

Press Release

Consolidated Financial Results for the First Half Ended September 30, 2011

Shin-Etsu Chemical Co., Ltd.

(JP GAAP)



October 27, 2011

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

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Date of dividend payout: November 17, 2011

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, 2011

(From April 1, 2011 to September 30, 2011)

(1) Results of consolidated operations

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
April - September 2011	521,368	(2.1%)	80,411	5.6%	84,330	3.9%	51,040	(18.1%)
April - September 2010	532,562	27.6%	76,143	43.8%	81,203	45.5%	62,342	75.5%

(Note) Comprehensive income (Millions of yen) From April, 2011 to September, 2011: 52,228 [122.7%]

From April, 2010 to September, 2010: 23,450 [- %]

	Net income per share (in yen)	Diluted net income per share (in yen)
April - September 2011	120.21	-
April - September 2010	146.83	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (in yen)
September 30, 2011	1,817,471	1,499,500	80.2%	3,431.67
March 31, 2011	1,784,166	1,469,429	80.0%	3,360.39

(Note) Stockholders' equity (Millions of yen) As of September 30, 2011: 1,457,069 As of March 31, 2011: 1,426,808

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 (in yen)				
	1 st quarter	2 nd quarter	3 rd quarter	Year-end	Fiscal year
April 2010 - March 2011	-	50.00	-	50.00	100.00
April 2011 - March 2012	-	50.00	-	-	-
April 2011 - March 2012 (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, 2012

(From April 1, 2011 to March 31, 2012)

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income		Net income per share (in yen)
Fiscal year	1,065,000	0.6%	155,000	3.9%	165,000	2.9%	102,000	1.9%	240.23

(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. Other

(1) Changes in significant subsidiaries during the first half ended September 30, 2011 : No

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first half ended September 30, 2011.

(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>September 30, 2011</u>	<u>March 31, 2011</u>
Number of shares outstanding at period end (including treasury stocks)	432,106,693	432,106,693
Number of treasury stocks at period end	7,511,666	7,510,657
	<u>April – September 2011</u>	<u>April – September 2010</u>
Weighted-average number of shares outstanding over period	424,595,446	424,600,433

(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, are in progress.

(Attached Documents)

INDEX

1. Qualitative Information Regarding Quarterly Results	2
(1) Qualitative information regarding the consolidated operating results	2
(2) Qualitative information regarding the consolidated business forecast.....	4
2. Consolidated Financial Statements	5
(1) Consolidated balance sheets.....	5
(2) Consolidated statements of income and statements of comprehensive income.....	7
(3) Consolidated statements of cash flows.....	9
(4) Notes on premise of going concern.....	10
(5) Segment information	10
(6) Notes on significant changes in stockholders' equity	10

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 FY2012 (April 1, 2011 to September 30, 2011) in the Asian region, supported mainly by growing domestic demand, the trend towards economic expansion continued in China and India. On the other hand, in Europe and the United States, a sense of stagnation regarding its economic recovery was seen, and a situation continued under which many customers were cautious about the future direction of these economies. Although the Japanese economy still remained in a difficult situation due to the effects of the Great East Japan Earthquake that occurred in March of this year, some movement towards a recovery was also observed.

Under these circumstances, the Shin-Etsu Group aggressively worked to carry out its sales activities to its wide range of customers worldwide. At the same time, we continued our efforts to create a stronger business foundation and to promote the streamlining of manufacturing and the development of new products.

In addition, at Shin-Etsu Chemical's Kashima Plant and Shin-Etsu Handotai's Shirakawa Plant – both of whose operations had to be stopped due to the effects of the Great East Japan Earthquake in March – as a result of the concerted efforts of the Shin-Etsu Group working together, the restoration of full-scale operations at all of our affected production bases was completed at the end of June.

As a result, the consolidated business results for the first half of FY 2012 show that net sales decreased by 2.1% (¥11,194 million) compared with the same fiscal period last year to ¥521,368 million. Compared with the performance of the same fiscal period last year, operating income increased by 5.6% (¥4,268 million) to ¥80,411 million, and ordinary income increased by 3.9% (¥3,127 million) to ¥84,330 million.

In addition, with regard to the net income for the first half of FY 2012, it should be noted that the net income figure for the first half of FY 2011 included a refund of corporation taxes paid in past fiscal years, after the Japanese and U.S. tax authorities reached an agreement settling a dispute about transfer pricing taxation; on the other hand, the net income figure for the first half of FY 2012 includes the extraordinary losses incurred due to the Great East Japan Earthquake. As a result, compared to the corresponding period of the previous fiscal year, net income decreased by 18.1% (¥11,302 million) to ¥51,040 million.

PVC/Chlor-Alkali Business

With regard to PVC, despite the persistence of the long-term slump in the U.S. housing market, Shintech Inc. in the U.S. continued a high level of shipments by expanding its sales to customers worldwide, and it greatly increased its business performance. Shin-Etsu PVC in The Netherlands maintained satisfactory shipments. On the other hand, due in part to the effects of the operation stoppage of the Kashima Plant caused by the Great East Japan Earthquake and the effects of production adjustments made by customers in the latter part of the first half, a severe situation continued in this business in Japan.

As a result, compared with the first half of FY2011, net sales for this business segment increased by 9.3% (¥13,611 million) to ¥160,117 million and operating income increased by 44.2% (¥4,103 million) to ¥13,379 million.

Silicones Business

With regard to the silicones business, sales in Japan continued to be firm in product application areas such as the electric, electronics and cosmetic fields. In addition in the automotive products field, which had become stagnant after the Great East Japan Earthquake, a recovery was seen. In our overseas silicones business, while functional silicone products remained strong, general-purpose products were affected by sluggish prices in the Asian market, such as in China.

As a result, compared with the first half of FY2011, net sales for this business segment decreased by 1.8% (¥1,276 million) to ¥70,443 million and operating income decreased by 0.6% (¥113 million) to ¥17,417 million.

Specialty Chemicals Business

With regard to cellulose derivatives, in Japan the business continued to be strong mainly in pharmaceutical-use products and industrial-use products. SE Tylose in Germany continued firm shipments due in part to the recovery of demand in the European market for building and construction application products and coating application products.

As a result, compared with the first half of FY2011, net sales for this business segment increased by 5.2% (¥2,101 million) to ¥42,243 million and operating income increased by 17.1% (¥1,026 million) to ¥7,020 million.

Semiconductor Silicon Business

With regard to semiconductor silicon, during the early months of the first half, we worked to achieve the early recovery of the Shirakawa Plant that was affected by the earthquake and handled the challenging business situation by increasing the volume of production at our other global production bases and through making shipments from our inventory stockpile. In the latter part of the first half, the business was affected by inventory adjustments made by semiconductor device makers whose demand declined rapidly.

As a result, compared with the first half of FY2011, net sales for this business segment decreased by 12.8% (¥18,244 million) to ¥124,170 million and operating income increased by 0.4% (¥93 million) to ¥21,083 million.

Electronics & Functional Materials Business

With regard to rare earth magnets, shipments continued to do well for applications in hybrid automobiles and in energy-efficient types of air conditioners; however, the rare earth magnets business was affected by the drastic increase in raw material prices. The photoresist products business remained strong, aided by the progress in device miniaturization. The business of materials for high-luminance LED packaging was firm. With regard to the synthetic quartz business, shipments of large-size photomask substrates used for LCDs were firm; however, the optical fiber preform business was affected by the stoppage of operations at the Kashima Plant due to the earthquake disaster.

As a result, compared with the first half of FY2011, net sales for this business segment increased by 9.9% (¥6,879 million) to ¥76,483 million and operating income increased by 3.9% (¥712 million) to ¥18,745 million.

Diversified Business

Shin-Etsu Polymer Co., Ltd.'s business of keypads for mobile phones remained weak due to the influence of the increase of touch panels that are being used for smartphones. The business of semiconductor wafer-related containers slowed after experiencing an initial recovery in shipments related to the earthquake disaster. The engineering business was firm.

As a result, compared with the first half of FY2011, net sales for this business segment decreased by 22.9% (¥14,264 million) to ¥47,909 million and operating income decreased by 34.5% (¥1,435 million) to ¥2,725 million.

(2) Qualitative information regarding the consolidated business forecast

With regard to business prospects going forward, the future of the world economy is becoming more uncertain because of such factors as concerns about the economic slowdown due to the European debt crisis, and the business situation still does not allow for optimism. Under such a situation, in Japan as well there are concerns about the worsening employment situation and the effects of deflation, and a severe business situation is foreseen.

To cope with the severe business environment we are facing, the Shin-Etsu Group will aggressively expand its sales activities to its wide range of customers around the world, and at the same time, we will cultivate new demand through development of products that have special characteristics. Furthermore, we will aim to build an even stronger business foundation by strengthening our 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 26, 2011.

2. Consolidated Financial Statements

(1) Consolidated balance sheets

As of March 31 and September 30, 2011

	Millions of yen	
	March 31, 2011	September 30, 2011
ASSETS		
Current Assets:		
Cash and time deposits	244,002	253,208
Notes and accounts receivable-trade	270,499	263,345
Securities	116,714	103,174
Inventories	188,283	238,334
Other	70,962	69,843
Less: Allowance for doubtful accounts	(2,534)	(2,317)
	887,927	925,589
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	252,229	341,772
Other, net	368,104	283,528
	620,334	625,300
Intangible fixed assets	14,020	14,216
Investments and other assets		
Investments and other assets	261,921	252,382
Less: Allowance for doubtful accounts	(38)	(18)
	261,883	252,364
	896,238	891,881
TOTAL ASSETS	1,784,166	1,817,471

	Millions of yen	
	March 31, 2011	September 30, 2011
LIABILITIES		
Current Liabilities:		
Notes and accounts payable-trade	110,753	120,130
Short-term borrowings	8,712	13,237
Accrued income taxes	21,072	19,018
Provision for loss on disaster	24,401	8,584
Other allowances	2,433	2,485
Other	82,061	89,749
	249,434	253,206
Long-term Liabilities:		
Long-term debt	5,548	1,245
Allowances	14,498	15,083
Other	45,255	48,435
	65,302	64,765
TOTAL LIABILITIES	314,737	317,971
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,177	128,177
Retained earnings	1,376,043	1,405,854
Less: Treasury stock, at cost	(40,917)	(40,921)
	1,582,724	1,612,530
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	3,275	(703)
Deferred gains (losses) on hedges	895	655
Foreign currency translation adjustments	(160,087)	(155,412)
	(155,916)	(155,461)
Share Subscription Rights	3,822	3,599
Minority Interests in Consolidated Subsidiaries	38,798	38,831
TOTAL NET ASSETS	1,469,429	1,499,500
TOTAL LIABILITIES AND NET ASSETS	1,784,166	1,817,471

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

Consolidated statements of income

For the first half ended September 30, 2010 and 2011

	Millions of yen	
	April - September 2010	April - September 2011
Net sales	532,562	521,368
Cost of sales	402,854	389,949
Gross profit	129,708	131,419
Selling, general and administrative expenses	53,564	51,007
Operating income	76,143	80,411
Non-operating income:		
Interest income	1,378	1,568
Equity in earnings of affiliates	7,084	4,788
Other income	7,005	9,098
Total non-operating income	15,467	15,455
Non-operating expenses:		
Foreign exchange loss	8,954	10,750
Other expenses	1,453	786
Total non-operating expenses	10,407	11,536
Ordinary income	81,203	84,330
Extraordinary losses:		
Loss on disaster	-	5,312
Loss on write-down of investment securities	-	1,168
Total extraordinary losses	-	6,481
Income before income taxes	81,203	77,849
Income taxes-current	22,973	21,603
Income taxes for prior periods	(10,698)	-
Income taxes-deferred	5,695	4,734
Total income taxes	17,970	26,337
Income before minority interests	63,233	51,511
Minority interests in earnings of consolidated subsidiaries	890	471
Net income	62,342	51,040

Consolidated statements of comprehensive income
For the first half ended September 30, 2010 and 2011

	Millions of Yen	
	April - September 2010	April - September 2011
Income before minority interests	63,233	51,511
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	(6,140)	(4,264)
Deferred gains (losses) on hedges	(157)	(424)
Foreign currency translation adjustments	(32,371)	5,336
Share of other comprehensive income of associates accounted for by using the equity method	(1,113)	69
Total other comprehensive income	(39,782)	717
Comprehensive income	23,450	52,228
(Breakdown)		
Comprehensive income attributable to owners of the parent	23,616	51,495
Comprehensive income attributable to minority interests	(165)	733

(3) Consolidated statements of cash flows

For the first half ended September 30, 2010 and 2011

	Millions of yen	
	April - September 2010	April - September 2011
Cash flows from operating activities		
Income before income taxes	81,203	77,849
Depreciation and amortization	45,318	39,568
Interest and dividend income	(2,168)	(2,530)
Equity in (earnings) losses of affiliates	(7,084)	(4,788)
(Increase) decrease in notes and accounts receivable	(15,810)	8,596
(Increase) decrease in inventories	4,745	(49,525)
Increase (decrease) in notes and accounts payable	19,524	8,935
Other, net	7,150	10,160
Subtotal	132,879	88,264
Proceeds from interest and dividends	7,198	6,401
Payment of interest	(211)	(260)
Payment of income taxes	(16,790)	(21,754)
Income taxes refund	9,600	-
Payment for loss on disaster	-	(11,721)
Net cash provided by operating activities	132,676	60,929
Cash flows from investing activities		
Net (increase) decrease in marketable securities	1,031	1,791
Purchase of property, plant and equipment	(64,619)	(41,260)
Purchase of investment securities	(3,210)	(622)
Proceeds from sales and redemption of investment securities	3,563	34
Other, net	(7,244)	(4,600)
Net cash used for investing activities	(70,479)	(44,657)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(98)	810
Proceeds from long-term debt	-	1,157
Repayment of long-term debt	(905)	(1,659)
Cash dividends paid	(21,230)	(21,229)
Other, net	(341)	(651)
Net cash used for financing activities	(22,574)	(21,574)
Effect of exchange rate change on cash and cash equivalents	(1,889)	(2,011)
Net increase (decrease) in cash and cash equivalents	37,733	(7,314)
Cash and cash equivalents at beginning of period	270,443	302,285
Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation	489	-
Cash and cash equivalents at end of period	308,666	294,971

(4) Notes on premise of going concern

Not applicable

(5) Segment information

Information regarding sales and income/loss of reportable segments

1) For the first half ended September 30, 2011 (From April 1, 2011 to September 30, 2011)

	Millions of yen							Adjustment*	Figures in consolidated statement of income
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	160,117	70,443	42,243	124,170	76,483	47,909	521,368	-	521,368
Intersegment sales	2,014	2,174	4,203	0	1,520	32,895	42,809	(42,809)	-
Total	162,131	72,618	46,447	124,171	78,004	80,805	564,178	(42,809)	521,368
Segment income (Operating income)	13,379	17,417	7,020	21,083	18,745	2,725	80,371	39	80,411

*Elimination of intersegment transactions

2) For the first half ended September 30, 2010 (From April 1, 2010 to September 30, 2010)

	Millions of yen							Adjustment*	Figures in consolidated statement of income
	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)	-
Total	155,705	73,726	43,268	142,417	70,930	101,804	587,852	(55,289)	532,562
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

(6) Notes on significant changes in stockholders' equity

Not applicable