrease)
Net sales	133,451	153,026	14.7%
Operating income	31,603	38,452	21.7%

With regard to the silicones business, in Japan, shipments of product applications for cosmetics, automobiles and electronics equipment continued to be firm. Globally as well, shipments of both general-purpose products and functional products for the United States, Europe and Asia did well.

Specialty Chemicals Business

	April - December 2016 (Millions of yen)	April - December 2017 (Millions of yen)	Increase / (Decrease)
Net sales	81,967	88,224	7.6%
Operating income	16,966	19,406	14.4%

With regard to cellulose derivatives, construction materials products, pharmaceutical-use products and coating products continued to perform steadily. POVAL products also generally continued firm shipments.

Semiconductor Silicon Business

	April - December 2016 (Millions of yen)	April - December 2017 (Millions of yen)	Increase / (Decrease)
Net sales	186,116	225,512	21.2%
Operating income	39,515	66,244	67.6%

With regard to semiconductor silicon, driven by robust semiconductor device demand, silicon wafers in all diameters, starting with 300mm wafers, continued a high level of shipments.

Electronics & Functional Materials Business

	April - December 2016 (Millions of yen)	April - December 2017 (Millions of yen)	Increase / (Decrease)
Net sales	138,863	154,193	11.0%
Operating income	41,399	45,802	10.6%

With regard to the rare earth magnets business, products for applications in automobiles, including those for hybrid cars, and also for industrial equipment continued good shipments. With regard to the photoresist products business, KrF resists, ArF resists and trilayer materials all increased, and photomask blanks also continued to be firm. The business of optical fiber preform increased its sales, which was contributed to also by the production of a new joint venture company in China. The business of materials for LED packaging also had firm shipments.

Processing, Trading & Specialized Services Business

	April - December 2016 (Millions of yen)	April - December 2017 (Millions of yen)	Increase / (Decrease)
Net sales	73,661	75,141	2.0%
Operating income	7,356	8,346	13.5%

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 it does not allow for optimism.

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 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 we 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 and will strive to assure the sustainable growth of the company businesses.

With regard to the consolidated business forecast, based on the results achieved during the first three quarters of FY 2018, as mentioned in "3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2018" included in the cover page of this summary of the Shin-Etsu Group's financial results, we have made a revision to the business forecast we announced on July 25, 2017. In addition, as stated in "2. Cash Dividends," we have made an upward revision to our dividend forecast.

For details, please refer to the "Notice Regarding Revisions of Operating Performance and Dividend Forecasts," which was announced today (January 26, 2018).

With regard to the impact of the revaluation of deferred tax assets and liabilities following the reduction in the U.S. corporate tax rate, this matter is currently being closely examined and the impact of this tax change is not reflected in this revision of the operating performance forecast.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

As of March 31 and December 31, 2017

	Millions of yen	
	March 31, 2017	December 31, 2017
ASSETS		
Current Assets:		
Cash and time deposits	752,675	787,259
Notes and accounts receivable-trade	287,853	344,368
Securities	186,591	186,842
Inventories	267,157	267,777
Other	69,878	69,803
Less: Allowance for doubtful accounts	(14,549)	(16,403)
Total current assets	1,549,607	1,639,647
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	437,775	436,282
Other, net	408,795	439,610
Total property, plant and equipment	846,570	875,892
Intangible assets	10,229	9,888
Investments and other assets:		
Investments and other assets	251,068	274,019
Less: Allowance for doubtful accounts	(1,840)	(2,329)
Total investments and other assets	249,228	271,690
Total fixed assets	1,106,028	1,157,471
TOTAL ASSETS	2,655,636	2,797,118

Millions of yen

	March 31, 2017	December 31, 2017
LIABILITIES		
Current Liabilities:		
Notes and accounts payable-trade	123,823	129,250
Short-term borrowings	12,788	7,086
Accrued income taxes	32,711	35,639
Allowances	3,511	3,487
Other	144,164	151,607
Total current liabilities	317,000	327,072
Long-term Liabilities:		
Long-term debt	1,578	8,605
Net defined benefit liability	35,809	39,724
Other	111,165	106,845
Total long-term liabilities	148,553	155,175
TOTAL LIABILITIES	465,553	482,248
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	129,626	129,879
Retained earnings	1,857,857	1,977,877
Less: Treasury stock, at cost	(31,213)	(30,576)
Total stockholders' equity	2,075,690	2,196,599
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	22,887	32,003
Deferred gains (losses) on hedges	862	407
Foreign currency translation adjustments	35,154	26,872
Remeasurements of defined benefit plans	(1,761)	(1,338)
Total accumulated other comprehensive income	57,142	57,945
Share subscription rights	152	543
Non-controlling interests in consolidated subsidiaries	57,096	59,781
TOTAL NET ASSETS	2,190,082	2,314,870
TOTAL LIABILITIES AND NET ASSETS	2,655,636	2,797,118

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

Consolidated Statements of Income

For the first three quarters ended December 31, 2016 and 2017

	Millions of yen	
	April 1, 2016 - December 31, 2016	April 1, 2017 - December 31, 2017
Net sales	922,228	1,061,100
Cost of sales	642,409	709,634
Gross profit	279,818	351,466
Selling, general and administrative expenses	98,716	108,135
Operating income	181,101	243,330
Non-operating income:		
Interest income	3,553	4,482
Dividend income	1,686	1,906
Equity in earnings of affiliates	2,094	2,861
Other income	2,159	1,505
Total non-operating income	9,495	10,756
Non-operating expenses:		
Loss on retirement of fixed assets	355	1,314
Other expenses	5,204	2,533
Total non-operating expenses	5,560	3,848
Ordinary income	185,036	250,238
Income before income taxes and non-controlling interests	185,036	250,238
Income taxes:		
Current	43,514	78,083
Deferred	4,402	(3,975)
Total income taxes	47,917	74,107
Profit	137,119	176,131
Profit attributable to non-controlling interests	1,886	2,798
Profit attributable to owners of parent	135,232	173,332

Consolidated Statements of Comprehensive Income

For the first three quarters ended December 31, 2016 and 2017

	Millions of yen	
	April 1, 2016 - December 31, 2016	April 1, 2017 - December 31, 2017
Profit	137,119	176,131
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	9,449	9,147
Deferred gains (losses) on hedges	(2,681)	(449)
Foreign currency translation adjustments	(142,168)	(8,222)
Remeasurements of defined benefit plans	551	416
Share of other comprehensive income of affiliates accounted for using the equity method	(327)	294
Total other comprehensive income	(135,176)	1,186
Comprehensive income	1,942	177,317
(Breakdown)		
Comprehensive income attributable to owners of parent	3,500	174,135
Comprehensive income attributable to non-controlling interests	(1,557)	3,181

(3) Notes to Consolidated Financial Statements
(Segment Information)

Information on sales, income (loss) and other items of reportable segments

1) For the first three quarters ended December 31, 2017 (From April 1, 2017 to December 31, 2017)

	Millions of yen								Figures in Consolidated financial statements
	April 1, 2017 - December 31, 2017								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services	Total	Adjustment*	
Sales to outside customers	365,001	153,026	88,224	225,512	154,193	75,141	1,061,100	-	1,061,100
Intersegment sales	2,496	4,447	11,816	1	5,253	60,690	84,706	(84,706)	-
Total	367,498	157,474	100,041	225,513	159,447	135,832	1,145,807	(84,706)	1,061,100
Segment income (Operating income)	65,189	38,452	19,406	66,244	45,802	8,346	243,442	(111)	243,330

*Elimination of intersegment transactions

2) 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	Total	Adjustment*	
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)	-
Total	310,286	137,958	92,166	186,117	143,958	124,908	995,397	(73,168)	922,228
Segment income (Operating income)	44,305	31,603	16,966	39,515	41,399	7,356	181,147	(45)	181,101

*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 2017 April 1, 2016 - March 31, 2017					FY 2018 April 1, 2017 - March 31, 2018			
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	Total
Net Sales	300.7	312.3	309.2	315.1	1,237.4	336.2	358.6	366.1	1,061.1
PVC / Chlor-Alkali	93.9	107.8	106.4	103.4	411.6	113.5	125.7	125.6	365.0
Silicones	45.4	44.5	43.4	45.8	179.2	49.9	50.9	52.1	153.0
Specialty Chemicals	28.5	27.0	26.4	26.0	108.0	28.3	28.6	31.2	88.2
Semiconductor Silicon	62.5	60.7	62.7	66.4	252.6	71.4	75.3	78.6	225.5
Electronics & Functional Materials	46.9	46.3	45.6	49.0	187.9	49.1	52.4	52.5	154.1
Processing, Trading & Specialized Services	23.4	25.8	24.4	24.2	97.9	23.7	25.5	25.8	75.1
Operating Income	60.0	62.0	59.0	57.5	238.6	74.1	82.1	87.0	243.3
PVC / Chlor-Alkali	13.2	16.9	14.1	8.8	53.1	17.6	22.8	24.7	65.1
Silicones	10.2	10.3	11.0	10.9	42.5	12.1	12.7	13.5	38.4
Specialty Chemicals	6.3	5.6	4.9	5.2	22.2	6.5	6.5	6.3	19.4
Semiconductor Silicon	13.6	12.4	13.3	16.4	55.9	19.7	21.9	24.5	66.2
Electronics & Functional Materials	14.0	13.8	13.5	13.8	55.2	15.0	15.3	15.3	45.8
Processing, Trading & Specialized Services	2.6	2.6	2.0	2.2	9.5	2.8	2.9	2.5	8.3
Ordinary Income	57.8	60.3	66.8	57.0	242.1	77.0	83.1	90.0	250.2
Profit Attributable to Owners of Parent	45.3	42.1	47.7	40.6	175.9	53.7	57.0	62.6	173.3
Depreciation and Amortization	20.7	23.0	23.7	25.5	93.0	24.3	26.4	28.3	79.1
Capital Expenditures	27.1	33.4	32.6	52.4	145.6	35.6	38.9	44.0	118.5
R&D Costs	12.5	10.9	13.1	12.3	49.0	12.2	11.4	14.4	38.1
Overseas Sales	215.7	229.2	223.3	227.0	895.4	246.3	266.8	269.9	783.1
Ratio of Overseas Sales to Net Sales	72%	73%	72%	72%	72%	73%	74%	74%	74%

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