

Press Release

**Consolidated Financial Results for the First Half Ended September 30, 2013**



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

**(JP GAAP)**

October 24, 2013

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: November 13, 2013

Date of dividend payment: November 18, 2013

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 Half Ended September 30, 2013**

(From April 1, 2013 to September 30, 2013)

**(1) Results of consolidated operations**

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
April - September 2013	572,184	6.6%	92,224	10.3%	97,332	13.2%	63,820	14.6%
April - September 2012	536,998	3.0%	83,620	4.0%	86,016	2.0%	55,700	9.1%

(Note) Comprehensive income (Millions of yen) From April, 2013 to September, 2013: 139,489 [128.8%]

From April, 2012 to September, 2012: 60,978 [16.8%]

	Net income per share (yen)	Diluted net income per share (yen)
April - September 2013	150.12	150.03
April - September 2012	131.18	-

**(2) Consolidated financial position**

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (yen)
September 30, 2013	2,077,266	1,741,098	81.5%	3,981.10
March 31, 2013	1,920,903	1,623,176	82.0%	3,709.19

(Note) Stockholders' equity (Millions of yen) As of September 30, 2013: 1,692,760 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 dividend 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 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. 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 half ended September 30, 2013: No**

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first half ended September 30, 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 (in common stock)**

	<u>September 30, 2013</u>	<u>March 31, 2013</u>
Number of shares outstanding at period end	432,106,693	432,106,693
Number of shares of treasury stock at period end	6,908,060	7,190,226
	<u>April - September 2013</u>	<u>April - September 2012</u>
Weighted-average number of shares outstanding over period	425,115,932	424,595,624

**(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 half of FY 2014 (April 1, 2013 to September 30, 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 Japanese economy, although exports to Asia and Europe did not perform well, the economy moved in the direction of the road to recovery as exemplified by growing exports to the U.S. and a trend towards recovery in consumer spending.

In these circumstances, the Shin-Etsu Group pressed forward in further promoting sales 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 half of FY 2014 show that net sales increased by 6.6% (¥35,186 million) compared with the same fiscal period previous year to ¥572,184 million. Compared with the performance of the same fiscal period previous year, operating income increased by 10.3% (¥8,604 million) to ¥92,224 million, ordinary income increased by 13.2% (¥11,316 million) to ¥97,332 million, and net income increased by 14.6% (¥8,120 million) to ¥63,820 million.

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

With regard to the PVC business, in addition to in the U.S. where PVC demand is steady, Shintech Inc. in the U.S. maintained a high level of shipments by expanding sales to its customers worldwide, starting with those in Central and South America, and its business performance greatly grew. In addition, Shin-Etsu PVC in the Netherlands continued to do well. 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 half of FY 2013, net sales for this business segment increased by 19.7% (¥35,177 million) to ¥213,694 million and operating income increased by 40.8% (¥9,887 million) to ¥34,125 million.

#### **Silicones Business**

With regard to the silicones business, although in Japan sales in the area of product applications for automobiles continued to be firm, sales of product applications for the electronics equipment field were generally sluggish. On the other hand, in our silicones business outside of Japan, in addition to shipments of functional silicone products for Europe and the U.S., shipments of general-purpose products for China also grew.

As a result, compared with the first half of FY 2013, net sales for this business segment increased by 15.2% (¥9,979 million) to ¥75,566 million and operating income decreased by 4.7% (¥705 million) to ¥14,164 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. The silicon metal business of Simcoa Operations in Australia was affected by weak market conditions.

As a result, compared with the first half of FY 2013, net sales for this business segment increased by 20.7% (¥8,536 million) to ¥49,840 million and operating income decreased by 22.0% (¥1,670 million) to ¥5,935 million.

### **Semiconductor Silicon Business**

With regard to semiconductor silicon, although a trend towards gradual recovery continued during the early months of the first half, since the start of the latter part of the first half, this business was affected by production adjustments and inventory adjustments made by semiconductor device makers because of a slowdown in demand for smartphones.

As a result, compared with the first half of FY 2013, net sales for this business segment decreased by 2.6% (¥2,824 million) to ¥105,683 million and operating income increased by 15.0% (¥1,885 million) to ¥14,465 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. However, shipments for energy-saving types of air conditioners did not do so well. The business of photoresist products remained good aided by the progress in semiconductor device miniaturization, and the business of materials for LED packaging was also firm. The optical fiber preform business continued strong shipments, as steady demand continued.

As a result, compared with the first half of FY 2013, net sales for this business segment decreased by 17.5% (¥17,772 million) to ¥83,861 million and operating income increased by 2.7% (¥566 million) to ¥21,520 million.

### **Diversified Business**

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

As a result, compared with the first half of FY 2013, net sales for this business segment increased by 5.0% (¥2,088 million) to ¥43,536 million and operating income decreased by 33.8% (¥1,049 million) to ¥2,057 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 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 affects 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 in demand in the latter half of FY 2014 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 September 30, 2013

	Millions of yen	
	March 31, 2013	September 30, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and time deposits	252,881	312,622
Notes and accounts receivable-trade	243,785	270,002
Securities	214,380	244,814
Inventories	269,377	263,060
Other	58,753	54,093
Less: Allowance for doubtful accounts	(6,664)	(6,424)
Total current assets	1,032,513	1,138,170
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	356,970	409,816
Other, net	292,680	289,157
Total property, plant and equipment	649,650	698,974
Intangible fixed assets	14,637	17,234
Investments and other assets:		
Investments and other assets	224,448	223,277
Less: Allowance for doubtful accounts	(347)	(390)
Total investments and other assets	224,101	222,887
Total fixed assets	888,389	939,095
<b>TOTAL ASSETS</b>	<b>1,920,903</b>	<b>2,077,266</b>

	Millions of yen	
	March 31, 2013	September 30, 2013
<b>LIABILITIES</b>		
Current Liabilities:		
Notes and accounts payable-trade	100,197	106,546
Short-term borrowings	5,507	9,310
Accrued income taxes	6,220	24,099
Allowances	2,367	2,593
Other	85,341	84,281
	199,635	226,830
Long-term Liabilities:		
Long-term debt	7,709	7,495
Allowances	20,461	23,499
Other	69,920	78,341
	98,091	109,336
	297,727	336,167
<b>NET ASSETS</b>		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,234	128,343
Retained earnings	1,470,015	1,512,590
Less: Treasury stock, at cost	(39,167)	(37,651)
	1,678,502	1,722,702
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	11,591	11,992
Deferred gains (losses) on hedges	174	224
Foreign currency translation adjustments	(114,172)	(42,158)
	(102,406)	(29,942)
Share Subscription Rights	2,149	1,086
Minority Interests in Consolidated Subsidiaries	44,931	47,251
	1,623,176	1,741,098
	1,920,903	2,077,266



## (2) Consolidated statements of income and statements of comprehensive income

### Consolidated statements of income

For the first half ended September 30, 2012 and 2013

	Millions of yen	
	April - September 2012	April - September 2013
Net sales	536,998	572,184
Cost of sales	403,211	422,508
Gross profit	133,787	149,675
Selling, general and administrative expenses	50,167	57,451
Operating income	83,620	92,224
Non-operating income:		
Interest income	1,207	1,725
Equity in earnings of affiliates	3,729	870
Foreign exchange gain	-	4,085
Other income	4,163	2,031
Total non-operating income	9,100	8,713
Non-operating expenses:		
Foreign exchange loss	4,851	-
Other expenses	1,852	3,604
Total non-operating expenses	6,704	3,604
Ordinary income	86,016	97,332
Income before income taxes	86,016	97,332
Income taxes-current	16,914	38,399
Income taxes-deferred	12,780	(5,751)
Total income taxes	29,695	32,647
Income before minority interests	56,320	64,684
Minority interests in earnings of consolidated subsidiaries	620	864
Net income	55,700	63,820

**Consolidated statements of comprehensive income**  
For the first half ended September 30, 2012 and 2013

	Millions of yen	
	April - September 2012	April - September 2013
Income before minority interests	56,320	64,684
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	(3,882)	412
Deferred gains (losses) on hedges	(135)	39
Foreign currency translation adjustments	7,849	72,723
Share of other comprehensive income of associates accounted for by using the equity method	825	1,628
Total other comprehensive income	4,657	74,804
Comprehensive income	60,978	139,489
(Breakdown)		
Comprehensive income attributable to owners of the parent	60,144	136,284
Comprehensive income attributable to minority interests	833	3,204

**(3) Consolidated statements of cash flows**

For the first half ended September 30, 2012 and 2013

	Millions of yen	
	April - September 2012	April - September 2013
<b>Cash flows from operating activities</b>		
Income before income taxes	86,016	97,332
Depreciation and amortization	38,332	44,027
Interest and dividend income	(2,208)	(2,722)
Equity in (earnings) losses of affiliates	(3,729)	(870)
(Increase) decrease in notes and accounts receivable	(5,576)	(11,805)
(Increase) decrease in inventories	13,824	20,279
Increase (decrease) in notes and accounts payable	2,550	3,817
Other, net	8,225	4,394
Subtotal	137,434	154,452
Proceeds from interest and dividends	2,839	3,342
Payments of interest	(190)	(401)
Payments of income taxes	(36,423)	(17,216)
Net cash provided by operating activities	103,659	140,176
<b>Cash flows from investing activities</b>		
Net (increase) decrease in marketable securities	(1,153)	(125,931)
Purchases of property, plant and equipment	(38,200)	(32,668)
Purchases of investments in securities	(5,569)	(3,114)
Proceeds from sales and redemption of investments in securities	5,042	7,268
Purchases of investments in subsidiaries resulting in change in scope of consolidation	-	(7,296)
Other, net	(21,188)	(16,332)
Net cash used for investing activities	(61,068)	(178,075)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	1,325	927
Proceeds from long-term debt	5,183	59
Repayments of long-term debt	(5,466)	(779)
Cash dividends paid	(21,229)	(21,245)
Other, net	(460)	854
Net cash used for financing activities	(20,647)	(20,183)
Effect of exchange rate changes on cash and cash equivalents	4,067	11,909
Net increase (decrease) in cash and cash equivalents	26,010	(46,173)
Cash and cash equivalents at beginning of period	270,321	363,028
Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation	11	-
Cash and cash equivalents at end of period	296,343	316,855

**(4) Notes on consolidated financial statements**  
**(Notes on premise of going concern)**

Not applicable

**(Notes on significant changes in stockholders' equity)**

Not applicable

**(Segment information)**

Information regarding sales and income (loss) of reportable segments

1) For the first half ended September 30, 2013 (From April 1, 2013 to September 30, 2013)

	Millions of yen								Figures in consolidated statements of income
	April - September 2013								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment*	
Sales to outside customers	213,694	75,566	49,840	105,683	83,861	43,536	572,184	-	572,184
Intersegment sales	1,903	2,262	4,789	2	2,026	28,847	39,832	(39,832)	-
<b>Total</b>	<b>215,597</b>	<b>77,829</b>	<b>54,630</b>	<b>105,686</b>	<b>85,888</b>	<b>72,383</b>	<b>612,016</b>	<b>(39,832)</b>	<b>572,184</b>
Segment income (Operating income)	34,125	14,164	5,935	14,465	21,520	2,057	92,267	(43)	92,224

\*Elimination of intersegment transactions

2) For the first half ended September 30, 2012 (From April 1, 2012 to September 30, 2012)

	Millions of yen								Figures in consolidated statements of income
	April - September 2012								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment*	
Sales to outside customers	178,517	65,587	41,304	108,507	101,633	41,448	536,998	-	536,998
Intersegment sales	1,739	2,140	3,941	0	1,447	32,589	41,858	(41,858)	-
<b>Total</b>	<b>180,256</b>	<b>67,728</b>	<b>45,245</b>	<b>108,507</b>	<b>103,081</b>	<b>74,037</b>	<b>578,857</b>	<b>(41,858)</b>	<b>536,998</b>
Segment income (Operating income)	24,238	14,869	7,605	12,580	20,954	3,106	83,356	263	83,620

\*Elimination of intersegment transactions

Main products and services of each segment

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 trading, Engineering

## Appendix: Quarterly operating results

(Billions of yen)

		FY 2013					FY 2014		
		April 2012-March 2013					April 2013-March 2014		
		1Q	2Q	3Q	4Q	Total	1Q	2Q	Total
Net Sales		266.5	270.5	245.4	243.0	1,025.4	270.9	301.3	572.2
PVC / Chlor-Alkali		85.5	93.0	80.3	84.9	343.7	102.4	111.3	213.7
Silicones		32.2	33.4	31.4	32.0	129.0	34.7	40.9	75.6
Specialty Chemicals		21.5	19.8	20.8	21.4	83.5	23.8	26.0	49.8
Semiconductor Silicon		54.4	54.1	50.1	43.9	202.5	49.9	55.8	105.7
Electronics & Functional Materials		52.1	49.5	41.7	39.5	182.8	40.7	43.2	83.9
Diversified		20.8	20.7	21.1	21.3	83.9	19.4	24.1	43.5
Operating Income		40.3	43.3	37.5	35.9	157.0	45.5	46.7	92.2
PVC / Chlor-Alkali		9.9	14.3	10.0	11.4	45.6	16.9	17.2	34.1
Silicones		7.5	7.4	7.0	6.7	28.6	7.0	7.2	14.2
Specialty Chemicals		3.9	3.7	3.3	3.6	14.5	3.1	2.8	5.9
Semiconductor Silicon		6.6	6.0	5.3	4.0	21.9	6.7	7.8	14.5
Electronics & Functional Materials		10.4	10.6	10.6	9.3	40.9	10.7	10.8	21.5
Diversified		1.8	1.3	1.4	1.1	5.6	1.1	1.0	2.1
Ordinary Income		41.0	45.0	42.0	42.2	170.2	49.0	48.3	97.3
Net Income		26.6	29.1	27.7	22.3	105.7	32.0	31.8	63.8
Depreciation and Amortization		18.7	19.6	20.6	22.1	81.0	21.4	22.6	44.0
Capital Expenditures		20.3	21.1	16.6	28.8	86.8	28.8	15.1	43.9
R&D Costs		8.9	9.6	8.8	10.4	37.7	9.6	10.9	20.5
Overseas Sales	Amount	175.3	183.9	164.4	167.5	691.1	191.4	218.4	409.8
	Ratio*	66%	68%	67%	69%	67%	71%	73%	72%

\*Note: Percentage figures represent the ratio of overseas sales to total consolidated sales.