

Press Release

Consolidated Financial Results for the First Three Quarters Ended December 31, 2015

Shin-Etsu Chemical Co., Ltd.

(JP GAAP)



January 28, 2016

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

Listing Stock Exchange: Tokyo and Nagoya

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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, 2015

(From April 1, 2015 to December 31, 2015)

(1) Results of consolidated operations

(Millions of yen)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
April - December 2015	975,914	5.0%	162,427	16.0%	170,736	11.9%	116,419	16.4%
April - December 2014	929,530	6.6%	140,036	3.8%	152,537	7.9%	100,022	8.1%

(Note) Comprehensive income (Millions of yen) From April 1, 2015 to December 31, 2015: 81,504 [(38.0%)]
From April 1, 2014 to December 31, 2014: 131,369 [(22.3%)]

	Basic earnings per share (yen)	Diluted earnings per share (yen)
April - December 2015	273.34	273.31
April - December 2014	234.93	234.88

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (yen)
December 31, 2015	2,465,583	2,049,010	81.0%	4,689.61
March 31, 2015	2,452,306	2,012,711	79.9%	4,602.80

(Note) Stockholders' equity (Millions of yen) As of December 31, 2015: 1,997,384 As of March 31, 2015: 1,960,329
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 2014 - March 2015	-	50.00	-	50.00	100.00
April 2015 - March 2016	-	55.00	-	-	-
April 2015 - March 2016 (forecast)	-	-	-	55.00	110.00

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

3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2016

(From April 1, 2015 to March 31, 2016)

(Millions of yen)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share (yen)
Fiscal year	1,270,000	1.2%	197,000	6.3%	210,000	6.0%	140,000	8.9%	328.71

(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.

4. Notes

(1) Changes in significant subsidiaries during the first three quarters ended December 31, 2015: 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, 2015.

(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 4 for further details.

(4) Number of shares outstanding (common stock)

	December 31, 2015	March 31, 2015
Number of shares outstanding at period end	432,106,693	432,106,693
Number of shares of treasury stock at period end	6,189,285	6,207,027
	April - December 2015	April - December 2014
Weighted-average number of shares outstanding over period	425,910,662	425,754,252

(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 2016 (April 1, 2015 to December 31, 2015), in the United States the recovery of the economy continued; however, in Europe the economy turned out to be lacking in strength, and a sluggish tendency was seen in the emerging economies, such as those in the Asian region. With regard to the Japanese economy, it moved along a gradual recovery track as seen in such indications as an improvement in the employment situation and a recovery in consumer spending.

In these circumstances, the Shin-Etsu Group aggressively promoted sales to its wide range of customers around the world and expanded its manufacturing bases both in Japan and globally. At the same time, we assiduously worked on the enhancement of our technologies and product quality. In addition, we focused on developing new products that have special characteristics and also on stably securing raw materials.

As a result, the consolidated business results for the first three quarters of FY 2016 show that net sales increased by 5.0% (¥46,384 million) compared with the same fiscal period last year to ¥975,914 million. Compared with the performance of the same fiscal period last year, operating income increased by 16.0% (¥22,391 million) to ¥162,427 million, ordinary income increased by 11.9% (¥18,199 million) to ¥170,736 million and profit attributable to owners of parent increased by 16.4% (¥16,397 million) to ¥116,419 million.

PVC/Chlor-Alkali Business

With regard to the PVC business, despite North American demand having decreased by 2% compared with last year in the whole industry, Shintech in the U.S. expanded its U.S. domestic sales and also aggressively carried out sales to its worldwide customers, and as a result its shipments continued to be firm. Shin-Etsu PVC in the Netherlands was affected by facility problems that occurred at a raw materials supplier during the latter half of 2014 and the effects continued into the third quarter of FY 2016. In Japan, although exports increased, domestic housing-related demand was slow.

As a result, compared with the first three quarters of FY 2015, net sales for this business segment increased by 0.4% (¥1,350 million) to ¥338,903 million and operating income decreased by 8.8% (¥3,526 million) to ¥36,612 million.

Silicones Business

With regard to the silicones business, in Japan, although a slowdown was seen in some product applications in the electric and electronics fields, in a wide range of fields, including cosmetics and automobile applications, shipments were firm. Our silicones business outside of Japan continued to do well, particularly for highly functional silicone products for Europe, the U.S. and Southeast Asia.

As a result, compared with the first three quarters of FY 2015, net sales for this business segment increased by 8.8% (¥11,534 million) to ¥141,953 million and operating income increased by 35.5% (¥8,224 million) to ¥31,400 million.

Specialty Chemicals Business

With regard to cellulose derivatives, in Japan, a recovery was seen in sales of products for construction materials, and pharmaceutical-use products also continued firm shipments. The business of SE Tylose in Germany continued to be steady, mainly for coatings products. The business of Simcoa Operations in Australia continued to be good, aided by the upturn in the silicon metal market.

As a result, compared with the first three quarters of FY 2015, net sales for this business segment increased by 7.2% (¥6,003 million) to ¥89,248 million and operating income increased by 30.0% (¥3,306 million) to ¥14,328 million.

Semiconductor Silicon Business

With regard to semiconductor silicon, the business was affected by inventory adjustments of logic devices caused by a slowdown in smartphone demand. However, applications for memory devices continued to be firm.

As a result, compared with the first three quarters of FY 2015, net sales for this business segment increased by 11.7% (¥19,815 million) to ¥188,665 million and operating income increased by 42.8% (¥11,206 million) to ¥37,364 million.

Electronics & Functional Materials Business

With regard to the rare earth magnets business, although products for applications in industrial equipment and air-conditioners were slow, products for applications in automobiles continued to be firm, starting with those for hybrid cars. With regard to the photoresist products business, although it was affected by the inventory adjustment of logic devices, ArF resists and trilayer materials continued to be steady. The business of materials for LED packaging continued to be firm, and optical fiber preform also continued good shipments.

As a result, compared with the first three quarters of FY 2015, net sales for this business segment increased by 2.1% (¥2,940 million) to ¥139,818 million and operating income increased by 7.3% (¥2,602 million) to ¥38,255 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 continued to be steady.

As a result, compared with the first three quarters of FY 2015, net sales for this business segment increased by 6.5% (¥4,742 million) to ¥77,324 million and operating income increased by 5.9% (¥229 million) to ¥4,126 million.

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

With regard to the world economy, although a recovery is expected to continue in the United States economy, there are concerns about the effect of the slowdown of emerging economies such as those in the Asian region, and the future direction is uncertain. In Japan as well, the situation is such that it does not allow for optimism because of such concerns as what the effects of the world economy's downward movement will be.

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

Faced with such a global economic environment, the Shin-Etsu Group will carefully focus on developments in world markets and aggressively expand our sales activities while accurately capturing the 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 aim to build a strong business foundation by 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.

With regard to the forecast for the FY 2016 consolidated business results, there is no change in the forecast we announced on July 23, 2015.

2. Other Information

Changes in accounting policies applied, changes in accounting estimates and retrospective restatement

Changes in accounting policies

Effective from the beginning of the first quarter of FY 2016, Shin-Etsu Chemical adopted the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No.21, issued September 13, 2013, hereinafter referred to as the "Accounting Standard for Business Combinations"), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, issued September 13, 2013, hereinafter referred to as the "Accounting Standard for Consolidation") and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, issued September 13, 2013, hereinafter referred to as the "Accounting Standard for Business Divestitures").

In applying these revised accounting standards, the Company records any differences arising from changes in ownership interest in a subsidiary when it retains control as capital surplus and the corresponding acquisition-related costs are recognized as expenses when incurred. Also, regarding business combinations conducted after the beginning of the first quarter of FY 2016, the disclosure method was revised with regard to the retrospective adjustment of purchase price allocation based on provisional accounting applicable to the quarterly consolidated financial statements of the fiscal period in which the business combination occurred. In addition, the presentation method of net income was amended and the reference to "minority interests" was changed to "non-controlling interests". To reflect these changes in presentation, the quarterly consolidated financial statements and consolidated financial statements in the previous fiscal year have been reclassified.

Concerning the application of the Accounting Standard for Business Combinations and others, based on the provisional treatment set out in Section 58-2(4) of the Accounting Standard for Business Combinations, in Section 44-5(4) of the Accounting Standard for Consolidation and in Section 57-4(4) of the Accounting Standard for Business Divestitures, these changes are effective from the beginning of the first quarter of FY 2016. The impact of these changes on operating income, ordinary income and income before income taxes for the nine months ended December 31, 2015 and capital surplus as of December 31, 2015 is immaterial.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

As of March 31 and December 31, 2015

	Millions of yen	
	March 31, 2015	December 31, 2015
ASSETS		
Current Assets:		
Cash and time deposits	461,489	490,976
Notes and accounts receivable-trade	292,748	298,236
Securities	304,180	276,833
Inventories	276,910	278,817
Other	75,091	81,543
Less: Allowance for doubtful accounts	(10,575)	(18,400)
Total current assets	1,399,846	1,408,006
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	441,123	403,690
Other, net	343,286	382,838
Total property, plant and equipment	784,409	786,529
Intangible assets	18,012	16,034
Investments and other assets:		
Investments and other assets	251,433	257,040
Less: Allowance for doubtful accounts	(1,394)	(2,027)
Total investments and other assets	250,038	255,013
Total fixed assets	1,052,460	1,057,577
TOTAL ASSETS	2,452,306	2,465,583

	Millions of yen	
	March 31, 2015	December 31, 2015
LIABILITIES		
Current Liabilities:		
Notes and accounts payable-trade	120,694	118,994
Short-term borrowings	6,825	7,672
Accrued income taxes	33,554	26,604
Allowances	3,235	2,779
Other	134,537	121,853
	298,846	277,904
Long-term Liabilities:		
Long-term debt	7,116	5,291
Allowances	266	271
Net defined benefit liability	33,401	34,765
Other	99,964	98,340
	140,748	138,668
TOTAL LIABILITIES	439,594	416,573
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,572	128,635
Retained earnings	1,626,873	1,698,622
Less: Treasury stock, at cost	(33,837)	(33,743)
	1,841,029	1,912,933
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	22,349	21,715
Deferred gains (losses) on hedges	(91)	564
Foreign currency translation adjustments	100,425	64,375
Remeasurements of defined benefit plans	(3,382)	(2,205)
	119,300	84,450
Share Subscription Rights	139	287
Non-Controlling Interests in Consolidated Subsidiaries	52,242	51,338
TOTAL NET ASSETS	2,012,711	2,049,010
TOTAL LIABILITIES AND NET ASSETS	2,452,306	2,465,583

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

Consolidated Statements of Income

For the first three quarters ended December 31, 2014 and 2015

	Millions of yen	
	April 1, 2014 - December 31, 2014	April 1, 2015 - December 31, 2015
Net sales	929,530	975,914
Cost of sales	694,691	702,597
Gross profit	234,839	273,317
Selling, general and administrative expenses	94,802	110,890
Operating income	140,036	162,427
Non-operating income:		
Interest income	2,657	2,902
Dividend income	1,705	4,308
Other income	12,911	8,904
Total non-operating income	17,274	16,115
Non-operating expenses	4,773	7,807
Ordinary income	152,537	170,736
Income before income taxes and non-controlling interests	152,537	170,736
Income taxes:		
Current	51,364	57,161
Deferred	43	(4,378)
Total income taxes	51,408	52,782
Profit	101,129	117,954
Profit attributable to non-controlling interests	1,107	1,534
Profit attributable to owners of parent	100,022	116,419

Consolidated Statements of Comprehensive Income

For the first three quarters ended December 31, 2014 and 2015

	Millions of yen	
	April 1, 2014 - December 31, 2014	April 1, 2015 - December 31, 2015
Profit	101,129	117,954
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	8,114	(634)
Deferred gains (losses) on hedges	(433)	656
Foreign currency translation adjustments	22,055	(37,523)
Remeasurements of defined benefit plans	406	1,166
Share of other comprehensive income of affiliates accounted for using the equity method	97	(115)
Total other comprehensive income	30,239	(36,449)
Comprehensive income	131,369	81,504
(Breakdown)		
Comprehensive income attributable to owners of parent	129,765	81,569
Comprehensive income attributable to non-controlling interests	1,603	(65)

(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)

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

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

	Millions of yen							Adjustment*	Figures in consolidated financial statements
	April 1, 2015 - December 31, 2015								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
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)	-
Total	341,386	146,373	98,995	188,669	146,147	128,300	1,049,873	(73,958)	975,914
Segment income (Operating income)	36,612	31,400	14,328	37,364	38,255	4,126	162,088	338	162,427

*Elimination of intersegment transactions

2) Information on loss on impairment of fixed assets, goodwill and other items of reportable segments

Not applicable

II. For the first three quarters ended December 31, 2014 (From April 1, 2014 to December 31, 2014)

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

	Millions of yen							Adjustment*	Figures in consolidated financial statements
	April 1, 2014 - December 31, 2014								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	337,553	130,419	83,245	168,850	136,878	72,582	929,530	-	929,530
Intersegment sales	3,017	4,438	9,757	2	5,333	47,044	69,594	(69,594)	-
Total	340,571	134,857	93,003	168,853	142,212	119,627	999,125	(69,594)	929,530
Segment income (Operating income)	40,138	23,176	11,022	26,158	35,653	3,897	140,047	(11)	140,036

*Elimination of intersegment transactions

2) Information on loss on impairment of fixed assets, goodwill and other items of reportable segments

In the Silicones Business segment, the Company booked a ¥4,679 million impairment loss.

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 2015 April 1, 2014 - March 31, 2015					FY 2016 April 1, 2015 - March 31, 2016			
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	Total
Net Sales	294.5	309.1	325.8	326.0	1,255.5	314.0	331.7	330.0	975.9
PVC / Chlor-Alkali	102.8	110.1	124.5	115.1	452.6	102.8	117.7	118.2	338.9
Silicones	42.0	44.0	44.3	47.0	177.4	46.8	48.3	46.8	141.9
Specialty Chemicals	27.2	26.8	29.2	29.1	112.3	29.7	30.0	29.5	89.2
Semiconductor Silicon	54.4	56.9	57.4	61.1	230.0	62.6	63.4	62.5	188.6
Electronics & Functional Materials	44.9	45.9	45.9	46.6	183.5	48.5	46.3	44.9	139.8
Diversified	23.0	25.2	24.3	26.9	99.5	23.4	25.9	27.9	77.3
Operating Income	48.6	48.9	42.4	45.2	185.3	51.4	58.4	52.6	162.4
PVC / Chlor-Alkali	14.0	14.6	11.5	10.1	50.2	10.6	13.3	12.6	36.6
Silicones	9.1	9.2	※ 4.8	10.2	33.4	10.2	10.3	10.8	31.4
Specialty Chemicals	3.9	3.3	3.7	4.2	15.2	4.7	5.1	4.4	14.3
Semiconductor Silicon	7.8	8.3	9.8	9.4	35.6	11.8	15.1	10.3	37.3
Electronics & Functional Materials	12.0	12.1	11.5	10.5	46.2	12.3	12.7	13.1	38.2
Diversified	1.5	1.3	0.9	0.9	4.8	1.3	1.7	1.0	4.1
Ordinary Income	49.5	51.6	51.3	45.4	198.0	55.0	58.0	57.7	170.7
Profit Attributable to Owners of Parent	32.9	34.6	32.4	28.5	128.6	37.6	39.0	39.7	116.4
Depreciation and Amortization	22.6	23.7	24.1	26.3	96.9	25.4	25.5	26.2	77.2
Capital Expenditures	13.8	24.9	22.1	48.9	109.9	24.4	30.4	42.0	96.9
R&D Costs	10.3	12.0	11.6	13.1	47.1	13.8	15.2	14.2	43.2
Overseas Sales	206.4	220.3	238.7	238.7	904.3	228.9	247.6	246.2	722.7
Ratio of Overseas Sales to Net Sales	70%	71%	73%	72%	72%	73%	75%	75%	74%

※ The Company booked a ¥4.6 billion impairment loss.

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