

Press Release

Consolidated Financial Results for the First Three Quarters Ended December 31, 2013

Shin-Etsu Chemical Co., Ltd.

(JP GAAP)



January 28, 2014

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, 2014

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, 2013

(From April 1, 2013 to December 31, 2013)

(1) Results of consolidated operations

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
April - December 2013	872,009	11.5%	134,936	11.4%	141,339	10.4%	92,534	10.9%
April - December 2012	782,371	(1.1%)	121,133	3.0%	128,019	2.1%	83,428	10.3%

(Note) Comprehensive income (Millions of yen) From April 1, 2013 to December 31, 2013: 169,173[91.1%]

From April 1, 2012 to December 31, 2012: 88,505[138.5%]

	Net income per share (yen)	Diluted net income per share (yen)
April - December 2013	217.65	217.54
April - December 2012	196.49	196.49

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (yen)
December 31, 2013	2,093,692	1,749,133	81.3%	4,000.57
March 31, 2013	1,920,903	1,623,176	82.0%	3,709.19

(Note) Stockholders' equity (Millions of yen) As of December 31, 2013: 1,701,247 As of March 31, 2013: 1,576,095

Stockholders' equity used for the calculation of indices is net assets excluding both share subscription rights and minority 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 2012 - March 2013	-	50.00	-	50.00	100.00
April 2013 - March 2014	-	50.00	-		
April 2013 - March 2014 (forecast)				50.00	100.00

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

3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2014

(From April 1, 2013 to March 31, 2014)

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income		Net income per share (yen)
Fiscal year	1,060,000	3.4%	170,000	8.3%	180,000	5.8%	110,000	4.1%	258.78

(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. dollars 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, 2013: 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, 2013.

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

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

Changes of accounting policies applied due to revisions of accounting standards: No

Changes of accounting policies other than the above: No

Changes in accounting estimates: No

Retrospective restatement: No

(4) Number of shares outstanding (common stock)

	December 31, 2013	March 31, 2013
Number of shares outstanding at period end	432,106,693	432,106,693
Number of shares of treasury stock at period end	6,855,520	7,190,226
	April - December 2013	April - December 2012
Weighted-average number of shares outstanding over period	425,150,526	424,596,826

(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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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 2014 (April 1, 2013 to December 31, 2013), although a gradual recovery continued in the U.S., there was a tendency toward economic slowdown in the Asian region, and in Europe, a sense of stagnation continued due in part to the effects of its financial problems. With regard to the Japanese economy, there was a depreciation of the yen and improvements in the employment situation, and the economy moved in the direction of the road to recovery as exemplified by a trend towards a recovery in consumer spending.

In these circumstances, the Shin-Etsu Group proactively promoted sales activities to its wide range of customers around the world, and at the same time, in addition to striving to enhance technologies and product quality, we assiduously worked on the development of new products. We also focused on strengthening our production capacity, increasing the number of our manufacturing bases and stably securing raw materials.

As a result, the consolidated business results for the first three quarters of FY 2014 show that net sales increased by 11.5% (¥89,638 million) compared with the same fiscal period last year to ¥872,009 million. Compared with the performance of the same fiscal period last year, operating income increased by 11.4% (¥13,803 million) to ¥134,936 million, ordinary income increased by 10.4% (¥13,320 million) to ¥141,339 million and net income increased by 10.9% (¥9,106 million) to ¥92,534 million.

PVC/Chlor-Alkali Business

With regard to the PVC business, in addition to in the U.S. where a recovery of the housing market was seen, Shintech Inc. in the U.S. maintained a high level of shipments by selling to its wide range of customers worldwide, starting with those in Central and South America, and its business performance continued to do well. In addition, the business of Shin-Etsu PVC in the Netherlands was firm. Although a recovery in demand was seen in Japan, the business situation there was affected by price increases in raw materials, and the severe domestic business situation continued.

As a result, compared with the first three quarters of FY 2013, net sales for this business segment increased by 25.0% (¥64,746 million) to ¥323,558 million and operating income increased by 41.2% (¥14,065 million) to ¥48,237 million.

Silicones Business

With regard to the silicones business, in Japan, in addition to product applications for automobiles continuing to do well, applications for cosmetics continued to be firm. Sales of product applications for the electronics equipment fields were generally sluggish in the first half of the fiscal year; however, going into the second half of the fiscal year, a recovery in sales was on track. In our silicones business outside of Japan, shipments of functional silicone products for Europe and the U.S. and shipments of general-purpose products for China continued to be firm.

As a result, compared with the first three quarters of FY 2013, net sales for this business segment increased by 19.7% (¥19,117 million) to ¥116,111 million and operating income increased by 5.4% (¥1,180 million) to ¥23,061 million.

Specialty Chemicals Business

With regard to cellulose derivatives, although in Japan this business continued to be strong, mainly centered on products for building and construction applications and for pharmaceutical-use, the business of SE Tylose in Germany continued in a tough situation due to the effects of intensifying price competition. With regard to the silicon metal business of Simcoa Operations in Australia, it was affected by weak market conditions in the first half of the fiscal year; however, going into the second half of the fiscal year, the market entered on a recovery track.

As a result, compared with the first three quarters of FY 2013, net sales for this business segment increased by 24.3% (¥15,065 million) to ¥77,183 million and operating income decreased by 10.2% (¥1,106 million) to ¥9,790 million.

Semiconductor Silicon Business

With regard to semiconductor silicon, in the early months of the first half of FY 2014, the business started on a gradual recovery track as application demand for smartphones and tablet PCs continued to be strong. However, since the latter part of the first half, the business was affected by the slowdown in demand for PCs and a part of the market for smartphones.

As a result, compared with the first three quarters of FY 2013, net sales for this business segment increased by 1.8% (¥2,924 million) to ¥161,566 million and operating income increased by 11.1% (¥1,992 million) to ¥19,930 million.

Electronics & Functional Materials Business

With regard to the rare earth magnets business, shipments of products for applications in automobiles, starting with hybrid automobiles, were firm, but energy-saving types of air conditioners did not do so well. The business of photoresists products remained good aided by the progress in semiconductor device miniaturization. The business of materials for LED packaging and the optical fiber preform business entered into an adjustment phase from the start of the second half.

As a result, compared with the first three quarters of FY 2013, net sales for this business segment decreased by 11.2% (¥16,083 million) to ¥127,172 million and operating income decreased by 1.9% (¥594 million) to ¥31,018 million.

Diversified Business

Shin-Etsu Polymer Co., Ltd.'s business of keypads for automobile applications continued to be firm and its shipments of semiconductor wafer-related containers saw a trend towards recovery. The engineering business was slow.

As a result, compared with the first three quarters of FY 2013, net sales for this business segment increased by 6.2% (¥3,870 million) to ¥66,417 million and operating income decreased by 37.5% (¥1,697 million) to ¥2,833 million.

(2) Explanation regarding information relevant to forecasts such as the consolidated business forecast

With regard to the business forecast for this fiscal year, although the U.S. economy is expected to continue on its gradual recovery track, concerns remain regarding Europe's financial problems and also economies in the Asian region are seen as continuing to experience a slowdown in underlying growth. Accordingly, going forward, the global economy is in an uncertain situation. In Japan as well, although economic recovery is expected to occur, there are concerns about the effects on the economy of a possible slowdown in the world economy, and it continues to be difficult to predict the future path of the Japanese economy. Looking ahead, the trend going forward for semiconductor silicon, one of the Shin-Etsu Group's main products, continues to be uncertain.

Faced with such global economic circumstances, the Shin-Etsu Group is aggressively expanding its sales activities to its worldwide customers, and at the same time, by developing new products that have special characteristics, we will work on further promoting the cultivation of new demand. Furthermore, we will strive to strengthen each of our businesses. In addition to taking measures to improve technology, product quality and productivity, we will also focus on geographically diversifying our manufacturing bases on a global scale at optimal world locations and work to assure the stable supply of raw materials.

There is no change in the forecast for our consolidated operating performance, which was announced on July 25, 2013.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

As of March 31 and December 31, 2013

	Millions of yen	
	March 31, 2013	December 31, 2013
ASSETS		
Current Assets:		
Cash and time deposits	252,881	324,657
Notes and accounts receivable-trade	243,785	281,399
Securities	214,380	229,710
Inventories	269,377	265,549
Other	58,753	67,578
Less: Allowance for doubtful accounts	(6,664)	(6,846)
Total current assets	1,032,513	1,162,048
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	356,970	399,764
Other, net	292,680	287,472
Total property, plant and equipment	649,650	687,237
Intangible assets	14,637	16,961
Investments and other assets:		
Investments and other assets	224,448	227,833
Less: Allowance for doubtful accounts	(347)	(387)
Total investments and other assets	224,101	227,445
Total fixed assets	888,389	931,644
TOTAL ASSETS	1,920,903	2,093,692

	Millions of yen	
	March 31, 2013	December 31, 2013
LIABILITIES		
Current Liabilities:		
Notes and accounts payable-trade	100,197	114,257
Short-term borrowings	5,507	8,862
Accrued income taxes	6,220	19,871
Allowances	2,367	2,388
Other	85,341	87,371
	199,635	232,751
Long-term Liabilities:		
Long-term debt	7,709	7,360
Allowances	20,461	24,373
Other	69,920	80,073
	98,091	111,807
	297,727	344,559
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,234	128,373
Retained earnings	1,470,015	1,520,044
Less: Treasury stock, at cost	(39,167)	(37,365)
	1,678,502	1,730,472
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	11,591	15,545
Deferred gains (losses) on hedges	174	312
Foreign currency translation adjustments	(114,172)	(45,083)
	(102,406)	(29,225)
Share Subscription Rights	2,149	970
Minority Interests in Consolidated Subsidiaries	44,931	46,915
	1,623,176	1,749,133
	1,920,903	2,093,692

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

Consolidated Statements of Income

For the first three quarters ended December 31, 2012 and 2013

	Millions of yen	
	April 1, 2012 - December 31, 2012	April 1, 2013 - December 31, 2013
Net sales	782,371	872,009
Cost of sales	586,238	650,165
Gross profit	196,132	221,843
Selling, general and administrative expenses	74,999	86,906
Operating income	121,133	134,936
Non-operating income:		
Interest income	1,822	2,559
Equity in earnings of affiliates	5,385	1,143
Foreign exchange gain	809	9,062
Other income	3,404	3,138
Total non-operating income	11,420	15,904
Non-operating expenses	4,534	9,501
Ordinary income	128,019	141,339
Income before income taxes and minority interests	128,019	141,339
Income taxes:		
Current	26,715	54,017
Deferred	17,268	(6,380)
Total income taxes	43,983	47,636
Income before minority interests	84,035	93,702
Minority interests in earnings of consolidated subsidiaries	607	1,167
Net income	83,428	92,534

Consolidated Statements of Comprehensive Income

For the first three quarters ended December 31, 2012 and 2013

	Millions of yen	
	April 1, 2012 - December 31, 2012	April 1, 2013 - December 31, 2013
Income before minority interests	84,035	93,702
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	879	3,985
Deferred gains (losses) on hedges	146	128
Foreign currency translation adjustments	3,315	69,694
Share of other comprehensive income of affiliates accounted for using the equity method	128	1,662
Total other comprehensive income	4,469	75,470
Comprehensive income	88,505	169,173
(Breakdown)		
Comprehensive income attributable to owners of the parent	87,656	165,716
Comprehensive income attributable to minority interests	848	3,456

(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, 2013 (From April 1, 2013 to December 31, 2013)

	Millions of yen								Figures in consolidated financial statements
	April 1, 2013 - December 31, 2013								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment*	
Sales to outside customers	323,558	116,111	77,183	161,566	127,172	66,417	872,009	-	872,009
Intersegment sales	2,804	3,591	7,504	8	3,184	40,237	57,331	(57,331)	-
Total	326,363	119,702	84,688	161,574	130,356	106,654	929,340	(57,331)	872,009
Segment income (Operating income)	48,237	23,061	9,790	19,930	31,018	2,833	134,871	65	134,936

*Elimination of intersegment transactions

2) For the first three quarters ended December 31, 2012 (From April 1, 2012 to December 31, 2012)

	Millions of yen								Figures in consolidated financial statements
	April 1, 2012 - December 31, 2012								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment*	
Sales to outside customers	258,812	96,994	62,118	158,642	143,255	62,547	782,371	-	782,371
Intersegment sales	2,554	3,349	5,927	2	2,328	46,053	60,215	(60,215)	-
Total	261,366	100,343	68,045	158,645	145,584	108,600	842,586	(60,215)	782,371
Segment income (Operating income)	34,172	21,881	10,896	17,938	31,612	4,530	121,032	100	121,133

*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 2013 April 1, 2012 - March 31, 2013					FY 2014 April 1, 2013 - March 31, 2014			
		1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	Total
Net Sales		266.5	270.5	245.4	243.0	1,025.4	270.9	301.3	299.8	872.0
PVC / Chlor-Alkali		85.5	93.0	80.3	84.9	343.7	102.4	111.3	109.9	323.6
Silicones		32.2	33.4	31.4	32.0	129.0	34.7	40.9	40.5	116.1
Specialty Chemicals		21.5	19.8	20.8	21.4	83.5	23.8	26.0	27.4	77.2
Semiconductor Silicon		54.4	54.1	50.1	43.9	202.5	49.9	55.8	55.8	161.5
Electronics & Functional Materials		52.1	49.5	41.7	39.5	182.8	40.7	43.2	43.3	127.2
Diversified		20.8	20.7	21.1	21.3	83.9	19.4	24.1	22.9	66.4
Operating Income		40.3	43.3	37.5	35.9	157.0	45.5	46.7	42.7	134.9
PVC / Chlor-Alkali		9.9	14.3	10.0	11.4	45.6	16.9	17.2	14.1	48.2
Silicones		7.5	7.4	7.0	6.7	28.6	7.0	7.2	8.9	23.1
Specialty Chemicals		3.9	3.7	3.3	3.6	14.5	3.1	2.8	3.9	9.8
Semiconductor Silicon		6.6	6.0	5.3	4.0	21.9	6.7	7.8	5.4	19.9
Electronics & Functional Materials		10.4	10.6	10.6	9.3	40.9	10.7	10.8	9.5	31.0
Diversified		1.8	1.3	1.4	1.1	5.6	1.1	1.0	0.7	2.8
Ordinary Income		41.0	45.0	42.0	42.2	170.2	49.0	48.3	44.0	141.3
Net Income		26.6	29.1	27.7	22.3	105.7	32.0	31.8	28.7	92.5
Depreciation and Amortization		18.7	19.6	20.6	22.1	81.0	21.4	22.6	23.2	67.2
Capital Expenditures		20.3	21.1	16.6	28.8	86.8	28.8	15.1	13.7	57.6
R&D Costs		8.9	9.6	8.8	10.4	37.7	9.6	10.9	10.5	31.0
Overseas Sales	Amount	175.3	183.9	164.4	167.5	691.1	191.4	218.4	216.4	626.2
	Ratio*	66%	68%	67%	69%	67%	71%	73%	72%	72%

*Note: Percentage figures represent the ratio of overseas sales to net sales.