

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: August 10, 2016

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 Quarter Ended June 30, 2016**

(From April 1, 2016 to June 30, 2016)

**(1) Results of consolidated operations**

(Millions of yen)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
April - June 2016	300,716	(4.2%)	60,027	16.8%	57,839	5.1%	45,309	20.4%
April - June 2015	314,043	6.6%	51,410	5.7%	55,008	11.0%	37,630	14.3%

(Note) Comprehensive income (Millions of yen) From April 1, 2016 to June 30, 2016: (4,593) [—%]  
From April 1, 2015 to June 30, 2015: 21,817 [16.3%]

	Basic earnings per share (yen)	Diluted earnings per share (yen)
April - June 2016	106.37	106.36
April - June 2015	88.35	88.34

**(2) Consolidated financial position**

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (yen)
June 30, 2016	2,443,936	2,051,928	81.9%	4,696.03
March 31, 2016	2,510,085	2,080,465	80.8%	4,761.48

(Note) Stockholders' equity (Millions of yen) As of June 30, 2016: 2,000,409 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	-				
April 2016 - March 2017 (forecast)		55.00	-	55.00	110.00

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

**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)
First half	590,000	(8.6%)	115,000	4.7%	115,000	1.8%	82,000	7.0%	192.50
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: 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.

#### **4. Notes**

**(1) Changes in significant subsidiaries during the first quarter ended June 30, 2016: No**

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first quarter ended June 30, 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” on page 5 for further details.

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

	June 30, 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	6,128,018	6,127,692
	April - June 2016	April - June 2015
Weighted-average number of shares outstanding over period	425,978,707	425,905,586

**(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)**

**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. Other Information .....	5
(1) Changes in Accounting Policies Applied, Changes in Accounting Estimates and Retrospective Restatement .....	5
(2) Supplementary Information.....	5
3. Consolidated Financial Statements .....	6
(1) Consolidated Balance Sheets .....	6
(2) Consolidated Statements of Income and Statements of Comprehensive Income .....	8
(3) Notes to Consolidated Financial Statements .....	10
(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 quarter of FY 2017 (April 1, 2016 to June 30, 2016), although in the United States the recovery of its economy continued, the European economy in part turned out to be lacking in strength and a slowdown tendency continued in the emerging economies, such as those in the Asian region. Although in Japan movement toward an improvement in the employment situation and a recovery in capital investment was seen, because of the tendency toward the appreciation of the Japanese yen, an unstable economic situation continued.

In these circumstances, the Shin-Etsu Group aggressively developed its sales activities to its wide range of customers around the world, and at the same time, we assiduously worked on developing products with special characteristics as well as enhancing our technologies and product quality. Furthermore, we focused on making full use at an early stage of our new global manufacturing plants, expanding our manufacturing bases both in Japan and globally and also on stably securing raw materials.

As a result, the consolidated business results for the first quarter of FY 2016 show that net sales decreased by 4.2% (¥13,327 million) compared with the same fiscal period last year to ¥300,716 million. Compared with the performance of the same fiscal period last year, operating income increased by 16.8% (¥8,617 million) to ¥60,027 million, ordinary income increased by 5.1% (¥2,831 million) to ¥57,839 million and profit attributable to owners of parent increased by 20.4% (¥7,679 million) to ¥45,309 million.

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

With regard to the PVC business, Shintech in the U.S. steadily captured the expanding domestic demand for PVC in the U.S. At the same time, Shintech continued to aggressively carry out sales to its worldwide customers, and its shipments continued to be firm. Shin-Etsu PVC in the Netherlands continued steady operation and shipments continued to be firm. In Japan, the PVC business was affected by a decrease in shipment volume due to periodic plant maintenance.

As a result, compared with the first quarter of FY 2016, net sales for this business segment decreased by 8.7% (¥8,975 million) to ¥93,922 million and operating income increased by 24.8% (¥2,632 million) to ¥13,238 million.

### **Silicones Business**

With regard to the silicones business, in Japan shipments of product applications for cosmetics and building materials continued to do well. Our silicones business outside of Japan continued to be firm in shipments for Europe, the U.S. and Southeast Asia.

As a result, compared with the first quarter of FY 2016, net sales for this business segment decreased by 2.9% (¥1,362 million) to ¥45,443 million and operating income increased by 0.3% (¥28 million) to ¥10,242 million.

### **Specialty Chemicals Business**

With regard to cellulose derivatives, in Japan, although sales of products for construction materials were slow, shipments of pharmaceutical-use products continued to do well. The business of SE Tylose in Germany continued to be steady, mainly for coatings products. In the silicon metal business of Simcoa Operations in Australia shipments continued to be firm.

As a result, compared with the first quarter of FY 2016, net sales for this business segment decreased by 4.1% (¥1,220 million) to ¥28,501 million and operating income increased by 34.0% (¥1,603 million) to ¥6,321 million.

### **Semiconductor Silicon Business**

With regard to semiconductor silicon, together with applications for memory devices continuing to be firm, logic devices entered on a recovery track, starting with applications for smartphones in China.

As a result, compared with the first quarter of FY 2016, net sales for this business segment decreased by 0.2% (¥107 million) to ¥62,530 million and operating income increased by 14.7% (¥1,751 million) to ¥13,640 million.

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

With regard to the rare earth magnets business, although products for applications in industrial equipment were slow, products for applications in automobiles continued to be firm, including those for hybrid cars. With regard to the photoresist products business, ArF resists and trilayer materials continued to be steady. Photomask blanks continued good shipments. The business of materials for LED packaging and optical fiber preform continued to be firm.

As a result, compared with the first quarter of FY 2016, net sales for this business segment decreased by 3.3% (¥1,599 million) to ¥46,912 million and operating income increased by 13.3% (¥1,640 million) to ¥14,001 million.

### **Diversified Business**

Shin-Etsu Polymer Co., Ltd.'s business of input devices for automobiles and semiconductor wafer-related containers continued to be firm. In addition, the engineering business of Shin-Etsu Engineering Co., Ltd. also did well.

As a result, compared with the first quarter of FY 2016, net sales for this business segment decreased by 0.3% (¥64 million) to ¥23,406 million and operating income increased by 96.7% (¥1,321 million) to ¥2,687 million.

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

### Business Forecast

With regard to the world economy, although an economic recovery is expected to continue in the U.S., in addition to the effects of the slowdown in emerging economies, there are concerns about such matters as the economic turmoil as a result of the United Kingdom leaving the EU and there are uncertainties about the future direction of the world economy. In Japan as well, the situation is such that it does not allow for optimism because of such concerns as the effects of the world economy's downward movement.

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 material prices and in market conditions as well as in 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 growth 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. Furthermore, we will strengthen each business by such means as further focusing on enhancing productivity and product quality. We will develop products that have special characteristics, and we will also strive to assure the stable securing of raw materials.

The forecast for FY 2017's consolidated operating performance is as mentioned below.

With regard to dividends, the forecast is ¥55 per share for both interim and year-end dividends, the same amount as for the corresponding period of the previous fiscal year.

The forecast of the total annual dividends for FY 2017 is ¥110 per share, the same amount as that for the previous fiscal year.

The forecasts of consolidated operating performance and dividends were released today in "Notice Regarding Operating Performance and Dividend Forecasts" as well.

(Millions of yen)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Basic earnings per share (yen)
First half	590,000 (8.6%)	115,000 4.7%	115,000 1.8%	82,000 7.0%	192.50
Fiscal year	1,180,000 (7.8%)	225,000 7.9%	230,000 4.5%	160,000 7.5%	375.61

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

(Note)

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. dollars and the yen; provided, however, that such factors as may affect results of operations are not limited to those enumerated above.

## **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 quarter 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 June 30, 2016

	Millions of yen	
	March 31, 2016	June 30, 2016
<b>ASSETS</b>		
Current Assets:		
Cash and time deposits	597,048	689,555
Notes and accounts receivable-trade	268,905	264,205
Securities	236,486	142,410
Inventories	281,013	266,793
Other	84,020	71,023
Less: Allowance for doubtful accounts	(14,840)	(13,133)
Total current assets	1,452,633	1,420,854
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	410,322	414,666
Other, net	394,649	364,029
Total property, plant and equipment	804,972	778,696
Intangible assets	13,152	12,488
Investments and other assets:		
Investments and other assets	241,135	233,556
Less: Allowance for doubtful accounts	(1,807)	(1,659)
Total investments and other assets	239,327	231,897
Total fixed assets	1,057,451	1,023,081
<b>TOTAL ASSETS</b>	<b>2,510,085</b>	<b>2,443,936</b>



	Millions of yen	
	March 31, 2016	June 30, 2016
<b>LIABILITIES</b>		
Current Liabilities:		
Notes and accounts payable-trade	115,557	105,029
Short-term borrowings	7,873	7,728
Accrued income taxes	29,519	10,481
Allowances	3,174	2,678
Other	125,828	127,028
Total current liabilities	281,954	252,947
Long-term Liabilities:		
Long-term debt	5,288	5,180
Net defined benefit liability	33,319	32,936
Other	109,056	100,944
Total long-term liabilities	147,665	139,060
<b>TOTAL LIABILITIES</b>	<b>429,619</b>	<b>392,007</b>
<b>NET ASSETS</b>		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,759	128,757
Retained earnings	1,731,042	1,752,923
Less: Treasury stock, at cost	(33,407)	(33,409)
Total stockholders' equity	1,945,813	1,967,691
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	13,780	10,919
Deferred gains (losses) on hedges	1,611	2,613
Foreign currency translation adjustments	68,566	20,424
Remeasurements of defined benefit plans	(1,480)	(1,238)
Total accumulated other comprehensive income	82,478	32,718
Share Subscription Rights	237	229
Non-Controlling Interests in Consolidated Subsidiaries	51,936	51,289
<b>TOTAL NET ASSETS</b>	<b>2,080,465</b>	<b>2,051,928</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>2,510,085</b>	<b>2,443,936</b>

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

### Consolidated Statements of Income

For the first quarter ended June 30, 2015 and 2016

	Millions of yen	
	April 1, 2015 - June 30, 2015	April 1, 2016 - June 30, 2016
Net sales	314,043	300,716
Cost of sales	229,945	208,277
Gross profit	84,097	92,439
Selling, general and administrative expenses	32,687	32,411
Operating income	51,410	60,027
Non-operating income:		
Interest income	946	1,192
Dividend income	2,018	826
Foreign exchange gain	2,752	-
Other income	831	4,892
Total non-operating income	6,550	6,910
Non-operating expenses:		
Foreign exchange loss	-	8,177
Other expenses	2,952	921
Total non-operating expenses	2,952	9,098
Ordinary income	55,008	57,839
Income before income taxes and non-controlling interests	55,008	57,839
Income taxes:		
Current	17,761	6,896
Deferred	(825)	4,995
Total income taxes	16,936	11,892
Profit	38,072	45,947
Profit attributable to non-controlling interests	441	637
Profit attributable to owners of parent	37,630	45,309

## Consolidated Statements of Comprehensive Income

For the first quarter ended June 30, 2015 and 2016

	Millions of yen	
	April 1, 2015 - June 30, 2015	April 1, 2016 - June 30, 2016
Profit	38,072	45,947
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	3,644	(2,911)
Deferred gains (losses) on hedges	38	1,001
Foreign currency translation adjustments	(20,550)	(48,692)
Remeasurements of defined benefit plans	595	245
Share of other comprehensive income of affiliates accounted for using the equity method	16	(182)
Total other comprehensive income	(16,254)	(50,540)
Comprehensive income	21,817	(4,593)
(Breakdown)		
Comprehensive income attributable to owners of parent	21,827	(4,449)
Comprehensive income attributable to non-controlling interests	(9)	(143)

### (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 quarter ended June 30, 2016 (From April 1, 2016 to June 30, 2016)

	Millions of yen							Adjustment*	Figures in consolidated financial statements
	April 1, 2016 - June 30, 2016								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	93,922	45,443	28,501	62,530	46,912	23,406	300,716	-	300,716
Intersegment sales	681	1,488	3,089	0	1,676	20,141	27,077	(27,077)	-
<b>Total</b>	<b>94,603</b>	<b>46,932</b>	<b>31,590</b>	<b>62,531</b>	<b>48,588</b>	<b>43,547</b>	<b>327,794</b>	<b>(27,077)</b>	<b>300,716</b>
Segment income (Operating income)	13,238	10,242	6,321	13,640	14,001	2,687	60,133	(105)	60,027

\*Elimination of intersegment transactions

2) For the first quarter ended June 30, 2015 (From April 1, 2015 to June 30, 2015)

	Millions of yen							Adjustment*	Figures in consolidated financial statements
	April 1, 2015 - June 30, 2015								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	102,897	46,805	29,721	62,637	48,511	23,470	314,043	-	314,043
Intersegment sales	831	1,451	3,398	1	1,964	17,346	24,994	(24,994)	-
<b>Total</b>	<b>103,729</b>	<b>48,257</b>	<b>33,119</b>	<b>62,638</b>	<b>50,475</b>	<b>40,816</b>	<b>339,037</b>	<b>(24,994)</b>	<b>314,043</b>
Segment income (Operating income)	10,606	10,214	4,718	11,889	12,361	1,366	51,157	253	51,410

\*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
Diversified 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
Net Sales	314.0	331.7	330.0	303.8	1,279.8	300.7
PVC / Chlor-Alkali	102.8	117.7	118.2	102.7	441.7	93.9
Silicones	46.8	48.3	46.8	45.7	187.7	45.4
Specialty Chemicals	29.7	30.0	29.5	27.6	116.8	28.5
Semiconductor Silicon	62.6	63.4	62.5	54.6	243.3	62.5
Electronics & Functional Materials	48.5	46.3	44.9	46.9	186.7	46.9
Diversified	23.4	25.9	27.9	26.0	103.4	23.4
Operating Income	51.4	58.4	52.6	46.0	208.5	60.0
PVC / Chlor-Alkali	10.6	13.3	12.6	8.0	44.6	13.2
Silicones	10.2	10.3	10.8	10.1	41.5	10.2
Specialty Chemicals	4.7	5.1	4.4	3.8	18.1	6.3
Semiconductor Silicon	11.8	15.1	10.3	9.5	46.9	13.6
Electronics & Functional Materials	12.3	12.7	13.1	13.1	51.4	14.0
Diversified	1.3	1.7	1.0	1.5	5.6	2.6
Ordinary Income	55.0	58.0	57.7	49.2	220.0	57.8
Profit Attributable to Owners of Parent	37.6	39.0	39.7	32.4	148.8	45.3
Depreciation and Amortization	25.4	25.5	26.2	23.1	100.4	20.7
Capital Expenditures	24.4	30.4	42.0	37.7	134.7	27.1
R&D Costs	13.8	15.2	14.2	9.9	53.1	12.5
Overseas Sales	228.9	247.6	246.2	225.6	948.3	215.7
Ratio of Overseas Sales to Net Sales	73%	75%	75%	74%	74%	72%

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