

Press Release

**Consolidated Financial Results for the First Quarter Ended June 30, 2014**

**Shin-Etsu Chemical Co., Ltd.**

**(JP GAAP)**



July 24, 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: August 12, 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 Quarter Ended June 30, 2014**

(From April 1, 2014 to June 30, 2014)

**(1) Results of consolidated operations**

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
April - June 2014	294,533	8.7%	48,642	6.8%	49,537	1.1%	32,918	2.8%
April - June 2013	270,908	1.6%	45,530	12.9%	49,022	19.5%	32,035	20.3%

(Note) Comprehensive income (Millions of yen) From April 1, 2014 to June 30, 2014: 18,757[(75.8%)]

From April 1, 2013 to June 30, 2013: 77,640[26.0%]

	Net income per share (yen)	Diluted net income per share (yen)
April - June 2014	77.33	77.31
April - June 2013	75.37	75.32

**(2) Consolidated financial position**

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (yen)
June 30, 2014	2,160,684	1,819,025	81.9%	4,159.00
March 31, 2014	2,198,912	1,822,135	80.6%	4,165.28

(Note) Stockholders' equity (Millions of yen) As of June 30, 2014: 1,770,494 As of March 31, 2014: 1,773,133  
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 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	Year-end	Fiscal year
April 2013 - March 2014	-	50.00	-	50.00	100.00
April 2014 - March 2015	-				
April 2014 - March 2015 (forecast)		50.00	-	50.00	100.00

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

**3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2015**

(From April 1, 2014 to March 31, 2015)

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income		Net income per share (yen)
First half	590,000	3.1%	94,000	1.9%	98,000	0.7%	64,000	0.3%	150.34
Fiscal year	1,180,000	1.2%	183,000	5.3%	190,000	5.2%	120,000	5.6%	281.89

(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. 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 quarter ended June 30, 2014: No**

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first quarter ended June 30, 2014.

**(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: Yes

Changes of 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, 2014	March 31, 2014
Number of shares outstanding at period end	432,106,693	432,106,693
Number of shares of treasury stock at period end	6,404,554	6,413,086
	April - June 2014	April - June 2013
Weighted-average number of shares outstanding over period	425,700,612	425,039,047

**(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 quarter of FY 2015 (April 1, 2014 to June 30, 2014), although a gradual recovery continued in the U.S. and in Europe a movement toward recovery was also seen, in emerging economies, such as those in the Asian region, a sluggish tendency continued. With regard to the Japanese economy, although it moved along a gradual recovery track, due to a counter reaction to the last-minute surge in demand prior to an increase in the consumption tax, a decline in consumer spending was also seen.

In these circumstances, the Shin-Etsu Group aggressively developed 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, globally diversifying our manufacturing bases and stably securing raw materials.

As a result, the consolidated business results for the first quarter of FY 2015 show that net sales increased by 8.7% (¥23,625 million) compared with the same fiscal period last year to ¥294,533 million. Compared with the performance of the same fiscal period last year, operating income increased by 6.8% (¥3,112 million) to ¥48,642 million, ordinary income increased by 1.1% (¥515 million) to ¥49,537 million, and net income increased by 2.8% (¥883 million) to ¥32,918 million.

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

With regard to the PVC business, while it continued to meet the demand in export markets, Shintech Inc. in the U.S. captured the increase in demand in the U.S. market, where a recovery was seen in its housing market. On the other hand, it was affected by limits on raw materials supplies and a rise in raw materials prices. Shin-Etsu PVC in the Netherlands continued to do well in its shipments. In Japan, a severe situation continued, affected by a decrease in the volume of shipments due to periodic plant maintenance and also by price increases in raw materials.

As a result, compared with the first quarter of FY 2014, net sales for this business segment increased by 0.5% (¥472 million) to ¥102,892 million and operating income decreased by 17.2% (¥2,904 million) to ¥14,008 million.

### **Silicones Business**

With regard to the silicones business, in Japan, in addition to sales of product applications for automobiles and cosmetics generally continuing to do well, sales for product applications for electronics equipment also saw a recovery. In our silicones business outside of Japan, functional products for Europe, the U.S. and China and general-purpose products for China and Southeast Asia were good.

As a result, compared with the first quarter of FY 2014, net sales for this business segment increased by 21.1% (¥7,330 million) to ¥42,015 million and operating income increased by 29.8% (¥2,088 million) to ¥9,101 million.

### **Specialty Chemicals Business**

With regard to cellulose derivatives, in Japan products for building and construction applications continued to be steady and products for pharmaceutical-use also were firm. On the other hand, the business of SE Tylose in Germany was affected by the sluggish European market. The business of Simcoa Operations in Australia continued to be firm, aided by the recovery of the silicon metal market. In addition, synthetic pheromones also did well with a large volume of shipments.

As a result, compared with the first quarter of FY 2014, net sales for this business segment increased by 14.1% (¥3,362 million) to ¥27,212 million and operating income increased by 28.8% (¥882 million) to ¥3,947 million.

### **Semiconductor Silicon Business**

With regard to semiconductor silicon, in addition to applications for automobiles and smartphones, there was a sense of recovery also in industrial equipment applications. Because demand for semiconductor devices as a whole continued to be firm, shipments continued to be at a high level.

As a result, compared with the first quarter of FY 2014, net sales for this business segment increased by 9.2% (¥4,567 million) to ¥54,428 million and operating income increased by 17.2% (¥1,158 million) to ¥7,891 million.

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

With regard to the rare earth magnets business, shipments of products for applications in automobiles were good, starting with hybrid cars, and shipments of products for applications in hard disk drives which were tending to decline also continued to be firm. With regard to the photoresist products business, ArF resists and trilayer materials expanded aided by the progress in semiconductor device miniaturization. The business of materials for LED packaging also was firm. The optical fiber preform business was affected by customers' inventory adjustments.

As a result, compared with the first quarter of FY 2014, net sales for this business segment increased by 10.6% (¥4,303 million) to ¥44,960 million and operating income increased by 13.0% (¥1,386 million) to ¥12,042 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 firm.

As a result, compared with the first quarter of FY 2014, net sales for this business segment increased by 18.5% (¥3,593 million) to ¥23,025 million and operating income increased by 35.1% (¥397 million) to ¥1,528 million.

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

Although the world economy is expected to continue its gradual recovery, there are concerns about the effects of Europe's financial problems and also uncertainties regarding the future direction of emerging economies. In Japan as well, although the economy is expected to continue along a recovery track, 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 affected by changes in market conditions and fluctuations in raw material prices. In addition, about 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 develop our sales activities while accurately capturing the growth in demand. At the same time, we will further accelerate the development of our 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 2015 consolidated business results, our forecast is as mentioned below.

With regard to dividends, Shin-Etsu Chemical plans to distribute dividends of ¥50 per share for both interim and year-end payments, the same amount as for the corresponding periods of the previous fiscal year.

Accordingly, the planned total annual dividend for FY 2015 is ¥100 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	Net income	Net income per share (yen)
First half	590,000 3.1%	94,000 1.9%	98,000 0.7%	64,000 0.3%	150.34
Fiscal year	1,180,000 1.2%	183,000 5.3%	190,000 5.2%	120,000 5.6%	281.89

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**

### **Changes of accounting policies applied, changes in accounting estimates and retrospective restatement**

#### Changes in accounting policies

Effective from the beginning of the first quarter of FY 2015, Shin-Etsu Chemical adopted the “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (ASBJ) Statement No.26, issued May 17, 2012, hereinafter referred as the “Accounting Standards for Retirement Benefits”) and its accompanying implementation guidance, “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No.25, May 17, 2012) with respect to certain provisions described in Section 35 of the standard and in Section 67 of the guidance.

In applying these accounting standards, there was a change from the straight-line basis to the benefit formula basis as the method for attributing the expected retirement benefit to periods of service for the calculation of the retirement benefit obligation and service costs.

Concerning the application of the Accounting Standards for Retirement Benefits, based on the provisional treatment set out in Section 37 of the accounting standards, the effects of such changes in the first quarter of FY 2015 have been adjusted in the beginning balance of retained earnings. The impact of these changes on assets, liabilities, net assets, operating income, ordinary income and income before income taxes and minority interests is immaterial.

### **3. Consolidated Financial Statements**

#### **(1) Consolidated Balance Sheets**

As of March 31 and June 30, 2014

	Millions of yen	
	March 31, 2014	June 30, 2014
<b>ASSETS</b>		
Current Assets:		
Cash and time deposits	363,339	363,772
Notes and accounts receivable-trade	267,243	267,878
Securities	274,282	270,455
Inventories	273,136	255,493
Other	64,850	65,625
Less: Allowance for doubtful accounts	(7,023)	(7,301)
Total current assets	1,235,829	1,215,924
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	424,526	408,128
Other, net	296,272	293,293
Total property, plant and equipment	720,799	701,422
Intangible assets	19,408	18,536
Investments and other assets:		
Investments and other assets	223,289	225,209
Less: Allowance for doubtful accounts	(414)	(408)
Total investments and other assets	222,875	224,801
Total fixed assets	963,083	944,760
<b>TOTAL ASSETS</b>	<b>2,198,912</b>	<b>2,160,684</b>



	Millions of yen	
	March 31, 2014	June 30, 2014
<b>LIABILITIES</b>		
Current Liabilities:		
Notes and accounts payable-trade	109,401	95,812
Short-term borrowings	7,524	7,169
Accrued income taxes	32,118	11,507
Allowances	2,796	2,451
Other	102,321	101,788
Total current liabilities	254,161	218,728
Long-term Liabilities:		
Long-term debt	7,557	7,396
Allowances	258	260
Net defined benefit liability	28,127	29,029
Other	86,671	86,243
Total long-term liabilities	122,615	122,929
<b>TOTAL LIABILITIES</b>	376,776	341,658
<b>NET ASSETS</b>		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,625	128,623
Retained earnings	1,541,127	1,552,503
Less: Treasury stock, at cost	(34,954)	(34,908)
Total stockholders' equity	1,754,218	1,765,637
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	10,439	13,041
Deferred gains (losses) on hedges	493	357
Foreign currency translation adjustments	9,451	(7,070)
Remeasurements of defined benefit plans	(1,470)	(1,471)
Total accumulated other comprehensive income	18,914	4,857
Share Subscription Rights	426	373
Minority Interests in Consolidated Subsidiaries	48,574	48,157
<b>TOTAL NET ASSETS</b>	1,822,135	1,819,025
<b>TOTAL LIABILITIES AND NET ASSETS</b>	2,198,912	2,160,684

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

### Consolidated Statements of Income

For the first quarter ended June 30, 2013 and 2014

	Millions of yen	
	April 1, 2013 - June 30, 2013	April 1, 2014 - June 30, 2014
Net sales	270,908	294,533
Cost of sales	197,653	215,790
Gross profit	73,254	78,743
Selling, general and administrative expenses	27,724	30,101
Operating income	45,530	48,642
Non-operating income:		
Interest income	655	855
Dividend income	595	705
Foreign exchange gain	3,300	-
Other income	612	1,405
Total non-operating income	5,163	2,967
Non-operating expenses:		
Foreign exchange loss	-	1,136
Other expenses	1,671	934
Total non-operating expenses	1,671	2,071
Ordinary income	49,022	49,537
Income before income taxes and minority interests	49,022	49,537
Income taxes:		
Current	20,262	13,514
Deferred	(3,644)	2,565
Total income taxes	16,617	16,079
Income before minority interests	32,405	33,457
Minority interests in earnings of consolidated subsidiaries	369	538
Net income	32,035	32,918

**Consolidated Statements of Comprehensive Income**  
For the first quarter ended June 30, 2013 and 2014

	Millions of yen	
	April 1, 2013 - June 30, 2013	April 1, 2014 - June 30, 2014
Income before minority interests	32,405	33,457
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	(2,877)	2,639
Deferred gains (losses) on hedges	84	(136)
Foreign currency translation adjustments	46,490	(17,106)
Remeasurements of defined benefit plans	-	(5)
Share of other comprehensive income of affiliates accounted for using the equity method	1,537	(91)
Total other comprehensive income	45,235	(14,700)
Comprehensive income	77,640	18,757
(Breakdown)		
Comprehensive income attributable to owners of the parent	75,797	18,861
Comprehensive income attributable to minority interests	1,842	(103)

### (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, 2014 (From April 1, 2014 to June 30, 2014)

	Millions of yen							Adjustment*	Figures in consolidated financial statements
	April 1, 2014 - June 30, 2014								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	102,892	42,015	27,212	54,428	44,960	23,025	294,533	-	294,533
Intersegment sales	1,083	1,545	2,735	0	1,719	12,956	20,040	(20,040)	-
<b>Total</b>	<b>103,975</b>	<b>43,561</b>	<b>29,947</b>	<b>54,428</b>	<b>46,679</b>	<b>35,981</b>	<b>314,573</b>	<b>(20,040)</b>	<b>294,533</b>
Segment income (Operating income)	14,008	9,101	3,947	7,891	12,042	1,528	48,517	124	48,642

\*Elimination of intersegment transactions

2) For the first quarter ended June 30, 2013 (From April 1, 2013 to June 30, 2013)

	Millions of yen							Adjustment*	Figures in consolidated financial statements
	April 1, 2013 - June 30, 2013								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	102,420	34,685	23,850	49,861	40,657	19,432	270,908	-	270,908
Intersegment sales	981	1,162	2,298	0	1,101	14,546	20,091	(20,091)	-
<b>Total</b>	<b>103,402</b>	<b>35,848</b>	<b>26,148</b>	<b>49,862</b>	<b>41,758</b>	<b>33,979</b>	<b>291,000</b>	<b>(20,091)</b>	<b>270,908</b>
Segment income (Operating income)	16,912	7,013	3,065	6,733	10,656	1,131	45,512	17	45,530

\*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 2014 April 1, 2013 - March 31, 2014					FY 2015 April 1, 2014 - March 31, 2015
	1Q	2Q	3Q	4Q	Total	1Q
Net Sales	270.9	301.2	299.8	293.8	1,165.8	294.5
PVC / Chlor-Alkali	102.4	111.2	109.8	104.2	427.8	102.8
Silicones	34.6	40.8	40.5	40.3	156.4	42.0
Specialty Chemicals	23.8	25.9	27.3	26.0	103.2	27.2
Semiconductor Silicon	49.8	55.8	55.8	51.6	213.2	54.4
Electronics & Functional Materials	40.6	43.2	43.3	43.8	170.9	44.9
Diversified	19.4	24.1	22.8	27.6	94.1	23.0
Operating Income	45.5	46.6	42.7	38.8	173.8	48.6
PVC / Chlor-Alkali	16.9	17.2	14.1	11.9	60.1	14.0
Silicones	7.0	7.1	8.8	8.7	31.8	9.1
Specialty Chemicals	3.0	2.8	3.8	2.9	12.7	3.9
Semiconductor Silicon	6.7	7.7	5.4	4.5	24.4	7.8
Electronics & Functional Materials	10.6	10.8	9.4	9.9	40.9	12.0
Diversified	1.1	0.9	0.7	0.8	3.6	1.5
Ordinary Income	49.0	48.3	44.0	39.2	180.6	49.5
Net Income	32.0	31.7	28.7	21.0	113.6	32.9
Depreciation and Amortization	21.3	22.6	23.1	24.2	91.4	22.6
Capital Expenditures	28.8	15.0	13.7	25.5	83.1	13.8
R&D Costs	9.5	10.8	10.4	12.5	43.5	10.3
Overseas Sales	191.3	218.4	216.4	203.9	830.1	206.4
Ratio of Overseas Sales to Net Sales	71%	73%	72%	69%	71%	70%

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