

Press Release

**Consolidated Financial Results for the First Half Ended September 30, 2010**

(JP GAAP)



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

October 28, 2010

Listing Code: No. 4063 (URL: <http://www.shinetsu.co.jp/>)

Listing Stock Exchange: Tokyo, Osaka and Nagoya

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Date of the filing of the quarterly consolidated financial statements: November 12, 2010

Date of dividend payout: November 18, 2010

Preparation of supplemental explanatory materials: Yes

Holding of quarterly financial results meeting: Yes

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, 2010**

(From April 1, 2010 to September 30, 2010)

**(1) Results of consolidated operations** (Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
April – September 2010	532,562	27.6%	76,143	43.8%	81,203	45.5%	62,342	75.5%
April – September 2009	417,229	(40.0%)	52,939	(64.7%)	55,818	(64.3%)	35,528	(64.8%)

	Net income per share (in yen)	Diluted net income per share (in yen)
April – September 2010	146.83	-
April – September 2009	83.70	83.69

**(2) Consolidated financial position** (Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (in yen)
September 30, 2010	1,777,773	1,476,170	80.6%	3,376.11
March 31, 2010	1,769,139	1,474,212	80.9%	3,370.56

(Note) Stockholders' equity (Millions of yen) As of September 30, 2010 : 1,433,494 As of March 31, 2010 : 1,431,146  
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 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	Year-end	Fiscal year
April 2009 – March 2010	-	50.00	-	50.00	100.00
April 2010 – March 2011	-	50.00			
April 2010 – March 2011 (forecast)			-	50.00	100.00

(Note) Revision of cash dividend forecast during this period: No

**3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2011**

(From April 1, 2010 to March 31, 2011)

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income		Net income per share (in yen)
Fiscal year	1,040,000	13.4%	148,000	26.3%	160,000	26.0%	110,000	31.2%	259.07

(Note) Revision of consolidated operating performance forecast during this period: 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. Other** (for further details, please see “2. Other Information” on page 5 of attached documents)

**(1) Changes in significant subsidiaries during this period: No**

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during this second quarter.

**(2) Adoption of simplified accounting methods and special accounting methods: Yes**

(Note) This item indicates whether there was adoption of simplified accounting methods and special accounting methods for presenting quarterly consolidated financial statements.

**(3) Changes of accounting policies applied, procedures and disclosures**

**Changes due to revisions of accounting standards: Yes**

**Changes other than the above: No**

(Note) This item indicates whether there were changes of accounting policies applied, procedures and disclosures for presenting quarterly consolidated financial statements, described in “Changes in Bases of Presenting Quarterly Consolidated Financial Statements.”

**(4) Number of shares outstanding (in shares)**

	September 30, 2010	March 31, 2010
Number of shares outstanding at period end (including treasury stocks)	432,106,693	432,106,693
Number of treasury stocks at period end	7,507,247	7,505,054
	April – September 2010	April – September 2009
Weighted-average number of shares outstanding over period (accumulated)	424,600,433	424,491,492

**(Note) Information regarding the implementation of quarterly review procedures**

These quarterly financial results are not subject to quarterly review procedures. Thus, at the time of disclosure of these financial results, the quarterly consolidated financial statement review procedures based on the Financial Instruments and Exchange Law, have not been completed.

**(Attached Documents)**

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## **1. Qualitative Information Regarding Quarterly Results**

### **(1) Qualitative information regarding the consolidated operating results**

With regard to the world economy, during the first half of FY 2011 (April 1, 2010 to September 30, 2010), in the Asian region, centering on China, there has been movement towards economic recovery. In Europe and the U.S., there were signs of a recovery in some parts; however, the serious economic situation continued, as seen in the fact that unemployment rates remained at a high level. In the Japanese economy as well, although there was a trend toward a recovery in personal consumption and facility investment, the severe economic situation still continued, as can be seen in such data as the unemployment rate being at a high level.

Under these circumstances, the Shin-Etsu Group worked to strengthen its relationships with its customers worldwide and strove to expand its sales. At the same time, we endeavored to carry out further business rationalization and streamlining measures, and we assiduously made strong efforts to focus on the development and commercialization of new products.

As a result, the consolidated business results for the first half of FY 2011 show that net sales increased by 27.6% (¥115,333 million) compared with the same fiscal period last year to ¥532,562 million. Compared with the performance of the same fiscal period last year, operating income increased by 43.8% (¥23,204 million) to ¥76,143 million, and ordinary income increased by 45.5% (¥25,385 million) to ¥81,203 million.

Net income of the first half of FY 2011 became ¥62,342 million, an increase of 75.5% (¥26,814 million), over that of the same fiscal period last year. This increase was due, in part, to the refund of corporation taxes paid in past fiscal years, after Japanese and U.S. tax authorities reached an agreement settling a dispute about the transfer pricing taxation.

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

While being affected by the U.S. housing market's long-term stagnant demand, Shintech Inc. in the U.S. maintained a high level of shipments and increased its business performance through sales utilizing its sales network to worldwide customers, which has been cultivated over many years. Shin-Etsu PVC in The Netherlands also continued strong shipments. In Japan, this business continued to be in a severe situation due to such factors as a worsening in the profitability of exports as a result of the appreciation of the Japanese yen.

As a result, net sales for this business segment were ¥146,506 million and operating income was ¥9,276 million.

### **Silicones Business**

With regard to the silicones business, demand was robust in a wide range of areas such as electric, electronics and automobile applications, and both our domestic and overseas silicones business remained firm.

As a result, net sales for this business segment were ¥71,719 million and operating income was ¥17,530 million.

### **Specialty Chemicals Business**

With regard to sales of cellulose derivatives, in Japan this business remained strong for pharmaceutical-use products, and cellulose products for industrial applications also saw a recovery for such applications as those in the automotive industry. Because of the sluggish construction market, the severe business situation for construction-application products continued. The business of SE Tylose in Germany also remained weak, as it was affected by the low level of prices of construction-application products.

As a result, net sales for this business segment were ¥40,142 million and operating income was ¥5,994 million.

### **Semiconductor Silicon Business**

Demand recovery was seen in semiconductor devices in diverse application fields, such as PCs and mobile phones, and as a result, on the whole, demand in the silicon wafer business continued to be strong and its business performance grew.

As a result, net sales for this business segment were ¥142,414 million and operating income was ¥20,990 million.

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

With regard to rare earth magnets, although applications in hard disk drives for PCs were affected by an inventory adjustment, sales for applications in hybrid cars and robotic machine tools were strong. The business of coating material for high-luminance LEDs was firm. The photoresists products business remained strong as semiconductor device makers are continuing a high level of production and also due to the progress in the miniaturization of devices. With regard to synthetic quartz products, optical fiber preform continued good shipments. With regard to large-size photomask substrates used for LCDs, although shipments were firm, this business was affected by an intensifying price competition.

As a result, net sales for this business segment were ¥69,604 million and operating income was ¥18,033 million.

### **Diversified Business**

Although the business of keypads for mobile phones was affected by such factors as an intensifying price competition, Shin-Etsu Polymer Co., Ltd.'s sales of packaging for semiconductor wafers turned out to be on a recovery track. The engineering business remained firm.

As a result, net sales for this business segment were ¥62,173 million and operating income was ¥4,160 million.

(Note)

Starting from the first quarter of FY 2011, we have reclassified our business segments. Therefore, a segment comparison with the corresponding period of the previous fiscal year is not shown here.

## **(2) Qualitative information regarding the consolidated business forecast**

With regard to business prospects going forward, although there is a gradual recovery trend in the world economy, the situation still does not allow for optimism. In Japan as well, there are concerns about such matters as the worsening of the employment situation and the impact of deflation, and we expect that the severe situation will continue for some time into the future.

To navigate through the severe business environment we are facing, the Shin-Etsu Group will expand its aggressive sales activities to its wide range of customers around the world, and at the same time, we will cultivate new demand through the development of products that have special characteristics. Furthermore, we will aim to build an even stronger business foundation by carrying out such policies as focusing on strengthening our high technologies, enhancing product quality and striving to stably secure raw materials.

The Shin-Etsu Group has not changed its business forecast, which was announced on July 22, 2010.

## **2. Other Information**

### **(1) Overview of changes in significant subsidiaries**

Not applicable

### **(2) Overview of adoption of simplified accounting methods and special accounting methods for presenting quarterly consolidated financial statements**

#### 1) Simplified accounting methods

Some consolidated companies have adopted simplified accounting methods such as for estimating depreciation expenses of fixed assets.

#### 2) Special accounting methods for presenting quarterly consolidated financial statements

Not applicable

### **(3) Overview of changes in accounting policies applied, procedures and disclosures**

Application of “Accounting Standard for Asset Retirement Obligations”

Effective from the first quarter of FY 2011, “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No.18 issued on March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No.21 issued on March 31, 2008) have been applied.

The impact of this change on operating income, ordinary income and income before income taxes is immaterial.

### **(4) Overview of key events regarding the premise of going concern**

Not applicable

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

#### **(1) Consolidated balance sheets**

As of September 30 and March 31, 2010

	Millions of yen	
	September 30, 2010	March 31, 2010
<b>ASSETS</b>		
Current Assets:		
Cash and time deposits	229,461	209,046
Notes and accounts receivable-trade	282,545	273,949
Securities	130,772	109,761
Inventories	175,579	183,553
Other	56,903	69,203
Less: Allowance for doubtful accounts	(2,632)	(2,943)
Total current assets	872,630	842,571
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment	260,264	264,014
Other	377,404	382,118
Total property, plant and equipment	637,668	646,133
Intangible fixed assets	14,399	17,055
Investments and other assets		
Investments and other assets	253,108	263,391
Less: Allowance for doubtful accounts	(32)	(13)
Total investments and other assets	253,076	263,378
Total fixed assets	905,143	926,568
<b>TOTAL ASSETS</b>	<b>1,777,773</b>	<b>1,769,139</b>

	Millions of yen	
	September 30, 2010	March 31, 2010
<b>LIABILITIES</b>		
Current Liabilities:		
Notes and accounts payable-trade	110,655	93,294
Short-term borrowings	12,762	11,866
Accrued income taxes	22,337	18,213
Allowances	2,423	2,441
Other	89,057	104,309
Total current liabilities	<u>237,236</u>	<u>230,124</u>
Long-term Liabilities:		
Long-term debt	6,085	7,884
Allowances	14,037	13,046
Other	44,242	43,870
Total long-term liabilities	<u>64,366</u>	<u>64,802</u>
<b>TOTAL LIABILITIES</b>	<u>301,603</u>	<u>294,926</u>
<b>NET ASSETS</b>		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,177	128,177
Retained earnings	1,359,497	1,318,413
Less: Treasury stock, at cost	(40,902)	(40,892)
Total stockholders' equity	<u>1,566,192</u>	<u>1,525,118</u>
Valuation and Translation Adjustments:		
Unrealized gains (losses) on available-for-sale securities	704	6,717
Deferred gains (losses) on derivatives under hedge accounting	410	517
Foreign currency translation adjustments	(133,813)	(101,207)
Total valuation and translation adjustments	<u>(132,698)</u>	<u>(93,972)</u>
Share Subscription Rights	3,604	3,648
Minority Interests in Consolidated Subsidiaries	<u>39,071</u>	<u>39,417</u>
<b>TOTAL NET ASSETS</b>	<u>1,476,170</u>	<u>1,474,212</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>1,777,773</u>	<u>1,769,139</u>

**(2) Consolidated statements of income**

For the first half ended September 30, 2009 and 2010

	Millions of yen	
	April - September 2009	April - September 2010
Net sales	417,229	532,562
Cost of sales	316,304	402,854
Gross profit	100,924	129,708
Selling, general and administrative expenses	47,985	53,564
Operating income	52,939	76,143
Non-operating income:		
Interest income	2,358	1,378
Equity in earnings of affiliates	3,493	7,084
Other income	3,895	7,005
Total non-operating income	9,746	15,467
Non-operating expenses:		
Foreign exchange loss	3,035	8,954
Other expenses	3,833	1,453
Total non-operating expenses	6,868	10,407
Ordinary income	55,818	81,203
Income before income taxes	55,818	81,203
Income taxes-current	10,869	22,973
Income taxes for prior periods	-	(10,698)
Income taxes-deferred	9,365	5,695
Total income taxes	20,235	17,970
Income before minority interests	-	63,233
Minority interests in earnings (losses) of consolidated subsidiaries	54	890
Net income	35,528	62,342

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

For the first half ended September 30, 2009 and 2010

	Millions of yen	
	April - September 2009	April - September 2010
1. Cash flows from operating activities		
Income before income taxes	55,818	81,203
Depreciation and amortization	40,740	45,318
Interest and dividend income	(2,924)	(2,168)
Equity in (earnings) losses of affiliates	(3,493)	(7,084)
(Increase) decrease in notes and accounts receivable	(26,620)	(15,810)
(Increase) decrease in inventories	22,233	4,745
Increase (decrease) in notes and accounts payable	11,280	19,524
Other, net	(18,758)	7,150
Subtotal	<u>78,275</u>	<u>132,879</u>
Proceeds from interest and dividends	3,084	7,198
Payment of interest	(419)	(211)
Payment of income taxes	(4,482)	(16,790)
Income taxes refund	-	9,600
Net cash provided by operating activities	<u>76,458</u>	<u>132,676</u>
2. Cash flows from investing activities		
Net (increase) decrease in marketable securities	20,506	1,031
Purchase of property, plant and equipment	(74,998)	(64,619)
Purchase of investment securities	(815)	(3,210)
Proceeds from sales and redemption of investment securities	2,725	3,563
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(667)	-
Other, net	3,797	(7,244)
Net cash used for investing activities	<u>(49,452)</u>	<u>(70,479)</u>
3. Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	2,945	(98)
Repayment of long-term debt	(5,267)	(905)
Cash dividends paid	(21,223)	(21,230)
Other, net	(705)	(341)
Net cash used for financing activities	<u>(24,250)</u>	<u>(22,574)</u>
4. Effect of exchange rate change on cash and cash equivalents	3,418	(1,889)
5. Net increase (decrease) in cash and cash equivalents	<u>6,173</u>	<u>37,733</u>
6. Cash and cash equivalents at beginning of period	251,044	270,443
7. Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation	-	489
8. Cash and cash equivalents at end of period	<u>257,218</u>	<u>308,666</u>

**(4) Notes on premise of going concern**

Not applicable

**(5) Segment and related information**

**(Segment information)**

Effective from the first quarter of FY 2011, “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No.17 issued on March 27, 2009) and “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No.20 issued on March 21, 2008) have been applied. The six new reportable segments are “PVC/Chlor-Alkali Business,” “Silicones Business,” “Specialty Chemicals Business,” “Semiconductor Silicon Business,” “Electronics & Functional Materials Business” and “Diversified Business.”

1) Information regarding sales and income/loss by reportable segment

	Millions of yen							Adjustment*	Figures in consolidated statement of income
	April – September 2010								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	146,506	71,719	40,142	142,414	69,604	62,173	532,562	-	532,562
Intersegment sales	9,198	2,007	3,125	2	1,325	39,630	55,289	(55,289)	-
<b>Total</b>	<b>155,705</b>	<b>73,726</b>	<b>43,268</b>	<b>142,417</b>	<b>70,930</b>	<b>101,804</b>	<b>587,852</b>	<b>(55,289)</b>	<b>532,562</b>
Segment income (Operating income)	9,276	17,530	5,994	20,990	18,033	4,160	75,987	156	76,143

\*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, Coating 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

2) Information regarding goodwill and impairment loss on fixed assets by reportable segment

Not Applicable

**(Reference)**

In line with the new business segments, the business segment information for the first half of the previous fiscal year is reclassified as follows:

	Millions of yen							Adjustment*	Figures in consolidated statement of income
	April – September 2009								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	107,757	55,390	37,592	114,953	51,803	49,732	417,229	-	417,229
Intersegment sales	1,468	1,699	2,405	43	1,468	53,752	60,837	(60,837)	-
Total	109,225	57,090	39,998	114,996	53,272	103,484	478,067	(60,837)	417,229
Segment income (Operating income)	9,950	9,902	7,078	10,044	13,299	3,226	53,502	(562)	52,939

\*Elimination of intersegment transactions

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

Not applicable