

Press Release

Consolidated Financial Results for the First Quarter Ended June 30, 2013

Shin-Etsu Chemical Co., Ltd.

(JP GAAP)



July 25, 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: August 13, 2013

Date of dividend payout: -

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, 2013

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

(1) Results of consolidated operations

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
April - June 2013	270,908	1.6%	45,530	12.9%	49,022	19.5%	32,035	20.3%
April - June 2012	266,516	6.6%	40,338	0.8%	41,006	(2.9%)	26,625	11.7%

(Note) Comprehensive income (Millions of yen) From April, 2013 to June, 2013: 77,640 [26.0%]

From April, 2012 to June, 2012: 61,600 [53.9%]

	Net income per share (in yen)	Diluted net income per share (in yen)
April - June 2013	75.37	75.32
April - June 2012	62.71	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (in yen)
June 30, 2013	1,985,676	1,678,428	82.2%	3,838.31
March 31, 2013	1,920,903	1,623,176	82.0%	3,709.19

(Note) Stockholders' equity (Millions of yen) As of June 30, 2013: 1,631,593 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 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	-				
April 2013 - March 2014 (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, 2014

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

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income		Net income per share (in yen)
First half	540,000	0.6%	88,000	5.2%	95,000	10.4%	60,000	7.7%	141.16
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 : 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, 2013: No

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

	<u>June 30, 2013</u>	<u>March 31, 2013</u>
Number of shares outstanding at period end	432,106,693	432,106,693
Number of treasury stocks at period end	7,025,833	7,190,226
	<u>April - June 2013</u>	<u>April - June 2012</u>
Weighted-average number of shares outstanding over period	425,039,047	424,595,768

(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 quarter of FY 2014 (April 1, 2013 to June 30, 2013), although a gradual recovery continued in the U.S., the economic slowdown in the Asian region, was a matter of concern, and in Europe, a sense of stagnation continued due in part to the effects of its financial problems. With regard to the Japanese economy, although exports to Asia and Europe did not perform well, a trend towards recovery was seen in exports to the U.S. and also in consumer spending.

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 2014 show that net sales increased by 1.6% (¥4,392 million) compared with the same fiscal period last year to ¥270,908 million. Compared with the performance of the same fiscal period last year, operating income increased by 12.9% (¥5,192 million) to ¥45,530 million, ordinary income increased by 19.5% (¥8,016 million) to ¥49,022 million, and net income increased by 20.3% (¥5,410 million) to ¥32,035 million.

PVC/Chlor-Alkali Business

With regard to the PVC business, while there was no striking recovery of demand within the U.S., 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 partial recovery in demand was seen in Japan, the business situation there was affected by price increases in raw materials, and the severe domestic situation continued.

As a result, compared with the first quarter of FY 2013, net sales for this business segment increased by 19.8% (¥16,932 million) to ¥102,420 million and operating income increased by 71.3% (¥7,040 million) to ¥16,912 million.

Silicones Business

With regard to the silicones business, although in Japan a recovery was seen in the area of sales of product applications for automobiles, sales of product applications for the cosmetics field were slow. In addition, sales of product applications for the electronics equipment field were generally sluggish.

On the other hand, in our silicones business outside of Japan, shipments of functional silicone products continued to be firm.

As a result, compared with the first quarter of FY 2013, net sales for this business segment increased by 7.5% (¥2,426 million) to ¥34,685 million and operating income decreased by 6.0% (¥448 million) to ¥7,013 million.

Specialty Chemicals Business

With regard to cellulose derivatives, in Japan this business continued to be strong, mainly centered on products for building and construction applications and for pharmaceutical-use. However, the business of SE Tylose in Germany continued in a tough situation due to the sluggish European market and slow shipments to the South American and Asian regions. The silicon metal business of Simcoa Operations in Australia was affected by weak market conditions.

As a result, compared with the first quarter of FY 2013, net sales for this business segment increased by 11.1% (¥2,376 million) to ¥23,850 million and operating income decreased by 22.0% (¥863 million) to ¥3,065 million.

Semiconductor Silicon Business

With regard to semiconductor silicon, although demand for consumer products such as PCs and flat-panel TVs was sluggish, because the business for smartphones and tablet PCs continued to be firm, the Semiconductor Silicon Business showed a trend towards gradual recovery.

As a result, compared with the first quarter of FY 2013, net sales for this business segment decreased by 8.3% (¥4,500 million) to ¥49,861 million and operating income increased by 2.0% (¥132 million) to ¥6,733 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 a result, compared with the first quarter of FY 2013, net sales for this business segment decreased by 22.0% (¥11,487 million) to ¥40,657 million and operating income increased by 2.2% (¥230 million) to ¥10,656 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 recovery. The engineering business was slow.

As a result, compared with the first quarter of FY 2013, net sales for this business segment decreased by 6.5% (¥1,357 million) to ¥19,432 million and operating income decreased by 36.2% (¥642 million) to ¥1,131 million.

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

Although the U.S. economy continues along its recovery path, concerns remain regarding Europe's financial problems, and the economy in China as well as in many of the emerging market economies continue to experience a slowdown in underlying growth. Accordingly, the global economic situation going forward is uncertain. With regard to the Japanese economy, although some economic indicators pointing to signs of improvement are beginning to appear, the economic situation is such that it continues to be difficult to predict its future path.

Among the Shin-Etsu Group's main products, there are some that are affected by changes in demand and supply and fluctuations in raw materials prices. The Semiconductor Silicon Business is affected by market price fluctuations in the wafer market that accompany changes in the demand trend of semiconductor devices for electronics equipment, such as for PCs and smartphones. Shintech Inc. in the U.S., which is the core of the PVC/Chlor-Alkali Business, has continued to contribute greatly to the Shin-Etsu Group's consolidated business results by greatly increasing its profit this quarter. However, there are cases when world market conditions for PVC, which is a general-purpose plastic resin, and fluctuations in the price of raw materials could have an affect on this business' results.

With regard to rare earth magnets, a key product in our Electronics & Functional Materials Business, since 2010 the prices of its rare earth raw materials have been fluctuating greatly.

In addition, about two-thirds of the Shin-Etsu Group's consolidated sales are overseas sales, and fluctuations in foreign exchange rates affect our businesses when the business performance of Shin-Etsu Chemical and our global Shin-Etsu Group companies' are being converted into Japanese yen.

As mentioned above, because the future trends in the world economy and in the situation surrounding the Shin-Etsu Group's business operations are uncertain, the business forecast that we are making at this time is one that has placed importance on the consolidated business results of 4th quarter of the previous fiscal year and the consolidated business results of the first quarter of the current fiscal year.

Faced with such a global economic environment, the Shin-Etsu Group is aggressively promoting its sales activities to its worldwide customers, and at the same time, we are working on cultivating new demand by developing products that have special characteristics. Furthermore, we will work toward expanding our businesses by, in addition to taking measures to improve technology, product quality and productivity, focusing on having our manufacturing bases at optimal world locations and striving to assure the stable supply of raw materials.

The forecast of consolidated operating performance is as mentioned below.

With regard to dividends, the forecast is ¥50 per share for both interim and year-end dividends, the same amount as for the corresponding period of the previous fiscal year.

The forecast of the total annual dividends for FY 2014 is ¥100 per share, the same amount as that for the previous fiscal year.

The forecast 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 (in yen)
First half	540,000 0.6%	88,000 5.2%	95,000 10.4%	60,000 7.7%	141.16
Fiscal year	1,060,000 3.4%	170,000 8.3%	180,000 5.8%	110,000 4.1%	258.78

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. Consolidated Financial Statements

(1) Consolidated balance sheets

As of March 31 and June 30, 2013

	Millions of yen	
	March 31, 2013	June 30, 2013
ASSETS		
Current Assets:		
Cash and time deposits	252,881	269,389
Notes and accounts receivable-trade	243,785	261,832
Securities	214,380	211,756
Inventories	269,377	264,941
Other	58,753	54,500
Less: Allowance for doubtful accounts	(6,664)	(6,763)
Total current assets	1,032,513	1,055,657
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	356,970	388,573
Other, net	292,680	286,399
Total property, plant and equipment	649,650	674,973
Intangible fixed assets	14,637	14,781
Investments and other assets		
Investments and other assets	224,448	240,639
Less: Allowance for doubtful accounts	(347)	(374)
Total investments and other assets	224,101	240,264
Total fixed assets	888,389	930,019
TOTAL ASSETS	1,920,903	1,985,676

	Millions of yen	
	March 31, 2013	June 30, 2013
LIABILITIES		
Current Liabilities:		
Notes and accounts payable-trade	100,197	96,826
Short-term borrowings	5,507	6,036
Accrued income taxes	6,220	16,905
Allowances	2,367	2,215
Other	85,341	83,644
Total current liabilities	199,635	205,628
Long-term Liabilities:		
Long-term debt	7,709	7,550
Allowances	20,461	22,221
Other	69,920	71,847
Total long-term liabilities	98,091	101,620
TOTAL LIABILITIES	297,727	307,248
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,234	128,303
Retained earnings	1,470,015	1,480,805
Less: Treasury stock, at cost	(39,167)	(38,290)
Total stockholders' equity	1,678,502	1,690,238
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	11,591	8,709
Deferred gains (losses) on hedges	174	269
Foreign currency translation adjustments	(114,172)	(67,622)
Total accumulated other comprehensive income	(102,406)	(58,644)
Share Subscription Rights	2,149	1,219
Minority Interests in Consolidated Subsidiaries	44,931	45,614
TOTAL NET ASSETS	1,623,176	1,678,428
TOTAL LIABILITIES AND NET ASSETS	1,920,903	1,985,676

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

Consolidated statements of income

For the first quarter ended June 30, 2012 and 2013

	Millions of yen	
	April - June 2012	April - June 2013
Net sales	266,516	270,908
Cost of sales	201,923	197,653
Gross profit	64,592	73,254
Selling, general and administrative expenses	24,254	27,724
Operating income	40,338	45,530
Non-operating income:		
Interest income	628	655
Equity in earnings of affiliates	2,344	223
Foreign exchange gain	-	3,300
Other income	2,694	984
Total non-operating income	5,668	5,163
Non-operating expenses:		
Foreign exchange loss	3,850	-
Other expenses	1,150	1,671
Total non-operating expenses	5,000	1,671
Ordinary income	41,006	49,022
Income before income taxes	41,006	49,022
Income taxes-current	3,964	20,262
Income taxes-deferred	10,192	(3,644)
Total income taxes	14,156	16,617
Income before minority interests	26,849	32,405
Minority interests in earnings of consolidated subsidiaries	224	369
Net income	26,625	32,035

Consolidated statements of comprehensive income
For the first quarter ended June 30, 2012 and 2013

	Millions of yen	
	April - June 2012	April - June 2013
Income before minority interests	26,849	32,405
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	(3,024)	(2,877)
Deferred gains (losses) on hedges	(169)	84
Foreign currency translation adjustments	35,359	46,490
Share of other comprehensive income of associates accounted for by using the equity method	2,585	1,537
Total other comprehensive income	34,750	45,235
Comprehensive income	61,600	77,640
(Breakdown)		
Comprehensive income attributable to owners of the parent	60,157	75,797
Comprehensive income attributable to minority interests	1,443	1,842

(3) 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 quarter ended June 30, 2013 (From April 1, 2013 to June 30, 2013)

	Millions of yen							Adjustment*	Figures in consolidated statement of income
	April - June 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)	-
Total	103,402	35,848	26,148	49,862	41,758	33,979	291,000	(20,091)	270,908
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

2) For the first quarter ended June 30, 2012 (From April 1, 2012 to June 30, 2012)

	Millions of yen							Adjustment*	Figures in consolidated statement of income
	April - June 2012								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	85,488	32,259	21,474	54,361	52,144	20,789	266,516	-	266,516
Intersegment sales	910	1,022	1,817	0	713	15,387	19,850	(19,850)	-
Total	86,398	33,281	23,292	54,361	52,857	36,176	286,367	(19,850)	266,516
Segment income (Operating income)	9,872	7,461	3,928	6,601	10,426	1,773	40,063	274	40,338

*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)

	Fiscal year 2012/4-2013/3					Fiscal year 2013/4-2014/3	
	1Q 12/4-6	2Q 7-9	3Q 10-12	4Q 13/1-3	Total	1Q 13/4-6	
Net Sales	266.5	270.5	245.4	243.0	1,025.4	270.9	
PVC / Chlor-Alkali	85.5	93.0	80.3	84.9	343.7	102.4	
Silicones	32.2	33.4	31.4	32.0	129.0	34.7	
Specialty Chemicals	21.5	19.8	20.8	21.4	83.5	23.8	
Semiconductor Silicon	54.4	54.1	50.1	43.9	202.5	49.9	
Electronics & Functional Materials	52.1	49.5	41.7	39.5	182.8	40.7	
Diversified	20.8	20.7	21.1	21.3	83.9	19.4	
Operating Income	40.3	43.3	37.5	35.9	157.0	45.5	
PVC / Chlor-Alkali	9.9	14.3	10.0	11.4	45.6	16.9	
Silicones	7.5	7.4	7.0	6.7	28.6	7.0	
Specialty Chemicals	3.9	3.7	3.3	3.6	14.5	3.1	
Semiconductor Silicon	6.6	6.0	5.3	4.0	21.9	6.7	
Electronics & Functional Materials	10.4	10.6	10.6	9.3	40.9	10.7	
Diversified	1.8	1.3	1.4	1.1	5.6	1.1	
Ordinary Income	41.0	45.0	42.0	42.2	170.2	49.0	
Net Income	26.6	29.1	27.7	22.3	105.7	32.0	
Depreciation and Amortization	18.7	19.6	20.6	22.1	81.0	21.4	
Capital Expenditures	20.3	21.1	16.6	28.8	86.8	28.8	
R&D Costs	8.9	9.6	8.8	10.4	37.7	9.6	
Overseas Sales	Amount	175.3	183.9	164.4	167.5	691.1	191.4
	Ratio*	66%	68%	67%	69%	67%	71%

*Note: % indicates ratio to total consolidated sales.