

Press Release

Consolidated Financial Results for the First Three Quarters Ended December 31, 2018



Shin-Etsu Chemical Co., Ltd.

(JP GAAP)

January 29, 2019

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

Listing Stock Exchange: Tokyo and Nagoya

Representative: Yasuhiko Saitoh (Mr.) Representative Director/President

Personnel to contact: Toshiyuki Kasahara (Mr.) Director, General Manager of Finance & Accounting Department

Tel: +81-3-3246-5051

Date of the filing of the quarterly consolidated financial statements: February 13, 2019

Date of dividend payment: -

Preparation of supplemental explanatory materials: Yes

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, 2018

(From April 1, 2018 to December 31, 2018)

(1) Results of consolidated operations

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
April - December 2018	1,206,842	13.7%	324,622	33.4%	329,403	31.6%	242,127	39.7%
April - December 2017	1,061,100	15.1%	243,330	34.4%	250,238	35.2%	173,332	28.2%

(Note) Comprehensive income (Millions of yen) From April 1, 2018 to December 31, 2018: 239,069 [34.8%]

From April 1, 2017 to December 31, 2017: 177,317 [-%]

	Net income per share (yen)	Diluted net income per share (yen)
April - December 2018	567.56	567.49
April - December 2017	406.47	406.35

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (yen)
December 31, 2018	3,049,807	2,580,714	82.4%	5,893.12
March 31, 2018	2,903,137	2,413,025	81.0%	5,511.98

(Note) Stockholders' equity (Millions of yen) As of December 31, 2018: 2,514,231 As of March 31, 2018: 2,351,242

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 2017 - March 2018	-	65.00	-	75.00	140.00
April 2018 - March 2019	-	100.00	-		
April 2018 - March 2019 (forecast)				100.00	200.00

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

3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2019

(From April 1, 2018 to March 31, 2019)

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share (yen)
Fiscal year	1,560,000	8.2%	390,000	15.8%	400,000	17.5%	290,000	8.9%	679.80

(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, 2018: 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, 2018.

(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, 2018	March 31, 2018
Number of shares outstanding at period end	427,606,693	432,106,693
Number of shares of treasury stock at period end	968,050	5,536,807
	April - December 2018	April - December 2017
Weighted-average number of shares outstanding over period	426,609,237	426,439,862

(Information regarding quarterly review procedures)

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

(Attached Documents)

INDEX

1. Qualitative Information Regarding Quarterly Results.....	2
(1) Explanation Regarding the Operating Results	2
(2) Explanation Regarding Information Relevant to Forecasts such as Consolidated Business Forecast.....	4
2. Notes to Summary Information	4
(Additional information)	
3. Consolidated Financial Statements.....	5
(1) Consolidated Balance Sheets	5
(2) Consolidated Statements of Income and Statements of Comprehensive Income	7
(3) Notes to Consolidated Financial Statements.....	9
(Notes on Premise of Going Concern)	
(Notes on Significant Changes in Stockholders' Equity)	
(Segment Information)	
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 2019 (April 1, 2018 to December 31, 2018), in the United States, the steady recovery of its economy continued. In Japan and Europe, as well as in the areas of the emerging economies, these economies also experienced a gradual recovery. In China, a change in tone was seen in the economy.

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; (3) to continue our policies of precisely keeping scheduled delivery times and carrying out strict cost management; and at the same time (4) to appropriately make investments in order to meet increases in demand.

As a result, the business results for the first three quarters of FY 2019 are as follows:

	April - December 2017 (Millions of yen)	April - December 2018 (Millions of yen)	Increase / (Decrease)
Net sales	1,061,100	1,206,842	13.7%
Operating income	243,330	324,622	33.4%
Ordinary income	250,238	329,403	31.6%
Net income attributable to owners of parent	173,332	242,127	39.7%

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

PVC/Chlor-Alkali Business

	April - December 2017 (Millions of yen)	April - December 2018 (Millions of yen)	Increase / (Decrease)
Net sales	365,001	399,350	9.4%
Operating income	65,189	90,924	39.5%

With regard to the PVC/Chlor-Alkali business, at Shintech in the U.S. both PVC and caustic soda continued high levels of shipments, and with the good supply-demand environment for both products, Shintech was able to greatly increase its business results. Because market conditions in Europe continued to be steady, our European bases increased sales volume and did well. Shipments to overseas decreased at our bases in Japan due to the effects of the large-scale periodic maintenance held during the first quarter of this fiscal year.

Silicones Business

	April - December 2017 (Millions of yen)	April - December 2018 (Millions of yen)	Increase / (Decrease)
Net sales	153,026	173,698	13.5%
Operating income	38,452	45,838	19.2%

With regard to the silicones business, as a result of price adjustments made for both general-purpose and functional products and, at the same time, meeting strong worldwide demand by carrying out maximum production and selling it out, the segment's business results increased.

Specialty Chemicals Business

	April - December 2017 (Millions of yen)	April - December 2018 (Millions of yen)	Increase / (Decrease)
Net sales	88,224	92,302	4.6%
Operating income	19,406	20,984	8.1%

With regard to cellulose derivatives, in addition to pharmaceutical-use products continuing to have good shipments, construction materials products and coating products continued to perform steadily. Pheromone products and POVAL products and others also on the whole had firm shipments.

Semiconductor Silicon Business

	April - December 2017 (Millions of yen)	April - December 2018 (Millions of yen)	Increase / (Decrease)
Net sales	225,512	285,612	26.7%
Operating income	66,244	103,957	56.9%

With regard to the semiconductor silicon business, a high level of shipments continued and the implementation of a product price adjustment contributed as well, and as a result this segment's business results increased.

Electronics & Functional Materials Business

	April - December 2017 (Millions of yen)	April - December 2018 (Millions of yen)	Increase / (Decrease)
Net sales	154,193	172,685	12.0%
Operating income	45,802	52,487	14.6%

With regard to the rare earth magnets business, although since about November of last year inventory adjustments were seen in a part of the applications, products for applications in automobiles including those for hybrid cars resulted in continued good shipments. With regard to our photoresist products business, KrF resists, ArF resists and trilayer materials all continued to be firm. With regard to photomask blanks, in addition to our most advanced cutting-edge products, both our general-purpose products and leading-edge products increased sales. With regard to the business of optical fiber preform, although from about October of last year signs of a slowdown in optical fiber demand were seen, the sales of our joint-venture companies in China continued to be firm.

Processing, Trading & Specialized Services Business

	April - December 2017 (Millions of yen)	April - December 2018 (Millions of yen)	Increase / (Decrease)
Net sales	75,141	83,192	10.7%
Operating income	8,346	10,504	25.9%

Shin-Etsu Polymer Co., Ltd.'s business of semiconductor wafer-related containers maintained a high level of shipments and continued to do well.

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

Business Forecast

Although the world economy was generally doing well, there are many uncertain factors, such as the trend regarding trade issues, 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 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 take further steps to 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 continue to 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 need of our customers, the market and society over the long term.

In particular, in order to realize the sustainable development of human society and the improvement of its quality, while keeping down the environmental burden to the lowest limits, we firmly believe it is essential to maximize efficiency. Technologies such as those that process the proliferation of enormous amounts of data, realize driverless vehicles and other automated operations, and incorporate IoT, 5G and AI will be utilized for these purposes, and these technologies will certainly lead to the great progress of society. Toward the achievement of these ends, the Shin-Etsu Group will take the initiative and strive to play a very big role in this huge endeavor. Shin-Etsu will work to make sure that all our company's products will contribute to the achievement of these objectives, and to further these goals, we will strive to expeditiously realize the fruits of our development of new products. We will provide key valuable materials that will become known and highly evaluated because these Shin-Etsu Group's materials resulted in people's daily lives having gotten better and improved in quality, and they will have helped to resolve various significant issues of the market. This is the important role of the Shin-Etsu Group, and while carrying it out we will plan to achieve the sustainable growth of our company's business.

As mentioned in this summary of the Shin-Etsu Group's consolidated financial results "3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2019," we are not revising the upward revision of our business forecast that was made on October 26, 2018 after the announcement of the business forecast on July 25, 2018.

2. Notes to Summary Information

(Additional information)

We applied Accounting Standards Board of Japan ("ASBJ") Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting, etc., effective April 1, 2018.

Furthermore, we retrospectively applied these partial amendments to the consolidated financial statements as of March 31, 2018.

As a result, total assets and total liabilities decreased by ¥5,190 million, and the stockholders' equity ratio increased by 0.2 percentage points.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

As of March 31 and December 31, 2018

	Millions of yen	
	March 31, 2018	December 31, 2018
ASSETS		
Current Assets:		
Cash and time deposits	854,506	877,599
Notes and accounts receivable-trade	332,880	368,431
Securities	197,339	197,454
Inventories	282,078	301,915
Other	48,313	51,234
Less: Allowance for doubtful accounts	(12,201)	(8,704)
Total current assets	1,702,916	1,787,931
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	454,846	447,777
Other, net	444,881	523,366
Total property, plant and equipment	899,728	971,144
Intangible assets	9,405	8,637
Investments and other assets:		
Investments and other assets	293,283	284,883
Less: Allowance for doubtful accounts	(2,197)	(2,789)
Total investments and other assets	291,086	282,093
Total fixed assets	1,200,220	1,261,876
TOTAL ASSETS	2,903,137	3,049,807

Millions of yen

	March 31, 2018	December 31, 2018
LIABILITIES		
Current Liabilities:		
Notes and accounts payable-trade	136,834	143,541
Short-term borrowings	7,094	6,537
Accrued income taxes	58,972	29,762
Allowances	3,821	3,861
Other	171,699	173,639
Total current liabilities	378,421	357,342
Long-term Liabilities:		
Long-term debt	8,430	8,582
Net defined benefit liability	32,282	31,529
Other	70,976	71,638
Total long-term liabilities	111,690	111,750
TOTAL LIABILITIES	490,112	469,092
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	129,937	128,298
Retained earnings	2,070,779	2,216,748
Less: Treasury stock, at cost	(30,207)	(5,286)
Total stockholders' equity	2,289,929	2,459,180
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	26,446	19,512
Deferred gains (losses) on hedges	1,671	1,333
Foreign currency translation adjustments	34,611	34,665
Remeasurements of defined benefit plans	(1,416)	(459)
Total accumulated other comprehensive income	61,313	55,051
Share subscription rights	524	1,150
Non-controlling interests in consolidated subsidiaries	61,258	65,332
TOTAL NET ASSETS	2,413,025	2,580,714
TOTAL LIABILITIES AND NET ASSETS	2,903,137	3,049,807

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

Consolidated Statements of Income

For the first three quarters ended December 31, 2017 and 2018

	Millions of yen	
	April 1, 2017 - December 31, 2017	April 1, 2018 - December 31, 2018
Net sales	1,061,100	1,206,842
Cost of sales	709,634	772,039
Gross profit	351,466	434,802
Selling, general and administrative expenses	108,135	110,179
Operating income	243,330	324,622
Non-operating income:		
Interest income	4,482	6,369
Equity in earnings of affiliates	2,861	3,616
Other income	3,412	5,325
Total non-operating income	10,756	15,311
Non-operating expenses:	3,848	10,530
Ordinary income	250,238	329,403
Income before income taxes and non-controlling interests	250,238	329,403
Income taxes:		
Current	78,083	83,965
Deferred	(3,975)	(688)
Total income taxes	74,107	83,277
Net income	176,131	246,125
Net income attributable to non-controlling interests	2,798	3,997
Net income attributable to owners of parent	173,332	242,127

Consolidated Statements of Comprehensive Income

For the first three quarters ended December 31, 2017 and 2018

	Millions of yen	
	April 1, 2017 - December 31, 2017	April 1, 2018 - December 31, 2018
Net income	176,131	246,125
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	9,147	(6,985)
Deferred gains (losses) on hedges	(449)	(321)
Foreign currency translation adjustments	(8,222)	(556)
Remeasurements of defined benefit plans	416	951
Share of other comprehensive income of affiliates accounted for using the equity method	294	(144)
Total other comprehensive income	1,186	(7,056)
Comprehensive income	177,317	239,069
(Breakdown)		
Comprehensive income attributable to owners of parent	174,135	235,865
Comprehensive income attributable to non-controlling interests	3,181	3,203

(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, income (loss) and other items of reportable segments

1) For the first three quarters ended December 31, 2018 (From April 1, 2018 to December 31, 2018)

	Millions of yen							Adjustment*	Figures in consolidated financial statements
	April 1, 2018 – December 31, 2018								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services	Total		
Sales to outside customers	399,350	173,698	92,302	285,612	172,685	83,192	1,206,842	-	1,206,842
Intersegment sales	2,654	5,404	15,598	9	6,786	80,574	111,027	(111,027)	-
Total	402,004	179,103	107,901	285,622	179,471	163,766	1,317,869	(111,027)	1,206,842
Segment income (Operating income)	90,924	45,838	20,984	103,957	52,487	10,504	324,697	(74)	324,622

*Elimination of intersegment transactions

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

	Millions of yen							Adjustment*	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		
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

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, Vinyl Chloride-Vinyl Acetate Copolymer Resin
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 2018 April 1, 2017 - March 31, 2018					FY 2019 April 1, 2018 - March 31, 2019			
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	Total
Net Sales	336.2	358.6	366.1	380.3	1,441.4	383.6	408.0	415.1	1,206.8
PVC / Chlor-Alkali	113.5	125.7	125.6	136.3	501.3	123.1	138.7	137.4	399.3
Silicones	49.9	50.9	52.1	53.2	206.2	55.6	58.2	59.8	173.6
Specialty Chemicals	28.3	28.6	31.2	28.9	117.1	30.5	29.2	32.5	92.3
Semiconductor Silicon	71.4	75.3	78.6	82.8	308.3	90.9	96.4	98.1	285.6
Electronics & Functional Materials	49.1	52.4	52.5	53.2	207.4	56.0	58.8	57.7	172.6
Processing, Trading & Specialized Services	23.7	25.5	25.8	25.6	100.7	27.2	26.5	29.4	83.1
Operating Income	74.1	82.1	87.0	93.4	336.8	95.4	113.8	115.3	324.6
PVC / Chlor-Alkali	17.6	22.8	24.7	28.0	93.2	26.3	33.3	31.2	90.9
Silicones	12.1	12.7	13.5	13.5	51.9	13.5	15.5	16.7	45.8
Specialty Chemicals	6.5	6.5	6.3	6.3	25.7	6.8	6.6	7.5	20.9
Semiconductor Silicon	19.7	21.9	24.5	26.7	92.9	30.0	36.6	37.3	103.9
Electronics & Functional Materials	15.0	15.3	15.3	15.8	61.6	16.0	18.1	18.3	52.4
Processing, Trading & Specialized Services	2.8	2.9	2.5	3.1	11.4	3.0	3.4	4.0	10.5
Ordinary Income	77.0	83.1	90.0	90.0	340.3	99.4	117.6	112.2	329.4
Net Income Attributable to Owners of Parent	53.7	57.0	62.6	92.9*	266.2*	73.7	85.0	83.3	242.1
Depreciation and Amortization	24.3	26.4	28.3	32.8	112.0	29.0	32.8	35.4	97.2
Capital Expenditures	35.6	38.9	44.0	57.7	176.2	44.9	52.8	66.1	163.8
R&D Costs	12.2	11.4	14.4	13.6	51.7	13.7	13.0	14.5	41.3
Overseas Sales	246.3	266.8	269.9	284.4	1,067.6	278.7	302.2	306.8	887.8
Ratio of Overseas Sales to Net Sales	73%	74%	74%	75%	74%	73%	74%	74%	74%

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

* Net Income Attributable to Owners of Parent in FY2018 4Q and FY2018 Total includes ¥29.8 billion (benefit) as a result of the revaluation of deferred tax assets and liabilities following the enactment of tax reform legislation in the United States.