

Press Release

**Consolidated Financial Results for the First Half Ended September 30, 2014**

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

**(JP GAAP)**



October 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: November 13, 2014

Date of dividend payment: November 18, 2014

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, 2014**

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

**(1) Results of consolidated operations**

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
April - September 2014	603,727	5.5%	97,614	5.8%	101,141	3.9%	67,589	5.9%
April - September 2013	572,184	6.6%	92,224	10.3%	97,332	13.2%	63,820	14.6%

(Note) Comprehensive income (Millions of yen) From April 1, 2014 to September 30, 2014: 45,447 [(67.4%)]  
From April 1, 2013 to September 30, 2013: 139,489 [128.8%]

	Net income per share (yen)	Diluted net income per share (yen)
April - September 2014	158.77	158.73
April - September 2013	150.12	150.03

**(2) Consolidated financial position**

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (yen)
September 30, 2014	2,221,589	1,846,070	80.9%	4,221.81
March 31, 2014	2,198,912	1,822,135	80.6%	4,165.28

(Note) Stockholders' equity (Millions of yen) As of September 30, 2014: 1,797,534 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	-	50.00	-	50.00	100.00
April 2014 - March 2015 (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, 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)
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: 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 half ended September 30, 2014: No**

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first half ended September 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 4 for further details.

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

	<u>September 30, 2014</u>	<u>March 31, 2014</u>
Number of shares outstanding at period end	432,106,693	432,106,693
Number of shares of treasury stock at period end	6,333,305	6,413,086
	<u>April - September 2014</u>	<u>April - September 2013</u>
Weighted-average number of shares outstanding over period	425,722,688	425,115,932

##### **(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 half of FY 2015 (April 1, 2014 to September 30, 2014), in the U.S. and Europe, business conditions that were thought to be in a recovery phase turned out to be lacking in strength, and 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 the counter-reaction to the last-minute surge in demand prior to the increase in the consumption tax, weakness in consumer spending was also seen.

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

As a result, the consolidated business results for the first half of FY 2015 show that net sales increased by 5.5% (¥31,543 million) compared with the same fiscal period last year to ¥603,727 million. Compared with the performance of the same fiscal period last year, operating income increased by 5.8% (¥5,390 million) to ¥97,614 million, ordinary income increased by 3.9% (¥3,809 million) to ¥101,141 million, and net income increased by 5.9% (¥3,769 million) to ¥67,589 million.

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

With regard to the PVC business, although Shintech Inc. in the U.S. was affected by the increase in PVC raw materials prices and a decline in the caustic soda market, it captured the increase in demand for PVC in the U.S., where a recovery was seen in its housing market, and by carrying out aggressive sales to its worldwide customers, it achieved strong profit. Shin-Etsu PVC in the Netherlands continued to do well in its shipments. In Japan, although a recovery in demand was seen, there was also the effect of price increases in raw materials, and a severe situation continued.

As a result, compared with the first half of FY 2014, net sales for this business segment decreased by 0.3% (¥691 million) to ¥213,003 million and operating income decreased by 16.1% (¥5,488 million) to ¥28,637 million.

#### **Silicones Business**

With regard to the silicones business, in Japan a recovery was seen in sales for product applications for electronics equipment, and sales for product applications for automobiles and cosmetics also generally continued to do well. Our silicones business outside of Japan also did well in functional products and general-purpose products, starting with Europe and the U.S., and in China and Southeast Asia as well.

As a result, compared with the first half of FY 2014, net sales for this business segment increased by 13.9% (¥10,522 million) to ¥86,088 million and operating income increased by 29.3% (¥4,147 million) to ¥18,311 million.

### **Specialty Chemicals Business**

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

As a result, compared with the first half of FY 2014, net sales for this business segment increased by 8.4% (¥4,205 million) to ¥54,045 million and operating income increased by 23.4% (¥1,386 million) to ¥7,321 million.

### **Semiconductor Silicon Business**

With regard to semiconductor silicon, in the first part of the fiscal half, in a wide range of fields, including applications for smartphones, robust demand continued and shipments continued at a high level. In the latter part of the fiscal half, although a movement toward inventory adjustments on the part of some semiconductor device makers was seen, shipments as a whole were firm.

As a result, compared with the first half of FY 2014, net sales for this business segment increased by 5.4% (¥5,743 million) to ¥111,426 million and operating income increased by 12.5% (¥1,811 million) to ¥16,276 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 large-capacity hard disk drives 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 half of FY 2014, net sales for this business segment increased by 8.4% (¥7,035 million) to ¥90,896 million and operating income increased by 12.2% (¥2,626 million) to ¥24,146 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 half of FY 2014, net sales for this business segment increased by 10.9% (¥4,731 million) to ¥48,267 million and operating income increased by 42.1% (¥865 million) to ¥2,922 million.

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

In the world economy, there are concerns over what the effects will be of the tapering of the U.S. monetary easing policy and also the effects of Europe's financial problems, and in addition, the future direction of the emerging economies is uncertain. In Japan as well, there are concerns over the prolonging of the effects of the counter-reaction to the last-minute surge in demand from the consumption tax increase and also the effects of a downward movement in the world economy. The situation is such that it does not allow for optimism.

Among the main products of the Shin-Etsu Group there are products that will be affected by fluctuations in market conditions and raw materials 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, there is no change in the forecast we announced on July 24, 2014.

## **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 half 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 for the first half of FY 2015 is immaterial.

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

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

As of March 31 and September 30, 2014

	Millions of yen	
	March 31, 2014	September 30, 2014
<b>ASSETS</b>		
Current Assets:		
Cash and time deposits	363,339	366,321
Notes and accounts receivable-trade	267,243	279,891
Securities	274,282	324,025
Inventories	273,136	252,353
Other	64,850	67,549
Less: Allowance for doubtful accounts	(7,023)	(7,056)
Total current assets	1,235,829	1,283,084
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	424,526	396,428
Other, net	296,272	298,522
Total property, plant and equipment	720,799	694,951
Intangible assets	19,408	17,723
Investments and other assets:		
Investments and other assets	223,289	226,229
Less: Allowance for doubtful accounts	(414)	(399)
Total investments and other assets	222,875	225,829
Total fixed assets	963,083	938,504
<b>TOTAL ASSETS</b>	<b>2,198,912</b>	<b>2,221,589</b>

	Millions of yen	
	March 31, 2014	September 30, 2014
<b>LIABILITIES</b>		
Current Liabilities:		
Notes and accounts payable-trade	109,401	112,751
Short-term borrowings	7,524	6,548
Accrued income taxes	32,118	25,447
Allowances	2,796	2,893
Other	102,321	105,703
	254,161	253,343
Long-term Liabilities:		
Long-term debt	7,557	7,319
Allowances	258	260
Net defined benefit liability	28,127	29,376
Other	86,671	85,217
	122,615	122,174
<b>TOTAL LIABILITIES</b>	<b>376,776</b>	<b>375,518</b>
<b>NET ASSETS</b>		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,625	128,604
Retained earnings	1,541,127	1,587,174
Less: Treasury stock, at cost	(34,954)	(34,521)
	1,754,218	1,800,677
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	10,439	14,983
Deferred gains (losses) on hedges	493	197
Foreign currency translation adjustments	9,451	(17,077)
Remeasurements of defined benefit plans	(1,470)	(1,245)
	18,914	(3,142)
Share Subscription Rights	426	312
Minority Interests in Consolidated Subsidiaries	48,574	48,223
<b>TOTAL NET ASSETS</b>	<b>1,822,135</b>	<b>1,846,070</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>2,198,912</b>	<b>2,221,589</b>



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

### Consolidated Statements of Income

For the first half ended September 30, 2013 and 2014

	Millions of yen	
	April 1, 2013 - September 30, 2013	April 1, 2014 - September 30, 2014
Net sales	572,184	603,727
Cost of sales	422,508	444,124
Gross profit	149,675	159,603
Selling, general and administrative expenses	57,451	61,988
Operating income	92,224	97,614
Non-operating income:		
Interest income	1,725	1,757
Foreign exchange gain	4,085	4,006
Other income	2,902	2,299
Total non-operating income	8,713	8,062
Non-operating expenses	3,604	4,536
Ordinary income	97,332	101,141
Income before income taxes and minority interests	97,332	101,141
Income taxes:		
Current	38,399	33,049
Deferred	(5,751)	(237)
Total income taxes	32,647	32,811
Income before minority interests	64,684	68,329
Minority interests in earnings of consolidated subsidiaries	864	739
Net income	63,820	67,589

**Consolidated Statements of Comprehensive Income**  
For the first half ended September 30, 2013 and 2014

	Millions of yen	
	April 1, 2013 - September 30, 2013	April 1, 2014 - September 30, 2014
Income before minority interests	64,684	68,329
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	412	4,609
Deferred gains (losses) on hedges	39	(296)
Foreign currency translation adjustments	72,723	(27,341)
Remeasurements of defined benefit plans	-	217
Share of other comprehensive income of affiliates accounted for using the equity method	1,628	(71)
Total other comprehensive income	74,804	(22,882)
Comprehensive income	139,489	45,447
 (Breakdown)		
Comprehensive income attributable to owners of the parent	136,284	45,532
Comprehensive income attributable to minority interests	3,204	(85)

**(3) Consolidated Statements of Cash Flows**

For the first half ended September 30, 2013 and 2014

	Millions of yen	
	April 1, 2013 - September 30, 2013	April 1, 2014 - September 30, 2014
<b>Cash flows from operating activities:</b>		
Income before income taxes	97,332	101,141
Depreciation and amortization	44,027	46,389
Interest and dividend income	(2,722)	(2,852)
(Increase) decrease in notes and accounts receivable	(11,805)	(16,991)
(Increase) decrease in inventories	20,279	17,500
Increase (decrease) in notes and accounts payable	3,817	4,931
Other, net	3,523	996
Subtotal	154,452	151,114
Proceeds from interest and dividends	3,342	3,459
Payments of interest	(401)	(307)
Payments of income taxes	(17,216)	(37,584)
Net cash provided by operating activities	140,176	116,681
<b>Cash flows from investing activities:</b>		
Net (increase) decrease in marketable securities	(125,931)	(55,670)
Purchases of property, plant and equipment	(32,668)	(34,945)
Purchases of investments in securities	(3,114)	(402)
Proceeds from sales and redemption of investments in securities	7,268	67
Purchases of investments in subsidiaries resulting in change in scope of consolidation	(7,296)	-
Other, net	(16,332)	(4,420)
Net cash used for investing activities	(178,075)	(95,371)
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in short-term borrowings	927	(952)
Proceeds from long-term debt	59	-
Repayments of long-term debt	(779)	(135)
Cash dividends paid	(21,245)	(21,284)
Other, net	854	(52)
Net cash used for financing activities	(20,183)	(22,425)
Effect of exchange rate changes on cash and cash equivalents	11,909	(5,075)
Net increase (decrease) in cash and cash equivalents	(46,173)	(6,191)
Cash and cash equivalents at beginning of period	363,028	362,560
Cash and cash equivalents at end of period	316,855	356,368

**(4) 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 half ended September 30, 2014 (From April 1, 2014 to September 30, 2014)

	Millions of yen								Figures in consolidated financial statements
	April 1, 2014 - September 30, 2014								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment*	
Sales to outside customers	213,003	86,088	54,045	111,426	90,896	48,267	603,727	-	603,727
Intersegment sales	2,033	2,946	5,974	1	3,775	30,918	45,650	(45,650)	-
<b>Total</b>	<b>215,037</b>	<b>89,035</b>	<b>60,020</b>	<b>111,428</b>	<b>94,671</b>	<b>79,186</b>	<b>649,378</b>	<b>(45,650)</b>	<b>603,727</b>
Segment income (Operating income)	28,637	18,311	7,321	16,276	24,146	2,922	97,615	(0)	97,614

\*Elimination of intersegment transactions

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

	Millions of yen								Figures in consolidated financial statements
	April 1, 2013 - September 30, 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

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	2Q	Total
Net Sales	270.9	301.2	299.8	293.8	1,165.8	294.5	309.1	603.7
PVC / Chlor-Alkali	102.4	111.2	109.8	104.2	427.8	102.8	110.1	213.0
Silicones	34.6	40.8	40.5	40.3	156.4	42.0	44.0	86.0
Specialty Chemicals	23.8	25.9	27.3	26.0	103.2	27.2	26.8	54.0
Semiconductor Silicon	49.8	55.8	55.8	51.6	213.2	54.4	56.9	111.4
Electronics & Functional Materials	40.6	43.2	43.3	43.8	170.9	44.9	45.9	90.8
Diversified	19.4	24.1	22.8	27.6	94.1	23.0	25.2	48.2
Operating Income	45.5	46.6	42.7	38.8	173.8	48.6	48.9	97.6
PVC / Chlor-Alkali	16.9	17.2	14.1	11.9	60.1	14.0	14.6	28.6
Silicones	7.0	7.1	8.8	8.7	31.8	9.1	9.2	18.3
Specialty Chemicals	3.0	2.8	3.8	2.9	12.7	3.9	3.3	7.3
Semiconductor Silicon	6.7	7.7	5.4	4.5	24.4	7.8	8.3	16.2
Electronics & Functional Materials	10.6	10.8	9.4	9.9	40.9	12.0	12.1	24.1
Diversified	1.1	0.9	0.7	0.8	3.6	1.5	1.3	2.9
Ordinary Income	49.0	48.3	44.0	39.2	180.6	49.5	51.6	101.1
Net Income	32.0	31.7	28.7	21.0	113.6	32.9	34.6	67.5
Depreciation and Amortization	21.3	22.6	23.1	24.2	91.4	22.6	23.7	46.3
Capital Expenditures	28.8	15.0	13.7	25.5	83.1	13.8	24.9	38.8
R&D Costs	9.5	10.8	10.4	12.5	43.5	10.3	12.0	22.3
Overseas Sales	191.3	218.4	216.4	203.9	830.1	206.4	220.3	426.7
Ratio of Overseas Sales to Net Sales	71%	73%	72%	69%	71%	70%	71%	71%

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